



 **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 **2014**






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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 2014, the designed capacity of FDY and POY of the Group was 785,000 tons per year (TPY), while that of DTY was 493,000 TPY. The combined designed capacity of DTY, FDY and POY was 1,278,000 TPY.

In August 2011, Billion started to expand into the production of polyester thin films, and has gradually commenced operation since 2012. As at 30 June 2014, the designed capacity of polyester thin films of the Group was 36,500 TPY, which is expected to 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.

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. Yang Yihua (*Co-chairman*)
(appointed on 19 March 2014)
Mr. Wu Zhongqin (appointed
on 19 March 2014)

Independent

Non-executive Directors

Mr. Chan Shek Chi (appointed
on 26 May 2014)
Mr. Ma Yuliang
Mr. Lin Jian Ming

BOARD COMMITTEES

Audit committee

Mr. Chan Shek Chi (*Chairman*)
Mr. Ma Yuliang
Mr. Lin Jian Ming

Remuneration Committee

Mr. Chan Shek Chi (*Chairman*)
Mr. Sze Tin Yau
Mr. Ma Yuliang

Nomination Committee

Mr. Sze Tin Yau (*Chairman*)
Mr. Chan Shek Chi
Mr. Lin Jian Ming

Corporate Governance Committee

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

Company Secretary

Mr. Lai Wai Leuk

Authorised Representatives

Mr. Sze Tin Yau
Mr. Lai Wai Leuk

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

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

| | 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Unaudited) | Change |
|----------------------------|--------------------------------|--------------------------------|--------|
| Operational Results | | | |
| Revenue | 3,131,982 | 3,115,537 | 0.5% |
| Gross profit | 304,547 | 453,193 | -32.8% |
| Profit from operations | 153,944 | 316,346 | -51.3% |
| Profit for the period | 100,645 | 241,509 | -58.3% |

As at 30 June

| | 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Unaudited) | Change |
|--|--------------------------------|--------------------------------|--------|
| Financial Position | | | |
| Non-current assets | 5,589,632 | 5,325,169 | 5.0% |
| Non-current liabilities | 108,605 | 88,868 | 22.2% |
| Current assets | 3,586,645 | 3,325,727 | 7.8% |
| Current liabilities | 3,854,099 | 3,388,868 | 13.7% |
| Net current liabilities | 267,454 | 63,141 | 323.6% |
| Total equity | 5,213,573 | 5,173,160 | 0.8% |
| Earnings per Share (RMB) | 0.05 | 0.11 | |
| Interim dividend (HK cent) (Note 1) | 3.0 | 7.0 | |
| Key Ratio Analysis | | | |
| Gross profit margin | 9.7% | 14.5% | |
| Operating profit margin | 4.9% | 10.2% | |
| Net profit margin | 3.2% | 7.8% | |
| Returns on equity (Note 2) | 1.9% | 4.7% | |
| Current ratio (Note 3) | 0.93 | 0.98 | |
| Gearing ratio (Note 4) | 76.0% | 67.2% | |

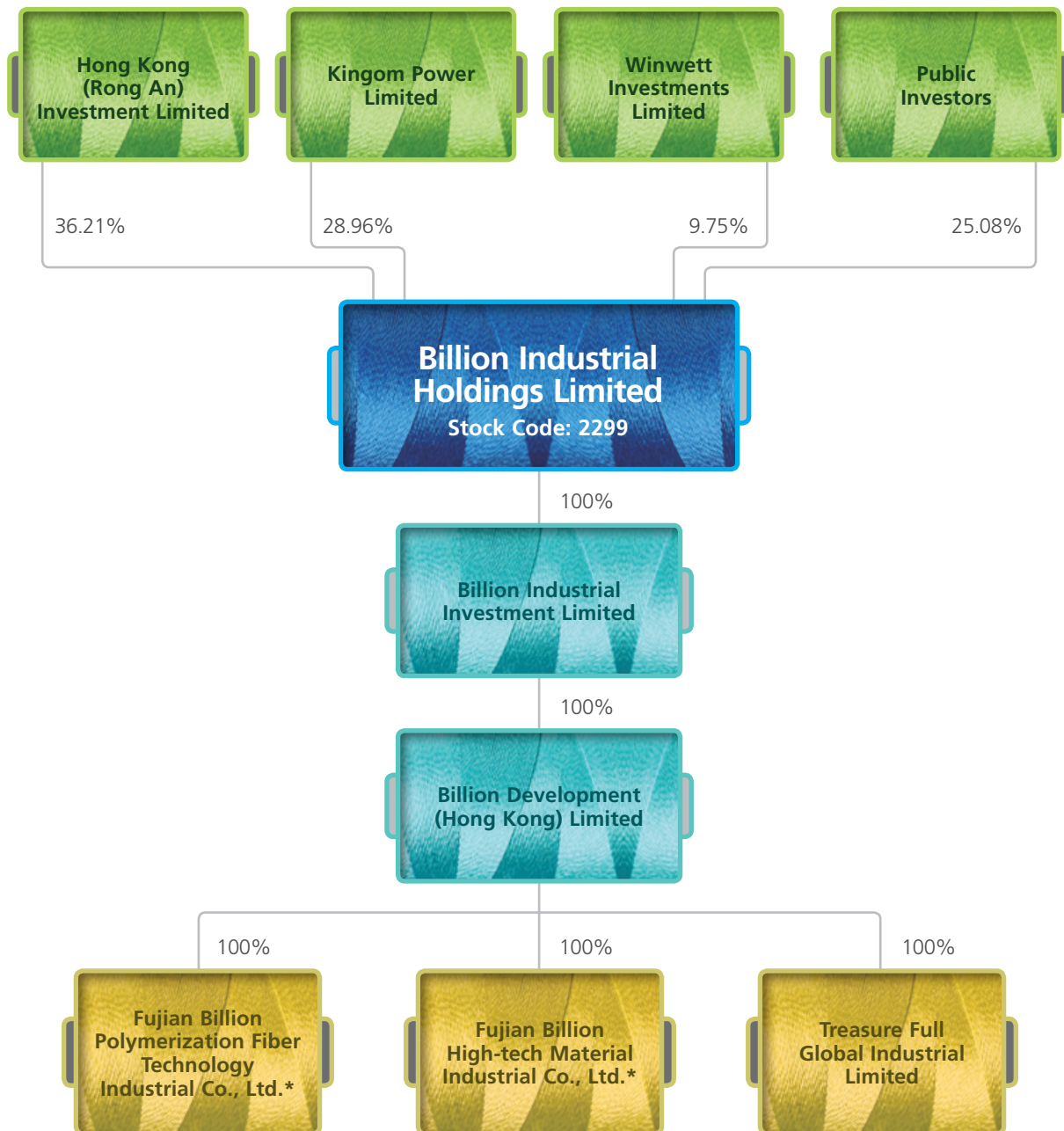
Notes:

- 1: The interim dividend of HK3.0 cents per share in cash will be paid on 3 October 2014
- 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



