

Southern Packaging Group Limited

Unaudited Half Year Financial Statements for the Period Ended 30 June 2016

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) Statement of Comprehensive Income for the Group, together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group Jan-Jun 2016 RMB'000	Group Jan-Jun 2015 RMB'000	Change
Revenue	294,951	333,055	(11%)
Cost of sales	(218,205)	(253,838)	(14%)
Gross profit	76,746	79,217	(3%)
Gross profit margin	26%	24%	
Other operating income	5,309	5,640	(6%)
Distribution expenses	(15,958)	(19,990)	(20%)
Administrative expenses	(38,077)	(37,820)	1%
Finance costs	(6,134)	(12,090)	(49%)
Profit before income tax	21,886	14,957	46%
Income tax expense	(7,251)	(4,388)	65%
Profit for the period	14,635	10,569	38%
Other comprehensive income:			
Exchange differences on translation of foreign operations	403	308	31%
Total comprehensive income attributable to:			
Owners of the Company	15,038	10,877	38%

1(a)(ii) The accompanying notes to the financial statements form an integral part of the financial statements.

	Group	Group
	Jan-Jun 2016	Jan-Jun 2015
	RMB'000	RMB'000
Sales of raw materials, samples or moulds	(1,369)	(4,408)
Interest income	(354)	(530)
Rental income	(222)	(133)
Government grants	(1,454)	(30)
Foreign currency exchange gain	(1,769)	(269)
Gain on disposal of property, plant and equipment	(121)	(46)
Depreciation on property, plant and equipment	23,274	22,409
Amortisation of prepaid lease payments	745	749
R&D expenses	12,768	11,809
Reversal of allowance for doubtful debts	(414)	(125)
(Reversal of)/Allowance for allowance for inventories	(99)	1,600
Reversal of bad debts written off	-	(82)

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group	Group	Company	Company
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current assets:</u>				
Cash and bank balances	107,808	108,214	1,551	1,324
Trade receivables	150,234	156,645	-	-
Other receivables and prepayments	40,520	24,833	26,218	65
Inventories	64,152	74,122	-	-
Prepaid lease payments	1,499	1,499	-	-
	364,213	365,313	27,769	1,389
Asset held for sale	7,882	7,882	-	-
Total current assets	372,095	372,195	27,769	1,389
<u>Non-current assets:</u>				
Investment in subsidiaries	-	-	422,998	415,108
Property, plant and equipment	419,769	415,854	-	-
Investment property	1,056	1,068	-	-
Prepaid lease payments	62,613	63,358	-	-
Deferred tax assets	1,382	1,382	-	-
Total non-current assets	484,820	481,662	422,998	415,108
Total assets	856,915	854,857	450,767	416,497

	Group	Group	Company	Company
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current liabilities:</u>				
Trade payables	107,632	106,026	-	-
Other payables	35,972	28,233	11,851	5,550
Bank borrowings	121,069	138,071	-	-
Current income tax payable	5,576	6,840	-	-
Deferred government subsidy	561	561	-	-
Total current liabilities	270,810	279,731	11,851	5,550
<u>Long-term liabilities:</u>				
Bank borrowings	70,000	70,000	-	-
Deferred tax liabilities	2,697	2,697	-	-
Deferred government subsidy	11,294	11,294	-	-
Total long-term liabilities	83,991	83,991	-	-
<u>Capital and reserves:</u>				
Share capital	230,593	230,593	230,593	230,593
Capital contribution	12,639	12,639	-	-
Statutory reserves	53,820	48,164	-	-
Foreign currency translation account	(2,762)	(3,165)	-	-
Retained earnings	207,824	202,904	208,323	180,354
Total equity	502,114	491,135	438,916	410,947
Total liabilities and shareholders' equity	856,915	854,857	450,767	416,497

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 30/06/2016		As at 31/12/2015	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
121,069	-	138,071	-

Amount repayable after one year

As at 30/06/2016		As at 31/12/2015	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
70,000	-	70,000	-

Details of any collateral

The bank loans are secured as follows:

- (a) Secured by property, plant and machinery, prepaid lease payments, investment property and pledged fixed deposits;
- (b) Corporate guarantees by the Company; and
- (c) Personal guarantee by two Directors/shareholders of the Company.

