



南方包装集团有限公司
Southern Packaging Group Limited

Sustainability Report 2019

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ABOUT THIS REPORT

Southern Packaging Group Limited (the “Company” or “Southern Packaging”, together with its subsidiaries, the “Group”) reports on our sustainability efforts on the economic, environmental and social impact as well as governance of the Group’s flexible and rigid packaging products manufacturing business in the People’s Republic of China (“China”) throughout the financial year (“FY”) from 1 January 2019 to 31 December 2019. With the aim to reflect our commitment to transparency and accountability, we have prepared this report with reference to Global Reporting Initiative (“GRI”) Standards – Core Option and in accordance with Rule 711A and 711B of the Singapore Exchange Securities Trading Limited (“SGX-ST”) Listing Manual Section B. We adopted the GRI framework due to its robust and internationally recognised benchmark for businesses to report on critical sustainability issues, promoting transparency and consistency that makes information useful to stakeholders and readers.

CONTACT POINT AND FEEDBACK

Your feedback is most welcome to help shaping our sustainability policies, practices and initiatives. We invite you to read this report and email us your insight at public@southern-package.com.

“Through technical innovation and service innovation, we are confident to restore and enhance the market share of the company. It is worth mentioning that the group’s investment in automation production lines in Jiangsu production base has reduced our cost of production.”



Sharing Our Growth with You



BOARD STATEMENT

We are pleased to present our third Sustainability Report, which covers the challenges we faced in the sustainability journey and our humble achievements to date. The Company views sustainability as an essential component in formulating our business strategy for the long-term growth of our Group.

Despite the challenging global outlook and the slowdown in China's market in 2019, we continue to stay committed to our business strategy and upstream stakeholder engagement. To better align with our long-term strategy, we worked closely with renowned multinational Research & Development ("R&D") centres in Asia Pacific region to improve our products and services provided and provide complete packaging solutions for our customers. In packaging industry, we place greater emphasis on sustainability qualities such as environmental friendliness, cleanliness and workplace safety. We hold and reinforce our competitive advantages by the continuous advancement of our cutting-edge polymer chemistry technologies and expertise in material sciences and plastic moulding. We firmly believe in developing packaging with social responsibility.

During COVID-19 outbreak, our Group has instituted and will continue to institute, a series of precautionary health and hygiene measures across our corporate office and factories. Our employees' wellbeing is our utmost priority and we hope that our employees are healthy and safe in this time of crisis. As of the date of publishing this report, our Group's factories have fully resumed following the return of employees. None of our employee has been infected to COVID-19.

As we further our commitment to improve and report on our sustainable business practices, we would like to thank our valued stakeholders in contributing their insight and efforts in shaping the Group's sustainability journey.

CORPORATE PROFILE

Southern Packaging is a producer of flexible and rigid packaging products used in the food, medical, personal grooming and household industries.

As one of the leading producers in flexible and rigid packaging products in China, we are listed in the Singapore Stock Exchange (“SGX”) Mainboard on 12 November 2004, a public company limited by shares, incorporated and domiciled in Singapore with its registered office at 80 Robinson Road, #02-00, Singapore 068898 and principal place of business at No. 9 Foping Four Road, Gui Cheng, Nanhai, Foshan City, Guangdong 528251, People’s Republic of China.

Our production facilities are strategically located in the most economically vibrant regions in China, namely Southern and Eastern China. We are committed to delivering high-quality products requirements in the pharmaceutical, food and beverage, personal care industries.



CORPORATE PROFILE (CONT'D)

Vision

- To be the leading plastic packaging manufacturer in Asia, investing on innovative technology to provide superior quality products to our customer.

Mission

- To continuously invest in technology in order to meet the emerging of the market;
- To strengthen our quality capability to satisfied different customer demands;
- To produce safe and environmental friendly products that would benefit the society;
- To ensure long term value for our investors;
- To create a platform for all employees to do their best and ensure constant development.

Core Values

- Customer First, Green Innovation and Pursuit for Excellence.

Core Values

Customer First

- We believe that customer loyalty comes from good customer experience. Southern Packaging strives to provide exceptional service and quick response to customer demand and continue to provide customers with packaging solutions.

