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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)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020; SPECIAL DIVIDEND; AND CLOSURE OF REGISTER OF MEMBERS

RESULTS HIGHLIGHTS

- Revenue amounting to approximately RMB882.8 million was recorded for the Period (corresponding period in 2019: approximately RMB982.1 million), representing a decrease of approximately 10.1% as compared with the corresponding period in 2019.
- The net profit attributable to owners of the Company for the Period was approximately RMB29.5 million (corresponding period in 2019: approximately RMB24.3 million), representing an increase of approximately 21.4% as compared with the corresponding period in 2019.
- The Board has resolved not to declare any interim dividend for the Period.

SPECIAL DIVIDEND

In light of the retained profit made by the Group up to 31 December 2019, the Board is pleased to announce that the declaration and payment of a special dividend of HK\$0.15 per share of the Company to shareholders of the Company whose names appear on the register of members of the Company on 30 September 2020 was resolved by the Board in its meeting held on 25 August 2020. The special dividend is not reflected as dividend payables in these condensed consolidated interim financial statements.

The board (the “**Board**”) of director(s) (the “**Director(s)**”) of Pacific Millennium Packaging Group Corporation (the “**Company**”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020 (the “**Period**”), together with comparative figures for the corresponding period in 2019, are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		<i>RMB’000</i>	<i>RMB’000</i>
		(unaudited)	(unaudited)
Revenue	6	882,843	982,074
Cost of sales		<u>(714,433)</u>	<u>(805,380)</u>
Gross profit		168,410	176,694
Other income and other gains and losses, net		5,257	1,685
Selling and distribution expenses		(48,301)	(52,804)
Administrative expenses		(63,808)	(70,868)
Impairment loss on trade receivables, net		(857)	(1,566)
Finance costs		<u>(15,555)</u>	<u>(17,932)</u>
Profit before income tax	7	45,146	35,209
Income tax expense	8	<u>(15,696)</u>	<u>(10,892)</u>
Profit for the period		29,450	24,317
Other comprehensive income that may be reclassified to profit or loss in subsequent periods, after tax			
Exchange differences on translation of foreign operations		<u>302</u>	<u>(2,845)</u>
Total comprehensive income for the period		<u>29,752</u>	<u>21,472</u>
Earnings per share (RMB)	9	<u>10 cents</u>	<u>8 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2020 <i>RMB'000</i> (unaudited)	As at 31 December 2019 <i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment		596,320	620,928
Prepayments for purchase of property, plant and equipment		36,349	5,241
Deferred tax assets		<u>9,834</u>	<u>9,956</u>
		<u>642,503</u>	<u>636,125</u>
Current assets			
Inventories		115,284	156,927
Trade receivables, bills receivables, other receivables, deposits and prepayments	10	535,810	588,493
Pledged deposits		9,850	11,250
Bank balances and cash		<u>231,553</u>	<u>277,247</u>
		<u>892,497</u>	<u>1,033,917</u>
Current liabilities			
Trade and other payables	11	341,665	411,770
Contract liabilities		3,285	2,726
Dividend payable		20,342	40,090
Bank and other borrowings	12	310,680	349,012
Tax payable		9,915	11,488
Lease liabilities		<u>21,349</u>	<u>18,872</u>
		<u>707,236</u>	<u>833,958</u>
Net current assets		<u>185,261</u>	<u>199,959</u>
Total assets less current liabilities		<u>827,764</u>	<u>836,084</u>
Non-current liabilities			
Bank and other borrowings	12	24,182	39,797
Lease liabilities		<u>162,652</u>	<u>164,624</u>
		<u>186,834</u>	<u>204,421</u>
Net assets		<u>640,930</u>	<u>631,663</u>
Equity			
Share capital		2,442	2,442
Reserves		<u>638,488</u>	<u>629,221</u>
Total equity		<u>640,930</u>	<u>631,663</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 (“**IAS 34**”), issued by the International Accounting Standards Board (“**IASB**”) and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). These condensed consolidated interim financial statements were authorised for issue on 25 August 2020.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2019 annual financial statements, except for the amendment to International Financial Reporting Standard 16 (“**IFRS 16**”): COVID-19-Related Rent Concessions, which were early adopted before its effective date, and the amendments to International Financial Reporting Standard 3 (“**IFRS 3**”): Definition of a Business. Details of changes in accounting policies, and their effect on these condensed consolidated interim financial statements, are set out in note 4.

