

SOUTHERN PACKAGING GROUP LIMITED

Unaudited Half Year Financial Statements for the Period Ended 30 June 2018

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 2018 RMB'000	Group Jan-Jun 2017 RMB'000	Change
Revenue	343,122	349,701	(2%)
Cost of sales	(270,292)	(267,231)	1%
Gross profit	72,830	82,470	(12%)
Gross profit margin	21%	24%	
Other operating income	4,359	2,651	64%
Distribution expenses	(21,800)	(18,689)	17%
Administrative expenses	(43,268)	(44,821)	(3%)
Finance costs	(9,106)	(6,236)	46%
Profit before income tax	3,015	15,375	(80%)
Income tax expense	(610)	(2,099)	(71%)
Profit for the period	2,405	13,276	(82%)
Other comprehensive income:			
Exchange differences on translation of foreign operations	207	(544)	138%
Total comprehensive income attributable to:			
Owners of the Company	2,612	12,732	(79%)

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

	Group Jan-Jun 2018 RMB'000	Group Jan-Jun 2017 RMB'000
Sales of raw materials, samples or moulds	(1,643)	(677)
Interest income	(220)	(263)
Rental income	(168)	(118)
Government grants	(2,139)	(1,515)
Foreign currency exchange loss	550	498
Loss on disposal of property, plant and equipment	313	119
Depreciation on property, plant and equipment	31,236	26,771
Amortisation of prepaid lease payments	539	712
R&D expenses	15,235	15,557
Reversal of allowance for doubtful debts	-	(31)
Reversal of allowance for allowance for inventories	-	(240)

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
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current assets:</u>				
Cash and bank balances	106,060	115,381	1,234	535
Fixed deposits	7,595	13,999	-	-
Trade receivables	146,544	169,151	-	-
Other receivables and prepayments	28,678	27,947	1,304	1,305
Inventories	91,992	75,170	-	-
Total current assets	380,869	401,648	2,538	1,840
<u>Non-current assets:</u>				
Investment in subsidiaries	-	-	465,933	465,933
Property, plant and equipment	545,674	536,652	-	-
Investment property	444	452	-	-
Prepaid lease payments	58,510	59,049	-	-
Deferred tax assets	1,450	1,450	-	-
Total non-current assets	606,078	597,603	465,933	465,933
Total assets	986,947	999,251	468,471	467,773

	Group	Group	Company	Company
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current liabilities:</u>				
Trade payables	112,177	120,306	-	-
Other payables	30,689	32,595	20,769	14,041
Bank borrowings	160,965	184,143	-	-
Current income tax payable	3,488	138	-	-
Deferred government subsidy	916	916	-	-
Total current liabilities	308,235	338,098	20,769	14,041
<u>Long-term liabilities:</u>				
Bank borrowings	103,750	97,433	-	-
Financial lease payables	9,842	-	-	-
Deferred tax liabilities	1,000	1,000	-	-
Deferred government subsidy	13,155	13,155	-	-
Total long-term liabilities	127,747	111,588	-	-
<u>Capital and reserves:</u>				
Share capital	230,593	230,593	230,593	230,593
Capital contribution	12,639	12,639	-	-
Statutory reserves	56,292	56,292	-	-
Foreign currency translation account	(2,905)	(3,112)	-	-
Retained earnings	254,346	253,153	217,109	223,139
Total equity	550,965	549,565	447,702	453,732
Total liabilities and shareholders' equity	986,947	999,251	468,471	467,773

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

Amount repayable in one year or less, or on demand

As at 30/06/2018		As at 31/12/2017	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
160,965	-	184,143	-

Amount repayable after one year

As at 30/06/2018		As at 31/12/2017	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
103,750	-	97,433	-

