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PACIFIC MILLENNIUM PACKAGING GROUP CORPORATION

國際濟豐包裝集團

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1820)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

ANNUAL RESULTS HIGHLIGHTS

	2019	2018	2019 VS 2018
	RMB'000	*RMB'000*	*(%)*
Revenue	**2,073,856**	2,019,410	2.7%
Gross Profit	**395,756**	378,145	4.7%
Profit for the Year	**76,184**	90,272	–15.6%
Earnings per share (RMB)	**25 cents**	40 cents	–37.5%

FINAL DIVIDEND

The Board proposed a final dividend of HK$0.075 per share (2018: HK$0.1) payable to the Shareholders whose names appear on the register of members of the Company on 3 July 2020. The final dividend is subject to approval by the Shareholders in the AGM.

The board (the "**Board**") of directors (the "**Director(s)**") of Pacific Millennium Packaging Group Corporation (the "**Company**", "**we**", "**our**" or "**us**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019 (the "**Year**") together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Revenue	*5*	**2,073,856**	2,019,410
Cost of sales		**(1,678,100)**	(1,641,265)
Gross profit		**395,756**	378,145
Other income and other gains and losses, net		**2,616**	3,703
Selling and distribution expenses		**(114,424)**	(96,185)
Administrative expenses		**(140,416)**	(126,622)
Impairment loss on trade receivables, net		**(1,907)**	(2,142)
Finance costs		**(32,370)**	(28,943)
Profit before income tax	*6*	**109,255**	127,956
Income tax expense	*7*	**(33,071)**	(37,684)
Profit for the year		**76,184**	90,272
Other comprehensive income that may be reclassified to profit or loss in subsequent periods, after tax			
Exchange differences on translation of foreign operations		**(1,962)**	(4,397)
Total comprehensive income for the year		**74,222**	85,875
Earnings per share (RMB)	*8*	**25 cents**	40 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2019** **RMB'000**	2018 RMB'000
Non-current assets			
Property, plant and equipment		**620,928**	453,927
Prepaid lease payments for land		**—**	10,106
Prepayments for purchase of property, plant and equipment		**5,241**	417
Deferred tax assets		**9,956**	8,190
		636,125	472,640
Current assets			
Inventories		**156,927**	130,668
Trade receivables, bills receivables, other receivables, deposits and prepayments	*9*	**588,493**	587,706
Prepaid lease payments for land		**—**	284
Pledged deposits		**11,250**	127,130
Bank balances and cash		**277,247**	347,931
		1,033,917	1,193,719
Current liabilities			
Trade and other payables	*11*	**411,770**	426,748
Contract liabilities		**2,726**	2,874
Dividend payable	*14*	**40,090**	—
Bank and other borrowings	*12*	**349,012**	473,923
Tax payable		**11,488**	13,774
Lease liabilities	*13*	**18,872**	—
Obligations under finance leases	*13*	**—**	14,315
		833,958	931,634
Net current assets		**199,959**	262,085
Total assets less current liabilities		**836,084**	734,725
Non-current liabilities			
Bank and other borrowings	*12*	**39,797**	19,556
Lease liabilities	*13*	**164,624**	—
Obligations under finance leases	*13*	**—**	14,640
		204,421	34,196
Net assets		**631,663**	700,529
Equity			
Share capital		**2,442**	2,442
Reserves		**629,221**	698,087
Total equity		**631,663**	700,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 31 July 2014 as an exempted company with limited liability under the Companies Law (2013 revision) of the Cayman Islands. The registered office of the Company is at P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands and the principal place of business of the Company in Hong Kong is Suite 2104, 21st Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in manufacture and sale of packaging materials.

The immediate holding company of the Company is Pacific Millennium Holdings Corporation which is incorporated in the British Virgin Islands. The ultimate holding company of the Company is Golden Ford Investments Limited which is incorporated in the Independent State of Samoa.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 21 December 2018.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new/revised IFRSs — effective 1 January 2019

The IASB has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group:

- IFRS 16 Leases
- (IFRIC)-Int 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features and Negative Compensation
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 included in Annual Improvements to IFRSs 2015–2017 Cycle

The impact of the adoption of IFRS 16 Leases has been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) *Impact of the adoption of IFRS 16*

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases ("IAS 17"), (IFRIC)-Int 4 Determining whether an Arrangement contains a Lease ("IFRIC-Int 4"), (SIC)-Int 15 Operating Leases-Incentives and (SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to sections (ii) to (v) of this note.

The Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect (if any) of initially applying IFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following table summarised the impact of transition to IFRS 16 on consolidated statement of financial position as at 31 December 2018 to that as at 1 January 2019 (increase/(decrease)):

	31 December 2018	**Impact**	**1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Consolidated Statement of financial position			
Property, plant and equipment	453,927	201,656*	655,583
Prepaid lease payments for land (non-current)	10,106	(10,106)	—
Prepaid lease payments for land (current)	284	(284)	—
Prepayments	12,728	(5,004)	7,724
Lease liabilities (non-current)	—	187,408	187,408
Lease liabilities (current)	—	27,809	27,809
Obligations under finance leases (non-current)	14,640	(14,640)	—
Obligations under finance leases (current)	14,315	(14,315)	—
Retained profits	198,225	—	198,225

* The amount is categorised as "Right-of-use assets for land and buildings" under property, plant and equipment.

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 as at 31 December 2018 could be reconciled to the lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
Reconciliation of operating lease commitments to lease liabilities	
Operating lease commitments as at 31 December 2018	212,632
Less: short term leases for which lease terms end within 31 December 2019	(1,211)
Less: future interest expenses	(65,797)
Add: adjustments as a result of different treatment of extension	40,638
Add: obligations under finance leases as at 31 December 2018	28,955
Total lease liabilities as at 1 January 2019	215,217

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 ranged from 4.75% to 4.90%.

(ii) ***The new definition of a lease***

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for each lease component and any associated non-lease components as a single lease component for all leases.

(iii) ***Accounting as a lessee***

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of whether they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Refundable rental deposits

Refundable rental deposits paid are accounted for under IFRS 9 Financial Instruments ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) ***Transition***

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect (if any) of initially applying IFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under IAS 17 as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied IAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as at that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review and there were no onerous contracts as at 1 January 2019; (iii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iv) excluded the initial direct costs from the measurement of the right-of-use assets at 1 January 2019 and (v) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and (IFRIC)-Int 4 and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and (IFRIC)-Int 4.

The Group has also leased some of its property, plant and equipment which previously were classified as finance leases under IAS 17. As the Group has elected to adopt the cumulative effect approach over the adoption of IFRS 16, for those finance leases under IAS 17, the right-of-use assets and the corresponding lease liabilities at 1 January 2019 were the carrying amount of the lease assets and lease liabilities under IAS 17 immediately before that date. For those leases, the Group has accounted for the right-of-use assets and the lease liabilities applying IFRS 16 from 1 January 2019.

(b) New or revised IFRSs that have been issued but are not yet effective

The following new or revised IFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to IFRS 3	Definition of a business[1]
Amendments to IAS 1 and IAS 8	Definition of material[1]

[1] Effective for annual periods beginning on or after 1 January 2020

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable IFRSs, International Accounting Standards ("**IASs**") and Interpretations (hereinafter collectively referred to as the "**IFRSs**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company's subsidiaries incorporated in PRC from which over 90% of the Group's revenue and operating profit were generated. The functional currency of the Company is United States dollars ("**US$**").

4. SEGMENT REPORTING

The executive director of the Company during the year has been identified as the chief operating decision-maker ("**CODM**") of the Group who reviews the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

(a) Reportable segments

The Group is principally engaged in manufacture and sale of packaging materials. The CODM assesses the performance of the business based on a measure of operating results and considers the business as a single operating segment. Information reported to the CODM for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment which is manufacture and sale of packaging materials.

(b) Geographical information

Since over 90% of the Group's revenue and operating profit were generated from the manufacture and sale of packaging materials in the PRC and over 90% of the Group's identifiable assets and liabilities were located in the PRC, no geographical segment information is presented in accordance with IFRS 8 Operating Segments.

(c) Information about major customers

None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2018 and 2019.

5. REVENUE

Revenue represents the net invoiced value of goods sold by the Group during the year, net of value-added tax.

