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 2018
SPECIAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

ANNUAL RESULTS HIGHLIGHTS

	2018 *RMB'000*	2017 *RMB'000*	2017 VS 2018 *(%)*
Revenue	**2,019,410**	1,664,102	21.4
Gross Profit	**378,145**	348,794	8.4
Profit for the Year	**90,272**	85,894	5.1
Earnings per share (RMB)	**40 cents**	38 cents	5.3

FINAL DIVIDEND

The Directors proposed a final dividend of HK$0.1 per share (2017: nil) payable to Shareholders whose names appear on the register of members of the Company on 3 July 2019. The final dividend is subject to approval by the Shareholders in the AGM.

SPECIAL DIVIDEND

In light of the retained profit made by the Group up to 31 December 2017, the Board has declared a special dividend of HK$0.3 per share payable to Shareholders whose names appear on the register of members of the Company on 11 April 2019.

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 2018 (the "**Year**") together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2018	2017
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**2,019,410**	1,664,102
Cost of sales		**(1,641,265)**	(1,315,308)
Gross profit		**378,145**	348,794
Other income and other gains and losses, net		**3,703**	3,225
Selling and distribution expenses		**(96,185)**	(77,760)
Administrative expenses		**(126,622)**	(136,712)
Impairment (loss)/gain on trade receivables		**(2,142)**	104
Finance costs		**(28,943)**	(17,410)
Profit before income tax	*6*	**127,956**	120,241
Income tax expense	*7*	**(37,684)**	(34,347)
Profit for the year		**90,272**	85,894
Other comprehensive income that may be reclassified to profit or loss in subsequent periods, after tax			
Exchange differences on translation of foreign operations		**(4,397)**	(128)
Total comprehensive income		**85,875**	85,766
Earnings per share (RMB)	*8*	**40 cents**	38 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**453,927**	365,303
Prepaid lease payments for land		**10,106**	10,390
Prepayments for purchase of property, plant and equipment		**417**	40,098
Deferred tax assets		**8,190**	5,078
		472,640	420,869
Current assets			
Inventories		**130,668**	118,140
Trade receivables, bills receivables, other receivables, deposits and prepayments	*9*	**587,706**	484,383
Prepaid lease payments for land		**284**	284
Pledged deposits		**127,130**	12,180
Bank balances and cash		**347,931**	73,767
		1,193,719	688,754
Current liabilities			
Trade and other payables	*10*	**426,748**	328,078
Contract liabilities		**2,874**	3,058
Dividend payable		**—**	41,065
Bank and other borrowings	*11*	**473,923**	259,000
Amount due to immediate holding company		**—**	13,393
Tax payable		**13,774**	6,903
Obligations under finance leases	*12*	**14,315**	27,838
		931,634	679,335
Net current assets		**262,085**	9,419
Total assets less current liabilities		**734,725**	430,288
Non-current liabilities			
Bank and other borrowings		**19,556**	31,078
Obligations under finance leases		**14,640**	32,256
		34,196	63,334
Net assets		**700,529**	366,954
Equity			
Share capital		**2,442**	1,785
Reserves		**698,087**	365,169
Total equity		**700,529**	366,954

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 or revised IFRSs

The Group has early adopted all the new or revised IFRSs in the prior years which are effective for the annual periods beginning on or after 1 January 2018 and relevant to the Group. The IFRSs early adopted by the Group included IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and Amendments to IFRS 15.

(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 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.

IFRS 16	Leases[1]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]
IFRIC 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

Further information about the above IFRSs which are expected to be applicable to the Group is as follows:

IFRS 16 — Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Under IAS 17, the Group has already recognised the prepaid lease payments for leasehold land where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB212,632,000. These arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of these leases unless they qualify for short-term leases upon the application of IFRS 16. In the consolidated statements of comprehensive income, depreciation will be recognised on the related right-of-use asset and interest expenses will be recognised on the lease liability instead of rental expense. Interest expenses on the lease liability will be presented separately from depreciation under finance costs. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to comprehensive income in the initial year of the lease, and decreasing expenses during the latter part of the lease term on a lease by lease basis.

