

Southern Packaging Group Limited

Unaudited Half Year Financial Statements for the Period Ended 30 June 2017

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 2017 RMB'000	Group Jan-Jun 2016 RMB'000	Change
Revenue	349,701	294,951	19%
Cost of sales	(267,231)	(218,205)	22%
Gross profit	82,470	76,746	7%
Gross profit margin	24%	26%	
Other operating income	2,651	5,309	(50%)
Distribution expenses	(18,689)	(15,958)	17%
Administrative expenses	(44,821)	(38,077)	18%
Finance costs	(6,236)	(6,134)	2%
Profit before income tax	15,375	21,886	(30%)
Income tax expense	(2,099)	(7,251)	(71%)
Profit for the period	13,276	14,635	(9%)
Other comprehensive income:			
Exchange differences on translation of foreign operations	(544)	403	(235%)
Total comprehensive income attributable to:			
Owners of the Company	12,732	15,038	(15%)

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

	Group	Group
	Jan-Jun 2017	Jan-Jun 2016
	RMB'000	RMB'000
Sales of raw materials, samples or moulds	(677)	(1,369)
Interest income	(263)	(354)
Rental income	(118)	(222)
Government grants	(1,515)	(1,454)
Foreign currency exchange loss/(gain)	498	(1,769)
Loss/(gain) on disposal of property, plant and equipment	119	(121)
Depreciation on property, plant and equipment	26,771	23,274
Amortisation of prepaid lease payments	712	745
R&D expenses	15,557	12,768
Reversal of allowance for doubtful debts	(31)	(414)
Reversal of allowance for allowance for inventories	(240)	(99)

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
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current assets:</u>				
Cash and bank balances	88,295	114,593	2,303	1,305
Trade receivables	170,649	155,523	-	-
Other receivables and prepayments	39,743	41,848	768	693
Inventories	71,225	72,437	-	-
Prepaid lease payments	1,438	1,438	-	-
Total current assets	371,350	385,839	3,071	1,998
<u>Non-current assets:</u>				
Investment in subsidiaries	-	-	465,710	449,313
Property, plant and equipment	468,030	462,535	-	-
Investment property	461	470	-	-
Prepaid lease payments	58,336	59,049	-	-
Deferred tax assets	2,163	2,163	-	-
Total non-current assets	528,990	524,217	465,710	449,313
Total assets	900,340	910,056	468,781	451,311

	Group	Group	Company	Company
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current liabilities:</u>				
Trade payables	114,631	103,953	-	-
Other payables	27,149	28,065	18,145	7,630
Bank borrowings	126,559	167,035	-	-
Current income tax payable	5,008	5,844	-	-
Deferred government subsidy	561	561	-	-
Total current liabilities	273,908	305,458	18,145	7,630
<u>Long-term liabilities:</u>				
Bank borrowings	72,166	58,896	-	-
Deferred tax liabilities	2,313	2,313	-	-
Deferred government subsidy	14,277	14,277	-	-
Total long-term liabilities	88,756	75,486	-	-
<u>Capital and reserves:</u>				
Share capital	230,593	230,593	230,593	230,593
Capital contribution	12,639	12,639	-	-
Statutory reserves	55,313	55,313	-	-
Foreign currency translation account	(2,600)	(2,056)	-	-
Retained earnings	241,731	232,623	220,043	213,088
Total equity	537,676	529,112	450,636	443,681
Total liabilities and shareholders' equity	900,340	910,056	468,781	451,311

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

Amount repayable in one year or less, or on demand

As at 30/06/2017		As at 31/12/2016	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
126,559	-	167,035	-

Amount repayable after one year

As at 30/06/2017		As at 31/12/2016	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
72,166	-	58,896	-

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 2017 RMB'000	Group Jan-Jun 2016 RMB'000
<u>Cash flows from operating activities</u>		
Profit before income tax	15,375	21,886
Adjustments for:		
Depreciation of property, plant and equipment	26,771	23,274
Depreciation of investment property	9	11
Amortisation of prepaid lease payments	712	745
Interest income	(263)	(354)
Interest expense	6,236	6,134
Unrealised foreign currency exchange loss/(gain)	865	(1,769)
Reversal of write-down of inventories	(240)	(99)
Reversal of allowance for impairment of trade receivables	(31)	(414)
Loss/(gain) on disposal of property, plant and equipment	119	(121)
Operating profit before working capital changes	49,553	49,293
Working capital changes:		
Trade receivables	(16,409)	6,411
Other receivables, deposits and prepayments	2,101	(15,703)
Inventories	1,452	10,069
Trade payables	11,546	1,606
Other payables	(853)	7,654
Cash generated from operations	47,390	59,330
Income tax paid	(3,930)	(8,514)
Net cash from operating activities	43,460	50,816
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(32,928)	(27,995)
Proceeds from sale of property, plant and equipment	543	3,403
Net cash used in investing activities	(32,385)	(24,592)