The preparation of these condensed consolidated interim financial statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. There have been no material revisions to the nature and amount of estimates of amounts reported in prior periods. However, the adoption of the amendment to IFRS 16 requires significant judgement and estimates to be made.

These condensed consolidated interim financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These condensed consolidated interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. These condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) and should be read in conjunction with the 2019 annual financial statements.

These condensed consolidated interim financial statements are unaudited, but have been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants.

3. SIGNIFICANT EVENTS

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020. Since then, the Group has experienced disruption to its operations in the following respects:

- Interruptions to manufacturing process of the Group; and
- Disruptions in the supply of inventory from major suppliers.

The significant events and transactions that have occurred since 31 December 2019 relate to the effects of the global pandemic on the Group's condensed consolidated interim financial statements for the six months ended 30 June 2020 and are summarised as follows.

(a) Rent concessions received from lessors

Due to government policy, the Group had to close a number of its factories in early February 2020. They were able to reopen at the middle of February 2020.

Due to being unable to operate for the mandatory shutdown period and to subsidise the affected business, the Group has received rent concessions from lessors in the form of rent forgiveness amounted to RMB628,000.

As discussed in Note 4, the Group has elected to apply the practical expedient introduced by the amendment to IFRS 16 to all rent concessions that satisfy the criteria. All of the rent concessions entered into during the six-month period ended 30 June 2020 satisfy the criteria to apply the practical expedient.

The application of the practical expedient has resulted in the reduction of total lease liabilities of RMB628,000. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurs.

(b) Government grants

The Group applied for various government support programs introduced in response to the global pandemic.

Included in profit or loss is RMB267,000 of government grants obtained relating to supporting the Group's operation. Also, the government of the People's Republic of China ("PRC") has exempted all business entities' contribution to social security for employees from February 2020 to December 2020. The social security exemption has resulted in the reduction of retirement benefit cost for the six months ended 30 June 2020. The Group does not have any unfulfilled obligations relating to these programs.

4. CHANGES IN ACCOUNTING POLICIES

The Group has applied the same accounting policies in these condensed consolidated interim financial statements as in its 2019 annual financial statements, except that it has adopted the following amendments to IFRSs:

- Amendments to IFRS 3: Definition of a Business, which is first effective for the current accounting period; and
- Amendment to IFRS 16: Covid-19-Related Rent Concessions, which is effective for accounting period beginning on or after 1 June 2020 but early adopted by the Group.

Except as described below the impact of the adoption of amendment to IFRS 16, the application of the revised IFRSs in this period has had no material impact on the Group's financial performance and position.

Amendment to IFRS 16: COVID-19-Related Rent Concessions

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria. The practical expedient has been applied retrospectively, meaning it has been applied to all rent concessions that satisfy the criteria, which in the case of the Group, occurred from May 2020 to June 2020.

Accounting for the rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs. The effect of applying the practical expedient is disclosed in Note 3(a).

5. USE OF JUDGEMENTS AND ESTIMATES

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2019 annual financial statements.

However, as disclosed in Note 3, the effects of COVID-19 have required significant judgements and estimates to be made, including:

- (a) Whether rent concessions satisfy the criteria to be accounted for using the practical expedient introduced by the amendment to IFRS 16; and
- (b) Assessing whether the entity has reasonable assurance as to whether it will comply with the conditions attached to government grants.

Additionally, while the changes in the following estimates and judgements have not had a material impact on the Group, the effects of COVID-19 have required revisions to:

- (a) Determining the net realisable value of inventory that has become slow moving due to the effects of COVID-19; and
- (b) Estimates of expected credit losses attributable to accounts receivable arising from sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates.

6. REVENUE AND SEGMENT REPORTING

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Corrugated packaging products	804,028	893,171
Corrugated sheet boards	<u>78,815</u>	<u>88,903</u>
	<u>882,843</u>	<u>982,074</u>

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 Period:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue by industry		
Food and beverage	220,466	238,025
Paper and packaging	129,568	124,025
Non-food-and-beverage-consumables (<i>Note (i)</i>)	122,546	86,015
Supplier chain solution	43,441	80,789
E-commerce	24,551	42,476
Home electronics	27,359	34,812
Others (<i>Note (ii)</i>)	<u>314,912</u>	<u>375,932</u>
	<u>882,843</u>	<u>982,074</u>

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.