	2019	2018
	RMB'000	*RMB'000*
Corrugated packaging products	**1,901,830**	1,823,661
Corrugated sheet boards	**172,026**	195,749
	2,073,856	2,019,410

Disaggregation of revenue

The following table sets out a breakdown of the Group's revenue all of which is recognised at a point in time categorised by the industries of the end products, in which the Group's products were applied, during the year:

	2019	2018
	RMB'000	*RMB'000*
Revenue by industry		
Food and beverage	**504,486**	511,496
Paper and packaging	**267,131**	297,292
Non-food-and-beverage-consumables *(Note (i))*	**201,917**	183,699
Supplier chain solution	**148,178**	151,567
E-commerce	**90,797**	85,197
Home electronics	**55,238**	76,745
Others *(Note (ii))*	**806,109**	713,414
	2,073,856	2,019,410

Notes:

(i) Non-food-and-beverage-consumables include, but not limited to, daily household products such as shampoo, detergent, skin care products.

(ii) Others include home furniture, computer and electronic device such as mobile phones, cameras, textile, machinery, medical products, etc.

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories sold *(Note (i))*	**1,678,100**	1,641,265
Depreciation of property, plant and equipment *(Note (ii))*	**77,440**	54,486
Listing expenses	**—**	10,304
Auditor's remuneration	**1,883**	1,480
Amortisation of prepaid lease payments for land	**—**	284
Short-term lease expense	**3,844**	8,163
Impairment loss on inventories	**1,257**	1,354
Reversal of impairment loss on inventories	**(1,400)**	(1,168)
Impairment loss on trade receivables	**2,748**	2,747
Reversal of impairment loss on trade receivables	**(841)**	(605)
Impairment loss on trade receivables, net	**1,907**	2,142
Exchange (gain)/loss, net	**(416)**	148
Employee benefits expenses (including directors' remuneration):		
— Wages, salaries and benefits	**175,449**	137,781
— Retirement benefit costs	**23,822**	22,435

Notes:

(i) Cost of inventories sold for the year ended 31 December 2019 includes RMB170,186,000 (2018: RMB137,260,000), relating to employee benefit expenses and depreciation of property, plant and equipment for which the amounts are also included in the respective total amounts disclosed separately above.

(ii) Depreciation of property, plant and equipment for the year ended 31 December 2019 includes depreciation of right-of-use assets amounted to RMB18,096,000.

7. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2019	2018
	RMB'000	*RMB'000*
Current tax		
— Provision for PRC enterprise income tax for the year	**33,356**	40,796
— Withholding tax on dividend	**1,481**	—
	34,837	40,796
Deferred tax		
— Origination and reversal of temporary differences	**(1,766)**	(3,112)
Income tax expense	**33,071**	37,684

No provision of Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for the years ended 31 December 2018 and 2019.

Provision for PRC enterprise income tax is based on the statutory rate of 25% (2018: 25%) of the assessable profits of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC for the years ended 31 December 2018 and 2019.

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company incorporated in the PRC to foreign investors with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. Under the double taxation arrangement between the PRC and Hong Kong, the relevant withholding tax rate applicable to the Group is reduced from 10% to 5% subject to the fulfilment of certain conditions. On 28 September 2018, China's Ministry of Finance, State Administration of Taxation and National Development and Reform Commission and Ministry of Commerce jointly issued Caishui 2018 No. 102 (Circular 102) to expand the scope of withholding tax deferral treatment on direct reinvestment to all non-prohibited foreign investments. Under the new policy, no withholding tax on dividend received by the Group will be payable if such dividend is reinvested in foreign investments that are not prohibited for foreign investors.

8. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit for the year and the weighted average number of ordinary shares during the year as follows.

	2019	2018
Profit for the year (RMB'000)	**76,184**	90,272
Weighted average number of ordinary shares in issue (in thousand)	**300,632**	227,740
Basic earnings per share (RMB)	**25 cents**	40 cents

No diluted earnings per share is presented as the Group has no dilutive potential ordinary shares as at 31 December 2019 (2018: same).

9. TRADE RECEIVABLES, BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**524,627**	525,629
Bills receivables	**30,243**	23,611
Less: allowance for impairment losses	**(7,657)**	(7,426)
	547,213	541,814
Other receivables	**18,806**	18,368
Deposits	**16,138**	14,796
Prepayments	**6,336**	12,728
	588,493	587,706

As at 31 December 2018 and 2019, bills receivables matured within 180 days and were not past due.

