

百宏實業控股有限公司 BILLION INDUSTRIAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

Stock Code 股份代號: 2299

Interim Report
中期報告 **2013**



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Company Profile

Billion Industrial Holdings Limited (the “Company” or “Billion”, together with its subsidiaries, the “Group”), is the holding company of one of the largest developers and manufacturers of polyester filament yarns in China. The main products of the Group are drawn textured yarn (DTY), fully drawn yarn (FDY) and partially oriented yarn (POY), a majority of which have special physical features and functionalities such as cotton-like fibers, protection against ultraviolet rays, moisture and sweat-absorption, flame-resistant, abrasion-resistant, super-soft, super-shining and antibacterial. The products are widely used in the production of high-end fabrics and textiles for various consumer products, including apparel, footwear and home furnishings. Billion was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 18 May 2011.

As at 30 June 2013, the designed capacity of FDY and POY of the Group was 660,000 tons per year (TPY), while that of DTY was 450,000 TPY. The combined designed capacity of DTY, FDY and POY was 1,110,000 TPY.

In August 2011, Billion started to expand into the production of polyester thin films, and has gradually commenced operation since 2012. It is expected that the designed capacity of polyester thin films production lines will reach 255,000 TPY in 2014.

Mission

We aspire to be the world’s prime supplier of raw materials for consumer products, providing eco-friendly products for people.



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Sze Tin Yau (*Co-chairman*)
Mr. Wu Jinbiao
(*Chief executive officer*)
Mr. Yu Heping
Mr. Xue Mangmang

Non-executive Directors

Mr. Chen Jinen (*Co-chairman*)
Mr. Yang Donghui
Mr. Yang Jun
Mr. Ding Guoqiang
Ms. Ma Yun (appointed
on 31 March 2013)
Mr. Chen Bo (appointed
on 31 March 2013)

Independent

Non-executive Directors

Mr. Yeung Chi Tat
Ms. Zhu Meifang
Mr. Ma Yuliang
Mr. Li Zhi Xian (appointed
on 31 March 2013)
Mr. Lin Jian Ming (appointed
on 31 March 2013)

BOARD COMMITTEES

Audit committee

Mr. Yeung Chi Tat (*Chairman*)
Ms. Zhu Meifang
Mr. Ma Yuliang

Remuneration Committee

Mr. Yeung Chi Tat (*Chairman*)
Mr. Sze Tin Yau
Mr. Ma Yuliang

Nomination Committee

Mr. Sze Tin Yau (*Chairman*)
Mr. Yeung Chi Tat
Ms. Zhu Meifang

Corporate Governance Committee

Mr. Sze Tin Yau (*Chairman*)
Mr. Wu Jinbiao
Mr. Yu Heping
Mr. Xue Mangmang

Company Secretary

Ms. Ng Weng Sin

Authorised Representatives

Mr. Sze Tin Yau
Ms. Ng Weng Sin

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business

Hong Kong:

Unit 1501, Office Tower
Convention Plaza
No. 1 Harbour Road
Wanchai
Hong Kong

PRC:

Fenglin Industrial Zone
Longhu Town
Jinjiang City
Fujian
PRC

Legal Advisers

As to Hong Kong Law:
Orrick, Herrington & Sutcliffe

As to PRC Law:
Tian Yuan Law Firm

Auditors

KPMG

Compliance Adviser

Guotai Junan Capital Limited

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust
Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

China Construction Bank
Corporation
Industrial Bank Co., Ltd.
Agricultural Bank of China
Holdings Limited

Company Website

www.baihong.com

Stock Code

2299

Financial Highlights

For the six months ended 30 June

	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	Change
Operational Results			
Revenue	3,115,537	2,972,444	+4.8%
Gross profit	453,193	612,589	-26.0%
Profit from operations	316,346	503,565	-37.2%
Profit for the period	241,509	393,875	-38.7%

As at 30 June

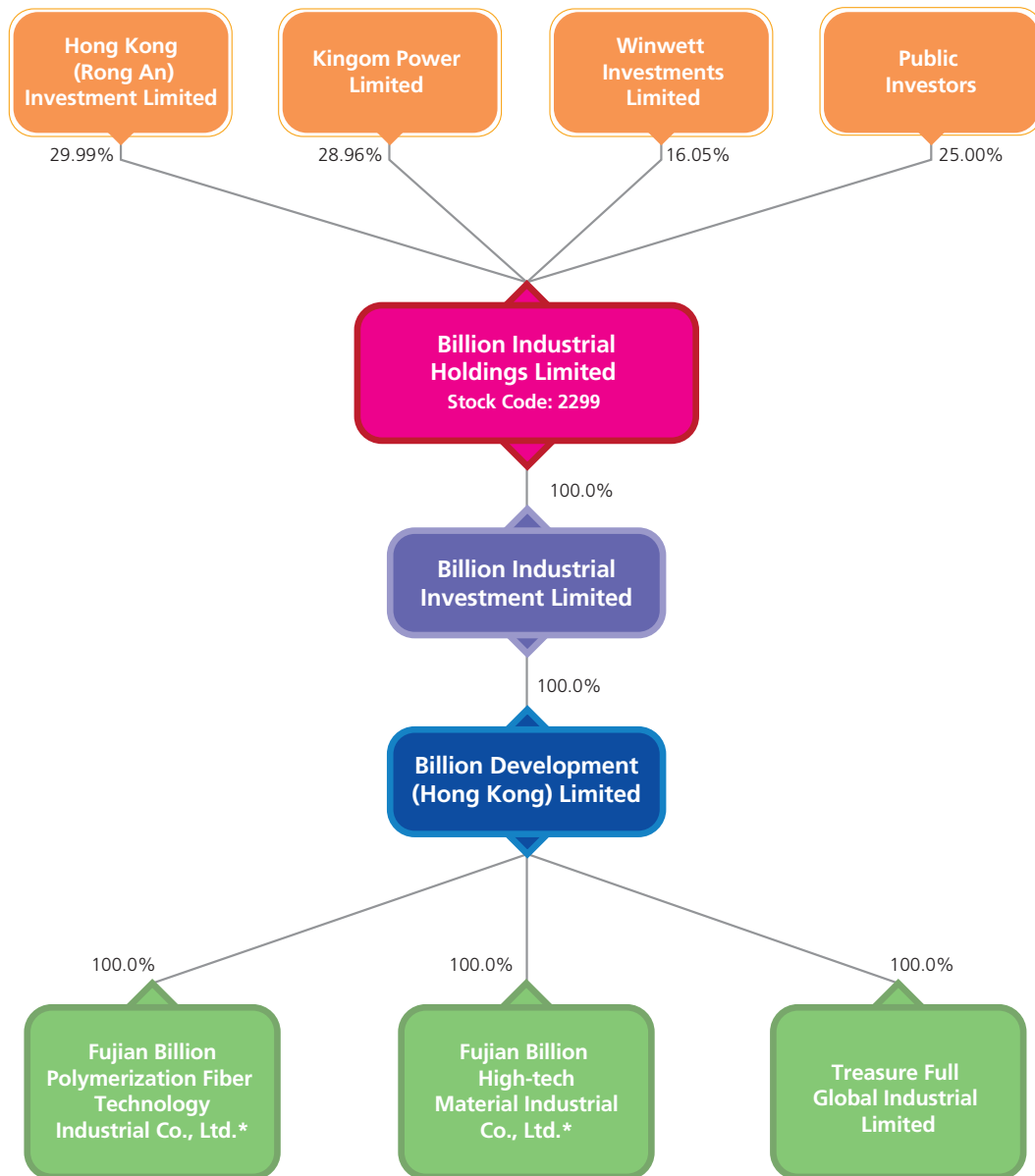
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	Change
Financial Position			
Non-current assets	5,325,169	4,610,840	+15.5%
Current assets	3,325,727	3,122,299	+6.5%
Non-current liabilities	88,868	284,973	-68.8%
Current liabilities	3,388,868	2,176,918	+55.7%
Net current (liabilities)/assets	(63,141)	945,381	-106.7%
Total equity	5,173,160	5,271,248	-1.9%
Earnings per Share (RMB)	0.11	0.17	
Interim Dividend (HK cent) (Note 1)	7.0	10.5	
Key Ratio Analysis			
Gross profit margin	14.5%	20.6%	
Operating profit margin	10.2%	16.9%	
Net profit margin	7.8%	13.3%	
Returns on equity (Note 2)	4.7%	7.5%	
Current ratio (Note 3)	0.98	1.43	
Gearing ratio (Note 4)	67.2%	46.7%	