Segment Reporting

The executive director of the Company 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 Period and the corresponding period of 2019.

7. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold (<i>Note (i)</i>)	714,433	805,380
Depreciation of property, plant and equipment (<i>Note (ii)</i>)	39,348	38,700
Auditor's remuneration	892	856
Short-term lease expense	2,489	1,749
Impairment loss on inventories	1,523	1,241
Reversal of impairment loss on inventories	(1,091)	(1,218)
Impairment loss on trade receivables	931	2,422
Reversal of impairment loss on trade receivables	(74)	(856)
Impairment loss on trade receivables, net	857	1,566
Exchange gain, net	(143)	(211)
Employee benefits expenses (including directors' remuneration):		
— Wages, salaries and benefits	82,094	90,099
— Retirement benefit costs	6,468	11,440

Notes:

- (i) Cost of inventories sold for the Period includes RMB77,206,000 (six months ended 30 June 2019: RMB82,045,000), 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 Period includes depreciation of right-of-use assets amounted to RMB9,286,000 (six months ended 30 June 2019: RMB9,130,000).

8. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax		
— Provision for PRC enterprise income tax for the Period	12,989	13,352
— Withholding tax for dividend	2,585	—
	15,574	13,352
Deferred tax		
— Origination and reversal of temporary differences	122	(2,460)
Income tax expense	15,696	10,892

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
Profit for the period (RMB'000)	29,450	24,317
Weighted average number of ordinary shares in issue (in thousand)	300,632	300,632
Basic earnings per share (RMB)	10 cents	8 cents

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the Period of RMB29.5 million (six months ended 30 June 2019: profit of RMB24.3 million) and 300,632,000 weighted average number of ordinary shares in issue during the Period and the corresponding period of 2019.

No diluted earnings per share was presented as there were no potential ordinary shares outstanding during the Period and the corresponding period of 2019.

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

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade receivables	480,790	524,627
Bills receivables	22,943	30,243
Less: allowance for impairment loss	<u>(7,668)</u>	<u>(7,657)</u>
	496,065	547,213
Other receivables	14,183	18,806
Deposits	17,298	16,138
Prepayments	<u>8,264</u>	<u>6,336</u>
	<u><u>535,810</u></u>	<u><u>588,493</u></u>

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

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

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Within 1 month	262,097	251,363
Over 1 month but within 3 months	187,542	248,327
Over 3 months but within 1 year	<u>46,426</u>	<u>47,523</u>
	<u><u>496,065</u></u>	<u><u>547,213</u></u>

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

11. TRADE AND OTHER PAYABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade and bills payables	283,271	349,210
Accruals and other payables	<u>58,394</u>	<u>62,560</u>
	<u>341,665</u>	<u>411,770</u>

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 each reporting period is as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Within 1 month	159,299	191,454
Over 1 month but within 3 months	119,276	129,014
Over 3 months but within 1 year	<u>4,696</u>	<u>28,742</u>
	<u>283,271</u>	<u>349,210</u>

12. BANK AND OTHER BORROWINGS

	<i>Notes</i>	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Bank loans, secured	<i>(a)</i>	280,200	320,000
Other borrowings, secured	<i>(b)</i>	<u>54,662</u>	<u>68,809</u>
		<u>334,862</u>	<u>388,809</u>
Categorised as:			
Current liabilities		310,680	349,012
Non-current liabilities		<u>24,182</u>	<u>39,797</u>
		<u>334,862</u>	<u>388,809</u>

Notes:

- (a) During the Period, the average effective interest rates of the Group's bank loans ranged from 4.79% to 5.00% per annum (six months ended 30 June 2019: 5.00% to 5.50% per annum).
- (b) As at 30 June 2020, other borrowings represented eight (31 December 2019: eight) 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 30 June 2020, 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 RMB75,887,000 (31 December 2019: RMB81,832,000).

