

**Issuer:** Southern Packaging Group Limited  
**Security:** Southern Packaging Group Limited

**Meeting details:**

Date: 26 April 2018

Time: 2.00 p.m.

Venue: Indiana Room, Level 4, Raffles City Convention Centre, Fairmont Singapore and Swissotel The Stamford, 80 Bras Basah Road, Singapore 189560

**Company Description**

Southern Packaging Group Limited, an investment holding company, produces and trades flexible and rigid packaging products in the People's Republic of China, the Netherlands, the United States, and internationally. The company's Flexible Packaging segment manufactures plastic packaging bags with design supplied by the customers for the pharmaceutical, food and beverage, and hygiene industries. Its Rigid packaging segment manufactures polyethylene terephthalate bottles; and prints design onto the bottles for the pharmaceutical, food and beverage, and hygiene industries. The company also engages in the sub-contract processing business. Southern Packaging Group Limited is based in Foshan, the People's Republic of China.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=BQP](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BQP))

**Q1.** As noted in the Chairman's Message (page 2 of the annual report), the group performed well and achieved its sales target for the year. Revenue increased by 11% to RMB723 million, largely led by the 16% increase in the Rigid packaging segment which accounted for RMB428 million in FY2017. Gross profit margin decreased by 5 percentage points to 22% in FY2017 compared to 27% in FY2016 mainly due to increases in the purchase price of raw material and in labour costs.

Looking further at the segment information (page 91 - Note 29 Segment information), the segment result from the Flexible packaging segment more than halved (segment profit margin from 12.1% to 5.1%) while the result from the Rigid packaging segment held steady.

- a) **What are management's pro-active efforts to maintain and restore the gross profit margin?** The gross profit margins for the group since FY2011 were 20%, 25%, 23%, 19%, 26%, 27% and 22%. **In particular, what are the specific challenges in the Flexible packaging segment that led to the drastic fall in profit?**
- b) **How can the group provide more value-added services to its customers and/or introduce innovative products that can lead to better profit margin?**
- c) **With the pharmaceutical packaging production license obtained by Southern Packaging (Jiangsu) Co., Ltd in 2016, how much of the growth in revenue came from pharmaceutical customers?**
- d) **Is the group able to pass on the increases in the price of raw material and labour to its customers?**
- e) **What are the production capacity at each of the production facilities, including the new facilities in Jiangsu, Changzhou and Gaoming? Can management let shareholders know the utilisation level of its production facilities?**
- f) **How is management pro-actively mitigating the raising labour costs? What is the level of automation in the factories? How much investment is management planning to commit to automate the manufacturing process?**

**Q2.** Despite the drop in profit by about a third in FY2017, the group still reported a profit for the year of RMB25.7 million and generated RMB79.3 million of net cash from operating activities, up by 9% from RMB72.8 million in FY2016.

Despite investing over RMB114 million in property, plant and equipment in FY2017, the cash and cash equivalents at the end of the financial year stood at RMB116.3 million, up 9% from RMB107 million.

As shown in Note 27 (page 89 - Capital commitments), the group has contracted a further RMB6.6 million in capital expenditure.

As communicated by the company in the Corporate Governance Report (page 35), the company currently does not have a fixed dividend policy and the board will make its recommendation on the dividends based on factors such as:

- the level of cash and retained earnings;
- actual and projected financial performance;
- projected levels of capital expenditure and expansion plans;
- working capital requirements and general financing needs and conditions; and
- restrictions on payment of dividend imposed to the Company (if any).

The directors have proposed a first and final dividend of 0.36 cents per share, totaling S\$253,000 (equivalent to approximately RMB1,236,152). As the group's profit for the year was RMB25.7 million or about \$5.3 million, the dividend payout ratio is less than 5%.

As seen from Note 32 (page 97 – Capital management policies and objectives), the group’s gearing remains healthy at 36% as at 31 December 2017, up slightly from 32% a year ago.

- a) **Can the directors help shareholders understand the deliberations it has had with regard to the declaration of dividends at the board meetings?**
- b) **Can the board elaborate further on the specific reasons that led it to cut the dividend (and the dividend payout ratio)?**
- c) The company has an excellent record of distributing dividends to shareholders for 14 consecutive years, inclusive of this year’s proposed dividends of 0.36 cents per share. **Would the board re-evaluate the company’s position on not having a fixed dividend policy?** The company’s financial position and good performance seem to suggest that it is able to support a fixed dividend policy that is flexible enough to adapt to the group’s capital requirements.

**Q3.** In the Corporate Governance Report, the attendance of directors at board and board committee meetings is shown, as follows:

The numbers of the Board and respective Board Committees meetings held during the FY2017 and the attendance of each Director where relevant are as follows:

	Board	Audit Committee	Nominating Committee	Remuneration Committee
No. of meetings	4	4	1	1
Attendance :				
Pan Shun Ming	4	N/A	N/A	N/A
Chen Xiang Zhi	4	N/A	N/A	N/A
Pu Jinbo	4	N/A	N/A	N/A
Mai Shuying	2	N/A	N/A	N/A
Li Yonghua	4	N/A	N/A	N/A
Yeung Koon Sang @ David Yeung	4	4	1	1
Chung Tang Fong	4	4	1	1
Chia Chor Leong	3	3	1	1
Tan Jiansheng <sup>1</sup>	2	2	N/A	N/A
Guo Weihai <sup>1</sup>	3	3	N/A	N/A

N/A: Not Applicable

<sup>1</sup> Mr Tan Jiansheng and Mr Guo Weihai were appointed as Independent Directors and members of the Audit, Remuneration and Nominating Committees on 27 February 2017.

(Source: Company annual report)

Ms. Mai Shuying attended 2 out of the 4 board meetings in the year. In the last three years, Ms. Mai attended 1 meeting, 3 meetings and 3 meetings out of the 4 board meetings in 2016, 2015 and 2014 respectively.

- a) **Can the company let shareholders know if there were any extenuating factors that led to Ms. Mai not being able to attend the board meetings?**
- b) **Would the company secretary, the chairman and the directors look at how the scheduling of board meetings could be further improved?**