



SOUTHERN PACKAGING GROUP LIMITED
(Company Registration No.: 200313312N)
(Incorporated in Singapore on 30 December 2003)

**THE PROPOSED DISPOSAL OF 35.0% OF THE REGISTERED AND PAID-UP CAPITAL OF
FOSHAN ENERGETIC FILM CO., LTD.**

1. INTRODUCTION

The board of directors ("**Board**" or "**Directors**") of Southern Packaging Group Limited ("**Company**", and together with its subsidiaries, "**Group**") wishes to announce that Foshan Southern Packaging Co., Ltd ("**Vendor**"), a wholly-owned subsidiary of the Company, and Energetic Holdings Limited ("**Purchaser**"), a company incorporated in Hong Kong which is wholly owned by the Executive Chairman and Chief Executive Officer ("**CEO**") of the Company Mr. Pan Shun Ming and his spouse the Executive Director of the Company Mdm. Mai Shu Ying, had on 22 March 2016 entered into a conditional sale and purchase agreement ("**SPA**"), for the sale and disposal by the Vendor of 35.0% of the registered and paid-up capital ("**Sale Shares**") of Foshan Energetic Film Co., Ltd. ("**FEF**"), for a purchase consideration of RMB7,881,700 ("**Purchase Consideration**"), on the terms and subject to the conditions of the SPA ("**Proposed Disposal**"). Upon completion of the Proposed Disposal, FEF will cease to be an associated company of the Company.

2. DETAILS OF THE PROPOSED DISPOSAL

2.1 Information relating to Foshan Energetic Film Co., Ltd.

FEF is a private limited liability company incorporated under the laws of the People's Republic of China ("**PRC**") on 7 August 2003 as a foreign invested enterprise. As at the date of this announcement, FEF has a registered and paid-up capital of US\$25 million. The Group's total investment in FEF is US\$8.75 million, which represents 35.0% of the registered and paid-up capital of FEF.

FEF specialises in the production of BOPET films. BOPET films are light-weight, non-toxic, odourless, transparent, glossy, high temperature and moisture-resistant, and retains high dielectric strength and volume resistance even at high temperatures. As such, BOPET films are widely used for:

- (a) flexible printing and packaging of consumer products in the food, pharmaceutical, cosmetics, tobacco and alcohol industries;
- (b) electrical insulation in the electrical and electronic industries, such as wire and cable wrap, capacitors and motor insulation; and
- (c) production of various magnetic products, such as audio and video tapes.

FEF targets higher-end thick BOPET film users in the computing, electronics and electrical industries as well as other specialised industrial applications. Its targeted customer groups

are principally multi-national corporations, Sino-foreign joint ventures and major listed companies operating in the PRC.

2.2 Information on the Purchaser

The Purchaser is a company incorporated in Hong Kong and its principal activities are in investment holding. As at the date of this announcement:

- (a) Mr. Pan Shun Ming, the Executive Chairman, CEO and controlling shareholder of the Company, has an investment of 51.0% of the registered and paid-up capital of the Purchaser;
- (b) Mdm. Mai Shu Ying, the spouse of Mr. Pan Shun Ming and Executive Director and controlling shareholder of the Company, has an investment of 49.0% of the registered and paid-up capital of the Purchaser; and
- (c) The directors of the Purchaser are Mr. Pan Shun Ming and Mdm. Mai Shu Ying.

2.3 Rationale for the Proposed Disposal

Since its acquisition of FEF in February 2010, the Company has been suffering consistent losses on its investment. For instance, FEF accounted for approximately 109.2% of the loss of the Group in FY2014 and approximately 54.8% of the loss of the Group in FY2013. Despite multiple attempts to improve the performance of FEF, FEF still remains in a loss-making position.

Further, the loss positions in FEF over the years have also resulted in the lack of resources to continue developing key technologies and expertise to develop new customer bases, which has had an impact on the competitive advantage of the firm. As several key management personnel have also left FEF since the Company's acquisition, the likelihood of achieving those strategic objectives previously set out during acquisition, such as acquiring new technology that will diversify the Company's product offerings, remains relatively low,

Finally, market conditions for BOPET films have been increasingly challenging, as overinvestments in the BOPET film industry continue to put significant pressure on film pricing and changes in governmental environmental policies dampen the demand for BOPET films. Given its poor performance since incorporation, FEF has also been unable and is unlikely, going forward, to raise additional capital.