Notes:

- 1: The interim dividend of HK7.0 cents per share in cash was paid on 21 August 2013
- 2: Returns on equity: Profit for the period divided by total equity
- 3: Current ratio: Current assets divided by current liabilities
- 4: Gearing ratio: Total liabilities divided by total equity

Group Structure

As at 30 June 2013



Note: Billion Industrial Holdings Limited
 Billion Industrial Investment Limited
 Billion Development (Hong Kong) Limited
 Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.*
 Fujian Billion High-tech Material Industrial Co., Ltd.*
 Treasure Full Global Industrial Limited

Place of incorporation	Place of operation
: Cayman Islands	Hong Kong
: British Virgin Islands	Hong Kong
: Hong Kong	Hong Kong
: PRC	Fujian, PRC
: PRC	Fujian, PRC
: British Virgin Islands	Hong Kong

* The name marked with "*" are for identification purpose only.

Production Sites

As at 22 July 2013

Existing production site

Situated in the Fenglin Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, PRC

Construction Area: Approximately 410,000 square meters

Site Area: Approximately 275,400 square meters



New production site under construction

Located at Jinnan Industrial Zone, approximately two kilometers away from the existing production site

Construction Area: Approximately 532,500 square meters

Site Area: Approximately 500,000 square meters





Designed Capacity:

As at 31 December 2011
 FDY+POY : 475,000 TPY
 DTY : 350,000 TPY

As at 31 December 2012
 FDY+POY : 580,000 TPY
 DTY : 415,000 TPY
 BOPET : 36,500 TPY

Designed Capacity will be:

By the end of 2013
 FDY+POY : 785,000 TPY
 DTY : 493,000 TPY
 BOPET : 36,500 TPY

By the end of 2014
 FDY+POY : 785,000 TPY
 DTY : 493,000 TPY
 BOPET : 182,500 TPY
 BOPET Chips : 72,500 TPY



Management Discussion and Analysis

I. GLOBAL AND CHINA'S ECONOMIC ENVIRONMENT

The world economy continues to grow at a subdued pace. In the United States, the recovering housing market and slowly improving employment situation show a sign of improving consumer confidence. In Japan, a new monetary policy stimulates better economic growth. As to the Eurozone, the worst part of downturn seems to be ending. However, the global economy is still facing a lot of challenges.

In China, where the Group generated approximately 90% of its revenue, the economic growth rate for the first half of 2013 was 7.6%, of which the growth rates in the first and second quarters were 7.7% and 7.5% respectively, according to the published data from the National Bureau of Statistics of China, which was slightly slower in the second quarter. Domestic demand was the main driving force of the economic growth in the first half of the year. Total retail sales of garments, footwear, hats and knitwear, the Group's downstream products, were RMB541.5 billion during the first half of 2013, representing a period-to-period increase of 11.9%. The urbanization policy will become the new supporting point of China's economic growth.

II. INDUSTRY REVIEW

The market prices of purified terephthalic acid (PTA) and mono ethylene glycol (MEG), the main raw materials of the Group's products, decreased during the first half of 2013, followed by the price decrease of polyester filament yarns products. Cotton, in which the Group's products are its substitute to some extent, the price of which in the first half year was stable, amid a slight increase. The total cotton plantation area is expected to reduce in 2013, primarily due to the drop in cotton farmers' incomes. Despite the launching of cotton harvesting and storage policies by the government in two consecutive years to guarantee cotton farmers' incomes, with the increase in grain price, the overall comparative price of cotton has decreased. Due to the difficulties that exports faced, some apparel, footwear and household textiles enterprises have focused more on the domestic market and continued to develop markets in the second- and third-tier cities in China to expand its sales volume.



Management Discussion and Analysis

III. BUSINESS REVIEW

Market demand for the Group's products during the period remained strong. Retail sales of the Group's downstream products, such as apparel, footwear, hats and textiles increased by 11.9% in the first half year of current year as compared with the same period last year. Decrease in the prices of PTA and MEG, the main raw materials of the Group's products, has led to the price drop of polyester filament yarns products, which in turn further pushed up the market demand for polyester filament yarns. However, with intense market competition, gross profit margin of the Group's products was under pressure. In order to strengthen its competitiveness, the Group has put efforts in improving its products quality and developing diversified features of its differentiated products, such as moisture perspiration, ultraviolet resistant, anti-rubbing, super soft, flame retardant to name a few. Product quality is attributable to our research and development efforts. During the period, our research and development expenses amounted to RMB100,090,000, amounting to 3.2% of its revenue and representing an increase of 2.5% as compared with the same period last year. The coverage of our research and development mainly includes product quality improvement and production efficiency enhancement.

During the period, the Group continued to expand its production capacity and in turn increase its sales volume by further increasing its production facilities. Polyester thin films, the Group's new products, achieved promising preliminary performance with sales amounted to RMB78,946,000, representing 2.5% of its total revenue. Given the wide application of polyester thin films including applications in food and merchandise packaging, the market demand is strong and the management is very confident about their development potential.



Management Discussion and Analysis

IV. FINANCIAL REVIEW

Operating Performance

1. Revenue

During the period, total revenue of the Group amounted to RMB3,115,537,000 (first half of 2012: RMB2,972,444,000), representing an increase of 4.8% as compared with the same period last year. Revenue attributable to the sales of polyester filament yarns, the Group's main products, was RMB3,036,591,000, accounting for 97.5% of the total revenue. Revenue attributable to the sales of polyester thin films, the Group's new products, was RMB78,946,000, accounting for 2.5% of the total revenue. The revenue analysis of the two products is as follows.

Polyester filament yarns

Revenue attributable to the sales of polyester filament yarns products was RMB3,036,591,000 (first half of 2012: RMB2,972,444,000), representing an increase of 2.2% as compared with the same period last year. The sales volume of polyester filament yarns during the period was 244,844 tons (first half of 2012: 214,571 tons), representing an increase of 14.1% as compared with the same period last year. During the period, the average selling price of polyester filament yarns dropped by 10.5% to RMB12,402 per ton. Such decrease was mainly attributable to the decrease in raw materials prices. Furthermore, the softened economic growth in China has exerted negative impact on the Group's customers such as apparel and footwear enterprises. As a result, despite the market demand remained strong, owing to the cost pressure faced by its customers, the price of the Group's polyester filament yarns products prices was also suppressed.

