

Southern Packaging Group Limited

Unaudited Half Year Financial Statements for the Period Ended 30 June 2020

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2), 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 2020 RMB'000	Group Jan-Jun 2019 RMB'000	Change
Revenue	259,127	323,433	(19.9%)
Cost of sales	(206,060)	(255,329)	(19.3%)
Gross profit	53,067	68,104	(22.1%)
Gross profit margin	20.5%	21.1%	
Other operating income	4,688	4,836	(3.1%)
Distribution expenses	(17,244)	(19,996)	(13.8%)
Administrative expenses	(39,019)	(42,421)	(8%)
Finance costs	(7,907)	(9,039)	(12.5%)
(Loss)/Profit before income tax	(6,415)	1,484	NM
Income tax credit/(expense)	1,333	(480)	NM
(Loss)/Profit for the period	(5,082)	1,004	NM
Other comprehensive income:			
Exchange differences on translation of foreign operations	23	175	(86.9%)
Total comprehensive (Loss)/income attributable to:	(5,059)	1,179	NM
Owners of the Company			

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

	Group	Group
	Jan-Jun 2020	Jan-Jun 2019
	RMB'000	RMB'000
Sales of raw materials	(1,700)	(1,953)
Interest income	(678)	(218)
Government grants	(2,314)	(2,368)
Foreign currency exchange loss	218	826
Depreciation on property, plant and equipment	33,354	33,928
Amortisation of prepaid lease payments	606	606
R&D expenses	14,919	15,182

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
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current assets:</u>				
Cash and cash equivalents	120,261	128,811	2,560	1,022
Trade receivables	130,884	163,354	-	-
Other receivables and prepayments	38,955	39,979	1,306	1,306
Inventories	83,413	70,715	-	-
Property under development	198,109	170,696	-	-
Total current assets	571,622	573,555	3,866	2,328
<u>Non-current assets:</u>				
Investment in subsidiaries	-	-	465,933	465,933
Property, plant and equipment	485,568	498,088	-	-
Investment property	409	418	-	-
Prepaid lease payments	38,368	40,791	-	-
Right of use assets	2,682	2,682	-	-
Deferred tax assets	4,191	4,191	-	-
Total non-current assets	531,218	546,170	465,933	465,933
Total assets	1,102,840	1,119,725	469,799	468,261

	Group	Group	Company	Company
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Current liabilities:</u>				
Trade payables	97,521	123,861	-	-
Other payables	37,005	37,969	40,728	34,359
Borrowings	258,486	240,494	-	-
Current income tax payable	4,689	5,697	-	-
Deferred government subsidies	1,139	1,139	-	-
Lease liabilities	2,742	2,742	-	-
Total current liabilities	401,582	411,902	40,728	34,359
<u>Non-current liabilities:</u>				
Deferred government subsidies	12,851	12,851	-	-
Borrowings	135,750	137,257	-	-
Deferred tax liabilities 递延负债	1,000	1,000	-	-
Total non-current liabilities 非流动 负债合计	149,601	151,108	-	-
<u>Equity:</u>				
Share capital 股本	230,593	230,593	230,593	230,593
Capital contribution 基本公积	12,639	12,639	-	-
Statutory reserves 法定公积	57,675	57,675	-	-
Foreign currency translation account 汇兑	(1,727)	(1,750)	-	-
Retained earnings 未分配利润	252,477	257,558	198,478	203,309
Total equity 权益合计	551,657	556,715	429,071	433,902
Total liabilities and equity	1,102,840	1,119,725	469,799	468,261

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

Amount repayable in one year or less, or on demand

As at 30/06/2020		As at 31/12/2019	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
258,486	-	240,494	-

Amount repayable after one year

As at 30/06/2020		As at 31/12/2019	
RMB'000		RMB'000	
Secured	Unsecured	Secured	Unsecured
105,750	30,000	107,257	30,000

Details of any collateral

The bank loans are secured as follows:

- (a) Secured by property, plant and machinery, prepaid lease payments, investment property and pledged fixed deposits;
- (b) Corporate guarantees by the Company and 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 2020 RMB'000	Group Jan-Jun 2019 RMB'000
<u>Cash flows from operating activities</u>		
(Loss)/Profit before income tax	(6,415)	1,484
Adjustments for:		
Depreciation of property, plant and equipment	33,354	33,928
Depreciation of investment property	9	9
Amortisation of prepaid lease payments	606	606
Interest income	(678)	(218)
Interest expense	7,907	9,039
Unrealised foreign currency exchange loss	218	826
Gain on disposal of property, plant and equipment	-	(983)
Operating profit before working capital changes	35,001	44,691
Working capital changes:		
Property under development	(27,413)	(48,691)
Trade receivables	32,470	25,661
Other receivables, deposits and prepayments	1,024	2,262
Inventories	(12,698)	(7,815)
Trade payables	(26,340)	(12,757)
Other payables	(964)	2,605
Cash generated from operations	1,080	5,956
Income tax paid	(4,516)	(3,995)
Net cash (used in)/generated from operating activities	(3,436)	1,961
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(14,795)	(37,975)
Proceeds from sale of property, plant and equipment	-	80
Net cash used in investing activities	(14,795)	(37,895)

	Group Jan-Jun 2020 RMB'000	Group Jan-Jun 2019 RMB'000
<u>Cash flows from financing activities</u>		
Interest paid	(7,907)	(9,039)
Interest received	678	218
Proceeds from bank borrowings	174,369	199,155
Repayments of bank borrowings	(157,030)	(156,537)
decrease in pledged fixed deposits	1,322	10,960
Net cash generated from financing activities	11,432	44,757
(Decrease)/Increase in cash and cash equivalents	(6,799)	8,823
Cash and cash equivalents at the beginning of the financial period	126,319	66,475
Effect of foreign exchange rate changes on cash and cash equivalents in foreign currencies	-	-
Cash and cash equivalents at the end of the financial period (Note A)	119,520	75,298
 Note A: Cash and Cash Equivalents	 30.06.2020 RMB'000	 30.06.2019 RMB'000
Cash and bank balances	120,261	76,590
Less: Fixed deposits pledged	(741)	(1,292)
Cash and cash equivalents at the end of the financial period	119,520	75,298

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 1.1.2019	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	-	-	-	1,004	175	1,179
Cash dividends	-	-	-	-	-	-
Balance as at 30.06.2019	230,593	56,937	12,639	250,075	(2,099)	548,145
Balance as at 1.1.2020	230,593	57,675	12,639	257,559	(1,750)	556,716
Profit for the financial year	-	-	-	(5,082)	-	(5,082)
Other comprehensive income for the financial year						
- Exchange differences on translation of foreign operations	-	-	-	-	23	23
Total comprehensive income for the financial year	-	-	-	(5,082)	23	(5,059)
Cash dividends	-	-	-	-	-	-
Balance as at 30.06.2020	230,593	57,675	12,639	252,477	(1,727)	551,657

	Issued Capital RMB'000	Retained earnings RMB'000	Total RMB'000
The Company			
Balance as at 1.1.2019	230,593	212,638	443,231
Cash dividends	-	-	-
Total comprehensive loss 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>
Balance as at 1.1.2020	230,593	203,309	433,902
Cash dividends	-	-	-
Total comprehensive loss for the period	-	(4,831)	(4,831)
Balance as at 30.06.2020	<u>230,593</u>	<u>198,478</u>	<u>429,071</u>

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, subdivision, consolidation, 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, if any, against the total number of issued shares excluding treasury shares and subsidiary holding 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 2020	31 December 2019
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.

1(d)(v) A statement showing all sales, transfers, 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 not been audited or reviewed by the Company's auditor.

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

Not applicable.

3A. Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion:

(a) Updates on the efforts taken to resolve each outstanding audit issue.