Green Innovation

- The key for constant growth of an enterprise is to have an endless passion for innovation. Southern Packaging is focused on innovation that considers the environment and society thus improving quality of life for our customers.

Pursuit for Excellence

- We achieve excellence by enhancing product value, employee value, business value and social value. Excellent quality not only means good product quality, but also high-quality service, and healthy living space.

SUPPLY CHAIN MANAGEMENT

Our core business is the manufacturing of rigid and flexible packaging products. Our customers are mainly manufacturers of Multi-National Companies (“MNC”) or subsidiary enterprises of MNCs; Hong Kong-based, or Hong Kong listed companies and China companies in the pharmaceutical, food, beverage and personal care industries.

Our manufacturing operations consume substantial raw materials that include plastic films and resins, used primarily in the production of our rigid and flexible packaging. In FY2019, the total value of our trade purchases from suppliers were approximately RMB 564 million, a decrease of 4% from FY2018. We aim to select and work with suppliers that possess good work ethics, promote positive working environments for its employees and practice advocating for human rights. Over the years, we have built and maintained positive relationships with our suppliers. Strong linkages were forged with reputable suppliers and industry partners, ensuring reliable raw materials.

To ensure the utmost consistency in the quality of our product, we only picked suppliers from our approved list. The list is a compilation of reliable and approved suppliers that have partnered with us over the years. We performed periodic supplier evaluation and assessment based on essential requirements such as environmental impact, price competitiveness, delivery time, products quality and after-sales service.

GOVERNANCE

The Board of Southern Packaging is committed to maintaining high standards of corporate governance and transparency within the Group to ensure effective self-regulation practices are in place to enhance organisational performance and accountability.

The Board is empowered with the responsibility to establish corporate and sustainability strategies for the Company. The Board meets regularly and is provided with timely updates and information. All Directors are expected to act in good faith and to act in the interest of Southern Packaging. The Board is supported by the Audit Committee, Nominating Committee and Remuneration Committee. These Committees provide guidance and regularly review matters within their purview.

We deem corporate governance as essential for the success of the Group and to be in the best interest of our shareholders and other stakeholders. The Company has established policies and procedures on Conflict of Interest, Whistleblowing and Code of Business Conduct as the backbone of good corporate governance.

There were resignation of Directors and resulted changes to the composition of the Board and Board Committees during FY2019. Following the resignation of Directors, the Company complies with provisions of the Singapore Code of Corporate Governance 2018 (the “Code”) which stipulate that independent directors to make up a majority of the Board where the Chairman is not independent and non-executive directors to make up a majority of the Board.

A full report on our corporate governance practices in compliance with the Code can be found under our Corporate Governance Report in our Annual Report 2019.

STAKEHOLDER ENGAGEMENT

Our key stakeholders are the identified people that can significantly affect or be significantly affected by our Group. Key stakeholders who play a pivotal role in our Company’s value creation strategy, conveyed their interests and concerns through various channels to our Company. During the year, there was no significant change to the ways we engage our key stakeholders and their expressed interests.

Our Key Stakeholders	How We Engage Our Key Stakeholders	Key Interests of Our Key Stakeholders
Customers	<ul style="list-style-type: none"> • Daily interactions • Enquiry and feedback channels • Customer survey 	<ul style="list-style-type: none"> • Top notch customer service • After sales services
Employees	<ul style="list-style-type: none"> • Annual employee performance appraisal • Regular team meeting • Employee training 	<ul style="list-style-type: none"> • Staff right and welfare • Good working environment • Advance employee skills
Investors	<ul style="list-style-type: none"> • Regular investor meetings • Annual and interim reports • Circulars to shareholders 	<ul style="list-style-type: none"> • Profitability • Transparency • Timely reporting
Suppliers	<ul style="list-style-type: none"> • Periodic supplier evaluation • Comparison of quotes • Periodic discussion 	<ul style="list-style-type: none"> • Compliance with terms and conditions of purchasing policies and procedures • Maintenance of ethical standards
Government and Regulations	<ul style="list-style-type: none"> • Face-to-face meetings • Regular reports • Participation in discussions 	<ul style="list-style-type: none"> • Compliance with regulations • Timely reporting and resolution of issues

MATERIALITY ASSESSMENT

Based on feedback gathered from our internal and external stakeholders, we have re-evaluated the relevance and importance of existing key sustainability topics. We are of the view that the existing five material sustainability topics are of relevance to our business and are the utmost important to the stakeholders and the Group.