Company Structure

as at 30 June 2014



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
 : Cayman Islands
 : British Virgin Islands
 : Hong Kong
 : PRC
 : PRC
 : British Virgin Islands

Place of operation
 Hong Kong
 Hong Kong
 Hong Kong
 Fujian, PRC
 Fujian, PRC
 Hong Kong

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

Production Sites

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

As at 31 December 2013

FDY+POY : 785,000 TPY
DTY : 493,000 TPY
BOPET : 36,500 TPY

Designed Capacity will be:

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

CHANGES IN MARCO-ECONOMIC ENVIRONMENT

In June 2014, the World Bank adjusted the projected 2014 global economic growth rate from the 3.2% in January down to 2.8%, revealing that the overall global economy is in a slow recovery momentum. However, as the negative impact resulted from the reduced government spending in Europe and United States is gradual diminishing and labour markets saw improvements, the suppressed demand has started to release, and the European and United States economies are expected to lead the recovery in the second half of the year. Despite the overall growth of emerging economies is relatively faster, the downward pressure is increasing, the complexity and uncertainty in global economic development further increase, and the competition in international markets becomes more and more intense.

In the first half of 2014, China's gross domestic product ("GDP") grew by 7.4% and was in line with the year-on-year growth objective in 2014. However, such increase was still lower than the 7.7% growth rate in the fourth quarter of last year. According to National Bureau of Statistics of the PRC, retail sales of apparel, footwear, hats and textile products amounted to RMB588.6 billion in the first half of 2014, representing a year-on-year increase of 10.0%. With the PRC economy continuing to progress in accordance with its master economic guideline of "making progress while maintaining stability", the domestic economy is expected to further stabilise and recover, thereby vigorously improving the environment for the development of the textile industry and boosting both domestic investment and consumption demand.

INDUSTRY REVIEW

In the first half of 2014, the overall domestic economy was running steadily and the structural adjustments made progress while maintaining stability. Although the PRC economy continued its slowing-down trend since the fourth quarter last year, data from domestic industrial production and market sales witnessed a stable growth. There was very small room for the market prices of both purified terephthalic acid ("PTA") and mono ethylene glycol ("MEG"), the principal raw materials of the Group's products, to continue to drop, and in fact, the price of PTA has been increasing since the middle of May 2014. As boosted by the slight continuous growth in the upstream suppliers' raw material prices, the overall market trading sentiment had improved significantly and price of polyester filament yarns also continued to increase. Furthermore, increase in purchasing volume was seen in the downstream enterprises, with both the production and sales of the polyester filament yarns market showing obvious improvements since May 2014, and industry profitability gradually stabilising.

The polyester thin films market showed a rapid growing trend. Following the scale accumulation stage, manufacturers begin to differentiate their products with high added values which indicates an expected growth. In recent years, the emergence of food packaging and pharmaceutical drugs industry in China pushed up the momentum of polyester thin films market. The demand for polyester thin films in future is expected to increase continuously.

Management Discussion and Analysis

Business review

The Group had continued to strive for product quality improvement and development of differentiated products during the period, therefore, despite a retarding economic growth in the PRC and the downturn for the chemical fiber industry during the period, market demand for the Group's products remained strong and sales volume and sales value of the Group maintained a stable growth during the period.

Research and development plays an important role in the improvement of product quality. During the period, the Group's research and development expenses amounted to RMB108,985,000, representing 3.5% of its total revenue. Its research and development efforts mainly focused on improving product quality and production efficiency. Owing to our long-term investment in research and development and marketing efforts in promoting differentiated products, the Group's overall business volume still maintained a solid growth.

While consolidating its domestic market share, the Company also strived to develop international markets. The Group's export sales during the period amounted to RMB458,606,000, representing an increase of 45.8% as compared to the first half of 2013, demonstrating the increasing recognition of the Group's brand in the overseas markets. In addition to further strengthening our presence in the domestic market steadily and continuously, the Group will continue to expand the overseas market share, strengthen its expansion in emerging markets, provide quality service and promote its brand recognition to increase the sales proportion to end-customers.

The Group continued to actively market its polyester thin films business during the period while its production expansion for such products progressed in an orderly manner, with its second and third production line having entered into the installation stage. Upon completion of installation, the polyester thin films production capacity will further improve and it is expected that the revenue of polyester thin films and its proportion in the overall revenue of the Group will continue to increase in the second half of the year.



Management Discussion and Analysis

FINANCIAL REVIEW

Operational Performance

1. Revenue

Total revenue of the Group for the period amounted to RMB3,131,982,000 (for the first half of 2013: RMB3,115,537,000), representing an increase of 0.5% as compared to the same period last year. Revenue attributable to the sales of polyester filament yarns, the Group's main products, was RMB3,025,682,000, accounting for 96.6% of the total revenue. Revenue attributable to the sales of polyester thin films was RMB106,300,000, accounting for 3.4% 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 for the period was RMB3,025,682,000, representing a decrease of RMB10,909,000 as compared to the revenue of RMB3,036,591,000 in the first half of 2013 or a decrease of 0.4% as compared to the same period last year. The average selling price of polyester filament yarns during the period was RMB10,106 per ton, representing a decrease of RMB2,296 or 18.5% as compared to the average selling price of RMB12,402 per ton in the first half of 2013.

The continuous softened economic growth in China has exerted negative impact on the Group's customers such as apparel and footwear enterprises. Although the market demand for the Group's products remained strong and the sales volume of polyester filament yarns products of the Group for the year increased to 299,404 tons during the period from 244,844 tons in the first half of 2013 (representing an increase of 54,560 tons or 22.3%), the selling price of polyester filament yarns continued to drop from the previous year.

Polyester thin films

Revenue attributable to the sales of polyester thin film products for the period was RMB106,300,000, representing an increase of RMB27,354,000 as compared to the revenue of RMB78,946,000 in the first half of 2013 or an increase of 34.6% as compared to the same period last year. The sales volume was 10,051 tons, representing an increase of 50.8% as compared to the 6,666 tons in the same period last year. The average selling price of polyester thin films during the period was RMB10,576 per ton, representing a decrease of RMB1,267 or 10.7% as compared to the average selling price of RMB11,843 per ton in the first half of 2013.

Polyester thin films have wide application, and its business has become a new growth point of the Group's business. To cope with the development of polyester thin films business, the Group will endeavour to the construction of polyester thin films production line, research and develop new products and enhance the added value of its products, as well as continue to explore both domestic and overseas markets.

