



Sino Grandness Food Industry Group Limited
(Incorporated in the Republic of Singapore)
(Company Registration No.: 200706801H)

HALF YEAR FINANCIAL STATEMENTS ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2017

PART 1 – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2, Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement and statement of comparative income or a statement of comprehensive income, for the group together with a comprehensive statement for the corresponding period of the immediately preceding financial year

| | <u>2Q</u> | | | <u>HALF YEAR (HY)</u> | | |
|--|------------------|------------------|---------------|-----------------------|------------------|---------------|
| | <u>Apr – Jun</u> | <u>Apr – Jun</u> | <u>Change</u> | <u>Jan – Jun</u> | <u>Jan – Jun</u> | <u>Change</u> |
| | <u>2017</u> | <u>2016</u> | | <u>2017</u> | <u>2016</u> | |
| | <u>RMB'000</u> | <u>RMB'000</u> | <u>%</u> | <u>RMB'000</u> | <u>RMB'000</u> | <u>%</u> |
| Revenue | 939,949 | 1,128,744 | (16.7) | 1,575,036 | 1,852,450 | (15.0) |
| Cost of sales | (586,748) | (657,264) | (10.7) | (973,346) | (1,084,275) | (10.2) |
| Gross profit | 353,201 | 471,480 | (25.1) | 601,690 | 768,175 | (21.7) |
| Other operating income | (2,617) | 27,312 | (109.6) | 6,364 | 134,131 | (95.3) |
| Distribution and selling expenses | (172,307) | (166,439) | 3.5 | (285,896) | (280,782) | 1.8 |
| Administrative expenses | (13,984) | (54,468) | (74.3) | (55,570) | (93,067) | (40.3) |
| Other operating expenses | - | - | - | - | - | - |
| Finance costs | (15,919) | (12,140) | 31.1 | (28,431) | (18,451) | 54.1 |
| Profit before income tax and changes in fair value of the option derivatives in relation to convertible bonds | 148,374 | 265,745 | (44.2) | 238,157 | 510,006 | (53.3) |
| Changes in fair value of the option derivatives in relation to convertible bonds | - | (37,398) | (100.0) | (7,077) | 120,490 | (105.9) |
| Profit before income tax | 148,374 | 228,347 | (35.0) | 231,080 | 630,496 | (63.3) |
| Taxation | (43,387) | (70,774) | (38.7) | (73,350) | (112,835) | (35.0) |
| Net profit for the period | 104,987 | 157,573 | (33.4) | 157,730 | 517,661 | (69.5) |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income for the period | 104,987 | 157,573 | (33.4) | 157,730 | 517,661 | (69.5) |
| Profit for the period attributable to: | | | | | | |
| Equity holders of the parent | 105,054 | 157,687 | | 157,840 | 517,907 | |
| Non-controlling interests | (67) | (114) | | (110) | (246) | |
| | 104,987 | 157,573 | | 157,730 | 517,661 | |

**Total comprehensive
income for the period
attributable to:**

| | | | | |
|------------------------------|----------------|----------------|----------------|----------------|
| Equity holders of the parent | 105,054 | 157,687 | 157,840 | 517,907 |
| Non-controlling interests | (67) | (114) | (110) | (246) |
| | <u>104,987</u> | <u>157,573</u> | <u>157,730</u> | <u>517,661</u> |

1(a)(ii) Profit before income tax is determined after (charging)/crediting:-

| | <u>2Q</u> | | | <u>Half Year (HY)</u> | | |
|---------------------------------|------------------|------------------|---------|-----------------------|------------------|---------|
| | <u>Apr – Jun</u> | <u>Apr – Jun</u> | Change | <u>Jan – Jun</u> | <u>Jan – Jun</u> | Change |
| | <u>2017</u> | <u>2016</u> | | <u>2017</u> | <u>2016</u> | |
| | RMB'000 | RMB'000 | % | RMB'000 | RMB'000 | % |
| Depreciation | (8,698) | (15,796) | (44.9) | (26,774) | (32,188) | (16.8) |
| Amortisation of land use rights | (607) | (600) | 1.2 | (1,206) | (1,200) | 0.5 |
| ESOS expenses | (3,825) | (15,390) | (75.1) | (8,168) | (20,792) | (60.7) |
| Net exchange (loss)/gain | (3,549) | 8,093 | (143.9) | (5,228) | 8,126 | (164.3) |