1. TRAINING AND EDUCATION

We believe that for our employees to remain competitive in every aspect of the business, training and self-improvement are very important. All our employees received annual performance appraisal from their superior. We plan and design training programs based on the needs of different employee categories observed during the annual appraisal. Training courses such as orientation programs, workplace health and safety, management skills are provided for new and existing employee during FY2019.

Period	Number of Trainings	Number of Attendees	Actual Training Hours
2018			
Male	101-200	1,401-2,100	4,001-5,100
Female	101-200	801-1,000	2,001- 2,100
2019			
Male	101-200	1801-2600	4301-5400
Female	101-200	1001-1300	2501-3100

In FY2019, the Company has conducted approximately 7,700 hours of training for all our employee. As compared to the previous year, there was an increase of 10%. The average training hours per employee were 5.7 hours and 6.4 hours in FY2018 and FY2019 respectively.

Period	Employee Category	Actual Training Hours
2018	Production	4,001- 4,500
	Research & Development	400-500
	Other	2,001-2,500
2019	Production	4,001- 4,500
	Research & Development	600-700
	Other	2500-3000

Going forward for FY2020, we hope to maintain current level of average training hours per employee.

2. EMPLOYMENT

We believe that our employees are the most valuable asset who help driving the Company's success. We recognise and acknowledge that each employee's skills and experience play an essential part in improving our Group's capabilities and competitive edge. We adopt a holistic approach in our hiring policy. We do not discriminate during our hiring process, and opportunities are open to all suitable candidates. To ensure long term operational stability, we develop and retain our employees and offer a competitive remuneration package by matching the industry average, and in some cases above. In the long run, our employment strategy and practice also take into consideration better skill-matching, increased productivity resulting from production automation initiatives, business's growth strategy and performance.

We provide comprehensive benefits to our employees such as social and health insurance, health care, parental leave and annual leave to our full-time employees. We have arranged physical examination for certain employees, and we encourage all our employees to regularly participate in health and fitness programs organised by the Group.

During the reporting year, performance appraisal was conducted for all employees by their superior, based on their past performance with objective and goals were set for each employee to better align with the Groups' strategy.

We have disclosed certain performance indicators below in relation to our efforts in contributing to employment in the regions which our operations located. Going forward, we strive to continue taking care of our employees through active engagement with them and by providing annual health checkup.