(b) Confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.

This is not required for any audit issue that is material uncertainty relating to going concern.

Not applicable as the Group's latest financial statements are not subject to an adverse opinion, qualified opinion or disclaimer of opinion.

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 reporting period as compared with those used in the audited financial statements for the year ended 31 December 2019.

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 (International) ("SFRS(I)s") and Interpretations of SFRS(I)s that are relevant to its operations and effective for annual periods beginning on or after 1 January 2020. The adoption of these new/revised SFRS(I)s 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 2020 RMB	Group Jan-Jun 2019 RMB
(Loss)/Earnings per ordinary share for the period based on		
net profit attributable to shareholders (RMB):	(0.07)	0.02

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 the total number of issued shares excluding treasury shares of the issuer at the end of the (a) current financial period reported on; and (b) immediately preceding financial year.

	Group 30 Jun 2020 RMB	Group 31 Dec 2019 RMB	Company 30 Jun 2020 RMB	Company 31 Dec 2019 RMB
Net asset value (NAV) per ordinary share (RMB)	7.85	7.92	6.1	6.17

The NAV per share as at 30 June 2020 was calculated based on the number of shares in issue of 70,319,164 shares (31 December 2019: 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. It 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) seasonal 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 Group Performance

Revenue

The Group's revenue decreased by RMB64.3 million (19.9%) from RMB323.4million in the first half of FY2019 to RMB259.1 million in the first half of FY2020.

Sales of rigid packaging decreased by RMB43.6 million (20.2%) from RMB215.5 million in the first half of FY2019 to RMB171.9 million in the first half of FY2020. The sales of flexible packaging decreased by RMB20.7 million (19.2%) from RMB107.9 million in the first half of FY2019 to RMB87.2 million in the first half of FY2020. This is because the Chinese economy suffered a complete standstill due to the COVID-19 lockdown in the first half of FY2020. The Group's results, too, were affected by the lockdown.

Gross Profit

The Group's gross profit decreased by RMB15 million (22%) to RMB53.1 million for the first half of FY2020 compared to RMB68.1 million in the previous corresponding period. The gross profit margin decreased slightly from 21% in the first half of FY2019 to 20.5% in the first half of FY2020.

The gross profit decreased mainly due to the decrease in sales revenue as explained above. The gross profit margin decreased due to the increase in fixed factory overhead unit costs coupled with the decrease in sales orders, but it is partly offset by the decrease in raw material cost.

Other operating income

Other operating income decreased by RMB0.1 million to RMB4.7 million for the first half of FY2020 compared to RMB4.8 million in the previous corresponding period mainly due to decrease in sales of raw materials.

(Loss)/Profit before Income Tax

The Group's net (loss)/profit before income tax decreased by RMB7.9 million to a loss of RMB6.4 million in the first half of FY2020 compared to a profit of RMB1.5 million for the previous corresponding period.

The change in (loss)/profit before income tax was mainly due to:

- Gross profit decreased by RMB15 million as mentioned above;
- Other operating income decreased by RMB0.1 million as mentioned above;
- Distribution expenses decreased by RMB2.8 million mainly due to the strict control of sales staff expenses and the decrease in freight charges;
- Administrative expenses decreased by RMB3.4 million mainly due to the management's effort to control the daily operating expense and the decrease in duty and levy during the period;
- Finance costs decreased by RMB1.1 million mainly because the Group entered the list of national key epidemic prevention enterprises and obtained some preferential policy loans in the first quarter of FY2020.

Income Tax credit/(expense)

Income tax credit/(expense) decreased by RMB1.78 million mainly due to the loss incurred for the period.