As the domestic consumption market continues to grow, in particular driven by the rural urbanization, the market demand for the Group's products remained strong. In view of this, over 80% of the capital raised by the Group from its initial public offering in May 2011 has been utilised to increase the production capacity of its polyester filament yarns. The increased production capacity enabled the Group to support its increase in sales during the period.

Management Discussion and Analysis

Polyester thin films

During the period, sales revenue of polyester thin films, the Group's new products, was RMB78,946,000, accounting for 2.5% of the total revenue. The sales volume was 6,666 tons, accounting for 2.7% of the total sales volume.

The Group's preparation for polyester thin films development commenced in the second half year of 2011, which included plant and staff dormitory construction and product lines installation. Trial production commenced at the end of last year, followed by gradual commercial production in the same year.

Polyester thin films products have wide application, including being used in food and other products packaging, therefore, it has a large market demand. Its gross profit margin is slightly higher than polyester filament yarns.

Sales by geographic region

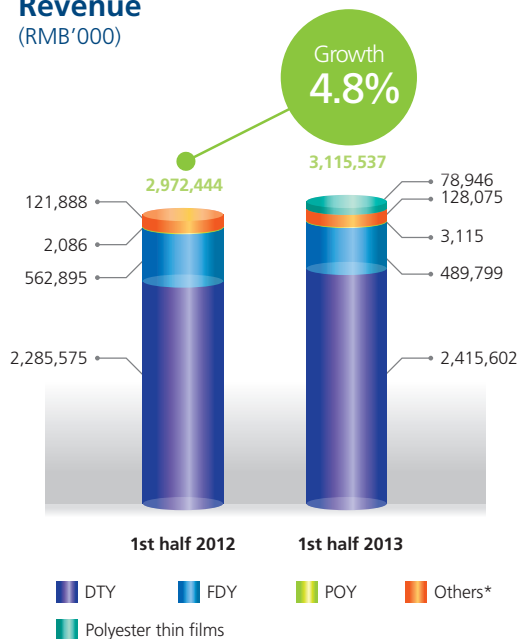
During the period, the proportion for revenue generated from sales of the Group's products to domestic market and export markets is comparable to the same period last year, that is, approximately 90% of the Group's revenue was generated from sales to domestic market and 10% from export markets. Of the domestic sales, 74.7% were to Fujian Province and 13.1% to Guangdong Province, our neighbour province. The textile manufacturing industries in both provinces are booming, resulting in strong demand for the Group's products.

Management Discussion and Analysis

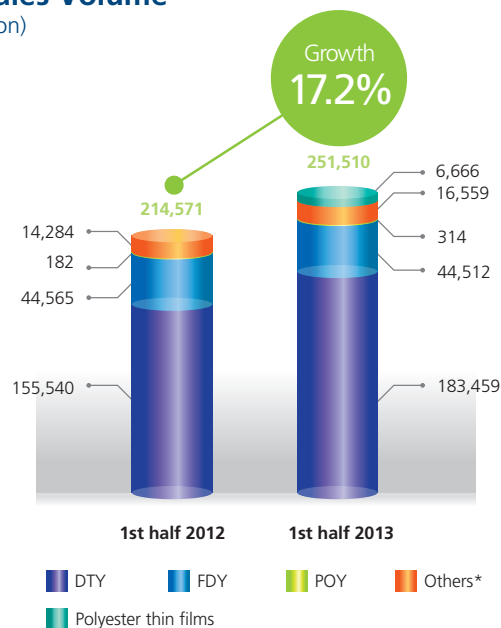
Breakdown of Revenue and Sales Volume (By Product)

	Revenue Six months ended 30 June				Sales volume Six months ended 30 June			
	2013		2012		2013		2012	
	RMB'000	Percentage	RMB'000	Percentage	Tons	Percentage	Tons	Percentage
Polyester filament yarns								
DTY	2,415,602	77.6%	2,285,575	76.9%	183,459	72.9%	155,540	72.5%
FDY	489,799	15.7%	562,895	18.9%	44,512	17.7%	44,565	20.8%
POY	3,115	0.1%	2,086	0.1%	314	0.1%	182	0.1%
Others*	128,075	4.1%	121,888	4.1%	16,559	6.6%	14,284	6.6%
Sub-total	3,036,591	97.5%	2,972,444	100.0%	244,844	97.3%	214,571	100.0%
Polyester thin films	78,946	2.5%	-	-	6,666	2.7%	-	-
Total	3,115,537	100.0%	2,972,444	100.0%	251,510	100.0%	214,571	100.0%

Revenue (RMB'000)



Sales Volume (Ton)



* Others represent polyethylene terephthalate (PET) chips and wasted filament generated during the production process.

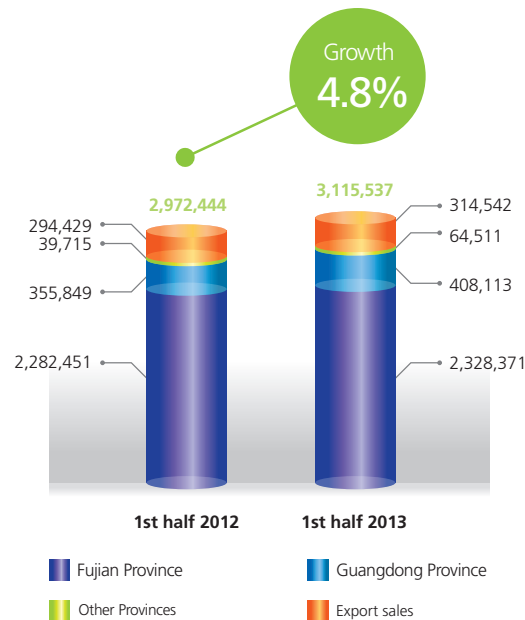
Management Discussion and Analysis

Geographic Breakdown of Sales

	Six months ended 30 June			
	2013		2012	
	RMB'000	Percentage	RMB'000	Percentage
Domestic sales				
Fujian Province	2,328,371	74.7%	2,282,451	76.8%
Guangdong Province	408,113	13.1%	355,849	12.0%
Other provinces	64,511	2.1%	39,715	1.3%
Export sales*	314,542	10.1%	294,429	9.9%
Total	3,115,537	100.0%	2,972,444	100.0%

* Export sales regions mainly comprised Turkey, Vietnam, South Korea, Italy and Belgium.

Geographic Breakdown of Sales (RMB'000)



Management Discussion and Analysis

2. Cost of Sales

During the period, the cost of sales of the Group amounted to RMB2,662,344,000 (first half of 2012: RMB2,359,855,000), representing an increase of 12.8% as compared with the same period last year. The increase in cost of sales was primarily attributable to combined impact of the increase in sales volume, the drop in raw materials prices and the rising manufacturing costs.

The cost of sales for polyester filament yarns was RMB2,595,961,000, accounting for 97.5% of total cost of sales, while the cost of sales for polyester thin films, the Group's new products, was RMB66,383,000, accounting for 2.5% of total cost of sales. The cost of sales of these two types of products were largely consistent with their respective sales volumes.