Management Discussion and Analysis

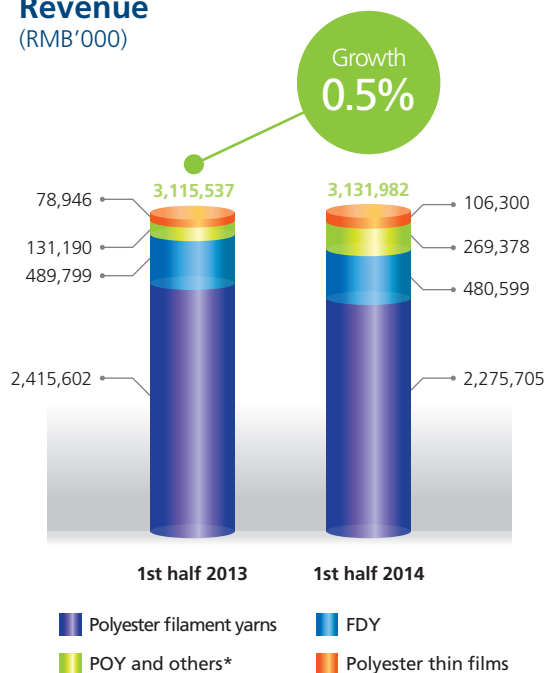
Sales by geographic region

The Group continued to expand its share in overseas market, improve its service quality and increase its brand recognition, hence, the percentage of export sales revenue of the Group increased to 14.6% during the period from the 10.1% in the first half of 2013. Approximately 85.4% of the Group's revenue was generated from domestic market sales, of which 65.6% were from sales to Fujian Province and 16.3% to Guangdong Province. Whilst maintaining its market share and position in Fujian and Guangdong provinces, the Group continued to explore other provincial and municipal markets, where it provided customised product services to its customers.

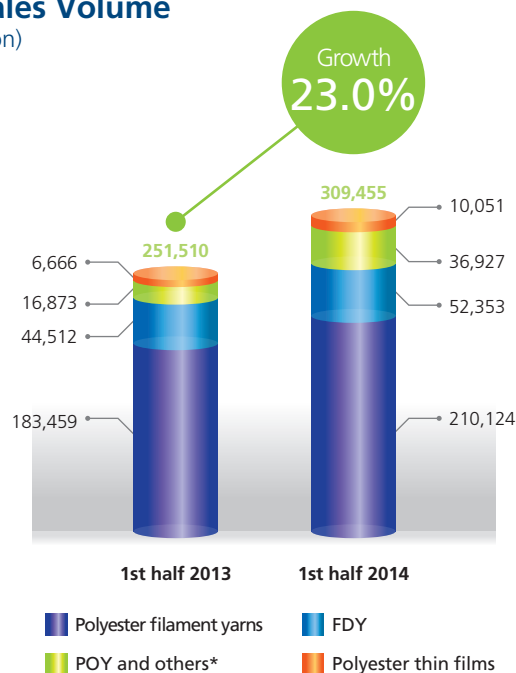
Breakdown of Revenue and Sales Volume (By Product)

| | Revenue For the six months ended 30 June | | | | Sales volume For the six months ended 30 June | | | |
|--------------------------|---|------------|-----------|------------|--|------------|---------|------------|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | RMB'000 | Percentage | RMB'000 | Percentage | Tons | Percentage | Tons | Percentage |
| Polyester filament yarns | | | | | | | | |
| DTY | 2,275,705 | 72.7% | 2,415,602 | 77.6% | 210,124 | 67.9% | 183,459 | 72.9% |
| FDY | 480,599 | 15.3% | 489,799 | 15.7% | 52,353 | 16.9% | 44,512 | 17.7% |
| POY and others* | 269,378 | 8.6% | 131,190 | 4.2% | 36,927 | 11.9% | 16,873 | 6.7% |
| Sub-total | 3,025,682 | 96.6% | 3,036,591 | 97.5% | 299,404 | 96.7% | 244,844 | 97.3% |
| Polyester thin films | 106,300 | 3.4% | 78,946 | 2.5% | 10,051 | 3.3% | 6,666 | 2.7% |
| Total | 3,131,982 | 100.0% | 3,115,537 | 100.0% | 309,455 | 100.0% | 251,510 | 100.0% |

Revenue (RMB'000)



Sales Volume (Ton)



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

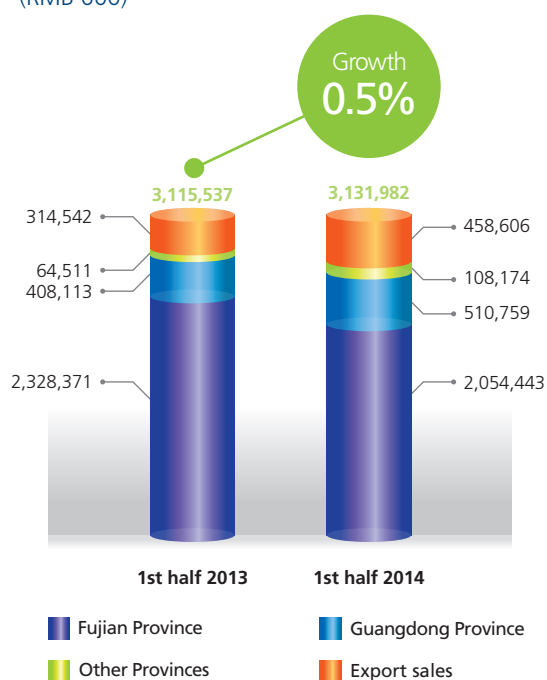
Management Discussion and Analysis

Geographic Breakdown of Revenue

| | For the six months ended 30 June | | | |
|--------------------|----------------------------------|---------------|------------------|---------------|
| | 2014 | | 2013 | |
| | RMB'000 | Percentage | RMB'000 | Percentage |
| Domestic sales | | | | |
| Fujian Province | 2,054,443 | 65.6% | 2,328,371 | 74.7% |
| Guangdong Province | 510,759 | 16.3% | 408,113 | 13.1% |
| Other provinces | 108,174 | 3.5% | 64,511 | 2.1% |
| Export sales | 458,606 | 14.6% | 314,542 | 10.1% |
| Total | 3,131,982 | 100.0% | 3,115,537 | 100.0% |

Note: Export sales regions mainly comprised various countries and regions such as Turkey, Italy, Belgium, Brazil, United States, Spain, and Poland.

Geographic Breakdown of Sales (RMB'000)



Management Discussion and Analysis

2. *Cost of Sales*

The cost of sales of the Group for the period was RMB2,827,435,000, representing an increase of 6.2% as compared to the cost of sales of RMB2,662,344,000 in the first half of 2013. Such increase was attributable to a 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 RMB2,732,828,000, accounting for 96.7% of the total cost of sales. The cost of sales for polyester thin films was RMB94,607,000, accounting for 3.3% of total cost of sales. The percentages of costs of sales of these two types of products were generally consistent with the percentages of their respective sales volumes.

Polyester filament yarns

The average cost of sales for polyester filament yarns dropped from RMB10,602 per ton in the first half of 2013 to RMB9,128 per ton during the period, representing a decrease of RMB1,474 or 13.9%, which was mainly due to the decrease in the selling prices of PTA and MEG, the key raw materials of polyester filament yarns products. The average price of raw materials for polyester filament yarns dropped from RMB8,619 per ton in the first half of 2013 to RMB7,297 per ton during the period, representing a decrease of RMB1,322 or 15.3%.