The ageing analysis of trade and bills receivables (net of impairment losses) as at 31 December 2018 and 2019, based on invoice dates, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**251,363**	260,132
Over 1 month but within 3 months	**248,327**	246,524
Over 3 months but within 1 year	**47,523**	35,158
	547,213	541,814

The average credit period on sales of goods is 30–120 days from the invoice date.

10. PLEDGE OF ASSETS

As at 31 December 2018 and 2019, the Group pledged the following assets to secure bills payable, banking facilities granted to the Group and sale and leaseback arrangements with related company. The carrying amounts of these assets are analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
Property, plant and equipment *(notes 12(a) and (b))*	**140,756**	96,775
Right-of-use assets of land and buildings	**10,106**	—
Prepaid lease payments for land	**—**	10,390
Pledged deposits	**11,250**	127,130
	162,112	234,295

11. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade and bills payables	**349,210**	360,733
Accruals and other payables	**62,560**	66,015
	411,770	426,748

All trade and other payables are due to be settled within twelve months.

The ageing analysis of trade and bills payables, based on the invoice dates, as at 31 December 2018 and 2019 is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**191,454**	180,399
Over 1 month but within 3 months	**129,014**	163,202
Over 3 months but within 1 year	**28,742**	17,132
	349,210	360,733

12. BANK AND OTHER BORROWINGS

		2019	2018
	Notes	***RMB'000***	*RMB'000*
Bank loans, secured	*(a)*	**320,000**	463,498
Other borrowings, secured	*(b)*	**68,809**	29,981
		388,809	493,479
Categorised as:			
— Current liabilities		**349,012**	473,923
— Non-current liabilities		**39,797**	19,556
		388,809	493,479

Notes:

(a) During the Year, the average effective interest rates of the Group's bank loans range from 4.79% to 5.00% per annum (2018: 4.60% to 6.53% per annum).

Properties with net carrying amounts of RMB58,924,000 (2018: RMB64,537,000) were pledged for the Group's banking facilities in connection with the bank loans.

As at 31 December 2018 and 2019, all bank loans were scheduled to be repaid within one year.

(b) As at 31 December 2019, other borrowings represented eight (2018: three) sale and leaseback arrangements for plant and equipment entered into with Chongqing Stone Tan Financial Leasing Limited, a related company over which one of the controlling shareholders of the Company has significant influence. As at 31 December 2019, the transactions were classified as secured loan financing and the carrying amounts of the corresponding plant and equipment pledged under the sale and leaseback arrangements were RMB81,832,000 (2018: RMB32,238,000).

As at 31 December 2019, future lease payments are due as follows:

	Minimum lease payments *RMB'000*	Interest *RMB'000*	Present value *RMB'000*
Not later than 1 year	**34,574**	**5,562**	**29,012**
Later than 1 year and not later than 2 years	**32,285**	**2,596**	**29,689**
Later than 2 years and not later than 5 years	**10,367**	**259**	**10,108**
	77,226	**8,417**	**68,809**

13. LEASE LIABILITIES/OBLIGATIONS UNDER FINANCE LEASES

IFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a)(i).

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in PRC and Hong Kong and the periodic rent is fixed over the lease term.

During the years ended 31 December 2018 and 2019, the Group acquired certain of its plant and machinery under leasing arrangements with Chongqing Stone Tan Financial Leasing Limited, a related company, as lessors. These leasing arrangements were classified as finance leases under IAS 17. The obligations under finance leases as at 31 December 2018 will mature in August 2021.

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at date of transition to IFRS 16:

	31 December 2019		**1 January 2019** ***(Note)***		**31 December 2018**	
	Present value *RMB'000*	**Minimum lease payments** *RMB'000*	**Present value** *RMB'000*	**Minimum lease payments** *RMB'000*	**Present value** *RMB'000*	**Minimum lease payments** *RMB'000*
Not later than 1 year	18,872	27,849	27,809	38,720	14,315	16,354
Later than 1 year and not later than 2 years	15,453	23,330	25,548	34,503	12,928	13,657
Later than 2 years and not later than 5 years	35,496	54,960	35,079	56,244	1,712	1,748
Over 5 years	113,675	135,304	126,781	154,351	—	—
	183,496	241,443	215,217	283,818	28,955	31,759
Less: total future interest expenses		(57,947)		(68,601)		(2,804)
Present value of lease liabilities		183,496		215,217		28,955

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balance at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to IFRS 16 are set out in Note 2a(i) to the consolidated financial statements.