Other operating income

| | | | | | | |
|--|---------|--------|---------|-------|---------|---------|
| Government grants | 4 | 103 | (96.1) | 443 | 107 | 314.0 |
| Interest income - banks | 961 | 894 | 7.6 | 1,341 | 1,005 | 33.5 |
| Exchange gain | (7,797) | 15,427 | (150.5) | 68 | 30,237 | (99.8) |
| Gain on restructuring of convertible bonds | - | - | - | - | 91,618 | (100.0) |
| Fair value gain on convertible loan at inception | - | 8,132 | (100.0) | - | 8,132 | (100.0) |
| Others | 4,215 | 2,756 | 52.9 | 4,512 | 3,032 | 48.8 |
| Total | (2,617) | 27,312 | (109.6) | 6,364 | 134,131 | (95.3) |

N.M. – Not meaningful

Note:-

The net exchange gain in HY2017 and 2Q2017 were mainly attributable to appreciation of net assets of the Group denominated in foreign currency namely United States dollar and Singapore dollar against Renminbi.

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

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 30 June 17 | 31 Dec 16 | 30 June 17 | 31 Dec 16 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current assets | | | | |
| Property, plant and equipment | 1,216,247 | 1,078,120 | 16 | 18 |
| Land use rights | 109,090 | 110,296 | - | - |
| Subsidiaries | - | - | 85,987 | 85,987 |
| Amount owing by subsidiaries | - | - | 754,819 | 548,203 |
| Deposit paid for non-current assets | 679,081 | 787,802 | - | - |
| Total non-current assets | 2,004,418 | 1,976,218 | 840,822 | 634,208 |
| Current assets | | | | |
| Inventories | 79,975 | 44,504 | - | - |
| Trade receivables | 1,126,852 | 1,153,722 | - | - |
| Other receivables | 351,514 | 481,057 | 8,553 | 135 |
| Cash and cash equivalents | 698,998 | 297,749 | 52,868 | 46,904 |
| Total current assets | 2,257,339 | 1,977,032 | 61,421 | 47,039 |
| Current liabilities | | | | |
| Trade payables | 47,685 | 41,285 | - | 3,570 |
| Other payables | 105,412 | 187,327 | 31,994 | 139,088 |
| Note payables | - | - | - | - |
| Current tax payable | 31,445 | 9,622 | - | - |
| Bank borrowings | 132,000 | 263,708 | - | - |
| Convertible loan | 133,433 | 134,660 | 133,433 | 134,660 |
| Straight bonds | 202,777 | 193,416 | - | - |
| Amount owing to subsidiaries | - | - | 51,940 | 14,035 |
| Exchangeable bonds | 534,740 | 527,663 | - | - |
| Total current liabilities | 1,187,492 | 1,357,681 | 217,367 | 291,353 |
| Net current assets/(liabilities) | 1,069,847 | 619,351 | (155,946) | (244,314) |
| Non-current liabilities | | | | |
| Bank borrowings | 171,827 | 173,425 | - | - |
| Deferred tax liabilities | 20,241 | 20,241 | 20,241 | 20,241 |
| Total non-current liabilities | 192,068 | 193,666 | 20,241 | 20,241 |
| Net assets | 2,882,197 | 2,401,903 | 664,635 | 369,653 |
| Equity | | | | |
| Equity attributable to equity holders of the Parent | | | | |
| Share capital | 755,344 | 440,948 | 755,344 | 440,948 |
| Retained profits/(Accumulated losses) | 1,881,214 | 1,728,917 | (148,724) | (121,142) |
| Other reserves | 243,581 | 229,870 | 58,015 | 49,847 |
| Total shareholder's funds | 2,880,139 | 2,399,735 | 664,635 | 369,653 |
| Non-controlling interests | 2,058 | 2,168 | - | - |
| Total equity | 2,882,197 | 2,401,903 | 664,635 | 369,653 |

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

| | 30 Jun 2017 | 31 Dec 2016 |
|---|--------------------|--------------------|
| | RMB'000 | RMB'000 |
| Amount repayable in one year or less or on demand | | |
| Secured | 265,433 | 398,368 |
| Unsecured | 737,517 | 721,079 |
| | <u>1,002,950</u> | <u>1,119,447</u> |
| Amount repayable after one year | | |
| Secured | 171,827 | 173,425 |
| Unsecured | - | - |
| | <u>171,827</u> | <u>173,425</u> |
| | <u>1,174,777</u> | <u>1,292,872</u> |

Details of collaterals:-

The secured bank borrowings are secured by a mortgage over the Group's factory and warehouse premises, land use rights and office units.