13. PLEDGE OF ASSETS

As at the end of each reporting period, the Group pledged the following assets to secure bills payables, banking facilities granted to the Group and sale and leaseback arrangements with related company. The carrying amounts of these assets are analysed as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Property, plant and equipment	132,036	140,756
Right-of-use assets of land and buildings	9,964	10,106
Pledged deposits	9,850	11,250
	<u>151,850</u>	<u>162,112</u>

14. DIVIDEND

Final dividend in respect of the fiscal year 2019 amounting to HK\$0.075 per share was approved by the shareholders in the annual general meeting held on 23 June 2020 (2019: final dividend of HK\$0.1 per share for 2018). The final dividend of HK\$0.075 per share of RMB20,342,000 (after exchange realignment) was reflected as dividend payable in the condensed consolidated statement of financial position as at 30 June 2020.

The special dividend of HK\$0.15 per share totalling RMB39,965,000 (after exchange realignment) was declared on 23 December 2019 and was paid on 23 January 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Period, the Company faced various unfavourable factors such as the ambience of global economic downturn and the global outbreak of the novel coronavirus (“**COVID-19**”). Despite the decrease in revenue from RMB982.1 million for the six months ended 30 June 2019 to RMB882.8 million for the Period, the Group’s net profit increased by 21.4% for the Period as compared with the corresponding period in 2019. 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, the Company has previously decided to establish its new production plants in Shandong province (the “**Shandong Plant**”) and Foshan city (the “**Foshan Plant**”). As at the date of this announcement, the Shandong Plant is still under construction and it is expected that construction of the Shandong Plant would be completed in September 2020, while the location of the Foshan Plant has been identified and confirmed and it is expected that construction would be commenced in October 2020. In anticipation of the increasing demand brought by the rapid development of e-commerce and the growth in domestic demand of certain necessary products in the PRC, it is expected by the Board that the business of the Group would not be affected materially despite the unfavourable factors such as COVID-19.

FINANCIAL REVIEW

For the Period, the Company recorded revenue of approximately RMB882.8 million, representing a decrease of approximately 10.1% as compared with approximately RMB982.1 million for the six months ended 30 June 2019. Gross profit margin was approximately 19.1%, representing an increase of approximately 1.1% as compared with approximately 18.0% for the six months ended 30 June 2019. Gross profit for the Period was approximately RMB168.4 million, representing a decrease of approximately 4.7% as compared with approximately RMB176.7 million for the corresponding period in 2019. Basic earnings per share for the Period amounted to RMB10 cents, representing an increase of 25% as compared with RMB8 cents for the corresponding period in 2019.

During the Period, the Group continued to face the risks of uncertainties such as Sino-US trade war and faced the outbreak of COVID-19. Given the Group did not sell its products directly to customers located in the United States of America and most of the Group’s products were associated with general consumer items, the Group’s business during the Period had not been materially affected.

Having considered the overall situations, the Directors maintain a cautiously optimistic view as to the results of the Group in the second half of 2020. The management of the Group will continue to closely monitor the market conditions, in particular, the impact arising from COVID-19 and take appropriate steps to cope with the changing demand of the market.

REVENUE

During the Period, the Group recorded decrease in Revenue in both sales of corrugated packaging products and corrugated sheet boards. For the Period, the Group recorded revenue of approximately RMB882.8 million, representing a decrease of approximately RMB99.3 million or approximately 10.1% as compared with that for the six months ended 30 June 2019.

Sales of corrugated packaging products

During the Period, revenue from sales of corrugated packaging products was approximately RMB804.0 million, representing a decrease of approximately 10.0% as compared with approximately RMB893.2 million in the corresponding period of 2019, and accounted for approximately 91.1% of the Group's total revenue for the Period. The decrease in performance of the sales of corrugated packaging products was mainly attributable to the decrease in sales volume during the initial stage of the outbreak of COVID-19.

Sales of corrugated sheet boards

During the Period, revenue from sales of corrugated sheet boards was approximately RMB78.8 million, representing a decrease of approximately 11.4% as compared with approximately RMB88.9 million in the corresponding period of 2019, and accounted for approximately 8.9% of the Group's total revenue for the Period. The decrease in sales of corrugated sheet boards was mainly attributable to the decrease in sales volume during the initial stage of the outbreak of COVID-19.

COST OF SALES

For the Period, cost of sales of the Group was approximately RMB714.4 million, representing a decrease of approximately 11.3% as compared with approximately RMB805.4 million for the six months ended 30 June 2019, mainly attributable to the decrease in sales volume.