Polyester filament yarns

The average cost of sales of polyester filament yarns was RMB10,602 per ton (first half of 2012: RMB10,998 per ton), representing a decrease of RMB396 per ton or 3.6% as compared with the same period last year. This was due to the decrease in selling price of PTA, one of the main raw materials of polyester filament yarns products.

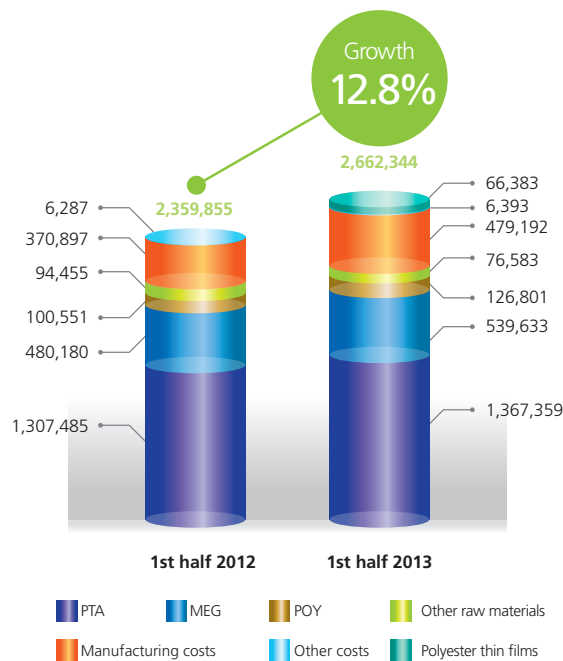
In addition, as the Group's production capacity expansion for DTY was faster than that for POY during the period, the internal output of POY was unable to meet the demand for DTY production (POY is the major raw material of DTY), as such, the Group procured more POY from its external suppliers during the period, which in turn increased the cost of sales of DTY.

Breakdown of Cost of Sales

	Six months ended 30 June			
	2013		2012	
	RMB'000	Percentage	RMB'000	Percentage
Polyester filament yarns				
Cost of raw materials				
PTA	1,367,359	51.3%	1,307,485	55.4%
MEG	539,633	20.3%	480,180	20.3%
POY	126,801	4.8%	100,551	4.3%
Other raw materials	76,583	2.9%	94,455	4.0%
	2,110,376	79.3%	1,982,671	84.0%
Manufacturing costs	479,192	18.0%	370,897	15.7%
Other costs	6,393	0.2%	6,287	0.3%
Sub-total	2,595,961	97.5%	2,359,855	100.0%
Polyester thin films	66,383	2.5%	-	-
Total	2,662,344	100.0%	2,359,855	100.0%

Management Discussion and Analysis

Breakdown of Cost of Sales
(RMB'000)



3. Gross Profit

During the period, gross profit of the Group amounted to RMB453,193,000 (first half of 2012: RMB612,589,000), representing a decrease of 26% as compared with the same period last year. Although the sales volume of polyester filament yarns increased by 30,273 tons or 14.1% as compared with the same period last year, its average selling price decreased by RMB1,451 per ton or 10.5% and the average gross profit per ton decreased by RMB1,055 or 37% from RMB2,855 per ton to RMB1,800 per ton.

During the period, gross profit margin of polyester filament yarns was 14.5% (first half of 2012: 20.6%), representing a decrease of 6.1 percentage points as compared with the same period last year. Such decrease was primarily attributable to the decrease in the prices of polyester filament yarns products, which in turn was caused by a less-extent price drop of raw materials and increasingly intensified market competition.

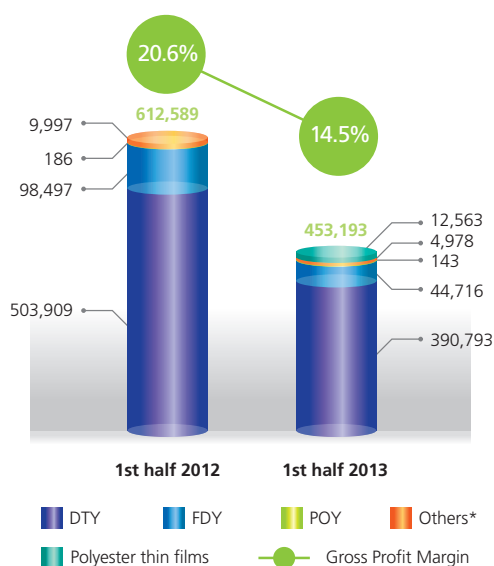
Polyester thin films products of the Group, which were put into commercial production at the end of last year, contributed a gross profit of RMB12,563,000, accounting for 2.8% of the total gross profit of the Group during the period. The gross profit margin of polyester thin films was 15.9%.

Management Discussion and Analysis

Breakdown of Gross Profit by Product

	2013		2012	
	RMB'000	Percentage	RMB'000	Percentage
Polyester filament yarns				
DTY	390,793	86.2%	503,909	82.3%
FDY	44,716	9.9%	98,497	16.1%
POY	143	0.0%	186	0.0%
Others*	4,978	1.1%	9,997	1.6%
	440,630	97.2%	612,589	100.0%
Polyester thin films	12,563	2.8%	–	–
Total	453,193	100.0%	612,589	100.0%

Gross Profit and Gross Profit Margin (RMB'000)



* Others represent polyethylene terephthalate (PET) chips and wasted filament generated during the production process.

Management Discussion and Analysis

Breakdown of Product Selling Price, Cost and Gross Profit (Average Per Ton)

	Six months ended 30 June	
	2013 RMB	2012 RMB
Polyester filament yarns		
Average selling price per ton	12,402	13,853
Average cost of sales per ton	10,602	10,998
Average gross profit per ton	1,800	2,855
Average gross profit margin per ton	14.5%	20.6%
Polyester thin films		
Average selling price per ton	11,843	–
Average cost of sales per ton	9,958	–
Average gross profit per ton	1,885	–
Average gross profit margin per ton	15.9%	–

4. Other Revenue

During the period, other revenue of the Group amounted to RMB35,405,000 (first half of 2012: RMB24,158,000), representing an increase of 46.6% as compared with the same period last year. Other revenue included bank interest income, government grants and gains on disposal of raw materials. Such increase was primarily attributable to the increase in the amount of government grants and the number of projects subsidised during the period. Government grants during the period included advanced production capacity electricity usage reward, science and technology reward, supporting fund for public service platform in foreign trade and special fund for municipal-level technology improvement, to name a few.

5. Other Net Gain

During the period, other net gain of the Group amounted to RMB1,572,000 (first half of 2012: RMB8,501,000), representing a decrease of 81.5% as compared with the same period last year. Other net gain mainly comprised net exchange loss and net gain on financial liabilities at fair value through profit or loss. The decrease was mainly due to the exchange loss caused by the depreciation of Australian dollar.

Management Discussion and Analysis

6. Selling and Distribution Expenses

During the period, selling and distribution expenses of the Group amounted to RMB16,001,000 (first half of 2012: RMB16,238,000), representing a slight decrease of 1.5% as compared with the same period last year. Such expenses included transportation cost, insurance premium, salaries of our sales staff and marketing expenses.

