

Southern Packaging Group Limited

Unaudited Half Year Financial Statements for the Period Ended 30 June 2019

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 2019 RMB'000	Group Jan-Jun 2018 RMB'000	Change
Revenue	323,433	343,122	(5.7%)
Cost of sales	(255,329)	(270,292)	(5.5%)
Gross profit	68,104	72,830	(6.5%)
Gross profit margin	21%	21%	
Other operating income	4,836	4,359	10.9%
Distribution expenses	(19,996)	(21,800)	(8.3%)
Administrative expenses	(42,421)	(43,268)	(2%)
Finance costs	(9,039)	(9,106)	(0.7%)
Profit before income tax	1,484	3,015	(60.7%)
Income tax expense	(480)	(610)	(21.3%)
Profit for the period	1,004	2,405	(58.3%)
Other comprehensive income:			
Exchange differences on translation of foreign operations	175	207	(15.5%)
Total comprehensive income attributable to:			
Owners of the Company	1,179	2,612	(54.9%)

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

	Group	Group
	Jan-Jun 2019	Jan-Jun 2018
	RMB'000	RMB'000
Sales of raw materials, samples or moulds	(1,953)	(1,643)
Interest income	(218)	(220)
Government grants	(2,368)	(2,139)
Foreign currency exchange loss	826	559
Depreciation on property, plant and equipment	33,928	31,236
Amortisation of prepaid lease payments	606	606
R&D expenses	15,182	15,235

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
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current assets:</u>				
Cash and cash equivalents	76,590	78,727	2,681	1,437
Trade receivables	138,433	164,094	-	-
Other receivables and prepayments	26,627	28,889	1,305	1,305
Inventories	89,979	82,164	-	-
Property under development	113,817	65,125	-	-
Total current assets	445,446	418,999	3,986	2,742
<u>Non-current assets:</u>				
Investment in subsidiaries	-	-	465,933	465,933
Property, plant and equipment	531,261	523,703	-	-
Investment property	426	435	-	-
Prepaid lease payments	39,090	41,828	-	-
Deferred tax assets	2,546	2,546	-	-
Total non-current assets	573,323	568,512	465,933	465,933
Total assets	1,018,769	987,511	469,919	468,675

	Group	Group	Company	Company
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current liabilities:</u>				
Trade payables	96,876	109,633	-	-
Other payables	34,506	31,901	31,309	25,444
Borrowings	210,096	254,929	-	-
Current income tax payable	2,742	5,161	-	-
Deferred government subsidy	915	916	-	-
Total current liabilities	345,135	402,540	31,309	25,444
<u>Non-current liabilities:</u>				
Deferred government subsidy	12,239	12,239	-	-
Borrowings	112,250	24,767	-	-
Deferred tax liabilities	1,000	1,000	-	-
Total non-current liabilities	125,489	38,006	-	-
<u>Equity:</u>				
Share capital	230,593	230,593	230,593	230,593
Capital contribution	12,639	12,639	-	-
Statutory reserves	56,937	56,937	-	-
Foreign currency translation account	(2,099)	(2,275)	-	-
Retained earnings	250,075	249,071	208,017	212,638
Total equity	548,145	546,965	438,610	443,231
Total liabilities and equity	1,018,769	987,511	469,919	468,675

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

Amount repayable in one year or less, or on demand

As at 30/06/2019		As at 31/12/2018	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
210,096	-	254,929	-

Amount repayable after one year

As at 30/06/2019		As at 31/12/2018	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
112,249	-	24,767	-

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 a subsidiary; and
- (c) Personal guarantee by a director/shareholder 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 2019 RMB'000	Group Jan-Jun 2018 RMB'000
<u>Cash flows from operating activities</u>		
Profit before income tax	1,484	3,015
Adjustments for:		
Depreciation of property, plant and equipment	33,928	31,236
Depreciation of investment property	9	9
Amortisation of prepaid lease payments	606	539
Interest income	(218)	(220)
Interest expense	9,039	9,106
Unrealised foreign currency exchange loss	826	559
Reversal of write-down of inventories	-	-
Reversal of allowance for impairment of trade receivables	-	-
Loss/(gain) on disposal of property, plant and equipment	(983)	313
Operating profit before working capital changes	44,691	44,557
Working capital changes:		
Property under development	(48,691)	
Trade receivables	25,661	22,772
Other receivables, deposits and prepayments	2,262	(564)
Inventories	(7,815)	(16,802)
Trade payables	(12,757)	(7,940)
Other payables	2,605	(1,856)
Cash generated from operations	5,956	40,167
Income tax paid	(3,995)	2,754
Net cash from operating activities	1,961	42,921
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(37,975)	(40,775)
Proceeds from sale of property, plant and equipment	80	204
Net cash used in investing activities	(37,895)	(40,571)