GROSS PROFIT

Gross profit of the Group was approximately RMB168.4 million during the Period, representing a decrease of approximately 4.7% as compared with approximately RMB176.7 million for the six months ended 30 June 2019, of which gross profit from sales of corrugated packaging products decreased by approximately 6.1% to RMB161.0 million, while gross profit from sales of corrugated sheet boards increased by approximately 39.6% to approximately RMB7.4 million. Gross profit margins of the Group in the six months ended 30 June 2019 and 2020 reached 18.0% and 19.1%, respectively, of which gross profit margins of sales of corrugated packaging products in the six months ended 30 June 2019 and 2020 were 19.2% and 20.0%, respectively, while gross profit margins of sales of corrugated sheet boards were 6.0% and 9.3%, respectively. The increase of gross profit margin in the Period as compared to the corresponding period in 2019 was mainly attributable to (i) contribution by the new production plant in Taicang; and (ii) the implementation of social security exemption policy.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by approximately 8.5% from approximately RMB52.8 million for the six months ended 30 June 2019 to approximately RMB48.3 million for the Period. The decrease was mainly due to (i) the decrease in distribution expenses for the delivery of the Group's products to its customers, travelling and entertainment expenses, which in turn was mainly attributable to the decrease in our sales volume; and (ii) the decrease in staff costs benefited from the social security exemption policy.

ADMINISTRATIVE EXPENSES

For the Period, the Group's administrative expenses were approximately RMB63.8 million, representing a decrease of approximately 10.0% as compared with approximately RMB70.9 million for the six months ended 30 June 2019. The decrease was mainly due to the decrease in travel expenses and staff costs benefited from the social security exemption policy.

FINANCE COSTS

Finance costs comprise interest on finance leases net of capitalised amounts, interest on bank loans, interest on sale and leaseback arrangements. Finance costs decreased by approximately 12.8% from approximately RMB17.9 million for the six months ended 30 June 2019 to approximately RMB15.6 million for the Period. The decrease was primarily due to the decrease in interest on bank loans as a result of the decrease in the Group's average bank borrowings as well as interest rate.

INCOME TAX EXPENSE

Income tax expense increased by approximately 44.0% from approximately RMB10.9 million for the six months ended 30 June 2019 to approximately RMB15.7 million for the Period, primarily due to the increase in the Group's profit before income tax and the increase of withholding tax for dividend. The Group's effective income tax rate remained stable, which was 30.9% and 34.8% for the six months ended 30 June 2019 and 2020 respectively.

PROFIT FOR THE PERIOD AND NET PROFIT MARGIN

The Group's profit increased by approximately 21.4% from approximately RMB24.3 million to approximately RMB29.5 million for the Period. The Group's net profit margin increased from 2.5% for the six months ended 30 June 2019 to 3.3% for the Period.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

During the Period, profit attributable to equity holders of the Company was approximately RMB29.5 million, representing an increase of approximately 21.4% or approximately RMB5.2 million as compared with approximately RMB24.3 million for the six months ended 30 June 2019. The increase in profit was mainly due to the decrease of selling and distribution and administrative expenses, and the increase of government subsidy.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at 30 June 2020, cash and cash equivalents of the Group amounted to approximately RMB231.5 million mainly comprised the cash generated from the Group's operating activities during the Period and accumulated cash and bank balances at the beginning of the Period.

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.

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 six months ended 30 June 2019 and 2020.

	For the six months ended 30 June	
	2020	2019
	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)
Net cash generated from operating activities	104.3	81.5
Net cash (used in)/generated from investing activities	(32.1)	85.2
Net cash used in financing activities	(119.0)	(300.6)
Cash and cash equivalents at beginning of the period	277.2	347.9
Effect of exchange rate changes on cash and cash equivalents	1.1	(4.0)
Cash and cash equivalents at end of the period	231.5	210.0

Net cash generated from operating activities

During the Period, our net cash generated from operating activities was approximately RMB104.3 million, which comprised cash generated from operations of approximately RMB121.5 million, offset by income tax of approximately RMB17.2 million. Net cash generated from operating activities increased by approximately RMB22.8 million or 28.0% as compared with the net cash generated from operating activities of approximately RMB81.5 million for the six months ended 30 June 2019, mainly due to the increase of profit and the decrease in inventories of raw paper and finished goods.