The Group expected that the recognition of right-of-use asset and the lease liability on operating lease commitments upon adoption of IFRS 16 would result in significant increase in non-current assets and total liabilities respectively. It is also expected that there will be no material impact on the total expenses to be recognised by the Group over the entire lease period and the total net profit over the lease period is not expected to be materially affected. The adoption of IFRS 16 would not affect the total cash flows in respect of the lease.

As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. The Group also plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 January 2019 and will not restate the comparative information.

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 "**IFRS**") 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. REVENUE

Revenue

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

	2018	2017
	RMB'000	*RMB'000*
Corrugated packaging products	**1,823,661**	1,516,253
Corrugated sheet boards	**195,749**	147,849
	2,019,410	1,664,102

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:

	2018	2017
	RMB'000	*RMB'000*
Revenue by industry		
Food and beverage	**511,496**	413,117
Paper and packaging	**297,292**	244,306
Non-food-and-beverage-consumables *(Note (i))*	**183,699**	177,662
Supplier chain solution	**151,567**	110,715
E-commerce	**85,197**	81,819
Home electronics	**76,745**	79,673
Others *(Note (ii))*	**713,414**	556,810
	2,019,410	1,664,102

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.

5. 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 both years.

6. PROFIT BEFORE INCOME TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold*	**1,641,265**	1,315,308
Depreciation of property, plant and equipment	**54,486**	47,745
Listing expenses	**10,304**	7,243
Auditors' remuneration	**1,480**	952
Amortisation of prepaid lease payments for land	**284**	284
Lease payments under operating leases	**8,163**	6,592
Impairment loss on inventories	**1,354**	1,200
Reversal of impairment loss on inventories	**(1,168)**	(561)
Impairment loss on trade receivables	**2,747**	1,099
Reversal of impairment loss on trade receivables	**(605)**	(1,203)
Impairment loss/(gain) on trade receivables	**2,142**	(104)
Exchange loss, net	**148**	686
Employee benefits expenses (including Directors' remuneration):		
— Wages, salaries and benefits	**137,781**	149,651
— Retirement benefit costs	**22,435**	20,799

* Cost of inventories sold for the year ended 31 December 2018 includes RMB137,260,000 (2017: RMB123,101,000), 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.

7. INCOME TAX EXPENSE

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

	2018	2017
	RMB'000	*RMB'000*
Current tax		
— Provision for PRC enterprise income tax for the year	**40,796**	31,737
Deferred tax		
— Origination and reversal of temporary differences	**(3,112)**	2,610
Income tax expense	**37,684**	34,347

No provision of Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for both years.

Provision for PRC enterprise income tax is based on the statutory rate of 25% (2017: 25%) of the assessable profits of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC for both years.

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.

	2018	2017
Profit for the year (RMB'000)	**90,272**	85,894
Weighted average number of ordinary shares in issue (in thousand)	**227,740**	225,474
Basic earnings per share (RMB)	**40 cents**	38 cents

No diluted earnings per share is presented as the Group has no dilutive potential shares as at 31 December 2018 (2017: same).

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

	2018 **RMB'000**	2017 RMB'000
Trade receivables	**525,629**	435,540
Bills receivables	**23,611**	26,146
Less: allowance for impairment losses	**(7,426)**	(5,284)
	541,814	456,402
Other receivables	**18,368**	804
Deposits	**14,796**	14,774
Prepayments	**12,728**	12,403
	587,706	484,383

As at the end of each reporting period, bills receivable matured within 180 days and were not past due.

The ageing analysis of trade and bills receivables (net of impairment losses) as at the end of each reporting period, based on invoice dates, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**260,132**	236,315
Over 1 month but within 3 months	**246,524**	203,000
Over 3 months	**35,158**	17,087
	541,814	456,402

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

10. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade and bills payables	**360,733**	244,158
Accruals and other payables	**66,015**	83,920
	426,748	328,078

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 the end of reporting period is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**180,399**	154,922
Over 1 month but within 3 months	**163,202**	77,856
Over 3 months	**17,132**	11,380
	360,733	244,158

11. BANK AND OTHER BORROWINGS

	Notes	2018 RMB'000	2017 RMB'000
Bank loans, secured	*(a)*	**463,498**	243,260
Other borrowings, secured	*(b)*	**29,981**	46,818
		493,479	290,078
Categorised as:			
Current liabilities		**473,923**	259,000
Non-current liabilities		**19,556**	31,078
		493,479	290,078

Notes:

(a) During the year, the average effective interest rates of the Group's bank loans range from 4.60% to 6.53% per annum (2017: 4.35% to 4.57% per annum).