Current Assets

Current assets decreased by RMB2 million when compared to the end of FY2019. This was mainly due to the following:

- a) Cash and bank balances decreased by RMB8.6 million;
- b) Trade receivables decreased by RMB32.4 million which was mainly due to improved collection and decrease in sales;
- c) Inventories increased by RMB12.7 million due to the delay of the customers' delivery plans caused by the covid-19 lockdown;
- d) Property under development increased by RMB27.4 million due to the construction costs incurred for APEX tower during the period; and
- e) Other receivables and prepayments decreased by RMB1 million.

Non-Current Assets

Non-current assets decreased by RMB15 million to RMB531.2 million from RMB546.2 million mainly due to the decrease of new investments in property, plant and equipment.

Current Liabilities

Current liabilities decreased by RMB10.2 million from RMB411.8 million to RMB401.6 million mainly due to the following:

- Trade payables decreased by RMB26.4 million mainly due to the decrease in purchase volumes following the decrease in sales orders;
- Other payables decreased by RMB1 million;
- Short-term bank borrowing increased by RMB18 million mainly due to the preferential policy loans obtained during the period;
- Current income tax payable decreased by RMB1 million.

Long-Term Liabilities

Long-term liabilities decreased by RMB1.6 million (1%) from RMB151.2 million to RMB149.6 million mainly due to decrease in long term borrowings.

The Consolidated Statement of Cash Flows

In the first half of FY2020, the net cash outflow in operating activities of the Group amounted to RMB3.4 million as compared with RMB2 million cash inflow in the first half of FY2019 mainly due to the following:

- a) Cash generated from operating profit decreased by RMB9.7 million.
- b) Cash used for property under development decreased by RMB21.3 million.
- c) Cash used for inventories increased by RMB4.9million.
- d) Cash used for trade payable increased by RMB13.6 million.
- e) Cash generated from trade receivables increased by RMB6.8 million.

The Group recorded a net cash inflow in financing activities amounting to RMB11.4 million in the first half of FY2020 as compared with RMB44.8 million inflows in the last corresponding period of FY2019. It was mainly due to bank borrowing.

The net cash used in investing activities had decreased in the first half of FY2020 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 persistence of the global pandemic and the tension of the international situation had a negative impact on the current economic conditions. The Group's performance is also affected. The Group faced challenges caused by lower demand from customers for existing products.

The Group will work to meet the challenge by continuing to develop new products based on customer needs and accelerate new products development schedule. At the same time, we will optimise the cost of key existing products and review the internal control processes in order to maintain our competitiveness.

The Apex Tower is in progress and is expected to complete construction in FY2021. Barring unforeseen circumstances the project will enter the sales phase in the fourth quarter of FY2020.

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 and the reason(s) for the decision

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

13. If the Group has obtained a general mandate from shareholders for IPTs, 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 (“IPTs”) pursuant to Rule 920 of the Listing Manual.

The IPTs entered into by the Company or the Group during the financial period 30 June 2020 were 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 2020	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 2020
Guangdong Xing Hua Health Drink Co., Ltd ⁽¹⁾	RMB916,470 (S\$181,875)	-
Foshan Unibott Technology Limited ⁽²⁾	RMB919,801 (S\$182,536)	-

Notes:

- (1) Rental payment to Guangdong Xing Hua Health Drink Co. Ltd, an associate of Pan Shun Ming (Executive Chairman, CEO and Substantial Shareholder) and Mai Shu Ying (Substantial Shareholder), for factory occupied by Foshan Southern Packaging Co., Ltd., a wholly-owned subsidiary of the Company.
- (2) Supply of products by Foshan Southern Packaging Co., Ltd. to Foshan Unibott Technology Limited, an associate of Pan Zhaojin, a substantial shareholder of the Company.

14. Negative Assurance Confirmation pursuant to Rule 705(5). (Not required for announcement on full year results)

The Board of Directors confirms that to the best of its knowledge, nothing has come to the attention of the Board which may render the half year ended 30 June 2020 unaudited financial results to be false or misleading in any material respect.

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

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

BY ORDER OF THE BOARD

Mr Pan Shun Ming
Executive Chairman and Chief Executive Officer
August 13, 2020