7. Administrative Expenses

During the period, administrative expenses amounted to RMB157,823,000 (first half year of 2012: RMB125,445,000), representing an increase of 25.8% as compared with the same period last year. Administrative expenses mainly included staff salaries, general office expenses, professional and legal fees, depreciation on office equipment, research and development expenses and property tax provision. The increase was primarily attributable to a property tax provision of RMB17,978,000, addition of offices and employees due to the commencement of the Group's polyester thin films business and a slight increase in research and development expenses during the period.

During the period, research and development expenses amounted to RMB100,090,000 (first half of 2012: RMB97,612,000), representing a slight increase of 2.5% as compared with the same period last year. The increase was mainly due to the increase in depreciation charges as a result of the addition in research and development equipment and the increase in utility costs.

8. Finance Costs

During the period, finance costs amounted to RMB26,469,000 (first half of 2012: RMB31,276,000), representing a decrease of 15.4% as compared with the same period last year. Such decrease was mainly attributable to the decrease in discounted bills expenses.

9. Income Tax

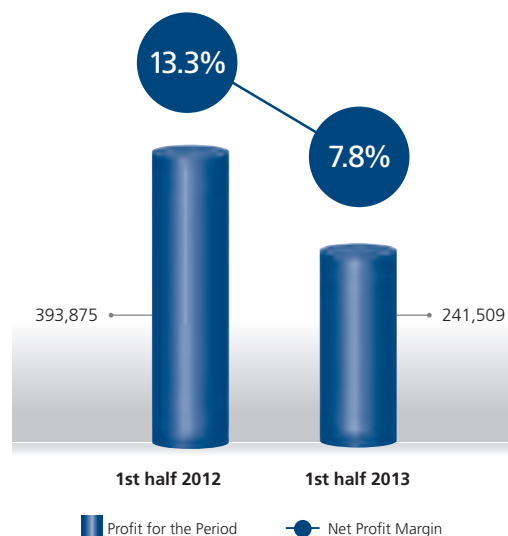
During the period, the Group's income tax was RMB48,368,000 (first half of 2012: RMB78,414,000), representing a decrease of 38.3% as compared with the same period last year, which was mainly due to the decrease in profit before taxation.

10. Profit for the Period

The Group's profit for the period amounted to RMB241,509,000 (first half of 2012: RMB393,875,000), representing a decrease of 38.7% as compared with the same period last year. The decrease was mainly due to the decrease in gross profit.

Management Discussion and Analysis

Profit for the Period and Net Profit Margin (RMB'000)



Financial Position

1. *Liquidity and Capital Resources*

As at 30 June 2013, cash and cash equivalent of the Group amounted to RMB676,787,000 (31 December 2012: RMB644,049,000), increased by RMB32,738,000 or 5.1%. During the period, net cash inflow from operating activities amounted to RMB289,986,000, net cash outflow used in investing activities amounted to RMB623,090,000, and net cash inflow from financing activities amounted to RMB364,629,000.

During the period, the major investing activities of the Group comprised procurements of production facilities and construction of plants, while the major financing activities comprised repurchase of shares, payment of 2012 final dividends and net increase in bank loans. The Group primarily uses the cash inflow from operating activities to satisfy the requirements of working capital. During the period, inventory turnover days were 33.0 days (first half of 2012: 49.9 days), representing a decrease of 16.9 days as compared with the same period last year. The decrease was primarily due to the lower of inventory level since the second half of last year with a view to reduce inventory holding cost. Trade receivables turnover days were 46.4 days (first half of 2012: 35.8 days), representing an increase of 10.6 days as compared with the same period last year, which was due to the reduction in discounted trade receivables during the period. Trade payables turnover days were 55.6 days (first half of 2012: 73.5 days), representing a decrease of 17.9 days as compared with the same period last year, which was due to the shortening of credit period with certain suppliers in return for better purchase prices during the period.

Management Discussion and Analysis

As at 30 June 2013, the Group had capital commitments of RMB795,493,000, which were mainly related to the expansion of production capacity of polyester filament yarns and the development of functional environmentally-friendly polyester thin films business.

2. Capital Structure

As at 30 June 2013, the total liabilities of the Group amounted to RMB3,477,736,000, and the capital and reserve amounted to RMB5,173,160,000. The gearing ratio (total liabilities divided by total equity) was 67.2%. The total assets amounted to RMB8,650,896,000. The asset liability ratio (total assets divided by total liabilities) was 2.5 times. Bank loans of the Group amounted to RMB2,008,789,000, of which RMB1,989,406,000 were repayable within one year and RMB19,383,000 were repayable after one year. Among the bank borrowings, 99% were secured by properties and restricted bank deposits.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

Save for those disclosed in this interim report, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the period under review.

The Company's future plan in the coming year for material investments and additions of capital assets are primarily related to the expansion of production capacity of polyester filament yarns and the development of functional environmentally-friendly polyester thin films business, as also mentioned in other sections of this interim report. The Company intends to finance such plan through internally generated fund and bank loans.

Charges on Assets

Save as disclosed in this interim report, there was no other charge on Group's assets as of 30 June 2013.

Management Discussion and Analysis

Foreign Currency Risk

As most of the Group's operating costs and expenses are denominated in Renminbi, the Group's operation is not exposed to significant foreign currency risk. As at 30 June 2013, the Group's foreign currency risk exposure was mainly derived from the net liabilities exposure denominated in United States Dollars of RMB1,189,187,000, the net liabilities exposure denominated in Euro of RMB207,975,000 and the net assets exposure denominated in Australian Dollars of RMB175,641,000.

Employees and Remuneration

As at 30 June 2013, the Group had a total of 3,637 employees. The remuneration for employees is determined in accordance with their performance, professional experience and the prevailing market conditions. The management reviews the Group's employee remuneration policy and arrangement on a regular basis. Apart from pension, the Group also grants discretionary bonus to certain employees as awards in accordance with individual performance.

Contingent Liabilities

As at 30 June 2013, the Group did not have any contingent liabilities.

V. BUSINESS OUTLOOK

China's GDP growth has been adjusted to a moderate growth rate from its previous high growth rate. Urbanization will continue to be a strong driving force of domestic demand, which will benefit the consumer market. Gross profit margin of polyester filament yarns may face greater challenges due to the intensifying market competition, but we remain confident in their market demand. In terms of its development strategy, the Group will still focus on products "quantity and quality", with the support of our factory facilities and complemented by our research and development capacity, thereby grasping the market opportunities. The management also believes that polyester thin films will become a growing point of the Group.

Review Report on the Interim Financial Report



Review report to the board of directors of Billion Industrial Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 23 to 44, which comprise the consolidated statement of financial position of Billion Industrial Holdings Limited at 30 June 2013, the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flows statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report at 30 June 2013 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 July 2013

Consolidated Income Statement

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Revenue	4	3,115,537	2,972,444
Cost of sales		(2,662,344)	(2,359,855)
Gross profit		453,193	612,589
Other revenue	5	35,405	24,158
Other net gain	6	1,572	8,501
Selling and distribution expenses		(16,001)	(16,238)
Administrative expenses		(157,823)	(125,445)
Profit from operations		316,346	503,565
Finance costs	7(a)	(26,469)	(31,276)
Profit before taxation	7	289,877	472,289
Income tax	8	(48,368)	(78,414)
Profit for the period		241,509	393,875
Earnings per share			
Basic and diluted (RMB)	10	0.11	0.17

The notes on pages 29 to 44 form part of this interim financial report.
Details of dividend payable to equity shareholders of the Company are set out in note 9.