1(c) Statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group Jan-Jun 2016 RMB'000	Group Jan-Jun 2015 RMB'000
<u>Cash flows from operating activities</u>		
Profit before income tax	21,886	14,957
Adjustments for:		
Depreciation of property, plant and equipment	23,274	22,409
Depreciation of investment property	11	11
Amortisation of prepaid lease payments	745	749
Interest income	(354)	(530)
Interest expense	6,134	12,090
Unrealised foreign currency exchange gain	(1,769)	(229)
(Write-back)/write-down of inventories	(99)	1,600
Reversal of allowance for impairment of trade receivables	(414)	(125)
Reversal of bad debts written off	-	(82)
Gain on disposal of property, plant and equipment	(121)	(46)
Operating profit before working capital changes	49,293	50,804
Working capital changes:		
Trade receivables	6,411	18,554
Other receivables, deposits and prepayments	(15,703)	(3,409)
Inventories	10,069	10,266
Trade payables	1,606	(1,853)
Other payables	7,654	16,873
Cash generated from operations	59,330	91,235
Income tax paid	(8,514)	(1,391)
Net cash from operating activities	50,816	89,844
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(27,995)	(10,969)
Purchase of prepaid lease	-	(507)
Proceeds from sale of property, plant and equipment	3,403	1,378
Net cash used in investing activities	(24,592)	(10,098)

	Group Jan-Jun 2016 RMB'000	Group Jan-Jun 2015 RMB'000
<u>Cash flows from financing activities</u>		
Interest paid	(6,134)	(12,090)
Interest received	354	530
Proceeds from bank borrowings	63,209	120,071
Repayments of bank borrowings	(80,211)	(212,473)
(Increase)/Decrease in pledged fixed deposits	(2,962)	11,965
Dividends paid	(4,059)	(2,613)
Net cash used in financing activities	(29,803)	(94,610)
Decrease in cash and cash equivalents	(3,579)	(14,864)
Cash and cash equivalents at the beginning of the financial year	104,905	130,382
Effect of foreign exchange rate changes on cash and cash equivalents in foreign currencies	211	18
Cash and cash equivalents at the end of the financial year (Note A)	101,537	115,536
 Note A: Cash and Cash Equivalents	 30.06.2016 RMB'000	 30.06.2015 RMB'000
Cash and cash equivalents	107,808	122,705
Less: Fixed deposits pledged	(6,271)	(7,169)
Cash and cash equivalents at the end of the financial year	101,537	115,536

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share capital RMB'000	Statutory reserve RMB'000	Capital contribution RMB'000	Retained earnings RMB'000	Foreign currency translation account RMB'000	Total equity RMB'000
Group						
Balance as at 1.1.2015	230,593	46,009	12,639	166,282	(4,306)	451,217
Profit for the financial year	-	-	-	10,569	-	10,569
Other comprehensive income for the financial year						
- Exchange differences on translation of foreign operations	-	-	-	-	308	308
Total comprehensive income for the financial year	-	-	-	10,569	308	10,877
Liquidation of a subsidiary	-	(211)	-	(293)	-	(504)
Cash dividends	-	-	-	(2,613)	-	(2,613)
Balance as at 30.06.2015	230,593	45,798	12,639	173,945	(3,998)	458,977
Balance as at 1.1.2016	230,593	48,164	12,639	202,904	(3,165)	491,135
Profit for the financial year	-	-	-	14,635	-	14,635
Other comprehensive income for the financial year						
- Exchange differences on translation of foreign operations	-	-	-	-	403	403
Total comprehensive income for the financial year	-	-	-	14,635	403	15,038
Transfer to statutory reserve	-	5,656	-	(5,656)	-	-
Cash dividends	-	-	-	(4,059)	-	(4,059)
Balance as at 30.06.2016	230,593	53,820	12,639	207,824	(2,762)	502,114

	Issued Capital RMB'000	Accumulated profits RMB'000	Total RMB'000
The Company			
Balance as at 1.1.2015	230,593	169,122	399,715
Cash dividends	-	(2,613)	(2,613)
Total comprehensive loss for the period	-	(4,763)	(4,763)
Balance as at 30.06.2015	230,593	161,746	392,339
Balance as at 1.1.2016	230,593	180,354	410,947
Cash dividends	-	(4,059)	(4,059)
Total comprehensive income for the period	-	32,028	32,028
Balance as at 30.06.2016	230,593	208,323	438,916