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 2018 RMB'000	Group Jan-Jun 2017 RMB'000
<u>Cash flows from operating activities</u>		
Profit before income tax	3,015	15,375
Adjustments for:		
Depreciation of property, plant and equipment	31,236	26,771
Depreciation of investment property	9	9
Amortisation of prepaid lease payments	539	712
Interest income	(220)	(263)
Interest expense	9,106	6,236
Unrealised foreign currency exchange loss	559	865
Reversal of write-down of inventories	-	(240)
Reversal of allowance for impairment of trade receivables	-	(31)
Loss on disposal of property, plant and equipment	313	119
Operating profit before working capital changes	44,557	49,553
Working capital changes:		
Trade receivables	22,772	(16,409)
Other receivables, deposits and prepayments	(564)	2,101
Inventories	(16,802)	1,452
Trade payables	(7,940)	11,546
Other payables	(1,856)	(853)
Cash generated from operations	40,167	47,390
Income tax paid	2,754	(3,930)
Net cash from operating activities	42,921	43,460
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(40,775)	(32,928)
Proceeds from sale of property, plant and equipment	204	543
Net cash used in investing activities	(40,571)	(32,385)

	Group Jan-Jun 2018 RMB'000	Group Jan-Jun 2017 RMB'000
<u>Cash flows from financing activities</u>		
Interest paid	(9,106)	(6,236)
Interest received	220	263
Proceeds from bank borrowings	113,768	89,199
Repayments of bank borrowings	(131,464)	(116,135)
Increase in pledged fixed deposits	6,403	(4,456)
Finance lease payables	9,842	-
Dividends paid	(1,212)	(4,168)
Net cash used in financing activities	(11,549)	(41,533)
Decrease in cash and cash equivalents	(9,199)	(30,458)
Cash and cash equivalents at the beginning of the financial period	115,381	106,690
Effect of foreign exchange rate changes on cash and cash equivalents in foreign currencies	(122)	(296)
Cash and cash equivalents at the end of the financial period (Note A)	106,060	75,936
 Note A: Cash and Cash Equivalents	 30.06.2018 RMB'000	 30.06.2017 RMB'000
Cash and bank balances	113,655	88,295
Less: Fixed deposits pledged	(7,595)	(12,359)
Cash and cash equivalents at the end of the financial period	106,060	75,936

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 1.1.2017	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
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

	Issued Capital	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000
The Company			
Balance as at 1.1.2017	230,593	213,088	443,681
Cash dividends	-	(4,168)	(4,168)
Total comprehensive loss for the period	-	11,123	11,123
Balance as at 30.06.2017	<u>230,593</u>	<u>220,043</u>	<u>450,636</u>
Balance as at 1.1.2018	230,593	223,139	453,732
Cash dividends	-	(1,212)	(1,212)
Total comprehensive income 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>

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 2018	31 December 2017
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 2017.

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 December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)). Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 1 January 2018.

The Group has adopted the new SFRS (I) framework in 2018 and concurrently applied the following SFRS(I)s, interpretations of SFRS(I) and requirements of SFRS (I) which are mandatorily effective from 1 January 2018.

The adoption of the new financial reporting framework has no material impact to the Group's and the Company's financial statements in the year of initial application.

- SFRS(I) 1 First-time adoption of Singapore Financial Reporting Standards (International).
- SFRS(I) 15 Revenue from Contracts with Customers which includes the clarifications to IFRS 15 Revenue from Contracts with Customers issued by the IASB in April 2016.
- SFRS(I) 9 Financial Instruments which includes the amendments to IFRS 4 insurance contracts – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts issued by the IASB in September 2016.

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	Group
	Jan-Jun 2018	Jan-Jun 2017
	RMB	RMB
Earnings per ordinary share for the period based on net profit attributable to shareholders (RMB):	0.04	0.18

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 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RMB	RMB	RMB	RMB
Net asset value (NAV) per ordinary share (RMB)	7.84	7.82	6.37	6.45

The NAV per share as at 30 June 2018 was calculated based on the number of shares in issue of 70,319,164 shares (31 December 2017: 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 decreased by RMB6.6 million from RMB349.7 million in the first half of FY2017 to RMB343.1 million in the first half of FY2018.

Sales of rigid packaging increased by RMB13.7 million (7%) from RMB205.6 million in the first half of FY2017 to RMB219.3 million in the first half of FY2018 whilst sales of flexible packaging decreased by RMB20.3 million (14%) from RMB144.1 million in the first half of FY2017 to RMB123.8 million in the first half of FY2018. This was mainly due to the decline of market demand in the midst of uncertain economic conditions.