At each of the reporting date, all bank loans were scheduled to be repaid within one year.

As at 31 December 2017, bank loans of RMB73,260,000 were secured by pledged deposits of RMB83,131,000 provided by the immediate holding company. The pledged deposits were released on 14 September 2018.

(b) As at 31 December 2018, other borrowings represent three (2017: 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 2018, the transactions are classified as secured loan financing and the carrying amounts of the corresponding plant and equipment pledged under the sale and leaseback arrangements were RMB32,238,000 (2017: RMB47,633,000).

As at 31 December 2018, future lease payments are due as follows:

	Minimum lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than 1 year	**12,770**	**2,345**	**10,425**
Later than 1 year and not later than 2 years	**12,770**	**1,340**	**11,430**
Later than 2 years and not later than 5 years	**8,438**	**312**	**8,126**
	33,978	**3,997**	**29,981**

As at 31 December 2017, future lease payments are due as follows:

	Minimum lease payments	Interest	Present value
	RMB'000	*RMB'000*	*RMB'000*
Not later than 1 year	19,431	3,691	15,740
Later than 1 year and not later than 2 years	19,431	2,224	17,207
Later than 2 years and not later than 5 years	14,571	700	13,871
	53,433	6,615	46,818

12. OBLIGATIONS UNDER FINANCE LEASES

During the years ended 31 December 2018 and 2017, the Group acquired certain of its plant and machinery under finance leases with Chongqing Stone Tan Financial Leasing Limited, a related company, as lessors.

As at 31 December 2018, future lease payments are due as follows:

	Minimum lease payments	**Interest**	**Present value**
	RMB'000	***RMB'000***	***RMB'000***
Not later than 1 year	**16,354**	**2,039**	**14,315**
Later than 1 year and not later than 2 years	**13,657**	**729**	**12,928**
Later than 2 years and not later than 5 years	**1,748**	**36**	**1,712**
	31,759	**2,804**	**28,955**

As at 31 December 2017, future lease payments are due as follows:

	Minimum lease payments	Interest	Present value
	RMB'000	*RMB'000*	*RMB'000*
Not later than 1 year	31,426	3,588	27,838
Later than 1 year and not later than 2 years	23,349	1,998	21,351
Later than 2 years and not later than 5 years	11,222	317	10,905
	65,997	5,903	60,094

13. PLEDGE OF ASSETS

As at the end of each reporting period, 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:

	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**96,775**	117,750
Prepaid lease payments for land	**10,390**	10,674
Pledged deposits	**127,130**	12,180
	234,295	140,604

14. DIVIDEND

	US$'000	*RMB'000*
Year ended 31 December 2017		
— Interim dividend of US$0.07 per share	16,580	112,320

On 24 March 2019, the Board proposed a final dividend of HK$0.1 per share (2017: nil), which is subject to approval by the Shareholders in the upcoming annual general meeting. Also, in light of the retained profit made by the Group up to 31 December 2017, the Board declared a special dividend of HK$0.3 per share. The final dividend and the special dividend are expected to be paid on 16 July 2019 and 21 May 2019 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In 2018, Sino-US trade wars, national supply-side reforms, raw material price fluctuations, pressures on environmental protection, etc. intensified the competition of corrugated packaging market and increased the entry barrier for new market players in the People's Republic of China (the "**PRC**"). At the same time, the branding of downstream end consumer products and rapid development of e-commerce and express industries also increased the market's demand for corrugated packaging products. To this end, the application of intelligence, automation and digitalization have highlighted its advantages in the development of corrugated packaging enterprises. The application of new technologies, new materials and new concepts have gradually become a powerful weapon for market competition. This means that in the future development of corrugated packaging industry, enterprises with scale, technology and financial strength will gradually occupy dominant position in the market, and most of the industry's shares will be occupied by several leading enterprises eventually.