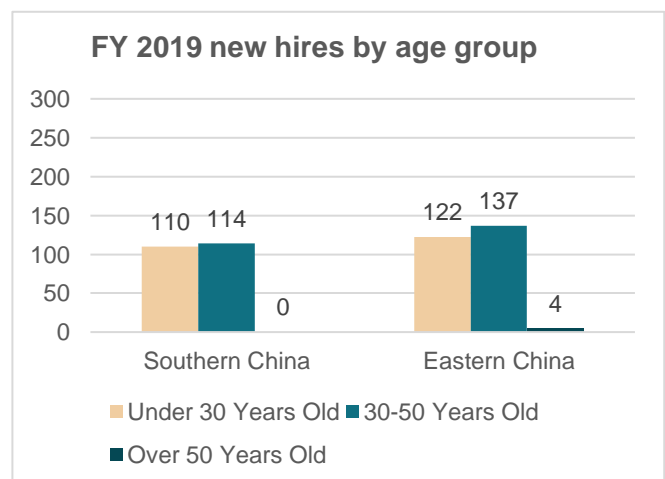
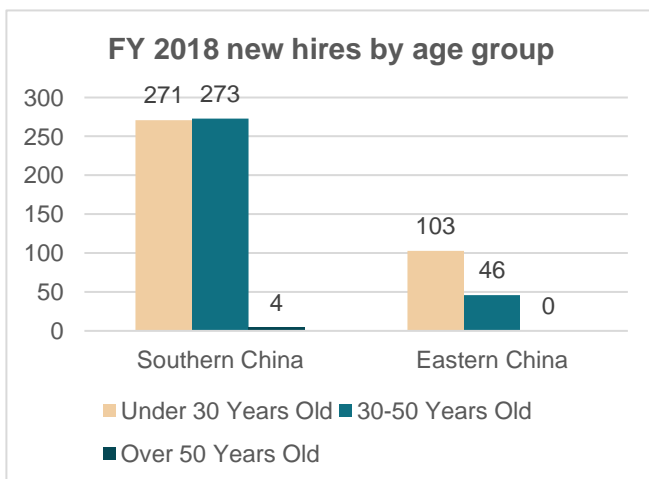
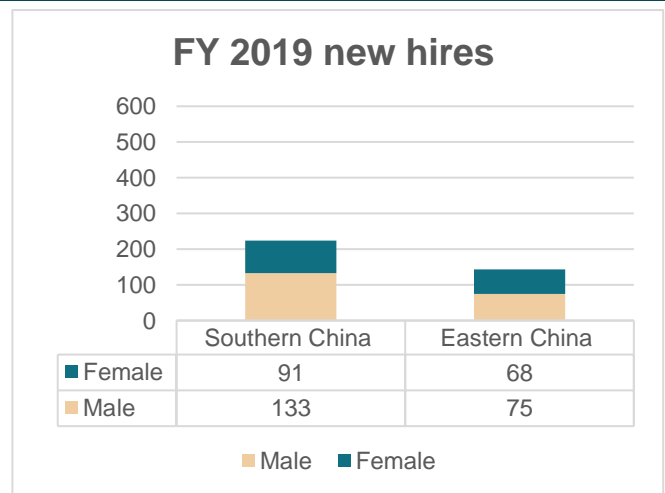
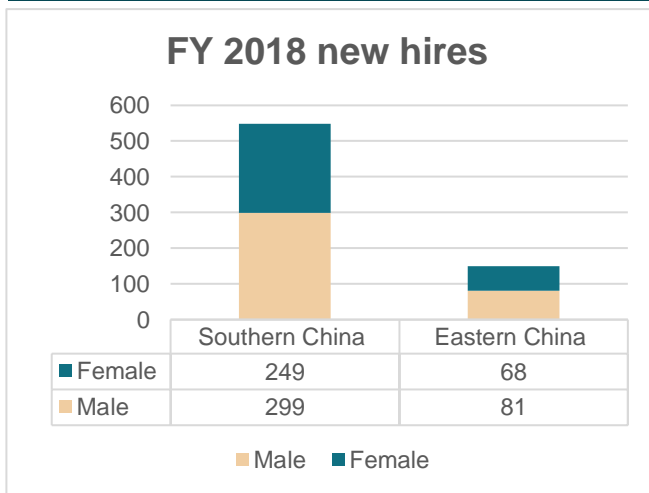
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Gender	FY2018 Number of Employee	FY2019 Number of Employee
Male	600-700	500-600
Female	500-600	400-500

Region	FY2018 Number of Employee	FY2019 Number of Employee
Singapore	1-10	1-10
Southern China	901-1,000	600-700
Eastern China	201-300	201-300

Function	FY2018 Number of Employee	FY2019 Number of Employee
Management and Supervisory	501-600	300-400
Research and Development	51-100	30-40
General Worker	601-700	601-700





3. ECONOMIC PERFORMANCE

We place value creation as an integral part to our business. We have been working closely with the R&D centres in Asia-Pacific region and launched new product projects successfully. We have a clear strategy on the target market and invested in automated production lines in our factories in reducing the production costs.

The China's economic growth has slowed down in recent years and we started to see its impact on our Group. In FY2019 our Group's sales revenue decreased by RMB15.1 million (2.1%) from RMB724.2 million in FY2018 to RMB709.1 million in FY2019. The sales revenue of rigid packaging decreased by RMB7.5 million (1.6%) from RMB471.9 million in FY2018 to RMB464.4 million in FY2019 and the sales revenue of flexible packaging decrease by RMB7.5 million (3%) from RMB252.2 million in FY2018 to RMB244.7 million in FY2019.