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

| | <u>2Q</u> | | <u>Half Year (HY)</u> | |
|---|------------------|------------------|-----------------------|------------------|
| | Apr - Jun | Apr - Jun | Jan - Jun | Jan - Jun |
| | 2017 | 2016 | 2017 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cash flows from operating activities: | | | | |
| Profit before income tax | 148,374 | 228,347 | 231,080 | 630,496 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 8,698 | 15,796 | 26,774 | 32,188 |
| Fair value of the option derivatives in relation to the convertible bonds | - | 37,398 | 7,077 | (120,490) |
| Fair value gain on financial liability at inception | - | (8,132) | - | (8,132) |
| Amortisation of land use rights | 607 | 600 | 1,206 | 1,200 |
| Share-based payment expense under ESOS scheme | 3,825 | 15,390 | 8,168 | 20,792 |
| Gain on restructuring of convertible bonds | - | - | - | (91,618) |
| Interest expenses | 15,919 | 12,140 | 28,431 | 18,451 |
| Interest income | (961) | (894) | (1,341) | (1,005) |
| | <u>176,462</u> | <u>300,645</u> | <u>301,395</u> | <u>481,882</u> |
| Operating cash flows before working capital changes | 176,462 | 300,645 | 301,395 | 481,882 |
| Decrease in deposits pledged with banks | 31,561 | 15,000 | 143,404 | 30,147 |
| Increase in inventories | (23,547) | (83,645) | (35,471) | (99,557) |
| (Increase)/decrease in operating receivables | (90,678) | (98,972) | 156,412 | (9,987) |

| | <u>2Q</u> | | <u>Half Year (HY)</u> | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| | Apr - Jun 2017 RMB'000 | Apr - Jun 2016 RMB'000 | Jan - Jun 2017 RMB'000 | Jan - Jun 2016 RMB'000 |
| Decrease in operating payables | (22,934) | (20,285) | (75,515) | (16,518) |
| Cash generated from/(used in) operations | 70,864 | 112,743 | 490,225 | 385,967 |
| Income tax paid | (28,886) | (39,913) | (51,527) | (81,713) |
| Interest paid | (11,742) | (6,842) | (18,217) | (10,013) |
| Net cash generated from operating activities | 30,236 | 65,988 | 420,481 | 294,241 |
| Cash flows from investing activities: | | | | |
| Acquisition of property, plant and equipment | (164,870) | (11,499) | (164,901) | (14,021) |
| Refund from deposit paid for non-current assets | - | 70,560 | - | 70,560 |
| Deposit paid for non-current assets | 116,016 | - | 108,721 | (6,035) |
| Interest received | 961 | 894 | 1,341 | 1,005 |
| Net cash generated (used in)/generated from investing activities | (47,893) | 59,955 | (54,839) | 51,509 |
| Cash flows from financing activities: | | | | |
| Proceeds from share issue | - | - | 316,316 | - |
| Share issue costs | - | - | (1,920) | - |
| Bank loans obtained | 110,000 | 143,500 | 132,000 | 243,500 |
| Bank loans repaid | (138,500) | (65,000) | (263,708) | (130,000) |
| Proceeds from convertible loan | - | 129,179 | - | 129,179 |
| Repayment of straight bond 1 | - | (101,802) | - | (101,802) |
| Dividends paid | - | (12,200) | - | (12,200) |
| Net cash (used in)/generated from financing activities | (28,500) | 93,677 | 182,688 | 128,677 |
| Net (decrease)/increase in cash and cash equivalents | (46,157) | 219,620 | 548,330 | 474,427 |
| Cash and cash equivalents at beginning of period | 726,355 | 367,146 | 131,868 | 112,339 |
| Cash and cash equivalents at end of period | 680,198 | 586,766 | 680,198 | 586,766 |
| Cash and cash equivalents comprise: | | | | |
| Cash and bank balances | 680,198 | 586,766 | 680,198 | 586,766 |
| Fixed deposits | 18,800 | 500 | 18,800 | 500 |
| | 698,998 | 587,266 | 698,998 | 587,266 |
| Less: Fixed deposits pledged | (18,800) | (500) | (18,800) | (500) |
| | 680,198 | 586,766 | 680,198 | 586,766 |