BUSINESS REVIEW

During the Year, the Company strived to further strengthen its market position in the corrugated packaging industry in the PRC. In anticipation of the future growth potential of the PRC corrugated packaging industry brought about by rising demand and market consolidation, the Company will continue to seek opportunities to realise sustainable growth of its business and increase its shareholders' value by expanding its network of production plants and service radius through setting up new production plants in the eastern and southern regions of the PRC.

For the Year, the Group's production plants had all recorded growth in different extent, in particular, the growth recorded by newly established production plants located in South China district is relatively significant. Guangdong Pacific Millennium Packaging & Paper Industries Co., Ltd.* (廣東濟豐包裝紙業有限公司) ("**GDBP**") had managed to achieve breakeven within 6 months after its establishment.

In December 2018, the Company successfully completed its global offering (the "**Global Offering**") and listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), and raised total net proceeds of approximately HK$262.5 million. This was an important milestone in the business development of the Group.

Through the net proceeds raised under the Global Offering, the Company will be able to establish its production plants in Zhejiang Province and Guangdong Province, which will further broaden the Group's geographical coverage and market penetration.

FINANCIAL REVIEW

For the Year, the Company recorded revenue of approximately RMB2,019.4 million, representing an increase of approximately RMB355.3 million or approximately 21.4% as compared with approximately RMB1,664.1 million for the year ended 31 December 2017. Consolidated gross profit margin was approximately 18.7%, representing a decrease of approximately 2.3% as compared with approximately

21.0% for the year ended 31 December 2017. Gross profit for the Year was approximately RMB378.1 million, representing an increase of approximately 8.4% as compared with approximately RMB348.8 million for the year ended 31 December 2017. Basic earnings per share for the Year amounted to RMB0.40, representing an increase of 5.3% as compared with RMB0.38 in 2017.

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 RMB2,019.4 million, representing an increase of approximately RMB355.3 million or approximately 21.4% as compared with that for the year ended 31 December 2017.

Sales of corrugated packaging products

During the Year, revenue from sales of corrugated packaging products was approximately RMB1,823.7 million, representing an increase of approximately 20.3% as compared with approximately RMB1,516.3 million in 2017, and accounted for approximately 90.3% 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 increase in average selling price of corrugated packaging products in response to the continued surge in raw material price; 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 RMB195.7 million, representing an increase of approximately 32.4% as compared with approximately RMB147.8 million in 2017, and accounted for approximately 9.7% of the Group's total revenue for the Year. The increase in sales of corrugated sheet boards was mainly attributable to (i) the sales volume contributed by the new production plants, i.e. GDBP and Taicang Pacific Millennium Packaging & Paper Industries Co., Ltd.* (太倉濟豐包裝紙業有限公司) ("**TCBP**"), both are wholly-owned subsidiaries of the Company; and (ii) the increase in average selling price to cover the increasing raw paper price, partially offset by 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 RMB1,641.3 million, representing an increase of approximately 24.8% as compared with approximately RMB1,315.3 million for the year ended 31 December 2017, mainly attributable to (i) the increase in sales volume; (ii) the increase in raw paper costs; and (iii) the increase in direct labour costs in line with the increased sales volume and the increase in salary level for the Group's production staff.

Gross Profit

Due to the above reasons, gross profit of the Group during the Year was approximately RMB378.1 million, representing an increase of approximately 8.4% as compared with approximately RMB348.8 million for the year ended 31 December 2017, of which gross profit from sales of corrugated packaging products increased by approximately 12.2% to RMB360.6 million, while gross profit from sales of corrugated sheet boards decreased by approximately 35.9% to RMB17.6 million. Gross profit margins of the Group in 2017 and 2018 reached 21.0% and 18.7%, respectively, of which gross profit margins of sales of corrugated packaging products in 2017 and 2018 were 21.2% and 19.8%, respectively, while gross profit margins of sales of corrugated sheet boards were 18.5% and 9.0%, respectively. The decrease of gross profit margin in 2018 as compared to 2017 was mainly attributable to (i) the lower gross profit margin recorded by the Group's new production plants, namely GDBP and TCBP; and (ii) the increased portion of sales of products with lower gross profit margin recorded by certain existing production plants.