	Group Jan-Jun 2019 RMB'000	Group Jan-Jun 2018 RMB'000
<u>Cash flows from financing activities</u>		
Interest paid	(9,039)	(9,106)
Interest received	218	220
Proceeds from bank borrowings	199,155	113,768
Repayments of bank borrowings	(156,537)	(131,464)
decrease in pledged fixed deposits	10,960	6,403
Finance lease payables	-	9,842
Dividends paid	-	(1,212)
Net cash generated from/(used in) financing activities	44,757	(11,549)
Increase/(Decrease) in cash and cash equivalents	8,823	(9,199)
Cash and cash equivalents at the beginning of the financial period	66,475	115,381
Effect of foreign exchange rate changes on cash and cash equivalents in foreign currencies	-	(122)
Cash and cash equivalents at the end of the financial period (Note A)	75,298	106,060
Note A: Cash and Cash Equivalents	30.06.2019 RMB'000	30.06.2018 RMB'000
Cash and bank balances	76,590	113,655
Less: Fixed deposits pledged	(1,292)	(7,595)
Cash and cash equivalents at the end of the financial period	75,298	106,060

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	Statutory reserve	Capital contribution	Retained earnings	Foreign currency translation account	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group						
Balance as at 1.1.2018	230,593	56,292	12,639	253,153	(3,112)	549,565
Profit for the financial year	-	-	-	2,405	-	2,405
Other comprehensive income for the financial year						
- Exchange differences on translation of foreign operations	-	-	-	-	207	207
Total comprehensive income for the financial year	-	-	-	2,405	207	2,612
Cash dividends	-	-	-	(1,212)	-	(1,212)
Balance as at 30.06.2018	230,593	56,292	12,639	254,346	(2,905)	550,965
Balance as at 1.1.2019	230,593	56,937	12,639	249,071	(2,274)	546,966
Profit for the financial year	-	-	-	1,004	-	1,004
Other comprehensive income for the financial year						
- Exchange differences on translation of foreign operations	-	-	-	-	175	175
Total comprehensive income for the financial year	-	-	-	-	175	1,179
Cash dividends	-	-	-	-	-	-
Balance as at 30.06.2019	230,593	56,937	12,639	250,075	(2,099)	548,145

	Issued Capital	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000
The Company			
Balance as at 1.1.2018	230,593	223,139	453,732
Cash dividends	-	(1,212)	(1,212)
Total comprehensive loss for the period	-	(4,818)	(4,818)
Balance as at 30.06.2018	<u>230,593</u>	<u>217,109</u>	<u>447,702</u>
Balance as at 1.1.2019	230,593	212,638	443,231
Cash dividends	-	-	-
Total comprehensive income for the period	-	(4,621)	(4,621)
Balance as at 30.06.2019	<u>230,593</u>	<u>208,017</u>	<u>438,610</u>

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 2019	31 December 2018
Total number of issued shares	70,319,164	70,319,164

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 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 2018.

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 SFRS (I) 16 Leases with effect from 1 January 2019. There is no material impact to the Group's and Company's financial statements in the year of initial adoption.

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 2019 RMB	Group Jan-Jun 2018 RMB
Earnings per ordinary share for the period based on net profit attributable to shareholders (RMB):	0.02	0.04

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.

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 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018
	RMB	RMB	RMB	RMB
Net asset value (NAV) per ordinary share (RMB)	7.80	7.78	6.24	6.30

The NAV per share as at 30 June 2019 was calculated based on the number of shares in issue of 70,319,164 shares (31 December 2018: 70,319,164 shares).

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 销售收入

The Group's revenue decreased by RMB19.7 million from RMB343.1 million in the first half of FY2018 to RMB323.4 million in the first half of FY2019.

Sales of rigid packaging decreased by RMB3.8 million (1.7%) from RMB219.3 million in the first half of FY2018 to RMB215.5 million in the first half of FY2019. This was mainly due to reduced demand for our existing products and delay in launching of certain new products during the current period.

The sales of flexible packaging decreased by RMB15.9 million (12.8%) from RMB123.8 million in the first half of FY2018 to RMB107.9 million in the first half of FY2019. This was mainly due to reduced orders from customers for their current production cycle.

Gross Profit 毛利

The Group's gross profit decreased by RMB4.7 million (6.5%) to RMB68.1 million for the first half of FY2019 compared to RMB72.8 million in the previous corresponding period. The gross profit margin decrease slightly from 21.2% in the first half of FY2018 to 21% in the first half of FY2019.