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

| Group | Share capital | Retained profits | Share Option Reserve | Merger reserve | Statutory common reserve | Attributable to equity holders of the Company | Non-controlling interests | Total Equity |
|---|----------------|------------------|----------------------|-----------------|--------------------------|---|---------------------------|------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2016 | 440,948 | 1,203,901 | 22,673 | (31,413) | 171,101 | 1,807,210 | 2,644 | 1,809,854 |
| Profit for the year and representing total comprehensive income for the year | - | 577,551 | - | - | - | 577,551 | (476) | 577,075 |
| Share-based payment expenses under ESOS scheme | - | - | 27,174 | - | - | 27,174 | - | 27,174 |
| Dividend paid during the year | - | (12,200) | - | - | - | (12,200) | - | (12,200) |
| Transfer to statutory reserve | - | (40,335) | - | - | 40,335 | - | - | - |
| Balance at 31 December 2016 | 440,948 | 1,728,917 | 49,847 | (31,413) | 211,436 | 2,399,735 | 2,168 | 2,401,903 |
| Issue of shares | 204,982 | - | - | - | - | 204,982 | - | 204,982 |
| Share issuance expenses | (1,920) | - | - | - | - | (1,920) | - | (1,920) |
| Profit for the period and representing total comprehensive income for the period | - | 157,840 | - | - | - | 157,840 | (110) | 157,730 |
| Share-based payment expenses under ESOS scheme | - | - | 8,168 | - | - | 8,168 | - | 8,168 |
| Transfer to statutory reserve | - | (5,543) | - | - | 5,543 | - | - | - |
| Reclassification of an amount previously classified as other payables to "Director of the Company" used to subscribe in the rights issue of the Company | - | - | - | - | - | - | 111,334 | 111,334 |
| Completion of rights issue on 13 March 2017 | - | - | - | - | - | - | (111,334) | (111,334) |
| Transfer of non-controlling interest into share capital on completion of rights issue | 111,334 | - | - | - | - | 111,334 | - | 111,334 |
| Balance at 30 June 2017 | 755,344 | 1,881,214 | 58,015 | (31,413) | 216,979 | 2,880,139 | 2,058 | 2,882,197 |

| <u>Company</u> | Share capital RMB'000 | Accumulated losses RMB'000 | Share option reserve RMB'000 | Total equity RMB'000 |
|--|--------------------------|-------------------------------|---------------------------------|-------------------------|
| Balance at 1 January 2016 | 440,948 | (131,766) | 22,673 | 331,855 |
| Share-based payment expenses under ESOS scheme | - | - | 27,174 | 27,174 |
| Loss for the year representing total comprehensive income for the year | - | 10,624 | - | 10,624 |
| Balance at 31 December 2016 | 440,948 | (121,142) | 49,847 | 369,653 |
| Issue of shares | 316,316 | - | - | 316,316 |
| Share issuance expenses | (1,920) | - | - | (1,920) |
| Share-based payment expenses under ESOS scheme | - | - | 8,168 | 8,168 |
| Profit for the period representing total comprehensive income for the period | - | (27,582) | - | (27,582) |
| Balance at 30 June 2017 | 755,344 | (148,724) | 58,015 | 664,635 |

- (d) (ii) **Details of any changes in the company's share capital arising from right issues, bonus issue, share buy-back, 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 the number of shares that may be issued on conversion of all the outstanding convertibles, 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. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediate preceding financial year.**

| Issued and fully paid | Resultant number of shares | Resultant capital (RMB'000) |
|---|----------------------------|-----------------------------|
| Balance at 1 January 2017 | 673,344,828 | 440,948 |
| Right issue of 306,065,830 ordinary shares of S\$0.21 on 10 March 2017 net of share issue costs of RMB1,920,000 | 306,065,830 | 314,396 |
| Balance at 30 June 2017 | 979,410,658 | 755,344 |

The Company granted three tranches of options under ESOS Scheme on 9 April 2015, 20 May 2016 and 24 May 2017 that give holders the right to subscribe for ordinary shares as detailed below:

| Date of grant | Exercise price of Option Granted (SGD per share) | Expiry date |
|---------------|--|--------------|
| 9 April 2015 | 0.33 | 8 April 2025 |
| 9 April 2015 | 0.26 | 8 April 2025 |
| 20 May 2016 | 0.49 | 19 May 2026 |
| 24 May 2017 | 0.18 | 23 May 2027 |

Number of options outstanding under ESOS scheme as at 30 June 2017 was 43,303,750.