Polyester thin films

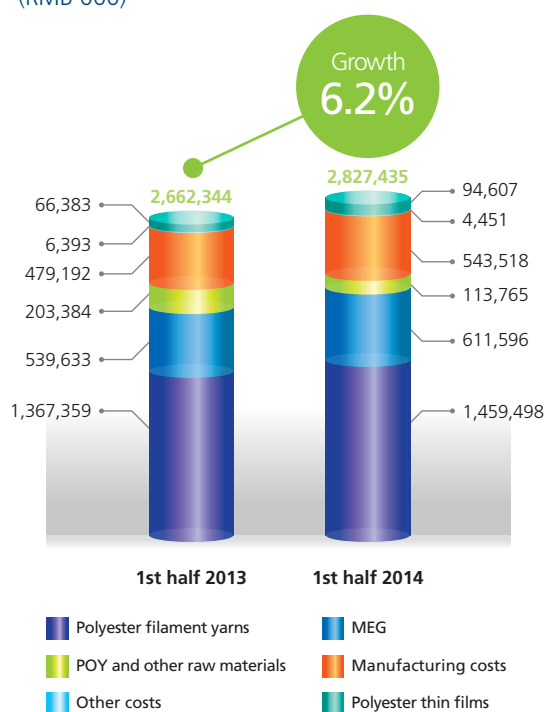
The average cost of sales for polyester thin films dropped from RMB9,958 per ton in the first half of 2013 to RMB9,413 per ton during the period, representing a decrease of RMB545 or 5.5%, which was mainly due to the decrease in selling price of raw materials for polyester thin films.

Management Discussion and Analysis

Breakdown of Cost of Sales

| | For the six months ended 30 June | | | |
|-----------------------------|----------------------------------|------------|-----------|------------|
| | 2014 | | 2013 | |
| | RMB'000 | Percentage | RMB'000 | Percentage |
| Polyester filament yarns | | | | |
| Cost of raw materials | | | | |
| PTA | 1,459,498 | 51.6% | 1,367,359 | 51.3% |
| MEG | 611,596 | 21.7% | 539,633 | 20.3% |
| POY and other raw materials | 113,765 | 4.0% | 203,384 | 7.7% |
| Sub-total | 2,184,859 | 77.3% | 2,110,376 | 79.3% |
| Manufacturing costs | 543,518 | 19.2% | 479,192 | 18.0% |
| Other costs | 4,451 | 0.2% | 6,393 | 0.2% |
| Sub-total | 2,732,828 | 96.7% | 2,595,961 | 97.5% |
| Polyester thin films | 94,607 | 3.3% | 66,383 | 2.5% |
| Total | 2,827,435 | 100.0% | 2,662,344 | 100.0% |

Breakdown of Cost of Sales (RMB'000)



Management Discussion and Analysis

3. **Gross Profit**

The gross profit of the Group for the period was RMB304,547,000, decreased by RMB148,646,000, or 32.8% as compared to RMB453,193,000 in the first half of 2013. Although sales volume of the Group during the period increased by 57,945 tons, representing an increase of 23.0% as compared to the first half of 2013, and the average cost of the products also decreased by an average of RMB1,448 per ton, representing a decrease of 13.7% from RMB10,585 in the first half of 2013 to RMB9,137 during the period, the average selling price of the products decreased by an average of RMB2,266 per ton, representing a decrease of 18.3% from the RMB12,387 in the first half of 2013 to RMB10,121 during the period. Therefore, the average gross profit per ton of the products decreased from RMB1,802 in the first half of 2013 to RMB984 during the period. The gross profit margin decreased by 4.8 percentage points from 14.5% in the first half of 2013 to 9.7% during the period.

Polyester filament yarn

The average selling price of polyester filament yarn products per ton decreased by an average of RMB2,296 per ton, representing a decrease of 18.5% from RMB12,402 in the first half of 2013 to RMB10,106 during the period. The average gross profit of polyester filament yarn products per ton decreased from RMB1,800 in the first half of 2013 to RMB978 during the period. The gross profit margin decreased by 4.8 percentage points from 14.5% in the first half of 2013 to 9.7% during the period.

Polyester thin films

The average selling price of polyester thin films products per ton decreased by an average of RMB1,267 per ton, representing a decrease of 10.7% from RMB11,843 in the first half of 2013 to RMB10,576 during the period. The average gross profit of polyester thin films products per ton decreased from RMB1,885 in the first half of 2013 to RMB1,163 during the period. The gross profit margin decreased by 4.9 percentage points from 15.9% in the first half of 2013 to 11.0% during the period.

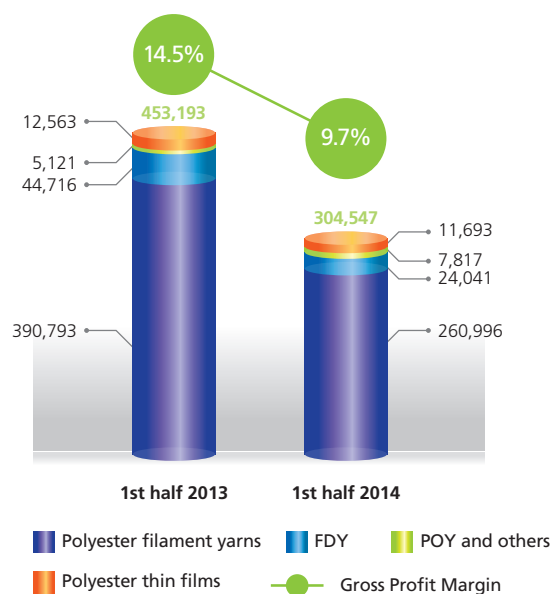
Gross profit and gross profit margin during the period decreased as compared to those in the first half of 2013, which were mainly due to the slowdown in economic growth in China, the downturn in the fiber industry, and the effect of price drop on the performance of the Group being greater than the effect of increase in sales volume during the period.

Management Discussion and Analysis

Analysis of Gross Profit (By Product)

| | For the six months ended 30 June | | | |
|--------------------------|----------------------------------|------------|---------|------------|
| | 2014 | | 2013 | |
| | RMB'000 | Percentage | RMB'000 | Percentage |
| Polyester filament yarns | | | | |
| DTY | 260,996 | 85.7% | 390,793 | 86.2% |
| FDY | 24,041 | 7.9% | 44,716 | 9.9% |
| POY and others* | 7,817 | 2.6% | 5,121 | 1.1% |
| Sub-total | 292,854 | 96.2% | 440,630 | 97.2% |
| Polyester thin films | 11,693 | 3.8% | 12,563 | 2.8% |
| Total | 304,547 | 100.0% | 453,193 | 100.0% |

Gross Profit and Gross Profit Margin (RMB'000)



* Others represent 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 | |
|---------------------------------|---------------------------------|--------|
| | 2014 | 2013 |
| | RMB | RMB |
| Polyester filament yarns | | |
| Average selling price per ton | 10,106 | 12,402 |
| Average cost of sales per ton | 9,128 | 10,602 |
| Average gross profit per ton | 978 | 1,800 |
| Average gross profit margin | 9.7% | 14.5% |
| Polyester thin films | | |
| Average selling price per ton | 10,576 | 11,843 |
| Average cost of sales per ton | 9,413 | 9,958 |
| Average gross profit per ton | 1,163 | 1,885 |
| Average gross profit margin | 11.0% | 15.9% |

4. Other revenue

Other revenue of the Group for the period amounted to RMB36,531,000, representing an increase of 3.2% as compared to RMB35,405,000 in the first half of 2013. Other revenue mainly included bank interest income and gain from government grants. Such increase was mainly attributable to the increase in the amounts of government grants as compared to those of the same period last year. Government grants mainly included special fund for provincial-level enterprise technology improvement and electricity usage reward for increase in production capacity and efficiency.