Gross Profit

The Group's gross profit decreased by RMB9.7 million (12%) to RMB72.8 million for the first half of FY2018 compared to RMB82.5 million in the previous corresponding period. The gross profit margin decreased by 3 percentage points to 21% for the first half of FY2018 compared to 24% in the first half of FY2017.

The gross profit margin decreased mainly due to the increase in the purchase price of raw materials, labour costs, and depreciation costs of property, plant and equipment.

Other operating income

Other operating income increased by RMB1.7 million to RMB4.4 million for the first half of FY2018 compared to RMB2.7 million in the previous corresponding period.

This change was mainly due to:

- a) Increase in sales of raw materials, samples and moulds by RMB1.0 million; and
- b) Increase in government grants by RMB0.6 million.

Profit before Income Tax

The Group's net profit before income tax decreased by RMB12.4 million (81%) to RMB3.0 million in the first half of FY2018 compared to RMB15.4 million for the previous corresponding period.

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

- Gross profit decreased by RMB9.7 million as mentioned above;
- Other operating income increased by RMB1.7 million as mentioned above;
- Distribution expenses increased by RMB3.1 million mainly due to the increase in freight charges by RMB1.5 million and the increase in staff salaries by RMB1.2 million;
- Administrative expenses decreased by RMB1.6 million mainly due to the decrease in duty and levy charges during the period; and
- Finance costs increased by RMB2.9 million due to the increase in bank borrowings interest rates during the current period as compared to the previous corresponding period.

Income Tax

Income tax expense decreased by RMB1.5 million mainly due to the decrease in profit for the period.

Current Assets

Current assets decreased by RMB20.8 million when compared to the end of FY2017. This was mainly due to the following:

- a) Cash and bank balances and fixed deposits decreased by RMB15.7 million;
- b) Trade receivables decreased by RMB22.6 million which was mainly due to improved collection;

- c) Inventories increased by RMB16.8 million mainly due to the strategic purchasing for raw materials;
- d) Other receivables and prepayments increased by RMB0.7 million mainly due to the increase of advance from customers.

Non-Current Assets

Non-current assets increased by RMB8.5 million to RMB606.1 million from RMB597.6 million mainly due to the increase in property, plant and equipment by RMB9.0 million.

Current Liabilities

Current liabilities decreased by RMB29.9 million (9%) from RMB338.1 million to RMB308.2 million mainly due to the following:

- Trade payables decreased by RMB8.1 million due to earlier settlement of payments to suppliers;
- Other payables decreased by RMB1.9 million; and
- Short-term bank borrowing decreased by RMB23.2 million due to the repayment of the bank borrowings.

Long-Term Liabilities

Long-term liabilities increased by RMB16.1 million (14%) from RMB111.6 million to RMB127.7 million mainly due to the following:

- Long-term bank borrowing increase by RMB6.3 million; and
- Finance lease payables increase by RMB9.8 million.

The Consolidated Statement of Cash Flows

In the first half of FY2018, the net cash inflow in operating activities of the Group amounted to RMB52.8 million as compared with RMB43.5 million in the first half of FY2017 mainly due to the following:

- a) Cash generated from trade receivables decreased by RMB39.2 million due to decrease in revenue.
- b) Cash used for other receivables and prepayments increased by RMB2.7 million.
- c) Cash used for inventories increased by RMB18.3 million.
- d) Cash generated from income tax paid decreased by RMB6.7 million.
- e) Cash used for trade payables increased by RMB19.5 million.
- f) Cash used for other payables increased by RMB1.0 million.

The Group recorded a net cash outflow in financing activities amounting to RMB11.5 million in the first half of FY2018 as compared with RMB41.5 million in the last corresponding period of FY2017. 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 2018 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.

The Group's revenue has decreased by 2%, the overall profitability has been affected by increase 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. If the group has obtained a general mandate from shareholders for Interested Person Transactions ("IPT"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Company has not obtained a general mandate from shareholders for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

The IPTs entered into by the Company or the Group during the financial period ended 30 June 2018 are as follows:

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 2018	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 2018
Guangdong Xing Hua Health Drink Co., Ltd ⁽¹⁾	RMB832,470 (S\$173,464)	-
Foshan Unibott Technology Limited ⁽²⁾	RMB3,023,152 (S\$629,941)	-

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 2018 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
14 August 2018