Selling and Distribution Expenses

Sales and distribution expenses increased by approximately 23.7% from RMB77.8 million for the year ended 31 December 2017 to RMB96.2 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 and marketing staff.

Administrative Expenses

For the Year, the Group's administrative expenses were approximately RMB126.6 million, representing a decrease of approximately 7.4% as compared with approximately RMB136.7 million for the year ended 31 December 2017. The decrease was mainly due to the decrease in staff costs, partially offset by (i) the increase in tax charges in line with increased sales; and (ii) the increase in professional fees.

Finance Costs

Finance costs comprise interest on finance leases 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 66.1% from RMB17.4 million for the year ended 31 December 2017 to RMB28.9 million for the Year. The increase was primarily due to the increase in (i) interest on bank loans of approximately RMB6.8 million as a result of the increase in the Group's average bank borrowings as well as interest rate; and (ii) interest on finance leases of approximately RMB4.7 million.

Income Tax Expense

Income tax expense increased by approximately 9.9% from approximately RMB34.3 million for the Year ended 31 December 2017 to RMB37.7 million for the Year, primarily due to the increase in the Group's profit before income tax. The Group's effective income tax rate remained stable, which was 28.6% in 2017 and 29.5% in 2018 .

Profit for the Year and Net Profit Margin

As a result of the foregoing, the Group's profit increased by approximately 5.1% from approximately RMB85.9 million for the year ended 31 December 2017 to RMB90.3 million for the Year. The Group's net profit margin decreased from 5.2% in 2017 to 4.5% in 2018.

Profit attributable to Equity Holders of the Company

During the Year, profit attributable to equity holders of the Company was RMB90.3 million, representing an increase of approximately 5.1% or RMB4.4 million as compared with RMB85.9 million for the year ended 31 December 2017.

Liquidity and Capital Resources

Working Capital

As at 31 December 2018, cash and cash equivalents of the Group amounted to approximately RMB347.9 million, of which approximately RMB233.4 million (equivalent to approximately HK$262.5 million) was the net proceeds from the Global Offering, and other funds mainly comprised the cash generated from the Group's operating activities during the Year and accumulated cash and bank balances at the beginning of the Year.

Cash Flows

Cash inflows of the Group were principally generated from cash inflow from operating activities, namely sales of corrugated packaging products and corrugated sheet boards in the PRC and from financing activities, namely proceeds from bank and other borrowings. During the Year, the shares of the Company (the "**Shares**") was successfully listed on 21 December 2018 (the "**Listing Date**") on the Main Board of the Stock Exchange and raised net proceeds of approximately HK$262.5 million.

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 2017 and 2018:

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Net cash generated from operating activities	**153.8**	90.2
Net cash used in investing activities	**(181.7)**	(50.1)
Net cash generated from/(used in) financing activities	**290.6**	(148.5)
Cash and cash equivalents at beginning of the year	**73.8**	183.4
Effect of exchange rate changes on cash and cash equivalents	**11.6**	(1.3)
Cash and cash equivalents at end of the year	**347.9**	73.8

Net cash generated from operating activities

During the Year, our net cash generated from operating activities was approximately RMB153.8 million, which comprised cash generated from operations of approximately RMB187.7 million, offset by income tax of approximately RMB33.9 million. Net cash generated from operating activities increased by approximately RMB63.6 million or 70.5% as compared with the net cash of RMB90.2 million generated from operating activities for the year ended 31 December 2017, mainly due to the increase in trade payables to our suppliers as resulted mainly from the increase in raw paper prices and our purchase of raw materials to meet increased customers' demand and the increase in net profit for the year.

Net cash used in investing activities

During the Year, the Group's net cash used in investing activities was approximately RMB181.7 million, representing an increase of RMB131.6 million as compared with RMB50.1 million for the year ended 31 December 2017, which consisted primarily (i) purchase of property, plant and equipment; (ii) prepayments made for purchase of property, plant and equipment; and (iii) increase in pledged deposit mainly for our increased bank loans and bank facilities, as partially offset by the proceeds from disposal of property, plant and equipment.