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Nil

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	30 June 2016 (after share consolidation)	31 December 2015 (before share consolidation)
Total number of issued shares	70,319,164	281,276,826

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the Company's auditor.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Except for the adoption of revised Financial Reporting Standards as disclosed in Section 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial year as compared with those used in the audited financial statements for the year ended 31 December 2015.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The Group has adopted all the new and revised Singapore Financial Reporting Standards ("FRS") and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2016. The adoption of these new/revised FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current period or prior years.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Group Jan-Jun 2016 RMB	Group Jan-Jun 2015 RMB
Earnings per ordinary share for the period based on		
net profit attributable to shareholders (RMB):	0.21	0.15

On 29 February 2016, the Company completed a share consolidation of every four (4) ordinary shares in the capital of the Company into one (1) consolidated share.

The calculation of the earnings per share is based on the Group's profit after tax attributable to owners of the Company of the respective years divided by 70,319,164 ordinary shares (after share consolidation) excluding treasury shares.

The comparative for the first half of FY2015 has been adjusted to account for the effect of the four (4) to one (1) share consolidation.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the(a) current financial period reported on; and (b) immediately preceding financial year.

	Group	Group	Company	Company
	30 Jun 2016	31 Dec 2015	30 Jun 2016	31 Dec 2015
	RMB	RMB	RMB	RMB
Net asset value (NAV) per ordinary share (RMB)	7.14	6.98	6.24	5.84

The NAV per share as at 30 June 2016 was calculated based on the number of shares in issue of 70,319,164 shares (The comparative for FY2015 has been adjusted to account for the effect of the four (4) to one (1) share consolidation).

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; it must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

Review of Group Performance

Revenue

The Group's revenue decreased by RMB38.1 million from RMB333.1 million in the first half of FY2015 to RMB295 million in the first half of FY2016.

Sales of rigid packaging decreased by RMB1.3 million (1%) from RMB169.8 million in the first half of FY2015 to RMB168.5 million in the first half of FY2016 whilst sales of flexible packaging decreased by RMB36.7 million (22%) from RMB163.2 million in the first half of FY2015 to RMB126.5 million in the first half of FY2016, these were mainly due to the reduction in orders from several major customers in the midst of uncertain global and local economic conditions.

Gross Profit

The Group's gross profit decreased by RMB2.5 million (3%) to RMB76.7 million for the first half of FY2016 compared to RMB79.2 million in the previous corresponding period. The gross profit margin increased by 2 percentage points to 26% for the first half of FY2016 compared to 24% in the first half of FY2015.

The gross profit margin increased mainly due to the change in product mix, the increase in the sales of new products which have better margins.

Other operating income

Other operating income decreased by RMB0.3 million to RMB5.3 million for the first half of FY2016 compared to RMB5.6 million in the previous corresponding period.

This change was mainly due to:

- a) Decrease in sales of raw materials, samples and moulds by RMB3 million;
- b) Decrease in interest income by RMB0.2 million; and partly offset by
- c) Increase in government grants by RMB1.4 million, which were awarded to the Group under the Technology Innovation Reward scheme for the first half of FY2016.
- d) Increase in foreign currency exchange gain by RMB1.5 million.

Profit before Income Tax

The Group's net profit before income tax increased by RMB6.9 million (46%) to RMB21.9 million in the first half of FY2016 compared to RMB15 million for the previous corresponding period.

The change in profit before income tax was mainly due to:

- Distribution expenses decreased by RMB4 million mainly due to the decrease in freight charges and rental expenses;
- Finance costs decreased by RMB6 million due to the decrease in bank borrowings during the current period as compared to the previous corresponding period.

Income Tax

Income tax expenses increase significantly over the previous period due to withholding tax on dividend declared by subsidiaries during the period.