5. Other net (loss)/gain

Other net loss of the Group during the period amounted to RMB6,757,000 (for the first half of 2013: other net gain of RMB1,572,000). The loss was mainly due to a combined impact of increase in exchange gain and increase in net loss on financial liabilities at fair value through profit or loss.

Management Discussion and Analysis

6. Selling and distribution expenses

Selling and distribution expenses of the Group for the period amounted to RMB21,493,000, representing an increase of 34.3% as compared to RMB16,001,000 in the first half of 2013. Selling and distribution expenses mainly included transportation cost, insurance premium, wages of our sales staff and promotion expenses. Such increase was mainly due to the increase in sales volume during the period, in particular, the increase in export sales, the related selling and distribution expenses (such as transportation costs and bank service charge) for which are generally high than domestic sales.

7. Administrative expenses

Administrative expenses of the Group for the period amounted to RMB158,884,000, increased by 0.7% as compared to RMB157,823,000 in the first half of 2013. Administrative expenses mainly included research and development costs, depreciation on office equipment, staff wages, general office expenses, professional and legal fees. Such change was mainly due to a combined impact of increase in research and development costs of the Group, consulting service fee related to the general offer for the shares of the Company occurred during the period and the reduction in property tax provision during the period.

8. Finance costs

Finance costs of the Group for the period amounted to RMB30,335,000, increased by 14.6% as compared to RMB26,469,000 in the first half of 2013. It was mainly due to the increase in interests on bank advances and other borrowings resulted from an increase in bank loans.

9. Income tax

Income tax of the Group for the period amounted to RMB22,964,000, decreased by 52.5% as compared to RMB48,368,000 in the first half of 2013, which was mainly due to the decrease in profit before taxation.

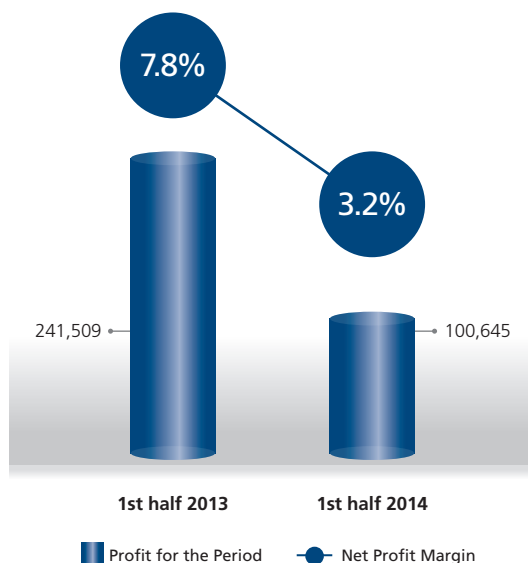
10. Profit for the period

Profit of the Group for the period amounted to RMB100,645,000, decreased by RMB140,864,000 or 58.3% as compared to RMB241,509,000 in the first half of 2013. It was mainly due to the decrease in gross profit of RMB148,646,000 during the period.

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 2014, cash and cash equivalent of the Group amounted to RMB634,520,000, increased by RMB414,674,000 or 188.6% as compared to RMB219,846,000 as at 31 December 2013.

During the period, net cash inflow from operating activities amounted to RMB135,243,000 (exceeding the profit attributable to shareholders), demonstrating the sound working capital management of the Group. Net cash outflow used in investing activities amounted to RMB268,571,000, which mainly include the capital expenditure of RMB120,578,000 and the increase in restricted bank deposits of RMB176,312,000. Net cash inflow used in financing activities amounted to RMB531,690,000, which mainly include the net increase in bank loans of RMB604,672,000 and the payment of 2013 final dividends amounting to RMB54,850,000 during the period.

The Group primarily uses the cash inflow from operating activities to satisfy the requirements of working capital. During the period, inventory turnover day was 41.3 days (for first half of 2013: 33.0 days), representing an increase of 8.3 days as compared to the same period last year, which was mainly due to the decrease in cost of sales of the Company. The trade receivable turnover days were 29.4 days (for the first half of 2013: 46.4 days), representing a decrease of 17.0 days as compared to the same period last year. The decrease was primarily due to the increase in discounted trade receivables during the period. The trade payable turnover days were 53.8 days (for the first half of 2013: 55.6 days), and there was no significant change for those as compared to the first half of 2013.

As at 30 June 2014, the Group had capital commitments of RMB436,316,000, which was mainly used for the expansion of production capacity and the development of functional environmentally-friendly polyester thin films business.

Management Discussion and Analysis

2. Capital Structure

As at 30 June 2014, the total liabilities of the Group amounted to RMB3,962,704,000, and capital and reserve amounted to RMB5,213,573,000. The gearing ratio (total liabilities divided by total equity) was 76.0%. Total assets amounted to RMB9,176,277,000. The asset liability ratio (total assets divided by total liabilities) was 2.3 times. Bank loans of the Group amounted to RMB2,610,769,000, of which RMB2,593,042,000 were repayable within one year and RMB17,727,000 were repayable after one year. Among the bank borrowings, 40.3% were secured by properties, trade receivables and restricted bank deposits.

Significant Investments

During the period, the Group entered into a non-legally binding letter of intent with 重慶中節能實業有限責任公司 (CECEP Chongqing Industry Co., Ltd.*) and 重慶中節能隆安實業開發有限公司 (Chongqing CECEP Longan Industrial Development Co., Ltd.*) and agreed on the intention for the Company to acquire the gas business related assets wholly owned by these two companies. As at the date of this report, no legally binding agreement has been entered into by the Company with respect to such potential acquisition.

Save for the aforesaid, 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 and development of functional environmentally-friendly polyester thin films business. The Company intends to finance such plan through internally generated fund and bank loans.

Charges on Assets

Save as disclosed above, there was no other charge on Group's assets as of 30 June 2014.

Contingent Liabilities

As at 30 June 2014, the Group did not have any contingent liability (2013: nil).

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 2014, the Group's foreign currency risk exposure was mainly derived from the net liabilities exposure denominated in United States Dollars of RMB955,652,000.

Employees and Remuneration

As at 30 June 2014, the Group had a total of 3,721 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.