In view of the persistently weak financial performance of FEF and the challenging market conditions it faces, the Board believes that continued investment in FEF is unlikely to provide any positive returns in the foreseeable future. After careful consideration, the Board is of the opinion that the Purchase Consideration is fair and reasonable and that the Proposed Disposal is in the best interest of the Group. In particular, the Proposed Disposal will enable the Company to:

- (a) dispose of an underperforming asset for valuable consideration;
- (b) rationalise its financial and capital resources;
- (c) focus on its profitable operations and other business initiatives;
- (d) strengthen its balance sheet; and
- (e) improve the overall financial position of the Group.

2.4 Valuation of FEF

2.4.1 Book value of Sale Shares

As at 29 February 2016, the book value of the Sale Shares is RMB7,881,700.

2.4.2 *Net tangible asset (“NTA”) value of Sale Shares*

As at 29 February 2016, the NTA value of the Sale Shares is RMB7,881,700.

2.4.3 *Valuation of Sale Shares based on Valuation Report*

On 15 January 2016, the Company commissioned Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“**Valuer**”) to perform a valuation of the Sale Shares. The valuation of the Sale Shares based on the valuation report prepared by the Valuer (“**Valuation Report**”) will be announced by the Company in due course.

3. TERMS OF THE PROPOSED DISPOSAL

3.1 Salient terms of the SPA

3.1.1 *Conditions precedent*

The Proposed Disposal is conditional on *inter alia* the following:

- (a) approval by the shareholders of the Company at an extraordinary general meeting; and
- (b) all necessary consents, approvals or clearances for the Proposed Disposal being granted by the relevant PRC governmental or regulatory authorities prior to the date of completion.

3.1.2 *Purchase consideration*

The Purchase Consideration for the Proposed Disposal is RMB7,881,700, which was arrived at on a willing-buyer willing-seller basis, after taking into account, *inter alia*, the following:

- (a) the Vendor’s legal and beneficial interest in 35.0% of the registered and paid-up capital of FEF
- (b) the rapid and persistent decline in the net tangible asset value of FEF;
- (c) the past and current loss-making positions of FEF; and
- (d) the consideration of S\$794,676 for the sale of the investment representing 16.0% of the registered and paid-up capital of FEF by GSI Creos Corp. (“**GSI**”) (a publicly listed company on the Tokyo Stock Exchange which held a minority stake in FEF). The sale and purchase transaction between GSI and the purchaser was completed on 10 June 2015. The Purchase Consideration was formulated based on the same pricing methodology as that used for the GSI sale.

The Purchase Consideration shall be wholly satisfied in cash and shall be payable by the Purchaser to the Vendor by way of a bank transfer to the Vendor’s designated bank account.

3.2 Proceeds and use of proceeds from the Proposed Disposal

The Group estimates that there will be proceeds of approximately RMB7,881,700 from the Proposed Disposal. The proceeds from the Proposed Disposal represents no deficit over the book value of the Sale Shares which is RMB7,881,700 as at 29 February 2016.

The Group intends to utilise the proceeds as general working capital for ongoing operational expenses. Pending the deployment of the unutilised proceeds for the purposes mentioned above, such proceeds may be deposited with banks and/or financial institutions, invested in short term money markets and/or marketable securities, or used for any other purpose on a short term basis, as the Directors may deem appropriate in the interests in the Group.

3.3 Expected Completion

Completion of the Proposed Disposal is expected to take place within five (5) business days from the fulfilment of all the conditions precedent as mentioned above or such other date as may be agreed between the Vendor and the Purchaser in writing.

4. THE PROPOSED DISPOSAL AS AN INTERESTED PERSON TRANSACTION

4.1 Entity at risk under Chapter 9 of the Listing Manual

Under Rule 904(2)(b) of the Listing Manual, an “entity at risk” includes “a subsidiary of the issuer that is not listed on the SGX-ST or an approved exchange”. Hence, the Vendor which is a wholly-owned subsidiary of the Company is an entity at risk.