14. DIVIDENDS

	RMB'000
Year ended 31 December 2019	
— Final dividend of HK$0.1 per share for 2018	25,646
— Special dividend of HK$0.3 per share	76,938
— Special dividend of HK$0.15 per share	40,504
	143,088

On 24 March 2019, the Directors proposed a final dividend for the year ended 31 December 2018 of HK$0.1 per share (2018: nil), which was approved by the shareholders in the annual general meeting held on 21 June 2019. Also, the Directors declared two special dividends of HK$0.3 and HK$0.15 per share on 24 March 2019 and 23 December 2019 respectively. The final dividend of RMB25,646,000 and the special dividend of RMB76,938,000 were paid on 16 July 2019 and 21 May 2019 respectively. The special dividend of HK$0.15 per share totally RMB40,090,000 (after exchange realignment) was reflected as dividend payable in the consolidated statement of financial position.

The Board proposed a final dividend of HK$0.075 per share (2018: HK$0.1) which will be subject to the approval by the shareholders in the forthcoming annual general meeting. The proposed final dividend has not been incorporated in the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

As a result of the continuing global economic downturn and the effect of the Sino-US trade war, 2019 was a challenging year for the corrugated packaging industry and the competition in the industry has become increasingly fierce. During the Year, a number of irregular and small-scale enterprises had been compelled to close down or eliminated by the market in the competition putting those leading enterprises with scale, capital, technology and innovation capacity to better cope with downstream customers' expectation on product quality, service, technology and price, underlining a competitive strength of these leading enterprises and implying a stable but progressing development trend. Despite the competition in the industry, the rapid development of e-commerce and the growth in domestic demand on food and beverages and basic necessities in the PRC has however stabilised or even increased the market demand for corrugated packaging products.

BUSINESS REVIEW

During the Year, the Company had faced various unfavourable factors such as the ambience of global economic downturn and the slowdown of national GDP growth, which made the competition in the corrugated packaging industry increasingly fierce. Despite the unfavourable factors, during the year, the Group's production volume reached a level of not less than 50 million square meters in a single month, which brought a revenue of approximately RMB2.07 billion to the Group for the Year. In order to strengthen the Group's market position in the corrugated packaging industry in the PRC and reduce the strain on production capacity of other production plants, during the Year, the Group had commenced construction of its new production plant in Shandong province (the "**Shandong Plant**"). In anticipation of the future potential growth of the PRC corrugated packaging industry as a result of the increasing demand brought by the rapid development of e-commerce and the growth in domestic demand of certain necessary products as discussed above in the PRC, the Company will continue to focus on expanding its production plants network by setting up new production plants in the PRC and will further strengthen the Group's market position in the corrugated packaging industry in the PRC and improve its revenue and profitability through broadening geographical coverage and market penetration.

The Company identified certain risks and uncertainties which may affect the Group's business and operations. Such risks and uncertainties include the continuing increase of prices on key raw materials required by the Group for its production; uncertainty in obtaining external financing and significant level of borrowings to support the Group's operations; unexpected increase in lending interest rates; decline in utilisation rates due to breakdown of the Group's production equipment; and the continuing spread of the novel coronavirus (COVID-19). The Group will ensure that all such inherent risks and uncertainties pertaining to the Group's business and operations will be monitored on a timely basis and take all necessary steps to mitigate the risk and cope with any change.

FINANCIAL REVIEW

For the Year, the Company recorded revenue of approximately RMB2,073.9 million, representing an increase of approximately RMB54.4 million or approximately 2.7% as compared with approximately RMB2,019.4 million for last year. Consolidated gross profit margin was approximately 19.1%, representing an increase of approximately 0.4 percent point as compared with approximately 18.7% for last year. Gross profit for the Year was approximately RMB395.8 million, representing an increase of approximately 4.7% as compared with approximately RMB378.1 million for the year ended 31 December 2018. Basic earnings per share for the Year amounted to RMB0.25, representing a decrease of 37.5% as compared with RMB0.40 in 2018.

Revenue

During the Year, the Group achieved growth in both sales of corrugated packaging products and corrugated sheet boards. For the Year, the Group recorded revenue of approximately RMB2,073.9 million, representing an increase of approximately RMB54.4 million or approximately 2.7% as compared with that for the year ended 31 December 2018.