Save for the above, there were no other outstanding convertible securities treasury shares and subsidiary holdings as at 30 June 2017 and 31 December 2016.

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.

| | As at 30 Jun 2017 | As at 31 Dec 2016 |
|---|--------------------------|--------------------------|
| Total number of ordinary shares issued and fully paid | 979,410,658 | 673,344,828 |

The Company does not have treasury shares as at 30 June 2017 and 31 December 2016.

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

Not applicable

1(d)(v) A statement showing all sales, transfer, cancellation and/or use of subsidiary holdings 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 neither been audited nor reviewed by the Company's auditors.

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 set out in Note 5 of this announcement, the accounting policies and methods of computation have been consistently applied by the Group and by the Company and are consistent with the audited financial statements for the financial 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.

In the current financial period, the Group adopted the revised Financial Reporting Standard ("FRS") and Interpretation of FRS ("INT FRS") that are effective for annual periods beginning on and after 1 January 2017 which did not result in substantial changes to the Group's accounting policies nor had any significant impact on the amounts reported for the current or prior financial period.

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 (a) based on the weighted average number of ordinary shares on issue; and (b) on a fully diluted basis (detailing any adjustments made to the earnings).

| Earnings per share (EPS) | <u>2Q</u> | | <u>Half Year (HY)</u> | |
|--|-------------------|-------------------|-----------------------|-------------------|
| | Apr – Jun 2017 | Apr – Jun 2016 | Jan – Jun 2017 | Jan – Jun 2016 |
| EPS based on average number of ordinary shares (RMB cents) | 13.7 | 23.4 | 20.6 | 76.9 |
| EPS on a fully diluted basis (in RMB cents) | 13.6 | 23.2 | 20.5 | 76.2 |
| Weighted average number of ordinary shares (000) | 768,103 | 673,345 | 768,103 | 673,345 |
| Weighted average number of ordinary shares – diluted (000) | 770,731 | 679,359 | 770,731 | 679,359 |

Basic earnings per share for 2Q2017 and HY2017 are calculated based on the Group profit after taxation of RMB 105,054,000 and RMB 157,840,000 respectively on weighted average number of ordinary shares of 768,103,000.

For comparative purpose, the basic earnings per share for 2Q2016 and HY2016 were calculated based on the Group profit after taxation of RMB 157,687,000 and RMB 517,907,000 respectively on actual number of ordinary shares issued of 673,344,828.

The fully diluted earnings per share for 2Q2017 and HY2017 were calculated based on the Group profit after taxation of RMB 105,054,000 and RMB 157,840,000 respectively on weighted average number of ordinary shares of 770,731,000 after adjusting for the outstanding options under ESOS scheme.

For comparative purpose, the diluted earnings per share for 2Q2016 and HY2016 were calculated based on the Group profit after taxation of RMB 157,687,000 and RMB 517,907,000 respectively on actual number of ordinary shares issued of 679,359,000 after adjusting for the outstanding option under ESOS scheme.

7. **Net assets value (for the issuer and group) per ordinary share based on the total number of issued share excluding treasury shares of the issuer at the end of the (a) current financial period reported on and (b) immediately preceding financial year.**

| Net asset value (NAV) | Group | | Company | |
|---|-------------|-------------|-------------|-------------|
| | 30 Jun 17 | 31 Dec 16 | 30 Jun 17 | 31 Dec 16 |
| Number of ordinary shares | 979,410,658 | 673,344,828 | 979,410,658 | 673,344,828 |
| NAV per ordinary share in the Company (RMB cents) | 294.3 | 356.7 | 67.9 | 54.9 |

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 include a discussion of the following: (a) any significant factors that affected the turnover, costs and earnings of the group for the current financial period reported on, including (where applicable) seasonable or cyclical factors; and (b) 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 performance

Revenue

Our revenue decreased by approximately RMB277.4 million or 15.0% from RMB1,852.5 million in HY2016 to RMB1,575.0 million in HY2017. The decrease was attributable to the decrease of RMB246.2 million from sale of beverage, RMB12.3 million from sales of canned products in domestic market and RMB18.9 million from sales of canned products in overseas markets. The decrease in sales revenue of beverage from HY2016 to HY2017 was mainly due to changes in consumption environment of the domestic beverage market in People's Republic of China ("China").