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

	<i>Note</i>	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Profit for the period		241,509	393,875
Other comprehensive income for the period			
Exchange differences on translation of financial statements of operations outside mainland China		3,363	(10,449)
Total comprehensive income for the period		244,872	383,426

The notes on pages 29 to 44 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2013 – unaudited

(Expressed in Renminbi)

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000 (audited)
Non-current assets			
Fixed assets			
– Property, plant and equipment	11	4,016,318	3,117,951
– Construction in progress	12	484,927	1,180,302
– Interests in leasehold land held for own use under operating leases	13	348,917	276,882
		4,850,162	4,575,135
Deposits and prepayments	15	475,007	441,542
Deferred tax assets	18(b)	–	1,091
		5,325,169	5,017,768
Current assets			
Inventories	14	518,601	444,942
Trade and other receivables	15	1,131,028	935,113
Restricted bank deposits		999,311	788,491
Cash and cash equivalents	16	676,787	644,049
		3,325,727	2,812,595
Current liabilities			
Trade and other payables	17	1,360,881	1,147,770
Bank loans		1,989,406	1,119,422
Current taxation	18(a)	38,581	51,589
		3,388,868	2,318,781
Net current (liabilities)/assets		(63,141)	493,814
Total assets less current liabilities		5,262,028	5,511,582

Consolidated Statement of Financial Position

at 30 June 2013 – unaudited

(Expressed in Renminbi)

	<i>Note</i>	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000 (audited)
Non-current liabilities			
Bank loans		19,383	20,542
Deferred tax liabilities	18(b)	69,485	63,119
		88,868	83,661
NET ASSETS			
		5,173,160	5,427,921
CAPITAL AND RESERVES			
	19		
Share capital		18,694	19,333
Reserves		5,154,466	5,408,588
TOTAL EQUITY			
		5,173,160	5,427,921

Approved and authorised for issue by the Board of Directors on 30 July 2013.

Sze Tin Yau
Director

Wu Jinbiao
Director

The notes on pages 29 to 44 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2013 – unaudited

(Expressed in Renminbi)

Note	Attributable to equity shareholders of the Company							
	Share capital	Share premium	Capital redemption reserve	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total equity
	RMB'000 19(a)	RMB'000 19(b)(i)	RMB'000 19(b)(ii)	RMB'000 19(b)(iii)	RMB'000 19(b)(iv)	RMB'000 19(b)(v)	RMB'000	RMB'000
Balance at 1 January 2012	19,333	2,206,245	–	163,237	1,805,631	(44,440)	965,609	5,115,615
Changes in equity for the six months ended 30 June 2012								
Dividends approved in respect of the previous year	9(b) –	(227,793)	–	–	–	–	–	(227,793)
Total comprehensive income for the period	–	–	–	–	–	(10,449)	393,875	383,426
Balance at 30 June 2012	<u>19,333</u>	<u>1,978,452</u>	<u>–</u>	<u>163,237</u>	<u>1,805,631</u>	<u>(54,889)</u>	<u>1,359,484</u>	<u>5,271,248</u>
Balance at 1 January 2013	19,333	1,780,892	–	239,402	1,805,631	(57,260)	1,639,923	5,427,921
Changes in equity for the six months ended 30 June 2013								
Dividends approved in respect of the previous year	9(b) –	(177,658)	–	–	–	–	–	(177,658)
Total comprehensive income for the period	–	–	–	–	–	3,363	241,509	244,872
Purchase of own shares	19(a)(iii)							
– par value paid	(639)	–	–	–	–	–	–	(639)
– premium paid	–	(321,336)	–	–	–	–	–	(321,336)
– transfer between reserves	–	(639)	639	–	–	–	–	–
Balance at 30 June 2013	<u>18,694</u>	<u>1,281,259</u>	<u>639</u>	<u>239,402</u>	<u>1,805,631</u>	<u>(53,897)</u>	<u>1,881,432</u>	<u>5,173,160</u>

The notes on pages 29 to 44 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Net cash generated from operating activities		289,986	401,033
Net cash used in investing activities		(623,090)	(806,668)
Net cash generated from financing activities		364,629	71,242
Net increase/(decrease) in cash and cash equivalents		31,525	(334,393)
Cash and cash equivalents at 1 January		644,049	1,093,282
Effect of foreign exchange rate changes		1,213	(10,697)
Cash and cash equivalents at 30 June	16	676,787	748,192

The notes on pages 29 to 44 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 30 July 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 22.

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 11 March 2013.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the development titled "HKFRS 13, *Fair value measurement*" is relevant to the Group's financial statements. HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 20. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

Operating segments and the amounts of each segment item reported in the interim financial report are identified from the financial information provided regularly to the Group's most senior management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. No segment information is presented for the Group's business segment as the Group is principally engaged in the manufacturing and sales of polyester filament yarns products and polyester thin films products in the People's Republic of China (the "PRC").

4 REVENUE

The principal activities of the Group are the manufacturing and sales of polyester filament yarns products and polyester thin films products.

Revenue represents the sales value of goods supplied to customers (net of value-added tax, other sales tax and discounts). The amount of each significant category of revenue recognised in revenue is as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Polyester filament yarns products	3,036,591	2,972,444
Polyester thin films products	78,946	–
	3,115,537	2,972,444

The Group's customer base is diversified, no individual customer had transactions which exceeded 10% of the Group's revenue during the six months ended 30 June 2013 and 2012.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

5 OTHER REVENUE

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Bank interest income	22,614	19,615
Government grants*	7,093	466
Gain on sales of raw materials	5,671	4,077
Other	27	–
	35,405	24,158

* Government grants of RMB7,093,000 and RMB466,000 for the six months ended 30 June 2013 and 2012 respectively were received from several local government authorities for the Group's contribution to the local economies, of which the entitlement was unconditional and at the discretion of the relevant authorities.

6 OTHER NET GAIN

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Donations	(26)	(18)
Net exchange (loss)/gain	(16,075)	3,679
Net gain on financial liabilities at a fair value through profit or loss	17,333	4,714
Others	340	126
	1,572	8,501

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
(a) Finance costs:		
Interest on bank borrowings	17,644	19,081
Other interest expenses	8,825	12,690
	26,469	31,771
Less: interest expense capitalised into construction in progress*	–	495
	26,469	31,276
(b) Staff costs:		
Contributions to defined contribution retirement plans	1,449	941
Salaries, wages and other benefits	76,214	64,911
	77,663	65,852
(c) Other items:		
Amortisation of interests in leasehold land	2,082	1,751
Depreciation	97,989	78,239
Operating lease charges in respect of properties	180	180
Research and development*	100,090	97,612
Cost of inventories**	2,662,344	2,359,855

* The borrowing costs have been capitalised at a rate of 6.7% per annum in the six months ended 30 June 2012.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

7 PROFIT BEFORE TAXATION (Continued)

* Research and development costs include RMB21,228,000 and RMB21,548,000 for the six months ended 30 June 2013 and 2012 respectively relating to staff costs of employees in the research and development department and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

** Cost of inventories include RMB127,777,000 and RMB104,893,000 for the six months ended 30 June 2013 and 2012 respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8 INCOME TAX

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Current tax		
Provision for PRC income tax for the period	40,911	66,871
Deferred tax		
Origination and reversal of temporary differences	7,457	11,543
	48,368	78,414

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits during each of the six months ended 30 June 2013 and 2012.
- (iii) In accordance with the relevant PRC Corporate Income Tax Laws, regulations and implementation guidance notes, the subsidiary in mainland China, Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.* (福建百宏聚纖科技實業有限公司) ("Billion Fujian") renewed the High and New Technology Enterprise Status in 2012 for a valid period of 3 years from 2012 to 2014 which entitles Billion Fujian to a reduced income tax rate at 15% during the valid period under the New Tax Law and its relevant regulations. Nevertheless this reduced tax rate cannot be applied in conjunction with the grandfathered tax holiday.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

8 INCOME TAX (Continued)

- (iv) In accordance with the relevant PRC Corporate Income Tax Laws, regulations and implementation guidance notes, the subsidiary in mainland China, Fujian Billion High-tech Material Industrial Co., Ltd.* (福建百宏高新材料實業有限公司) (“Billion High-tech”) is subject to PRC income tax rate at 25% from 1 January 2011 onwards.