Sales of corrugated packaging products

During the Year, revenue from sales of corrugated packaging products was approximately RMB1,901.8 million, representing an increase of approximately 4.3% as compared with approximately RMB1,823.7 million in 2018, and accounted for approximately 91.7% of the Group's total revenue for the Year. The increase in performance of the sales of corrugated packaging products was mainly attributable to (i) the sales volume contributed by Taicang Pacific Millennium Packaging & Paper Industries Co., Ltd.* (太倉濟豐包裝紙業有限公司) ("**TCBP**") and (ii) the increase in sales volume in line with the Group's strategy to focus more on corrugated packaging products.

Sales of corrugated sheet boards

During the Year, revenue from sales of corrugated sheet boards was approximately RMB172.0 million, representing a decrease of approximately 12.1% as compared with approximately RMB195.7 million in 2018, and accounted for approximately 8.3% of the Group's total revenue for the Year. The decrease in sales of corrugated sheet boards was mainly attributable to the decrease in sales volume in some of the Group's existing production plants as a result of the Group's strategy to focus more on the Group's resources on the manufacture and sale of corrugated packaging products.

Cost of Sales

For the Year, cost of sales of the Group was approximately RMB1,678.1 million, representing an increase of approximately 2.2% as compared with approximately RMB1,641.3 million for the year ended 31 December 2018, mainly attributable to (i) the increase in sales volume; and (ii) the increase in direct labour costs in line with the increased sales volume and the increase in salary level of the Group's production staff.

Gross Profit

Due to the above reasons, gross profit of the Group during the Year was approximately RMB395.8 million, representing an increase of approximately 4.7% as compared with approximately RMB378.1 million for the year ended 31 December 2018, of which gross profit from sales of corrugated packaging products increased by approximately 6.5% to RMB384.0 million, while gross profit from sales of corrugated sheet boards decreased by approximately 32.8% to RMB11.8 million. Gross profit margins of the Group in 2018 and 2019 reached 18.7% and 19.1%, respectively, of which gross profit margins of sales of corrugated packaging products in 2018 and 2019 were 19.8% and 20.2%, respectively, while gross profit margins of sales of corrugated sheet boards were 9.0% and 6.9%, respectively. The increase of gross profit margin in 2019 as compared to 2018 was mainly attributable to the increase in gross profit margins of TCBP and Guangdong Pacific Millennium Packaging & Paper Industries Co., Ltd* (廣東濟豐包裝紙業有限公司).

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 19.0% from RMB96.2 million for the year ended 31 December 2018 to RMB114.4 million for the Year. The increase was mainly due to (i) the increase in distribution expenses for the delivery of the Group's products to its customers, which in turn was mainly attributable to the increase in our sales volume; and (ii) the increase in staff costs, which in turn was due to both the increase in the number of the Group's sales and marketing staff and the increase in the salaries, welfares and benefits paid to sales staff.

Administrative Expenses

For the Year, the Group's administrative expenses were approximately RMB140.4 million, representing an increase of approximately 10.9% as compared with approximately RMB126.6 million for the year ended 31 December 2018. The increase was mainly due to the (i) the increase in staff costs; and (ii) the increase in administrative expense incurred by the new production plant in Taicang and Huizhou.

Finance Costs

Finance Costs comprise interest on lease liabilities net of capitalised amounts, interest on bank loans, interest on sale and leaseback arrangements and interest on amounts due to a related company. Finance costs increased by approximately 11.8% from RMB28.9 million for the year ended 31 December 2018 to RMB32.4 million for the Year. The increase was primarily due to the increase in interest on lease liabilities offset by the decrease of interest on bank borrowings.

Income Tax Expense

Income tax expense decreased by approximately 12.2% from approximately RMB37.7 million for the year ended 31 December 2018 to RMB33.1 million for the Year, primarily due to the decrease of profit. The Group's effective income tax rate remained stable, which was 29.5% in 2018 and 30.3% in 2019.

Profit for the Year and Net Profit Margin

As a result of the foregoing, the Group's profit decreased by approximately 15.6% from approximately RMB90.3 million for the year ended 31 December 2018 to approximately RMB76.2 million for the Year. The Group's net profit margin decreased from 4.5% in 2018 to 3.7% in 2019.