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 22 to 43, which comprise the consolidated statement of financial position of Billion Industrial Holdings Limited at 30 June 2014, 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 2014 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

29 August 2014

Consolidated Income Statement

for the six months ended 30 June 2014 – unaudited
(Expressed in Renminbi)

| | Note | Six months ended 30 June | |
|-----------------------------------|------|--------------------------|-----------------|
| | | 2014 RMB'000 | 2013 RMB'000 |
| Revenue | 4 | 3,131,982 | 3,115,537 |
| Cost of sales | | (2,827,435) | (2,662,344) |
| Gross profit | | 304,547 | 453,193 |
| Other revenue | 5 | 36,531 | 35,405 |
| Other net (loss)/gain | 6 | (6,757) | 1,572 |
| Selling and distribution expenses | | (21,493) | (16,001) |
| Administrative expenses | | (158,884) | (157,823) |
| Profit from operations | | 153,944 | 316,346 |
| Finance costs | 7(a) | (30,335) | (26,469) |
| Profit before taxation | 7 | 123,609 | 289,877 |
| Income tax | 8 | (22,964) | (48,368) |
| Profit for the period | | 100,645 | 241,509 |
| Earnings per share | | | |
| Basic and diluted (RMB) | 10 | 0.05 | 0.11 |

The notes on pages 28 to 43 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 2014 – unaudited
(Expressed in Renminbi)

| | Note | Six months ended 30 June | |
|--|------|--------------------------|-----------------|
| | | 2014 RMB'000 | 2013 RMB'000 |
| Profit for the period | | 100,645 | 241,509 |
| Other comprehensive income for the period | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences on translation of financial statements of operations outside mainland China | | (7,596) | 3,363 |
| Total comprehensive income for the period | | 93,049 | 244,872 |

The notes on pages 28 to 43 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2014 – unaudited
(Expressed in Renminbi)

| | Note | At 30 June 2014 RMB'000 | At 31 December 2013 RMB'000 (audited) |
|---|-------|----------------------------------|---|
| Non-current assets | | | |
| Fixed assets | | | |
| – Property, plant and equipment | 11 | 4,336,715 | 4,110,624 |
| – Construction in progress | 12 | 676,712 | 614,305 |
| – Interests in leasehold land held for own use under operating leases | 13 | 370,231 | 372,708 |
| | | 5,383,658 | 5,097,637 |
| Deposits and prepayments | 15 | 205,974 | 497,087 |
| | | 5,589,632 | 5,594,724 |
| Current assets | | | |
| Inventories | 14 | 615,595 | 675,755 |
| Trade and other receivables | 15 | 888,199 | 839,335 |
| Restricted bank deposits | | 1,448,331 | 1,270,816 |
| Cash and cash equivalents | 16 | 634,520 | 219,846 |
| | | 3,586,645 | 3,005,752 |
| Current liabilities | | | |
| Trade and other payables | 17 | 1,215,475 | 1,308,901 |
| Bank loans | | 2,593,042 | 1,972,514 |
| Current taxation | 18(a) | 45,582 | 42,565 |
| | | 3,854,099 | 3,323,980 |
| Net current liabilities | | (267,454) | (318,228) |
| Total assets less current liabilities | | 5,322,178 | 5,276,496 |

Consolidated Statement of Financial Position

at 30 June 2014 – unaudited
(Expressed in Renminbi)

| | Note | At 30 June 2014 RMB'000 | At 31 December 2013 RMB'000 (audited) |
|--------------------------------|-------|----------------------------------|---|
| Non-current liabilities | | | |
| Bank loans | | 17,727 | 18,362 |
| Deferred tax liabilities | 18(b) | <u>90,878</u> | <u>82,760</u> |
| | | <u>108,605</u> | <u>101,122</u> |
| NET ASSETS | | | |
| | | <u>5,213,573</u> | <u>5,175,374</u> |
| CAPITAL AND RESERVES | | | |
| | 19 | | |
| Share capital | | 18,694 | 18,694 |
| Reserves | | <u>5,194,879</u> | <u>5,156,680</u> |
| TOTAL EQUITY | | | |
| | | <u>5,213,573</u> | <u>5,175,374</u> |

Approved and authorised for issue by the Board of Directors on 29 August 2014.

Sze Tin Yau
Director

Wu Jinbiao
Director

The notes on pages 28 to 43 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2014 – 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 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 | | | | | | | | |
| – 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> |
| Balance at 1 January 2014 | 18,694 | 1,157,499 | 639 | 276,516 | 1,805,631 | (44,755) | 1,961,150 | 5,175,374 |
| Changes in equity for the six months ended 30 June 2014 | | | | | | | | |
| Dividends approved in respect of the previous year | 9(b) | – | (54,850) | – | – | – | – | (54,850) |
| Total comprehensive income for the period | – | – | – | – | – | (7,596) | 100,645 | 93,049 |
| Balance at 30 June 2014 | <u>18,694</u> | <u>1,102,649</u> | <u>639</u> | <u>276,516</u> | <u>1,805,631</u> | <u>(52,351)</u> | <u>2,061,795</u> | <u>5,213,573</u> |

The notes on pages 28 to 43 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2014– unaudited
(Expressed in Renminbi)

| | Note | Six months ended 30 June | |
|--|------|--------------------------|------------------|
| | | 2014 RMB'000 | 2013 RMB'000 |
| Operating activities | | | |
| Cash generated from operations | | 147,072 | 343,906 |
| Tax paid | | (11,829) | (53,920) |
| Net cash generated from operating activities | | 135,243 | 289,986 |
| Investing activities | | | |
| Payment for the purchase of property, plant and equipment | | (15,998) | (16,998) |
| Expenditure on construction in progress | | (104,580) | (315,309) |
| Other cash flows arising from investing activities | | (147,993) | (290,783) |
| Net cash used in investing activities | | (268,571) | (623,090) |
| Financing activities | | | |
| Dividends paid to equity shareholders of the Company | | (54,850) | (177,658) |
| Proceeds from new bank loans | | 1,076,819 | 1,706,497 |
| Repayment of bank loans | | (472,147) | (815,033) |
| Other cash flows arising from financing activities | | (18,132) | (349,177) |
| Net cash generated from financing activities | | 531,690 | 364,629 |
| Net increase in cash and cash equivalents | | 398,362 | 31,525 |
| Cash and cash equivalents at 1 January | | 219,846 | 644,049 |
| Effect of foreign exchange rate changes | | 16,312 | 1,213 |
| Cash and cash equivalents at 30 June | 16 | 634,520 | 676,787 |

The notes on pages 28 to 43 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 29 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 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 2013 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 21.

The financial information relating to the financial year ended 31 December 2013 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 2013 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 31 March 2014.