* The English translation of the name is for reference only. The official name of the entity is in Chinese.

9 DIVIDENDS

- (a) Dividends payable to equity shareholders of the Company attributable to the interim period:

	2013 RMB'000	2012 RMB'000
Interim dividend proposed after the interim period of HK7.0 cents per share (2012: HK10.50 cents per share)	<u>122,200</u>	<u>196,790</u>

The interim dividend has not been recognised as a liability at the end of the reporting period.

- (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the period:

	2013 RMB'000	2012 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the period, HK10.0 cents per share (2011: HK12.20 cents per share)	<u>177,658</u>	<u>227,793</u>

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB241,509,000 (six months ended 30 June 2012: RMB393,875,000) and the weighted average of 2,227,635,138 ordinary shares (2012: 2,299,000,000 ordinary shares) in issue during the interim period.

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2013 and 2012, and therefore, diluted earnings per share is the same as the basic earnings per share.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Net book value, at 1 January	3,117,951	2,548,810
Additions	8,741	9,765
Transfer from construction in progress (note 12)	987,615	720,541
Depreciation charge for the period/year	(97,989)	(161,165)
At 30 June/31 December	4,016,318	3,117,951

12 CONSTRUCTION IN PROGRESS

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
At 1 January	1,180,302	547,703
Additions	292,240	1,353,140
Transfer to property, plant and equipment (note 11)	(987,615)	(720,541)
At 30 June/31 December	484,927	1,180,302

13 INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

Interests in leasehold land held for own use under operating leases represent land use rights in the PRC. At 30 June 2013, the remaining period of the land use rights ranged from 43 to 50 years.

14 INVENTORIES

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Raw materials	215,300	126,809
Work in progress	33,002	43,268
Finished goods	270,299	274,865
	518,601	444,942

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivable with the following ageing analysis, based on the date of billing, as of the end of the reporting period:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Current	899,793	675,368
Less than 1 month past due	8,984	2
More than 1 month but less than 3 months past due	90	1
More than 3 months but less than 1 year past due	507	2
More than 1 year past due	–	2
Trade debtors and bills receivable, net of allowance for doubtful debts	909,374	675,375
Deposits, prepayments and other receivables	664,016	691,225
	1,573,390	1,366,600
<i>Less: non-current portion of deposits and prepayments</i>		
– Interests in leasehold land	(23,206)	(25,871)
– Property, plant and equipment	(427,886)	(367,807)
– Construction in progress	(23,915)	(47,864)
	(475,007)	(441,542)
Current portion of deposits, prepayments and other receivables	1,098,383	925,058
Derivative financial assets		
– Forward exchange contracts	32,645	10,055
	1,131,028	935,113

At 30 June 2013 and 31 December 2012, all of the current trade and other receivables are expected to be recovered or recognised as expenses within one year.

Trade debtors are due within 30 to 180 days from the date of billing, except for those due from related parties which were repayable on demand.

The Group made prepayments for interests in leasehold land for certain properties held for own use in the PRC. The related ownership certificates are under application as at 30 June 2013.

Current portion of deposits, prepayments and other receivables mainly represents prepayment on raw materials, interest receivable from deposits with banks and VAT recoverable.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

16 CASH AND CASH EQUIVALENTS

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Deposits with banks and other financial institutions	294,825	129,931
Cash at bank and in hand	381,962	514,118
Cash and cash equivalents in the consolidated statement of financial position	676,787	644,049

17 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis, based on the date of invoice, as of the end of the reporting period:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 3 months or on demand	912,261	742,840
More than 3 months but within 6 months	72,835	85,557
More than 6 months but within 1 year	97	280
More than 1 year	3,808	6,472
Trade creditors and bills payable	989,001	835,149
Other payables and accrual charges	143,578	107,220
Equipment payables	43,130	45,793
Construction payables	7,645	9,788
Receipts in advance	172,009	148,786
Financial liabilities measured at amortised cost	1,355,363	1,146,736
Derivative financial liabilities		
– Interest rate swaps	513	94
– Forward exchange contracts	5,005	940
	1,360,881	1,147,770

All of the trade and other payables are expected to be settled within one year or repayable on demand.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

18 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Provision of PRC income tax	38,581	51,589

(b) Deferred tax liabilities/(assets) recognised:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Deferred tax liabilities arising from Billion Fujian:		
– Depreciation and amortisation of fixed assets	75,934	67,671
– Others	(7,248)	(4,552)
	68,686	63,119
Deferred tax liabilities/(assets) arising from Billion High-tech:		
– Pre-operating expense	(364)	(1,091)
– Depreciation and amortisation of fixed assets	1,163	–
	799	(1,091)

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

18 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

(b) Deferred tax liabilities/(assets) recognised: (Continued)

Reconciliation to the consolidated statement of financial position

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Deferred tax liabilities recognised in the consolidated statement of financial position	69,485	63,119
Deferred tax assets recognised in the consolidated statement of financial position	—	(1,091)
	<u>69,485</u>	<u>62,028</u>

(c) Deferred tax assets not recognised

At 30 June 2013, the Company has not recognised deferred tax assets in respect of cumulative tax losses of RMB46,159,000 (31 December 2012: RMB44,775,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

As at 30 June 2013, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in mainland China amounted to RMB1,921,708,000 (31 December 2012: RMB1,665,519,000). Deferred tax liabilities of RMB96,085,000 (31 December 2012: RMB83,276,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries in mainland China and the Directors have determined that these profits are not likely to be distributed in the foreseeable future.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

19 CAPITAL AND RESERVES

(a) Share capital

(i) Authorised and issued share capital

	At 30 June 2013		At 31 December 2012	
	Number of shares	Nominal value of ordinary shares	Number of shares	Nominal value of ordinary shares
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	<u>10,000,000,000</u>	<u>HK\$100,000,000</u>	<u>10,000,000,000</u>	<u>HK\$100,000,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.01 each	<u>2,223,000,000</u>	<u>HK\$22,230,000</u>	<u>2,299,000,000</u>	<u>HK\$22,990,000</u>
RMB equivalent		<u>RMB18,694,152</u>		<u>RMB19,333,268</u>

(ii) Purchase of own shares

During the interim period, the Company repurchased and cancelled its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid RMB'000
January 2013	76,000,000	5.70	5.10	<u>321,975</u>

The 75,428,500 and 571,500 repurchased shares were cancelled in January and February 2013 respectively and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB639,116 was transferred from share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of HK\$397,001,000 (equivalent to RMB321,336,228) was charged to share premium.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

19 CAPITAL AND RESERVES (Continued)

(b) Nature and purpose of reserves

(i) *Share premium and distributability of reserves*

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The aggregate amount of distributable reserves, including share premium after offsetting the accumulated losses, of the Company as at 30 June 2013 was HK\$1,437,641,000 (as at 31 December 2012: HK\$2,061,741,000).