Current Assets

Current assets decreased by RMB1.1 million when compared to the end of FY2015. This was mainly due to the following:

- a) Trade receivables decreased by RMB6.4 million which was mainly due to improved collections;
- b) Cash and bank balances decreased by RMB0.4 million;
- c) Inventories decreased by RMB10 million due to the improvement in sales and production cycle;
- d) The above decreases were partly offset by an increase of RMB15.7 million in other receivables and prepayments as follows:

	Group 30 Jun 2016 RMB'000	Group 31 Dec 2015 RMB'000
(i) Other receivables	4,830	3,973
(ii) Advances to suppliers	31,063	18,559
(iii) Prepaid expenses	4,627	2,301
Total	40,520	24,833

- (i) This comprises mainly utilities deposits and rental deposits.
- (ii) Advances to suppliers increased by RMB12.5 million mainly due to the increase of advances for purchase of moulds and raw materials.
- (iii) The increase is due to increase in value-added taxes recoverable by RMB2.3 million.

Non-Current Assets

Non-current assets increased by RMB3.1 million to RMB484.8 million from RMB481.7 million mainly due to the increase of property, plant and equipment by RMB3.9 million.

Current Liabilities

Current liabilities decreased by RMB8.9million (3%) from RMB279.7 million to RMB270.8 million mainly due to the following:

- Trade payables increased by RMB1.6 million;
- Other payable increased by RMB7.7million mainly due to prepayment for asset held for sale's transaction.
- Short-term bank borrowing decreased by RMB17 million due to the repayment of the bank borrowings.
- Current income tax payable decreased by RMB1.3 million;

Non-Current Liabilities

Non-current liabilities remained the same in the first half of FY2016 compared to the end of YF2015.

The Consolidated Statement of Cash Flows

In the first half of FY2016, the net cash inflow in operating activities of the Group amounted to RMB50.8 million as compared with RMB89.8 million in the first half of FY2015 mainly due to the following:

- a) Cash generated from trade receivables decreased by RMB12.1 million due to decrease in revenue.
- b) Cash used for prepayment to suppliers increased by RMB12.3million.
- c) Cash used for income tax increased by RMB7.1 million.

The Group recorded a net cash outflow in financing activities amounting to RMB29.8 million in the first half of FY2016 as compared with RMB94.6 million in the last corresponding period of FY2015. It was mainly due to decrease in bank borrowing.

The net cash used in investing activities had increased in the first half of FY 2016 due to additional purchase of property, plant and equipment.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Based on current economic indicators, we expect challenging business conditions ahead for our packaging products.

However, the Group will work towards meeting the challenges ahead by devoting even more efforts in researching and developing new products and processes, so as to add value to the services that we provide to customers, and to anticipate and meet their requirements and expectations. With the completion of the new production facilities at Gaoming and Changzhou which have commenced normal operations since the second half of 2014, the Group is well positioned to achieve these objectives.

Although the Group's overall profitability may be affected by, amongst other things, fluctuations in the cost of production raw materials and increases in labor, energy and environmental production costs, the Group will strive to mitigate these costs by continually enhancing its capabilities in the area of automation, and in energy and environmental conservation in production activities.

11. Dividend

(a) Current Financial Period Reported On

None

(b) Corresponding Period of the Immediately Preceding Financial Year

None

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

13. Interested Person Transactions for the Financial Period Ended 30 June 2016.

Aggregate value of all transactions conducted under a shareholders' mandate approved at the AGM pursuant to Rule 920 of the SGX-ST Listing Manual.

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to <u>Rule 920</u>) 30 Jun 2016	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to <u>Rule 920</u> (excluding transactions less than S\$100,000) 30 Jun 2016
Foshan Unibott Technology Limited ⁽¹⁾	RMB705,239 (S\$148,290)	-
Energetic Holdings Limited ⁽²⁾	RMB7,881,700 (S\$1,657,282)	-

Notes:

(1) Supply of products by Foshan Southern Packaging Co., Ltd.

(2) Transfer the shares of Foshan Energetic Films Co., Ltd.

14. Negative Assurance Confirmation

We, Pan Shun Ming and Pu Jinbo, confirm that to the best of our knowledge, nothing has come to the attention of the Board of Directors of Southern Packaging Group Limited which may render these interim financial results for the half year ended 30 June 2016 to be materially false or misleading.

15. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

The Company confirms that all the required undertakings under the Rule 720(1) of the Listing Manual have been obtained from its Directors and Executive Officers in the format set out in Appendix 7.7.

BY ORDER OF THE BOARD

Mr Pan Shun Ming
Executive Chairman and Chief Executive Officer
August 13, 2016