4.2 Interested person under Chapter 9 of the Listing Manual

Under Rule 904(4)(a) of the Listing Manual, in the case of a company, “interested person” means “(i) a director, chief executive officer, or controlling shareholder of the issuer; or (ii) an associate of any such director, chief executive officer, or controlling shareholder.”

As at the date of this announcement:

- (a) Mr. Pan Shun Ming, the Executive Chairman, CEO and controlling shareholder of the Company, has an investment of 51.0% of the registered and paid-up capital of the Purchaser; and
- (b) Mdm. Mai Shu Ying, the spouse of Mr. Pan Shun Ming and Executive Director and controlling shareholder of the Company, has an investment of 49.0% of the registered and paid-up capital of the Purchaser.

Based on the above, Mr. Pan Shun Ming and Mdm. Mai Shu Ying are interested persons in relation to the Company. As the Purchaser is an associate of Mr. Pan Shun Ming and Mdm. Mai Shu Ying within the definition in the Listing Manual, the Purchaser is also regarded as an interested person.

4.3 Interested person transaction under Chapter 9 of the Listing Manual

Under Rule 904(5) of the Listing Manual, an “interested person transaction” means a transaction between an entity at risk and an interested person. The Proposed Disposal which comprises the sale and disposal by the Vendor of the Sale Shares comprising 35.0% of the registered and paid-up capital of FEF to the Purchaser is therefore an interested person transaction within the definition in the Listing Manual.

4.4 Materiality threshold under Chapter 9 of the Listing Manual

The Purchase Consideration of RMB7,881,700 represents approximately 1.75% of the latest audited consolidated NTA of the Group of RMB451,217,254 (the “**2014 Group NTA**”), disclosed as shareholder equity in the audited consolidated financial statements of the Group for the financial year ended 31 December 2014 (“**FY2014**”).

Further, disregarding transactions below \$100,000 in accordance with Rules 905(3) and 906(2) of the Listing Manual, the aggregate value of all transactions entered into between (i) the Company, its subsidiaries and its associated companies and (ii) Mr. Pan Shun Ming,

Mdm. Mai Shu Ying and/or their associates during the financial year ending 31 December 2016 is RMB9,424,492 (inclusive of the Purchase Consideration for the Proposed Disposal), which is 2.09% of the 2014 Group NTA. The following table shows a breakdown of these transactions during the financial year ending 31 December 2016:

Date	Transaction detail	Entities at risk	Same interested persons	Amount (in foreign currency)	Amount (RMB)
1 January 2016	Rental purpose. The consideration was arrived at taking into account market prices, and the rationale is to obtain a stable operating site.	Southern Packaging (HK) Co. Ltd	Pan Shun Ming, Mai Shu Ying	HK\$769,200	644,436
1 January 2016	Rental purpose. The consideration was arrived at taking into account market prices, and the rationale is to obtain a stable operating site.	Foshan Southern Packaging Co. Ltd	GuangDong Xing Hua Health Drink Co. Ltd	-	898,356

The current total for the financial year ending 31 December 2016 of all transactions with Mr. Pan Shun Ming, Mdm. Mai Shu Ying and/or their associates is RMB1,678,754. The current total of all interested person transactions for the same financial year ending 31 December 2016 is RMB1,678,754.

4.5 Ruling by the SGX-ST under Chapter 9 of the Listing Manual

Notwithstanding the materiality threshold under Chapter 9 of the Listing Manual above, in a letter dated 23 December 2015, the SGX-ST informed the Company of its view that the Proposed Disposal should be subject to shareholders' approval (including an opinion from an independent financial adviser ("IFA")) as an interested person transaction.

4.6 Audit Committee

The audit committee of the Company ("Audit Committee") will obtain an opinion from the IFA before forming its view as to whether the Proposed Disposal is on normal commercial terms and is not prejudicial to the interests of the Company and its shareholders. The views of the Audit Committee will be included in the circular to be circulated to shareholders of the Company.

5. THE PROPOSED DISPOSAL AS A MAJOR TRANSACTION

5.1 Relative figures under Chapter 10 of the SGX-ST Listing Manual in relation to the Proposed Disposal

The relative figures for the Proposed Disposal, computed on the bases set out in Rule 1006 the Listing Manual and based on the Company's latest announced unaudited consolidated financial statements for the financial year ended 31 December 2015 are set out below.