The gross profit decreased mainly due to the decrease in sales revenue as explained above. However, the gross profit margin remains relatively stable. This is due to the fact that the increase in labor costs and fixed overhead such as depreciation is offset by the decrease in raw material costs.

Other operating income 其他经营收入

Other operating income increased by RMB0.5 million to RMB4.8 million for the first half of FY2019 compared to RMB4.3 million in the previous corresponding period.

This change was mainly due to:

- a) Increase in sales of raw materials, samples and moulds by RMB0.3 million;
- b) Increase in government grants by RMB0.2 million.

Profit before Income Tax 税前利润

The Group's net profit before income tax decreased by RMB1.5 million (50%) to RMB1.5 million in the first half of FY2019 compared to RMB3 million for the previous corresponding period.

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

- Gross profit decreased by RMB4.7 million as mentioned above;
- Other operating income increased by RMB0.5 million as mentioned above;
- Distribution expenses decreased by RMB1.8 million mainly due to the decrease in freight charges.
- Administrative expenses decreased by RMB0.8 million mainly due to the decrease in duty and levy during the period;

Income Tax 所得税

Income tax expense decreased by RMB0.1 million mainly due to the decrease in profit for the period.

Current Assets 流动资产

Current assets increased by RMB26.4 million when compared to the end of FY2018. This was mainly due to the following:

- a) Cash and bank balances decreased by RMB2.1 million;
- b) Trade receivables decreased by RMB25.7 million which was mainly due to improved collection and decrease in sales;
- c) Inventories increased by RMB7.8 million;
- d) Property under development increased by RMB48.7 million
- e) Other receivables and prepayments decreased by RMB2.3 million.

Non-Current Assets 非流动资产

Non-current assets increased by RMB4.8 million to RMB573.3 million from RMB568.5 million mainly due to the increase in property, plant and equipment.

Current Liabilities 流动负债

Current liabilities decreased by RMB57.4 million (14.3%) from RMB402.5 million to RMB345 million mainly due to the following:

- Trade payables decreased by RMB12.8 million;
- Other payables increased by RMB2.6 million;
- Short-term bank borrowing decreased by RMB44.8 million;
- Current income tax payable decreased by RMB2.4 million.

Long-Term Liabilities 长期负债

Long-term liabilities increased by RMB87.5 million (230.3%) from RMB38 million to RMB125.5 million mainly due to the following:

- Long-term bank borrowing increased by RMB87.5million mainly for the property development project in San Shan, Foshan.

The Consolidated Statement of Cash Flows

In the first half of FY2019, the net cash inflow in operating activities of the Group amounted to RMB2.0 million as compared with RMB42.9 million in the first half of FY2018 mainly due to the following:

- a) Cash generated from trade receivables increased by RMB2.9 million.
- b) Cash of RMB48.7 million used for the property development project in San Shan, Foshan.
- c) Cash used for inventories decreased by RMB8.9million.
- d) Cash used for income tax paid increased by RMB6.7 million.
- e) Cash used for trade payable increased by RMB4.8 million.
- f) Cash used for other payables decreased by RMB4.5 million.

The Group recorded a net cash inflow in financing activities amounting to RMB44.8 million in the first half of FY2019 as compared with RMB11.5 million outflows in the last corresponding period of FY2018. It was mainly due to bank borrowing.

The net cash used in investing activities had decreased in the first half of FY 2019 due to net decrease in 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.

The Group had operated under difficult economic conditions during the past 12 months, in the face of lower demand from customers for existing products on the one hand and increased labor and fixed overhead costs on the other hand.

The Group will work to meet these challenges by continuing to develop new products and processes so as to add even more value to our services to customers. To this end, the Group will cooperate with strategic partners to develop and promote new products manufactured with recycled materials to meet increasing demand from global customers for environmentally friendly and sustainable products.

At the same time, the Group will strive to reduce costs by constantly improving operational efficiencies and exploring opportunities to exploit the advantages of automation.

The new property development in San Shan, Foshan is in progress and, barring unforeseen circumstances, is expected to enter the sales phase within the next 12 months.

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.

No dividend has been declared or recommended in view of the operational and financial requirements of the Group.

13. Interested Person Transactions for the Financial Period Ended 30 June 2019

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 2019	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 2019
Guangdong Xing Hua Health Drink Co.,Ltd ⁽¹⁾	RMB916,470 (S\$183,294)	-
Foshan Unibott Technology Limited ⁽²⁾	RMB1,042,501 (S\$208,500)	-

Notes:

(1) Rental payment for factory occupied by Foshan Southern Packaging Co., Ltd;

(2) Supply of products by Foshan Southern Packaging 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 2019 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 14, 2019