Net cash generated from/(used in) financing activities

During the Year, the Group's net cash generated from financing activities was approximately RMB290.6 million, representing an increase of RMB439.1 million as compared with the net cash used in financing activities of approximately RMB148.5 million for the year ended 31 December 2017. The increase mainly comprised net cash amounted to approximately HK$262.5 million from the Global Offering.

Debts Management

At as 31 December 2017 and 2018, the Group's gearing ratios were 0.99 and 0.75, respectively. The decrease in gearing ratio was mainly attributable to the increase in total equity due to the net proceeds raised in December. Gearing ratio represents total borrowings divided by total equity as at the end of 2017 and 2018.

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 13 to this announcement.

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

Human Resources

As at 31 December 2018, the Company had 1,725 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 eastern and southern regions of the PRC by way of long-term lease with an expected term of not less than 15 years with independent third parties. The Group 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 there will be sufficient demand for the Group's products in the eastern and southern regions of the PRC after taking into account the fact that many of the Group's targeted customer groups such as companies in the food and beverage, non-food-and-beverage-consumables, supplier chain solution, e-commerce, and home electronics industries have chosen to set up their operations in the eastern and southern regions of the PRC.

Besides, it is also the Group's intention 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, including the installation of (i) flexo folder gluer in-line systems which integrate the printing, folding and gluing production processes; (ii) conveyor systems connecting between different stages of production process for transportation of semi-finished and finished products; and (iii) other machinery and equipment such as robotic arms and automated pallet folders, which serve to enhance production efficiency, reduce production lead time and increase the level of automation of production process thereby reducing reliance on manual workers and strengthening the Group's ability to control the quality of its products.

On the basis of the foregoing, the Group believes that, by leveraging on its strengths and effectively implementing its business strategies, it can continue to expand its business in terms of scale and revenue. It is the belief of the Board that the Group has an advantage over other competitors to obtain new orders from major customers when the Group extends its presence in southern China by virtue of the long-term relationship between the Group and its major customers.

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 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 (the "**Prospectus**"). As at 31 December 2018, 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	—	193.2
For upgrading production facilities and purchasing new machinery and equipment	44.4	—	44.4
For general working capital	24.9	—	24.9
Total	262.5	—	262.5

As at 31 December 2018, the unused net proceeds were placed with banks as short term deposits or term deposits.

As disclosed in the Prospectus, the Company intended to apply approximately RMB17.5 million out of the net proceeds of approximately HK$262.5 million (equivalent to approximately RMB233.4 million) from the Global Offering for the six months ended 31 December 2018 as follows:

New production plant in Haiyan, Zhejiang Province (the "Haiyan Plant")	**Proceeds available for use** *RMB'000*	**Proceeds used** *RMB'000*	**Proceeds unused** *RMB'000*
Construction/alteration	4,285	—	4,285
Production machinery and equipment	12,516	—	12,516
Laboratory equipment, office equipment and management information system	718	—	718
Total	17,519	—	17,519

Prior to the Company's listing, the Group was in negotiation with the local government for the leasing of a parcel of land together with the buildings erected thereon located in Haiyan, Zhejiang Province (the "**Original Site**") for the establishment of the Haiyan Plant. However, due to the unexpected change in the availability of the Original Site, as at the date of this announcement, the Group is in the process of negotiating with the local government for another location within Haiyan (the "**New Site**") for its establishment of the Haiyan Plant. As a result, the Group has not yet utilised the said proceeds described in the table above as at the date of this announcement. The Company currently anticipates that the negotiation with the local government on the location of the New Site would be finalised by the third quarter of 2019. Unlike the Original Site where only alteration works would be needed to convert the existing buildings erected thereon into the Group's production plant, the New Site is likely to be a parcel of bare land which construction works will be needed to build the Haiyan Plant. On this basis and to the best of the Directors' knowledge and based on the information currently available to the Company, it expects the construction and commercial production of the Haiyan Plant to commence in the third quarter of 2019 and the third quarter of 2020, respectively. Save as disclosed above, the Company does not foresee any change in its plan in respect of the establishment of the Haiyan Plant, including, but not limited to, the estimated total investment, source of funding, and the estimated annual production capacity of the Haiyan Plant.