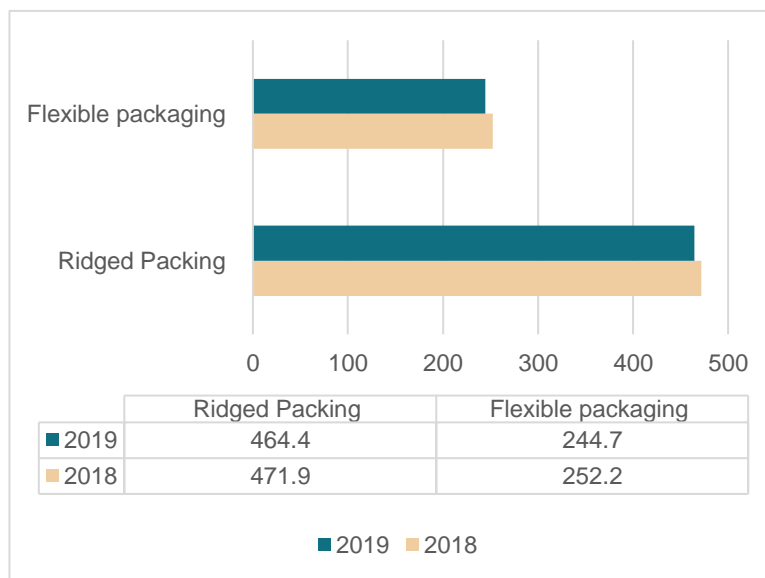
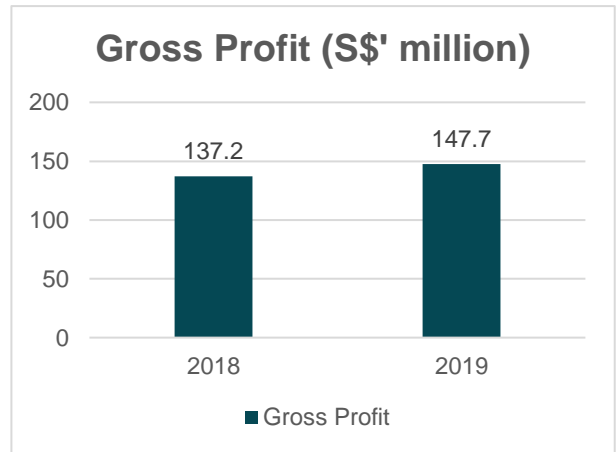
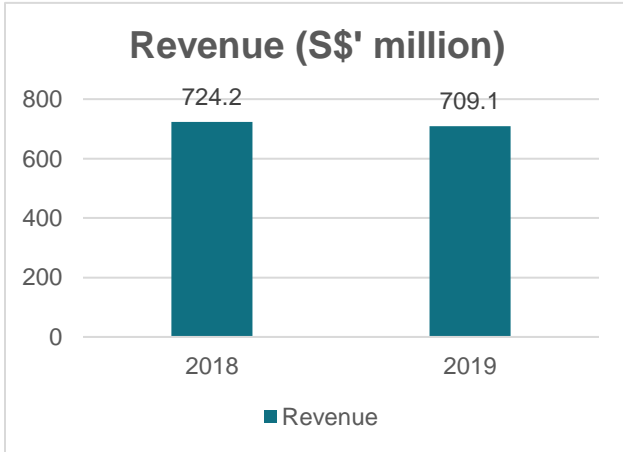
Despite the decrease in sales revenue, gross profit of our Group increased by RMB10.4 million (7.6%) to the total of RMB147.7 million in FY2019 as compared to RMB137.2 million in FY2018. The gross profit margin increased to 21% in FY2019 compared to 19% in FY2018. This is because the Group has adjusted the product structure, prioritising on the high value-adding orders, as well as implementation of stringent cost control measures and adoption of automated manufacturing equipment in factories which effectively reduce our production costs. With the increase of gross profit in FY2019, bundled with decrease of other operating expenses such as distribution expenses, administrative expenses and finance costs, our Group recorded profit before income tax at RMB8.9 million in FY2019 as compared to loss before income tax of RMB2.4 million for FY2018.