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 amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

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 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 | |
|-----------------------------------|--------------------------|------------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Polyester filament yarns products | 3,025,682 | 3,036,591 |
| Polyester thin films products | 106,300 | 78,946 |
| | 3,131,982 | 3,115,537 |

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 2014 and 2013.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

5 OTHER REVENUE

| | Six months ended 30 June | |
|---------------------------------------|--------------------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Bank interest income | 20,237 | 22,614 |
| Government grants | 16,664 | 7,093 |
| (Loss)/gain on sales of raw materials | (400) | 5,671 |
| Other | 30 | 27 |
| | 36,531 | 35,405 |

Government grants of RMB16,664,000 and RMB7,093,000 for the six months ended 30 June 2014 and 2013 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 (LOSS)/GAIN

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Donations | (235) | (26) |
| Net exchange gain/(loss) | 8,603 | (16,075) |
| Net gain on sale of property, plant and equipment | 12 | - |
| Net (loss)/gain on financial assets and liabilities at fair value through profit or loss | (14,233) | 17,333 |
| Others | (904) | 340 |
| | (6,757) | 1,572 |

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 | |
|---|--------------------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| (a) Finance costs: | | |
| Interest on bank advances and other borrowings | 25,806 | 17,644 |
| Other interest expenses | 4,529 | 8,825 |
| | <u>30,335</u> | <u>26,469</u> |
| (b) Staff costs: | | |
| Contributions to defined contribution retirement plans | 1,500 | 1,449 |
| Salaries, wages and other benefits | 89,708 | 76,214 |
| | <u>91,208</u> | <u>77,663</u> |
| (c) Other items: | | |
| Amortisation of interests in leasehold land held for own use under operating leases | 2,477 | 2,082 |
| Depreciation | 126,378 | 97,989 |
| Operating lease charges in respect of properties | 180 | 180 |
| Research and development costs* | 108,985 | 100,090 |
| Cost of inventories** | 2,827,435 | 2,662,344 |

* Research and development costs include RMB26,085,000 and RMB21,228,000 for the six months ended 30 June 2014 and 2013 respectively relating to staff costs 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 RMB171,200,000 and RMB127,777,000 for the six months ended 30 June 2014 and 2013 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

8 INCOME TAX

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Current tax | | |
| Provision for PRC income tax for the period | 14,846 | 40,911 |
| Deferred tax | | |
| Origination and reversal of temporary differences | 8,118 | 7,457 |
| | 22,964 | 48,368 |

- (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 2014 and 2013.
- (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.
- (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) is subject to PRC income tax rate at 25%.

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

9 DIVIDENDS

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|-----------------|-----------------|
| Interim dividend proposed after the interim period of HK3.0 cents per share (2013: HK7.0 cents per share) | 53,029 | 122,200 |

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:

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Final dividend in respect of the previous financial year, approved and paid during the period, HK3.1 cents per share (2012: HK10.0 cents per share) | 54,850 | 177,658 |

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 RMB100,645,000 (six months ended 30 June 2013: RMB241,509,000) and the weighted average of 2,223,000,000 ordinary shares (2013: 2,227,635,138 ordinary shares) in issue during the interim period.

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2014 and 2013, 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 2014 RMB'000 | At 31 December 2013 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Net book value, at 1 January | 4,110,624 | 3,117,951 |
| Exchange adjustments | 411 | (1,475) |
| Additions | 5,528 | 27,414 |
| Transfer from construction in progress (note 12) | 346,599 | 1,185,947 |
| Disposals | (69) | – |
| Depreciation charge for the period/year | (126,378) | (219,213) |
| At 30 June/31 December | 4,336,715 | 4,110,624 |

12 CONSTRUCTION IN PROGRESS

| | At 30 June 2014 RMB'000 | At 31 December 2013 RMB'000 |
|---|----------------------------------|--------------------------------------|
| At 1 January | 614,305 | 1,180,302 |
| Additions | 409,006 | 619,950 |
| Transfer to property, plant and equipment (note 11) | (346,599) | (1,185,947) |
| At 30 June/31 December | 676,712 | 614,305 |

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 2014, the remaining period of the land use rights ranged from 42 to 49 years.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

14 INVENTORIES

| | At 30 June 2014 RMB'000 | At 31 December 2013 RMB'000 |
|------------------|----------------------------------|--------------------------------------|
| Raw materials | 251,842 | 139,282 |
| Work in progress | 26,301 | 24,764 |
| Finished goods | 337,452 | 511,709 |
| | 615,595 | 675,755 |

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 2014 RMB'000 | At 31 December 2013 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Current | 544,707 | 463,639 |
| Less than 1 month past due | 7,451 | 247 |
| More than 1 month but less than 3 months past due | 110 | 2 |
| More than 3 months but less than 1 year past due | 233 | 5 |
| Trade debtors and bills receivable, net of allowance for doubtful debts | 552,501 | 463,893 |
| Deposits, prepayments and other receivables | 536,844 | 858,676 |
| | 1,089,345 | 1,322,569 |
| Less: Non-current portion of deposits and prepayments | (205,974) | (497,087) |
| Current portion of trade debtors, bills receivable, deposits, prepayments and other receivables | 883,371 | 825,482 |
| Derivative financial assets | | |
| – Forward exchange contracts | 4,828 | 13,853 |
| | 888,199 | 839,335 |

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES (Continued)

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 90 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 2014.

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

16 CASH AND CASH EQUIVALENTS

| | At 30 June 2014 RMB'000 | At 31 December 2013 RMB'000 |
|--------------------------|----------------------------------|--------------------------------------|
| Cash at bank and in hand | 634,520 | 219,846 |

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

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 2014 RMB'000 | At 31 December 2013 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Within 3 months or on demand | 661,848 | 853,671 |
| More than 3 months but within 6 months | 110,275 | 118,805 |
| More than 6 months but within 1 year | 30,806 | 2,326 |
| More than 1 year | 2,215 | – |
| Trade creditors and bills payable | 805,144 | 974,802 |
| Other payables and accrual charges | 176,393 | 156,789 |
| Equipment payables | 29,357 | 42,166 |
| Construction payables | 10,496 | 532 |
| Receipts in advance | 186,891 | 134,162 |
| Financial liabilities measured at amortised cost | 1,208,281 | 1,308,451 |
| Derivative financial liabilities | | |
| – Interest rate swaps | 439 | 450 |
| – Forward exchange contracts | 6,755 | – |
| | 1,215,475 | 1,308,901 |

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 2014 RMB'000 | At 31 December 2013 RMB'000 |
|-----------------------------|----------------------------------|--------------------------------------|
| Provision of PRC income tax | <u>45,582</u> | <u>42,565</u> |

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

| | At 30 June 2014 RMB'000 | At 31 December 2013 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Deferred tax liabilities/(assets) arising from: | | |
| – Depreciation and amortisation of fixed assets | 100,017 | 88,477 |
| – Others | <u>(9,139)</u> | <u>(5,717)</u> |
| | <u>90,878</u> | <u>82,760</u> |

(c) Deferred tax assets not recognised

At 30 June 2014, certain subsidiaries of the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB59,961,000 (31 December 2013: RMB50,558,000) 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 2014, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in mainland China amounted to RMB2,122,360,000 (31 December 2013: RMB2,002,820,000). Deferred tax liabilities of RMB106,118,000 (31 December 2013: RMB100,141,000) 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 2014 | | At 31 December 2013 | |
|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
| | 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>2,223,000,000</u> | <u>HK\$22,230,000</u> |
| RMB equivalent | | <u>RMB18,694,152</u> | | <u>RMB18,694,152</u> |

(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 2014 was HK\$1,202,500,000 (as at 31 December 2013: HK\$1,276,727,000).