(ii) *Capital redemption reserve*

Capital redemption reserve represents the nominal amount of the shares repurchased.

(iii) *Statutory reserve*

Pursuant to applicable PRC regulations, Billion Fujian is required to appropriate 10% of their profit-after-tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory reserve must be made before distribution of dividends to shareholders. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the subsidiary.

(iv) *Capital reserve*

The capital reserve in the consolidated statement of financial position at 30 June 2013 mainly represents premium received from capital injection which are required to be included in their reserves by the PRC regulations.

(v) *Exchange reserve*

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside mainland China.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

	Fair value measurements as at 30 June 2013 using			
	Fair value at 30 June 2013 RMB'000	Quoted prices in active market for identified assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instruments:				
– Forward exchange contracts	32,645	–	32,645	–
Financial liabilities:				
Derivative financial instruments:				
– Interest rate swaps	513	–	513	–
– Forward exchange contracts	5,005	–	5,005	–

	Fair value measurements as at 31 December 2012 using			
	Fair value at 31 December 2012 RMB'000	Quoted prices in active market for identified assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurement				
Financial assets:				
Derivative financial instruments:				
– Forward exchange contracts	10,055	–	10,055	–
Financial liabilities:				
Derivative financial instruments:				
– Interest rate swaps	94	–	94	–
– Forward exchange contracts	940	–	940	–

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Fair value hierarchy (Continued)

During the six months ended 30 June 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2012: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward exchange contracts in Level 2 is measured using quoted prices in active markets for similar financial instruments.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

21 CAPITAL COMMITMENTS

Capital commitments for the acquisition of fixed assets outstanding at the end of the reporting period not provided for in the interim financial report are as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Authorised but not contracted for	115,324	293,167
Contracted for	680,169	818,190
	<u>795,493</u>	<u>1,111,357</u>

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

22 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for directors and key management personnel of the Group is as follows:

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Short-term employee benefits	3,418	3,413
Post-employment benefits	23	36
	<u>3,441</u>	<u>3,449</u>

Total remuneration is disclosed in "staff costs" (see note 7(b)).

(b) Transactions with a related party

The Group had the following significant transactions with a related party:

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Sales of goods		
Fujian Jinjiang City Hengxinglong Polyester Co., Ltd.* ("Hengxinglong Polyester") (note 1) 福建省晉江市恒興隆化纖絲綸有限公司	–	26

* The English translation of the name is for reference only. The official name of the entity is in Chinese.

Note 1: Hengxinglong Polyester is owned by Mr. Wu Qingshun, the son of Mr. Wu Jianshe. Mr. Wu Jianshe is a former director of the Company who resigned on 17 September 2012.

(c) Balances with a related party

At 30 June 2013 and 31 December 2012, the Group did not have balance with a related party.

General Information

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK7.0 cents per share in cash for the six months ended 30 June 2013. The dividend was paid on 21 August 2013 to those shareholders whose names appear on the Company's register of members on 16 August 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company was closed from Wednesday, 14 August 2013 to Friday, 16 August 2013, both days inclusive, during which no transfer of shares had been made. In order to qualify for the interim dividend, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m., on Tuesday, 13 August 2013.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2013, the interests and short positions of the Directors and/or the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she is taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register required to be kept by the Company under Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, are as follows:

(a) Long position in ordinary shares of the Company

Name of Director	Nature of interest	Number of ordinary shares interested	Percentage of the Company's issued share capital
Mr. Sze Tin Yau	Interest in controlled corporation	643,720,000 ^(a)	28.96%
Mr. Wu Jinbiao	Interest in controlled corporation	356,820,000 ^(b)	16.05%

Notes:

- (a) These 643,720,000 shares of the Company were held by Kingom Power Limited, the entire issued share capital of which was wholly-owned by Mr. Sze Tin Yau. Accordingly, Mr. Sze Tin Yau is deemed to be interested in the shares held by Kingom Power Limited by virtue of the SFO.
- (b) These 356,820,000 shares of the Company were held by Winwett Investments Limited, the entire issued share capital of which was wholly-owned by Mr. Wu Jinbiao. Accordingly, Mr. Wu Jinbiao is deemed to be interested in the shares held by Winwett Investments Limited by virtue of the SFO.

General Information

Save as disclosed above, as at 30 June 2013, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2013, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) has or is deemed or taken to have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of substantial shareholder	Capacity	Number of ordinary shares interested	Percentage of the Company's issued share capital
Hong Kong (Rong An) Investment Limited ("Hong Kong Rong An")	Beneficial owner	666,710,000	29.99%
CECEP Chongqing Industry Co., Ltd. ("CECEP Chongqing") ^(a)	Through controlled corporations	666,710,000	29.99%
China Energy Conservation and Environmental Protection Group ^(b)	Through controlled corporations	666,710,000	29.99%
Kingom Power Limited	Beneficial owner	643,720,000	28.96%
Winwett Investments Limited	Beneficial owner	356,820,000	16.05%

General Information

Notes:

- (a) CECEP Chongqing owned 100% of the issued share capital of Hong Kong Rong An, therefore, was deemed to be interested in 666,710,000 shares of the Company owned by Hong Kong Rong An under the SFO.
- (b) CECEP Chongqing was a non-wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group ("CECEP"), CECEP was therefore deemed to be interested in 666,710,000 shares of the Company indirectly owned by CECEP Chongqing under the SFO.

Save as disclosed above, as at 30 June 2013, so far as is known to the Directors, there is no other person (other than the Director or chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 31 March 2011 for the purpose of attracting and retaining skilled and experienced personnel who will contribute to the long-term growth and future success of our Company and our subsidiaries.

No options have been granted under the Share Option Scheme since its adoption up to 30 June 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the six months ended 30 June 2013, the Company repurchased its own shares on the Stock Exchange as follows:

Month/Year	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid RMB'000
January 2013	76,000,000	5.70	5.10	321,975

Of the 76,000,000 repurchased shares, 75,428,500 and 571,500 were cancelled in January 2013 and February 2013 respectively and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium and transaction costs paid on the repurchase of the shares of approximately HK\$397,001,000 (equivalent to RMB321,336,228) were charged to the Company's share premium account.

Corporate Governance

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the six months ended 30 June 2013, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. Having made specific enquiry of all the directors, the Company has confirmed with all directors that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2013.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 3.21 and 3.22 of Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members: Mr. Yeung Chi Tat, Ms. Zhu Meifang and Mr. Ma Yuliang. All of them are independent non-executive directors. The chairman of the audit committee is Mr. Yeung Chi Tat.

The audit committee of the Company has met and discussed with external auditors of the Group, KPMG, and has reviewed the accounting principles and practices adopted by the Group, the unaudited financial results of the Group for the six months ended 30 June 2013 and this interim report.



百宏實業控股有限公司
BILLION INDUSTRIAL HOLDINGS LIMITED