	Group Jan-Jun 2017 RMB'000	Group Jan-Jun 2016 RMB'000
<u>Cash flows from financing activities</u>		
Interest paid	(6,236)	(6,134)
Interest received	263	354
Proceeds from bank borrowings	89,199	63,209
Repayments of bank borrowings	(116,135)	(80,211)
Increase in pledged fixed deposits	(4,456)	(2,962)
Dividends paid	(4,168)	(4,059)
Net cash used in financing activities	(41,533)	(29,803)
Decrease in cash and cash equivalents	(30,458)	(3,579)
Cash and cash equivalents at the beginning of the financial year	106,690	104,905
Effect of foreign exchange rate changes on cash and cash equivalents in foreign currencies	(296)	211
Cash and cash equivalents at the end of the financial year (Note A)	75,936	101,537
 Note A: Cash and Cash Equivalents	 30.06.2017 RMB'000	 30.06.2016 RMB'000
Cash and bank balances	88,295	107,808
Less: Fixed deposits pledged	(12,359)	(6,271)
Cash and cash equivalents at the end of the financial year	75,936	101,537

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 1.1.2016	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
Balance as at 1.1.2017	230,593	55,313	12,639	232,623	(2,056)	529,112
Profit for the financial year	-	-	-	13,276	-	13,276
Other comprehensive income for the financial year						
- Exchange differences on translation of foreign operations	-	-	-	-	(544)	(544)
Total comprehensive income for the financial year	-	-	-	13,276	(544)	12,732
Cash dividends	-	-	-	(4,168)	-	(4,168)
Balance as at 30.06.2017	230,593	55,313	12,639	241,731	(2,600)	537,676

	Issued Capital RMB'000	Accumulated profits RMB'000	Total RMB'000
The Company			
Balance as at 1.1.2016	230,593	180,354	410,947
Cash dividends	-	(4,059)	(4,059)
Total comprehensive loss for the period	-	32,028	32,028
Balance as at 30.06.2016	230,593	208,323	438,916
Balance as at 1.1.2017	230,593	213,088	443,681
Cash dividends	-	(4,168)	(4,168)
Total comprehensive income for the period	-	11,123	11,123
Balance as at 30.06.2017	230,593	220,043	450,636

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 2017	31 December 2016
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 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 2016.

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 the current financial year beginning on 1 January 2017. 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 2017 RMB	Group Jan-Jun 2016 RMB
Earnings per ordinary share for the period based on		
net profit attributable to shareholders (RMB):	0.18	0.21

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 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
	RMB	RMB	RMB	RMB
Net asset value (NAV) per ordinary share (RMB)	7.65	7.52	6.41	6.31

The NAV per share as at 30 June 2017 was calculated based on the number of shares in issue of 70,319,164 shares (31 December 2016: 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

The Group's revenue increased by RMB54.7 million from RMB295 million in the first half of FY2016 to RMB349.7 million in the first half of FY2017.

Sales of rigid packaging increased by RMB37.1 million (22%) from RMB168.5 million in the first half of FY2016 to RMB205.6 million in the first half of FY2017 whilst sales of flexible packaging increased by RMB17.6 million (14%) from RMB126.5 million in the first half of FY2016 to RMB144.1 million in the first half of FY2017. This was mainly due to new product orders from customers.

Gross Profit

The Group's gross profit increased by RMB5.8 million (7%) to RMB82.5 million for the first half of FY2017 compared to RMB76.7 million in the previous corresponding period. The gross profit margin decreased by 2 percentage points to 24% for the first half of FY2017 compared to 26% in the first half of FY2016.

The gross profit margin decreased mainly due to the increase in labor costs and the purchase price of raw materials.

Other operating income

Other operating income decreased by RMB2.6 million to RMB2.7 million for the first half of FY2017 compared to RMB5.3 million in the previous corresponding period.