(ii) Capital redemption reserve

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

19 CAPITAL AND RESERVES (Continued)

(b) Nature and purpose of reserves (Continued)

(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 2014 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.

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

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)

| | Fair value measurements as at 30 June 2014 using | | | |
|---|--|---|--|---|
| | Fair value at 30 June 2014 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 | 4,828 | – | 4,828 | – |
| Financial liabilities: | | | | |
| Derivative financial instruments: | | | | |
| – Interest rate swaps | 439 | – | 439 | – |
| – Forward exchange contracts | 6,755 | – | 6,755 | – |

| | Fair value measurements as at 31 December 2013 using | | | |
|---|--|---|--|---|
| | Fair value at 31 December 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 | 13,853 | – | 13,853 | – |
| Financial liabilities: | | | | |
| Derivative financial instruments: | | | | |
| – Interest rate swaps | 450 | – | 450 | – |

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 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: 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 in respect 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 2014 RMB'000 | At 31 December 2013 RMB'000 |
|-----------------------------------|----------------------------------|--------------------------------------|
| Authorised but not contracted for | 141,849 | 155,538 |
| Contracted for | 294,467 | 372,248 |
| | 436,316 | 527,786 |

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 | |
|------------------------------|--------------------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Short-term employee benefits | 2,644 | 3,418 |
| Post-employment benefits | 22 | 23 |
| | 2,666 | 3,441 |

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

22 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with a related party

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

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 |
| Sales of goods | | |
| CECEP Costin New Materials Group Limited* 中國節能海東青新材料集團有限公司 and its subsidiaries ("CECEP Costin Group") | 21,999 | – |
| Purchase of materials | | |
| CECEP Costin Group | 37 | – |

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

(c) Balances with a related party

| | At | At |
|--|----------------------------|--------------------------------|
| | 30 June 2014 RMB'000 | 31 December 2013 RMB'000 |
| Receipt in advance from CECEP Costin Group | 5,839 | 7,245 |
| Other payable to CECEP Costin Group | 18 | 12 |

General Information

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK3.0 cents per share in cash for the six months ended 30 June 2014. The dividend will be paid on 3 October 2014 to those shareholders whose names appear on the Company's register of members on 18 September 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 16 September 2014 to Thursday, 18 September 2014, both days inclusive, during which no transfer of shares will be 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 Monday, 15 September 2014.

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

As at 30 June 2014, 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 | 1,448,732,808 ^(a) | 65.17% |
| Mr. Wu Jinbiao | Interest in controlled corporation | 216,820,000 ^(b) | 9.75% |

General Information

Notes:

- (a) Mr. Sze Tin Yau owned 100% of the issued shares of Kingom Power Limited (“Kingom Power”), which directly owned 643,720,000 shares of the Company. In addition, pursuant to a shareholders deed entered into by and among others, Hong Kong (Rong An) Investment Limited (“Hong Kong Rong An”) and Kingom Power dated 13 January 2014 (the “Shareholders Deed”), Kingom Power is deemed to be interested in the 805,012,808 shares of the Company owned by Hong Kong Rong An pursuant to the SFO. Accordingly, Mr. Sze Tin Yau was deemed to be interested in 1,448,732,808 shares of the Company that Kingom Power was interested in by virtue of the SFO.
- (b) Mr. Wu Jinbiao owned 100% of the issued shares of Winwett Investments Limited, which directly owned 216,820,000 shares of the Company. Accordingly, Mr. Wu Jinbiao is deemed to be interested in all the shares of the Company owned by Winwett investments Limited by virtue of the SFO.

Save as disclosed above, as at 30 June 2014, 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 2014, 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”) ^(a) | Beneficial owner and parties acting in concert | 1,448,732,808 | 65.17% |

General Information

| Name of substantial shareholder | Capacity | Number of ordinary shares interested | Percentage of the Company's issued share capital |
|---|---|--------------------------------------|--|
| CECEP Chongqing Industry Co., Ltd. ("CECEP Chongqing") ^(b) | Through controlled corporations | 1,448,732,808 | 65.17% |
| China Energy Conservation and Environmental Protection Group ("CECEP") ^(c) | Through controlled corporations | 1,448,732,808 | 65.17% |
| Kingom Power Limited ^(d) | Beneficial owner and parties acting in concert | 1,448,732,808 | 65.17% |
| Winwett Investments Limited | Beneficial owner | 216,820,000 | 9.75% |
| Ever Luxuriant Global Trading Limited ("Ever Luxuriant") | Beneficial owner | 140,000,000 | 6.30% |
| Mr. Huang Shao Rong ^(e) | Beneficial owner and through controlled corporation | 158,769,000 | 7.14% |
| Haibin International Investments Limited ("Haibin International") | Beneficial owner | 135,104,000 | 6.08% |
| Mr. Lin Haibin ^(f) | Beneficial owner and through controlled corporation | 157,053,000 | 7.06% |

Notes:

- (a) Hong Kong Rong An directly owned 805,012,808 shares of the Company. In addition, pursuant to the Shareholders Deed, Hong Kong Rong An was deemed to be interested in the 643,720,000 shares of the Company owned by Kingom Power by virtue of the SFO.
- (b) CECEP Chongqing owned 100% of the issued share capital of Hong Kong Rong An, therefore, was deemed to be interested in all shares of the Company that Hong Kong Rong An was interested in under the SFO.
- (c) CECEP Chongqing was a non-wholly-owned subsidiary of CECEP, CECEP was therefore deemed to be interested in all shares of the Company CECEP Chongqing was interested in under the SFO.
- (d) Kingom Power directly owned 643,720,000 shares of the Company. In addition, pursuant to the Shareholders Deed, Kingom Power was deemed to be interested in the 805,012,808 shares of the Company owned Hong Kong Rong An by virtue of the SFO.
- (e) Mr. Huang Shao Rong directly owned 18,769,000 shares of the Company. In addition, Mr. Huang Shao Rong also owned 100% of the issued shares of Ever Luxuriant, accordingly, Mr. Huang Shao Rong was deemed to be interested in all the shares of the Company owned by Ever Luxuriant.
- (f) Mr. Lin Haibin directly owned 21,949,000 shares of the Company. In addition, Mr. Lin Haibin also owned 100% of the issued shares of Haibin International, accordingly, Mr. Lin Haibin was deemed to be interested in all the shares of the Company owned by Haibin International.

Save as disclosed above, as at 30 June 2014, 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 2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the listed shares of the Company.

Corporate Governance

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the six months ended 30 June 2014, 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 2014.

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. Chan Shek Chi, Mr. Ma Yuliang and Mr. Lin Jian Ming. All of them are independent non-executive directors. The chairman of the audit committee is Mr. Chan Shek Chi.

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 and the unaudited financial results of the Group for the six months ended 30 June 2014 and this interim report.