Breakdown of revenue by segments:

| | <u>2Q</u> | | | <u>Half Year (HY)</u> | | |
|------------------------|---------------------------|---------------------------|---------------|---------------------------|---------------------------|---------------|
| | <u>Apr – Jun 2017</u> | <u>Apr – Jun 2016</u> | <u>Change</u> | <u>Jan – Jun 2017</u> | <u>Jan – Jun 2016</u> | <u>Change</u> |
| <u>Product segment</u> | <u>RMB'000</u> | <u>RMB'000</u> | <u>%</u> | <u>RMB'000</u> | <u>RMB'000</u> | <u>%</u> |
| <u>Canned products</u> | | | | | | |
| - overseas | 179,060 | 191,800 | (6.6) | 278,748 | 297,642 | (6.3) |
| - domestic | 128,755 | 142,970 | (9.9) | 200,989 | 213,318 | (5.8) |
| <u>Beverage</u> | 632,134 | 793,974 | (20.4) | 1,095,299 | 1,341,490 | (18.4) |
| <u>Total</u> | 939,949 | 1,128,744 | (16.7) | 1,575,036 | 1,852,450 | (15.0) |

Gross profit

Largely in line with the decrease in the Group's sales, the Group's gross profit decreased by approximately RMB166.5 million or 21.7%, from RMB768.2 million in HY2016 to RMB601.7 million in HY2017. Our overall gross profit margin (GPM) decreased by 3.3 percentage points, from 41.5% in HY2016 to 38.2% in HY2017. The decrease of Group's overall GPM was a result of a decrease in GPM of all product segments. The decrease in GPM of overseas and domestic canned products segments was mainly attributable to higher cost of raw materials in HY2017 when compared to HY2016. However, decrease in GPM of beverage product segment was mainly attributable to sales of lower GPM product mix of Qingrun series (清润系列) compared to HY2016.

Operating expenses

Distribution and selling expenses increased by approximately RMB5.1 million or 1.8%, from RMB280.8 million in HY2016 to RMB285.9 million in HY2017. This was mainly due to an increase of RMB25.9 million in advertising and promotion expenses, partially offset by a decrease in transportation costs of RMB19.2 million which is in line with lower sales revenue. Increase in advertising and promotion expenses was mainly attributed to higher promotion expenses incurred in our domestic sales of beverage compared to HY2016.

Administrative expenses decreased by approximately RMB37.5 million or 40.3%, from RMB93.1 million in HY2016 to RMB55.6 million in HY2017. This was mainly due to decrease in exchange loss of RMB16.8 million and share-based payment expenses under ESOS scheme of RMB12.6 million.

Finance costs

Finance costs increased by approximately RMB9.9 million or 54.1%, from RMB18.5 million in HY2016 to RMB28.4 million in HY2017. The increase in finance cost was mainly due to higher bank borrowings in HY2017 compared to HY2016.

Profit before taxation

Profit before taxation decreased by approximately RMB399.4 million or 63.3%, from RMB630.5 million in HY2016 to RMB231.1 million in HY2017. The decrease was mainly due to a decrease in revenue and other operating income coupled with an increase in finance cost and distribution and selling expenses, partially offset by a decrease in administrative expenses and changes in fair value of the option derivatives in relation to convertible bonds.

Review of Balance Sheet

Property, plant and equipment increased by approximately RMB138.1 million from RMB1,078.1 million in FY2016 to RMB1,216.2 million in HY2017 as a result of the acquisition and completion of property, plant and equipment in both Shanxi and Hubei plants, partially offset by depreciation charged during the period under review.

Deposit paid for non-current assets decreased by approximately RMB108.7 million, from RMB787.8 million in FY2016 to RMB679.1 million in HY2017 which was mainly attributable to the installation and commissioning of plant and equipment in Shanxi and Hubei plants.

Our inventories increased by approximately RMB35.5 million from RMB44.5 million in FY2016 to RMB80.0 million in HY2017. Higher inventory was mainly due to the seasonal harvesting of asparagus and loquat which occurs in second quarter of each year.

Trade receivables decreased by approximately RMB26.8 million from RMB1,153.7 million in FY2016 to RMB1,126.9 million in HY2017. As at 31 July 2017, approximately RMB261.7 million of trade receivables as at 30 June 2017 had been collected.

Other receivables decreased by approximately RMB129.6 million from RMB481.1 million in FY2016 to RMB351.5 million in HY2017. Other receivables comprised VAT receivables, export tax refund and prepayment for advertisement expenses.