This change was mainly due to:

- a) Decrease in sales of raw materials, samples and moulds by RMB0.7 million;
- b) Decrease in foreign currency exchange gain by RMB1.8 million.

Profit before Income Tax

The Group's net profit before income tax decreased by RMB6.5 million (30%) to RMB15.4 million in the first half of FY2017 compared to RMB21.9 million for the previous corresponding period.

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

- Gross profit increased by RMB5.8 million as mentioned above;
- Other operating income decreased by RMB2.7 million as mentioned above;
- Distribution expenses increased by RMB2.7 million mainly due to the increase in freight charges;
- Administrative expenses increased by RMB6.7 million mainly due to the increase in salaries and R&D expenses;

- Finance costs increased by RMB0.1 million due to the increase in bank borrowings during the current period as compared to the previous corresponding period.

Income Tax

Income tax expenses decreased by RMB5.2 million mainly due to:

- the utilization of tax losses on investments incurred in prior years;
- the withholding tax on dividend declared by subsidiaries decreased by RMB1.9 million in current period.

Current Assets

Current assets decreased by RMB14.5 million when compared to the end of FY2016. This was mainly due to the following:

- Cash and bank balances decreased by RMB26.3 million;
- Trade receivables increased by RMB15.1 million;
- Inventories decreased by RMB1.2 million due to the improvement in sales and production cycle;
- Other receivables and prepayments decreased by RMB2.1 million mainly due to the following:

	Group 30 Jun 2017 RMB'000	Group 31 Dec 2016 RMB'000
(i) Other receivables	2,751	5,567
(ii) Advances to suppliers	35,199	32,409
(iii) Prepayments for construction in progress	501	1,336
(iv) Prepaid expenses	1,292	2,536
Total	39,743	41,848

- The decrease is mainly due to decrease in utilities deposits and rental deposits.
- Advances to suppliers increased by RMB2.8 million mainly due to the increase in advances for purchase of equipments, moulds and raw materials.
- Prepayments for construction in progress decreased by RMB0.8 million.
- The decrease is due to decrease in value-added taxes recoverable by RMB1.2 million.

Non-Current Assets

Non-current assets increased by RMB4.8 million to RMB529 million from RMB524.2 million mainly due to the increase of property, plant and equipment by RMB5.5 million.

Current Liabilities

Current liabilities decreased by RMB31.6 million (10%) from RMB305.5 million to RMB273.9 million mainly due to the following:

- Trade payables increased by RMB10.7 million;
- Other payables decreased by RMB0.9 million;
- Short-term bank borrowing decreased by RMB40.5 million due to the repayment of the bank borrowings;
- Current income tax payable decreased by RMB0.8 million mainly due to lower tax provision in the current financial period.

Non-Current Liabilities

Non-current liabilities increased by RMB13.3 million (18%) from RMB75.5 million to RMB88.8 million mainly due to the increased in long term bank borrowings.

The Consolidated Statement of Cash Flows

In the first half of FY2017, the net cash inflow in operating activities of the Group amounted to RMB43.5 million as compared with RMB50.8 million in the first half of FY2016 mainly due to the following:

- a) Cash used for trade receivables increased by RMB22.8 million due to increase in revenue.
- b) Cash generated from other receivables, deposits and prepayments increased by RMB17.8 million.
- c) Cash generated from inventories decreased by RMB8.6 million.
- d) Cash used for income tax decreased by RMB4.6 million.

The Group recorded a net cash outflow in financing activities amounting to RMB41.5 million in the first half of FY2017 as compared with RMB29.8 million in the last corresponding period of FY2016. It was mainly due to the repayment of bank borrowing.

The net cash used in investing activities had increased in the first half of FY 2017 due to increase 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.

Although the Group's revenue has increased by 19%, the overall profitability has been affected by, fluctuations in the cost of production raw materials and increases in labor, energy and environmental protection 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.

In addition, the Group will work towards meeting the new 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 new production facilities at Gaoming and Changzhou, the Group is well positioned to achieve these objectives.

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/recommendeded, a statement to that effect.

Not applicable.

13. Interested Person Transactions for the Financial Period Ended 30 June 2017.

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 2017	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 2017
Guangdong Xing Hua Health Drink Co.,Ltd ⁽¹⁾	RMB730,518 (S\$148,751)	-
Foshan Unibott Technology Limited ⁽²⁾	RMB3,246,430 (S\$661,053)	-

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 2017 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, 2017