Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Southern Packaging Group Limited

Stock code: BQP

Meeting details:
Date: 30 April 2021
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. The group is a producer of flexible and rigid packaging products used in the food, medical, personal grooming and household industries. In the chairman's message, it is noted that the group's manufacturing facilities in Foshan and Changzhou were allowed to resume early production to meet the needs of medical and food packaging during the height of COVID. In addition, a significant proportion of the group's products is used by the pharmaceutical industry.

Would the board/management provide shareholders with greater clarity on the following operational matters? Specifically:

(i) **Revenue by segment: Can management provide a breakdown of revenue arising from each significant segment?**

(ii) **Revenue by product:** Total revenue for FY2020 dropped by (16.7)% to RMB590.4 million. The fall in revenue in rigid packaging was slightly higher at (17.2)% compared to the fall in revenue for flexible packaging at (15.8)%. **Are there reasons for the drop in demand for rigid packaging to be larger (although it is not significantly so)? Does management expect the recovery to be fairly uniform as well?**

(iii) **Gross Margin:** The gross margins for rigid packaging was higher and it held steady in FY2019 & FY2020 at 21.6%. Gross margins for flexible packaging was lower at 19.4% in FY2019 and slipped to 15.7% in FY2020. **Can management help shareholders understand its value proposition in rigid packaging? Why are the gross margins higher and what did management do in FY2020 to maintain its margin in rigid packaging?**

(iv) **Innovation: Can the company showcase some of its product innovation during the AGM?**

(v) **Sustainability: How is management addressing the trend of sustainable, eco-friendly green material?**

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Q2. The "Accounting for property under development" is a key audit matter (KAM) highlighted by the independent auditor (pages 48-53). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As at 31 December 2020, the group had property under development of RMB241.4 million, including capitalised and additional eligible costs of RMB70.8 million being capitalised during the financial year. This represents 22.2% of the group's total assets.

(i) **For the benefit of new shareholders, can the board help shareholders understand why it has ventured into property development?**

As disclosed in Note 12 (pages 93 & 94 – Property under development), the group acquired the Sanshan site in October 2012 at a sale price of RMB17.47 million. The local authorities had stipulated that the construction and completion verification report must be completed before 8 November 2015. A supplementary agreement was only signed in December 2016 to allow the group to complete the construction by October 2019. Due to the delay, the estimated liquidated damages amounted to approximately RMB6.656 million.

(ii) **What was the oversight provided by the board to ensure that the group fulfils its obligations in its businesses?**

(iii) **Can management elaborate further on the marketing plans, including the launch, for the Apex Tower? What is the current state of the local economy at Sanlong Bay? What are the comparable prices in Sanlong Bay?**

(iv) **Will the group be addressing all the current outstanding issues with the local authorities (including the non-compliance of commencement and completion dates, liquidated damages) so as to safeguard shareholders' interests?**

(v) **Will management cease all further property development and commit to focusing on the core business?**

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Q3. The group has total borrowings amounting to RMB 367.3 million as at 31 December 2020, with RMB 250.8 million due within 12 months. The breakdown of the borrowings is shown on page 102 and reproduced below:

Borrowings

	Group	
	2020 RMB	**2019 RMB**
Bank borrowings		
- bank A	192,919,011	204,323,840
- bank B	69,567,640	37,190,250
- bank C	–	20,000,000
- bank D	1,114,616	23,404,053
- bank E	–	2,104,509
- bank F	8,135,523	24,000,619
- bank G	35,000,000	25,000,000
- bank H	3,866,662	10,704,013
- bank I	10,000,000	–
- bank J	6,684,062	–
- bank K	10,000,000	–
	337,287,514	346,727,284
Third parties		
- third party A	–	1,024,138
- third party B	30,000,000	30,000,000
	367,287,514	377,751,422
Less: Amounts due for settlement within 12 months (shown under current liabilities)	(250,809,330)	(240,493,856)
Amounts due for settlement after 12 months	116,478,184	137,257,566

(Source: company annual report)

(i) **Who are the third parties that had provided the group with RMB 30.0 million in loans? Why is the group borrowing from third parties?**

(ii) **Does the group have the necessary resources to repay the RMB 250.8 million or to refinance the amount that is due 12 months from the end of the reporting period?**

(iii) In addition, loan amounting to RMB 44.2 million is denominated in United States dollar (page 104). **What are the reasons for the group to borrow in USD? How much of the group's transactions are in United States dollar?**

(iv) **Would there be a significant currency mismatch between the group's earnings and the sources of funds?**

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^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)