Cash and cash equivalents stood at RMB699.0 million as at 30 June 2017. The increase in cash and cash equivalents from FY2016 was mainly due to net cash generated in operating activities, issuance of new shares and bank loan obtained partially offset by acquisition of property, plant and equipment and bank loan repayment.

Current liabilities decreased by RMB170.2 million from RMB1,357.7 million in FY2016 to RMB1,187.5 million in HY2017. The decrease was mainly attributable to a decrease in other payables of RMB81.9 million, bank borrowings of RMB131.7 million, convertible loan of RMB1.2 million, partially offset by an increase in trade payables of RMB6.4 million, current tax payable of RMB21.8 million, straight bond of RMB9.4 million and exchangeable bonds of RMB7.1 million.

Equity interest increased by RMB480.3 million from RMB2,401.9 million as at 31 December 2016 to RMB2,882.2 million as at 30 June 2017. The increase was mainly attributable to new shares issued and net profits in HY2017.

Review of cash flow statement

In HY2017, operating cash flows before working capital changes amounted to RMB301.4 million. The Group generated net cash of RMB188.8 million in its operating activities. Working capital changes comprised an increase in inventories of RMB35.5 million, partially offset by a decrease in deposit pledged with banks of RMB143.4 million, operating receivables of RMB156.4 million and operating payables of RMB75.5 million. Net cash used in investing activities amounted to RMB54.8 million in HY2017, which was due mainly to installation and commissioning of plant and equipment in Shanxi and Hubei plants. In addition, net cash generated from financing activities amounted to RMB182.7 million in HY2017, which was due to new shares issued and bank loan obtained partially offset by repayment of bank loans.

Convertible bonds

| Group | 30 June 2017 RMB'000 | 31 December 2016 RMB'000 | Variance RMB'000 |
|-----------------------|-------------------------|-----------------------------|---------------------|
| 2012 Convertible Bond | 374,756 | 372,084 | 2,672 |
| 2011 Convertible Bond | 159,984 | 155,579 | 4,405 |
| | 534,740 | 527,663 | 7,077 |

The valuation of the new Exchangeable Bonds as at 31 March 2016 was computed by an independent valuer, Jones Lang LaSalle Corporate and Appraisal Advisory Limited, based on the binominal method in deriving the fair value of the Exchangeable Bonds.

On 28 June 2017, the Company released announcement that it has entered into a restructuring agreement (“2017 Restructure Agreement”) with Bond holders for a further restructuring of the 2011 Bonds, the 2012 Bonds, the 2011 SB2 Bonds and the 2012 SB2 bonds.

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

Our current result is in line with our statement made under paragraph 10 in our first quarter results announcement released on 12 May 2017.

10. A commentary at the date of 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.

During the first 6 months of 2017 (“1H2017”), the National Bureau of Statistic of China (“NBS”) reported that China’s gross domestic product (“GDP”) increased by 6.9% year-on-year to RMB 38,149.0 billion as the economy maintained steady growth momentum. The national per capita disposable income was RMB12,932 in 1H2017, representing year-on-year growth of 8.8%.

Total retail sales of consumer goods in 1H2017 rose 10.4% to RMB17,236.9 billion with retail sales in rural area rising 12.3% to RMB2,458.3 billion while retail sales in urban area rising 10.1% to RMB14,778.6 billion. In 1H2017, the online retail sales surged 33.4% to RMB3,107.3 billion*.

As a result of rising disposable incomes, ageing population, increasing health awareness and change in consumption pattern, consumers have shown increasing demand for convenience products and functional health food through online and offline spending. Sino Grandness has responded to this trend by steadily expanding its product range and distribution channel in order to appeal to a broader customer base in the China market.

Consumer online spending continued to rise steadily in China as indicated by market data. Online consumption has become an increasingly important part of the economy and retail e-commerce sales in China are expected to grow from approximately USD298.9 billion in 2015 to USD839.5 billion in 2021**.

To capitalize on the growth opportunities ahead, the Group will continue to invest in various advertising and promotional activities as well as sales and marketing initiatives to enhance its brand visibility and brand recognition. In May 2017, the Group participated in the China Beverage Conference held in Xuzhou, Jiangsu Province, China to showcase its full range of beverage products. In July 2017, the Group was one of the main sponsors for a Chinese martial arts competition held in Shijiazhuang, Hebei Province, China.