Net cash used in investing activities

During the Period, the Group's net cash used in investing activities was approximately RMB32.1 million, representing an increase of approximately RMB117.3 million as compared with net cash generated from investing activities of approximately RMB85.2 million for the six months ended 30 June 2019. The net cash used in investing activities was mainly attributable to the establishment of the Shandong Plant.

Net cash used in financing activities

During the Period, the Group's net cash used in financing activities was approximately RMB119.0 million, representing a decrease of approximately RMB181.6 million as compared with the net cash used in financing activities of RMB300.6 million for the six months ended 30 June 2019. The net cash used in financing activities was mainly attributable to loan repayment and distribution of dividends during the Period.

USE OF NET PROCEEDS FROM LISTING

Upon the listing of the shares of the Company (the "Shares") on the Stock Exchange (the "Listing") 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 the broker commissions and other fees and expenses payable by the Company for the Listing. As at 30 June 2020, the net proceeds were used for the following purposes:

Use of proceeds	Net proceeds from the Listing		
	Proceeds available for use	Proceeds used	Proceeds unused
		<i>HK\$ million</i>	
For expansion of production plants network	193.2	41.9	151.3
For upgrading production facilities and purchasing new machinery and equipment	44.4	40.8	3.6
For working capital	24.9	24.9	—
Total	262.5	107.6	154.9

As at 30 June 2020, the Company had utilized the proceeds of approximately HK\$107.6 million, accounting for approximately 40.99% of the net proceeds. The unutilized proceeds in the sum of HK\$154.9 million were mainly to be used for expansion of production plants network, namely establishing the Shandong Plant and the Foshan Plant (the Shandong Plant and the Foshan Plant collectively referred to the “**New Plants**”). Given the construction area of the New Plants is not as large as originally planned, it is expected that a sum of approximately HK\$55 million (the “**Surplus**”) would be conserved. The Board considers that it is in the interest of the Company to reallocate the Surplus. As such, the Board has resolved to reallocate the Surplus for repayment of certain bank loans as early as possible with a view to saving finance costs of the Group (the “**Reallocation of Proceeds**”). For details, please refer to the announcement of the Company in relation to change in use of proceeds dated 23 July 2020.

MAJOR ACQUISITIONS AND DISPOSALS

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

PLEDGE OF ASSETS

Details of the pledged assets of the Group are set out in note 13 to the condensed consolidated interim financial statements in this announcement.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, the Company did not redeem any of its Shares listed on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such shares.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Period (six months ended 30 June 2019: nil).

SPECIAL DIVIDEND

In light of the retained profit made by the Group up to 31 December 2019, the Board is pleased to announce that the declaration and payment of a special dividend of HK\$0.15 per share (“**Special Dividend**”) payable to the shareholders of the Company (the “**Shareholders**”) whose names appear on the register of members of the Company on 30 September 2020 was resolved by the Board in its meeting held on 25 August 2020. The Special Dividend is not reflected as dividend payables in these condensed consolidated interim financial statements. It is expected that the Special Dividend will be paid on or around 31 December 2020. The payment of the Special Dividend will not have material impact to the Group’s financial position or affect the Reallocation of Proceeds.

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

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 Friday, 25 September 2020 to Wednesday, 30 September 2020 (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 Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Thursday, 24 September 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**”) as set forth in Appendix 14 to 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 21 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.

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 during the Period and up to the date of this announcement.

REVIEW OF INTERIM RESULTS

The audit committee of the Company (the “**Audit Committee**”) has reviewed the accounting principles and practices adopted by the Group and has also reviewed and confirmed the Group’s unaudited financial results for the Period and discussed auditing, internal control, risk management systems and financial reporting matters of the Group.

The Audit Committee comprises five directors, namely Mr. Kiang Tien Sik David (chairman), Mr. Chow Tien-Li, Mr. Wang Jisheng, Dr. Su Morley Chung Wu and Mr. Philip Tan. None of them is employed by or otherwise affiliated with the former or current independent auditor of the Company.

In addition, BDO Limited, the independent auditor of the Company, has reviewed the condensed consolidated interim financial statements for the Period in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

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

This interim results announcement is published on the websites of the Stock Exchange and the Company, and the interim report of the Group for the Period 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, 25 August 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.