RULE 1006	BASES	RELATIVE FIGURE (%)
(a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value.	1.60 ⁽¹⁾
(b)	Net profits attributable to the assets disposed of, compared with the Group's net profits.	(29.68) ⁽²⁾

(c)	Aggregate value of the consideration received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares.	4.02 ⁽³⁾
(d)	Number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	N.A.
(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves.	N.A.

Notes:

- (1) Computed based on the net asset value of 35.0% of FEF of approximately RMB7,881,700 as at 31 December 2015, compared with the Group's net asset value of approximately RMB491,135,105 as at 31 December 2015.
- (2) Computed based on 35.0% of FEF's unaudited loss before tax of approximately RMB15,493,604 for the year ended 2015, compared with the Group's unaudited profit before tax of approximately RMB52,196,720 for the year ended 2015.
- (3) Computed based on the Purchase Consideration of RMB7,881,700 and the market capitalisation of the Company of approximately S\$42,191,498, which is determined by multiplying the issued share capital of the Company of 70,319,164 shares with the weighted average price of such shares of S\$0.60 per share.

Based on the above, the relative figure for the Proposed Disposal, computed on the base set out in Rule 1006(b) of the Listing Manual, exceed 20% but is less than 100%. However, it is a negative figure. Rule 1007(1) of the Listing Manual provides that where any of the relative figures computed pursuant to Rule 1006 is a negative figure, the obligations under Chapter 10 may still be applicable to the transaction at the discretion of the SGX-ST, and issuers are encouraged to consult the SGX-ST. On 21 May 2015, the Company submitted a letter to the SGX-ST to seek clarification and confirmation on whether shareholders' approval is required for the Proposed Disposal.

On 27 August 2015, the Company was informed by the SGX-ST that shareholders' approval would be required for the Proposed Disposal. Following this, the Company is convening an extraordinary general meeting to obtain the approval of shareholders for the Proposed Disposal.

5.2 Financial effects of the Proposed Disposal

5.2.1 *Net profit or loss attributable to the asset being disposed of and amount of gain or loss on disposal*

The net profit or loss attributable to the Sale Shares which is the Company's shareholding in FEF comprising 35.0% of the registered and paid-up capital of FEF based on the latest announced consolidated accounts of the Company is nil as the Sale Shares are categorised as assets held for sale.

Taking into account the Purchase Consideration, there is no gain or loss on disposal.

5.2.2 *NTA per Share*

Assuming that the Proposed Disposal had been effected on 31 December 2015, the effect of the Proposed Disposal on the NTA per share of the Group would be as follows:

	Before Proposed Disposal	After Proposed Disposal
NTA (RMB)	491,135,105	491,135,105
Number of shares	281,276,826	281,276,826
NTA per share (RMB)	1.746	1.746

5.2.3 *Earnings per share (“EPS”)*

Assuming that the Proposed Disposal had been effected on 1 January 2015, the effect of the Proposed Disposal on the EPS of the Group would be as follows:

	Before Proposed Disposal	After Proposed Disposal
Profit (loss) after tax (RMB)	41,389,708	41,389,708
Number of shares	281,276,826	281,276,826
EPS (RMB)	0.147	0.147

6. DIRECTORS’ AND CONTROLLING SHAREHOLDERS’ INTERESTS IN THE PROPOSED DISPOSAL

6.1 Interests of the Directors and Controlling Shareholders in the Proposed Disposal

The Purchaser is wholly owned by Mr. Pan Shun Ming and Mdm. Mai Shu Ying, who are both Directors and controlling shareholders of the Company. Mr. Pan Zhao Jin, who is also a Director of the Company, is the son of Mr. Pan Shun Ming and Mdm. Mai Shu Ying.

6.2 Service Agreements

No new directors are proposed to be appointed to the Board in connection with the Proposed Disposal. As such, no service agreements will be entered into with any new director of the Company in connection with the Proposed Disposal.

7. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SPA for the Proposed Disposal is available for inspection during normal business hours at the Company’s registered office for 3 months from the date of this announcement. A copy of the Valuation Report in respect of the Proposed Disposal will be made available for 3 months from the date of this announcement once it has been issued by the Valuer.

BY ORDER OF THE BOARD

PAN SHUN MING
Executive Chairman
22 March 2016