With the outbreak of the COVID-19 in 2020, our Group continues to monitor the situation and closely engage with our customers, suppliers and employees with aim to prevent or reduce the financial impact at our Group. During this period, our Group is focusing on cost management, cash conservation, improve productivity and enhance operational efficiency to ensure its long-term sustainability.

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For FY2020, we target to continue generating positive financial performance from our sales revenue and better implementing cost control measures in achieving positive financial returns.



4. ENVIRONMENTAL PROTECTION

Climate change and environmental pollution are the critical challenges faced in the 20th century. As a global company, we are committed to reducing our environmental impact on the world.

Energy Conservation

We have implemented energy-saving tips around our factories by constantly reminding our employees to switch off the lights when not in use. Implementation and installation of energy-efficient equipment play an essential role in energy conservation. Installation of energy-efficient LED lights has helped us to reduce electricity consumption. Not to forget about the harmful emission produced during our production, we have adopted treatment equipment to eliminate the gases.

Water Management

Water scarcity is one of the significant problems that is faced by everyone in the world. We consume a considerable amount of water during our production. We have constantly sourced for alternative water supplies while maintaining the quality of water, ensuring that it does not affect our overall products.

The table below shows the total electricity, water and natural gas consumed by our Group in the FY2019 and FY2018. In FY2019, the increase in electricity consumption was due to the increment of automated equipment in our factories which resulted in reduction of manpower required in the production line and reduced labour costs.

For FY2020, our goals are to minimise our carbon footprint on the environment. We remain committed to monitoring our usage and consume resources as efficiently as possible and strive to explore ways to moderate the consumption of key resources throughout our production cycle.

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Resources	Total Consumption in FY2018	Total Consumption in FY2019
Electricity	70,169,448 KWh	74,378,406 KWh
Water from public water utilities	379,609 ton	273,997 ton
Natural gas	1,797,498 m ³	1,449,800 m ³

5. ENVIRONMENTAL COMPLIANCE

The Group seeks to improve our environmental protection capabilities and compliance with local government laws and regulations. By implementing new measures and initiatives to curb harmful emission in our production process, we are committed to providing a clean environment for our future generations. We have implemented the use of new technology from Europe volatile organic compound (VOC) to eliminate the harmful emission caused by the production of flexible packaging. Although it will increase our energy usage, we believe that it would be beneficial in the long term for the environment.

In FY2019, there were no events involving significant fines or non-monetary sanction for non-compliance with environmental laws or regulation. Going forward in FY2020, we aim to maintain this zero-incidence record by continuingly adhere to the industry regulations.

GRI CONTEXT INDEX

GRI Standard and Disclosure	Page Reference and Reasons for Omission, if applicable
102-1 Name of the organisation	3
102-2 Activities, brands, products, and services	6
102-3 Location of headquarters	6
102-4 Location of operations	6
102-5 Ownership and legal form	6
102-6 Markets served	6
102-7 Scale of the organisation	13-17
102-8 Information on employees and other workers	13-14
102-9 Supply chain	8
102-10 Significant changes to the organisation and its supply chain	Nil
102-11 Precautionary principle or approach	Not applicable
102-12 External initiatives	Not applicable
102-13 Membership of associations	Not applicable
102-14 Statement from senior decision maker	5
102-16 Values, principles, standards, and norms of behaviour	7
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102-40 List of stakeholder groups	10
102-41 Collective bargaining agreements	Not applicable
102-42 Identifying and selecting stakeholders	10
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102-45 Entities included in the consolidated financial statements	Annual Report 2019 – Investments in Subsidiaries
102-46 Defining report content and topic boundaries	3
102-47 List of material topics	11
102-48 Restatements of information	Nil
102-49 Changes in reporting	Nil

GRI Standard and Disclosure (Cont'd)	Page Reference and Reasons for Omission, if applicable
102-50 Reporting period	3
102-51 Date of most recent report	31 May 2019
102-52 Reporting cycle	3
102-53 Contact point for questions regarding the report	3
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102-56 External assurance	The Company has not sought for external assurance for this report and may consider doing so in future reports.
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