Profit attributable to Equity Holders of the Company

During the Year, profit attributable to equity holders of the Company was RMB76.2 million, representing a decrease of approximately 15.6% or RMB14.1 million as compared with RMB90.3 million for the year ended 31 December 2018.

Liquidity and Capital Resources

Working Capital

As at 31 December 2019, cash and cash equivalents of the Group amounted to approximately RMB277.2 million.

Cash Flow

Cash inflows of the Group were principally generated from proceeds from operating activities, namely sales of corrugated packaging products and corrugated sheet boards in the PRC, leasing and bank and other borrowings.

The Company's primary cash expenditures were used to purchase property, plant and equipment and to make prepayment for the purchase of property, plant and equipment. The following table sets out the Group's cash flows from operating activities, investing activities and financing activities for the years ended 31 December 2018 and 2019:

	Year ended 31 December	
	2019	2018
	RMB million	*RMB million*
Net cash from operating activities	**135.9**	153.8
Net cash generated from/(used in) investing activities	**76.7**	(181.7)
Net cash (used in)/generated from financing activities	**(283.3)**	290.6
Cash and cash equivalents at the beginning of the year	**347.9**	73.8
Exchange losses on cash and cash equivalents	**0.01**	11.6
Cash and cash equivalents at the end of the year	**277.2**	347.9

Net cash generated from operating activities

During the Year, our net cash generated from operating activities was approximately RMB135.9 million, which comprised cash generated from operations of approximately RMB173.0 million, offset by income tax of approximately RMB37.1 million. Net cash generated from operating activities decreased by approximately RMB17.8 million or 11.6% as compared with the net cash generated from operating activities of RMB153.8 million for the year ended 31 December 2018, which was mainly due to the decrease in trade payables to our suppliers as resulted mainly from the decrease in raw paper prices for the Year.

Net cash used in investing activities

During the Year, the Group's net cash generated from investing activities approximately RMB76.7 million, representing an increase of RMB258.4 million as compared with net cash used in investing activities of RMB181.7 million for the year ended 31 December 2018, which was primarily due to the release of pledged deposits of RMB116 million.

Net cash (used in)/generated from financing activities

During the Year, the Group's net cash used in financing activities was approximately RMB283.3 million, representing a decrease of RMB573.9 million as compared with the net cash generated from financing activities of approximately RMB290.6 million for the year ended 31 December 2018. The decrease was mainly attributable to the distribution of dividends and the decrease of bank loans during the Year and that there was no fund raising activity during the Year (2018: net proceeds of approximately HK$262.5 million were raised under the global offering of the Company).

Major Acquisitions and Disposals

During the Year, the Group had no major acquisition and disposal.

Pledge of Assets

Details of the pledged assets of the Group were set out in note 10 to this announcement.

Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

Human Resources

As at 31 December 2019, the Group had 1,708 full-time employees. The Group has implemented a number of initiatives to enhance the productivity of our employees. In particular, the Group conducts periodic performance reviews of most of the Group's employees, and their compensation is tied to their performance. Further, the Group's compensation structure is designed to incentivise its employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based portion depends on the employee's job function and seniority.

Future Plan

Looking forward, the Group will continue to focus on expanding its production plants network by setting up new production plants in the PRC focusing on the Shandong Plant and Foshan Plant and will further strengthen its market position in the corrugated packaging industry in the PRC and improve revenue and profitability through broadening geographical coverage and market penetration. The Board believes that, as a result of the outbreak of the novel coronavirus (COVID-19) epidemic in the PRC, the Group's performance for the year 2020 would be inevitably affected. However, given the rapid development of e-commerce and the growth in domestic demand on food and beverages and basic necessities in the PRC, the Board believes that there will be sufficient demand for the Group's products.

Besides, the Group will continue to streamline and enhance the level of automation of its production process by upgrading our production facilities and purchasing new machinery and equipment for its existing production plants with a view to enhancing production efficiency, reducing production lead time and increasing the level of automation of production process.