As further disclosed in the Prospectus, the Company intended to apply a portion of the net proceeds from the Global Offering for setting up a new production plant in Zhongshan, Guangdong Province. The Group has established its presence in the Guangdong Province since the commencement of commercial production of GDBP in the second quarter of 2018. With the satisfactory business development of GDBP, the Group has quickly expanded its customer base and gained better insights in the corrugated packaging market in the southern region of China. After carefully evaluating the business potential and competitive landscape among different areas in the Guangdong Province, the Company considers that the business opportunity and growth potential in Foshan to be even better than Zhongshan for the Group to establish its production plant. Furthermore, as at the date of this announcement, the Company has identified a number of locations in Foshan that are suitable for the Group to set up its production plant. Therefore, the Company intends to establish its second production plant in the southern region of China in Foshan instead of Zhongshan which the Company believes to be in the interest of the Company and the development of its business. To the best of the Directors' knowledge and based on the information currently available to the Company, it expects that the construction and commercial production of its new production plant in Foshan to commence in the second quarter of 2019 and the second quarter of 2020, respectively. Save as disclosed above, the Company does not foresee any change in its plan in respect of the establishment of the production plant in the Guangdong Province, including, but not limited to, the estimated total investment, source of funding, and the estimated annual production capacity of the new production plant.

Should there be any change in the use of proceeds, the Company will immediately inform its shareholders by way of announcement.

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 Tuesday, 18 June 2019 to Friday, 21 June 2019, 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 Friday, 21 June 2019 (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 Monday, 17 June 2019.

FINAL DIVIDEND

The Directors proposed a final dividend of HK$0.1 per share (2017: nil) payable to Shareholders whose names appear on the register of members of the Company on 3 July 2019. The final dividend is subject to approval by the Shareholders in the AGM. It is expected that the final dividend will be paid on 16 July 2019.

SPECIAL DIVIDEND

In light of the retained profit made by the Group up to 31 December 2017, the Board has declared a special dividend of HK$0.3 per share payable to Shareholders whose names appear on the register of members of the Company on 11 April 2019. It is expected that the special dividend will be paid on 21 May 2019. The payment of the special dividend will not have material impact to the Group's financial position or affect the intended use of proceeds raised under the Global Offering.

CLOSURE OF THE REGISTER OF MEMBERS FOR THE ENTITLEMENT OF FINAL DIVIDEND AND SPECIAL 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 Friday, 28 June 2019 to Wednesday, 3 July 2019 (both dates inclusive), during which period no transfer of Shares 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 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Thursday, 27 June 2019.

In order to determine the identity of the Shareholders who are entitled to the special dividend, the register of members of the Company will be closed from Tuesday, 9 April 2019 to Thursday, 11 April 2019 (both dates inclusive), during which period no transfer of Shares will be effected. The special dividend will be paid in Hong Kong dollars. In order to qualify for the special 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 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Monday, 8 April 2019.

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**") as set forth in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the Company had no material deviation from the CG Code since the Shares were listed on the Main Board of the Stock Exchange on the Listing Date up to 31 December 2018.

Under code provision A.2.1 of the CG Code, 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, 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 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 four Directors, namely being Mr. Kiang Tien Sik David (chairman), Mr. Chow Tien-Li, Mr. Wang Jisheng and Dr. Su Morley Chung Wu. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and removal of external auditor, review and supervise the financial reporting process and internal control procedure 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 from the Listing Date to 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

From the Listing Date to 31 December 2018, 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, 24 March 2019

In this announcement, the English translation of company or entity names in Chinese which are marked with "" is for identification purpose only.*

As at the date of this announcement, the Board comprises Cheng Hsien-Chun as executive Director; Chow Tien-Li as non-executive Director; Wang Jisheng, Kiang Tien Sik David and Su Morley Chung Wu as independent non-executive Directors.