The recent collaborations with 深圳市微信食品股份有限公司 (“Wechat Food”) and 重庆市礼仪之邦电子商务有限公司 (“LYZB E-Commerce”) to distribute the Group’s products online is part of the Group’s strategy to expand its online distribution network. This is in line with the Chinese government’s initiatives to promote the new economy whereby online and offline business models work together to achieve synergies in cost savings and to generate greater turnover. E-commerce is a vital part of the government’s efforts to promote a consumer driven economy.

Sino Grandness aims to expand its reach and turnover further in the China market through building a comprehensive distribution network comprising tens of thousands of retail points covering hundreds of cities (百城万店) which connects suppliers of safe and healthy food items with consumers through mobile internet. The online marketing platforms reflect the strategic move and emphasis which the Group is gradually putting into expanding its online distribution network going forward.

In July and August 2017, the Group further entered into separate agreements with 北京京东世纪信息技术有限公司 (“Jingdong”) for the distribution of the Group’s canned products and beverage products respectively on Jingdong’s distribution network across China.

Barring unforeseen circumstances, the Group remains optimistic about its operating performance in FY2017.

Update on proposed listing of Garden Fresh

The Company continues in its efforts to obtain the approval of the HKSE for the Proposed Listing. The Company will keep shareholders updated on any material developments relating to the proposed listing as and when appropriate.

Source :

*http://www.stats.gov.cn/english/pressrelease/201707/t20170717_1513530.html

**<https://www.statista.com/statistics/246041/forecast-of-b2c-e-commerce-sales-in-china>

11. Dividends**Current financial period reported on**

Any dividend declared for the current financial period reported on?

None

Corresponding period of the immediately preceding financial year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None

Date payable

Not applicable

Books closure date

Not applicable

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

No dividend has been declared/recommended.

13. Interested Person Transactions (“IPT”)

The Company has not obtained a general mandate from shareholders for interested person transactions.

14. Statement pursuant to SGX Listing Rule 705(5) of the Listing Manual

To the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited half year financial results for the period ended 30 June 2017 to be false or misleading in any material aspect.

15. Use of net proceeds

The Board refers to the convertible loan of US\$20 million (approximately RMB126.5million), granted by Soleado Holdings Pte. Ltd. to the Company in May 2016 (“Convertible Loan”). As at 30 June 2017, the Group had fully utilized the net proceeds from the Convertible Loan:-

| Use of net proceeds | Allocation (%) | Amount allocated (RMB'000) | Accumulated amount utilized (RMB'000) | Balance (RMB'000) |
|--|----------------|----------------------------|---------------------------------------|-------------------|
| (a) Capital expenditure for Group's non-beverage business | 60 | 75,900 | 75,900 | - |
| (b) Distribution network expansion and general working capital | | | | |
| - Distribution network expansion | 5 | 6,325 | 6,325 | - |
| - Working capital – bank loan repayment | 35 | 44,275 | 44,275 | - |
| Total | 100 | 126,500 | 126,500 | - |

In addition, the Board refers to the issuance of 306,065,830 shares by the Company in March 2017 (“Right Issue 2017”). As at 30 June 2017, the Group had utilised the net proceeds from the Rights Issue 2017 as follows :-

| Use of net proceeds | Allocation (%) | Amount allocated (RMB'000) | Accumulated amount utilized (RMB'000) | Balance (RMB'000) |
|--|----------------|----------------------------|---------------------------------------|-------------------|
| (c) Capital expenditure for Group's non-beverage business | 60 | 191,700 | 89,000 | 102,700 |
| (d) Distribution network expansion and general working capital | 40 | 127,800 | 55,800 | 72,000 |
| - Distribution network expansion | | 100,000 | 28,000 | 72,000 |
| - Bank loan repayment | | 24,800 | 24,800 | - |
| - Operating expenses | | 3,000 | 3,000 | - |
| Total | 100 | 319,500 | 144,800 | 174,700 |

The Company will make further announcements on the use of net proceeds from the Right Issue 2017 as and when the funds are materially disbursed.

16. Statement pursuant to SGX Listing Rule 720(1) of the Listing Manual

The Company confirms that it has already procured undertakings from all of its Directors and executive officers in the format as set out in Appendix 7.7 of the SGX-ST Listing Manual in accordance to Rule 720 (1) of the SGX-ST Listing Manual.

BY ORDER OF THE BOARD
HUANG YUPENG
CHAIRMAN AND CEO
11 August 2017