LISTING AND USE OF PROCEEDS FROM GLOBAL OFFERING

Upon listing on the Stock Exchange on 21 December 2018, the Company issued 75,158,000 new shares at the offer price of HK$3.98 per share, with the net proceeds amounting to approximately HK$262.5 million (equivalent to approximately RMB233.4 million) after deducting related underwriting commission and expenses in connection with the global offering (the "**Global Offering**") incurred by the Company for the listing. Save as disclosed below, the net proceeds from the Global Offering will be used in the manner consistent with those set out in the section headed "Future Plan and Use of Proceeds" in the prospectus of the Company dated 10 December 2018. As at 31 December 2019, the net proceeds were used for the following purposes:

	Net proceeds from the Global Offering HK$ million		
Use of proceeds	**Proceeds available for use**	**Proceeds used**	**Proceeds unused**
For expansion of production plants network	193.2	8.4	184.8
For upgrading production facilities and purchasing new machinery and equipment	44.4	37.0	7.4
For general working capital	24.9	24.9	—
Total	262.5	70.3	192.2

As at the date of this announcement, the Group had commenced construction of its Shandong Plant and the construction of the Shandong Plant is expected to be completed by the third quarter of 2020. As to the Foshan Plant, as at the date of this announcement, site selection was still in progress and it is expected that the location of the Foshan Plant would be confirmed in the second quarter of 2020 and construction would be commenced in the third quarter of 2020 while production would be commenced in the second quarter of 2021. The Group will continue to seek suitable site in Haiyan and establish another production plant through internal resources when a suitable site is identified.

CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF ATTENDING AND VOTING AT THE ANNUAL GENERAL MEETING OF THE COMPANY

The register of members of the Company will be closed from Thursday, 18 June 2020 to Tuesday, 23 June 2020, both days inclusive, in order to determine the identity of the shareholders of the Company (the "**Shareholders**") who are entitled to attend the forthcoming annual general meeting to be held on Tuesday, 23 June 2020 (the "**AGM**"). All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 17 June 2020.

FINAL DIVIDEND

The Board proposed a final dividend of HK$0.075 per share (2018: HK$0.1) payable to the Shareholders whose names appear on the register of members of the Company on 3 July 2020. The final dividend is subject to approval by the Shareholders in the forthcoming annual general meeting. It is expected that the final dividend will be paid on Thursday, 16 July 2020.

CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF FINAL DIVIDEND

In order to determine the identity of the Shareholders who are entitled to the final dividend, the register of members of the Company will be closed from Tuesday, 30 June 2020 to Friday, 3 July 2020 (both dates inclusive), during which period no transfer of shares of the Company will be effected. The final dividend will be paid in Hong Kong dollars. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Monday, 29 June 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. Except for deviation from provision A.2.1 of the Corporate Governance Code (the "**CG Code**"), the Company had no material deviation from the CG Code as set forth in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the Year.

Under code provision A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cheng Hsien-Chun ("**Mr. Cheng**") is the only executive director of the Company, who performs similar function to that of a chief executive officer, and he also performs as the chairman of the Board. As Mr. Cheng has considerable experience in the corrugated packaging industry and has been assuming day-to-day responsibilities of managing and leading the Group since 1995, the Board believes that Mr. Cheng, being the executive director of the Company and the chairman of the Board has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning of the Group which is in the best interest of the Group.

The Board considers that the deviation from provision A.2.1 of the CG Code is appropriate in such circumstances. Notwithstanding the above, the Board is of the view that this management structure is effective for the Group's operations, and sufficient checks and balances are in place.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") is comprised of five directors, namely being Mr. Kiang Tien Sik David (chairman), Mr. Chow Tien-Li, Mr. Wang Jisheng, Dr. Su Morley Chung Wu and Mr. Philip Tan. The primary duties of the audit committee are to make recommendations to the Board on the appointment and removal of external auditor, review and supervise the financial reporting process and internal control procedures of the Company. The Audit Committee had reviewed the audited annual results of the Group for the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he has complied with the required standards as set out in the Model Code for the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the annual report of the Group for the Year containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Pacific Millennium Packaging Group Corporation
Cheng Hsien-Chun
Chairman

Hong Kong, 27 March 2020

As at the date of this announcement, the executive director of the Company is Mr. Cheng Hsien-Chun; the non-executive directors of the Company are Mr. Chow Tien-Li and Mr. Philip Tan; and the independent non-executive directors of the Company are Mr. Wang Jisheng, Mr. Kiang Tien Sik David and Dr. Su Morley Chung Wu.

* *For identification purposes only*