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

2017

Contents

Company Profile

MISSION

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

Billion Industrial Holdings Limited (the "Company" or "Billion", together with its subsidiaries, the "Group"), is one of the largest developers and manufacturers of polyester filament yarns in China. The polyester filament yarns products of the Group are positioned at medium-and high-end markets in the PRC and overseas, its main products 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 2017, the designed capacity of FDY and POY of the Group was 785,000 tons per year, while that of DTY was 513,000 tons per year. The Group's combined designed capacity for DTY, FDY and POY was 1,298,000 tons per year, which was the largest differentiated chemical fiber production base in Fujian Province.

As at 30 June 2017, the Group's designed capacity for polyester thin films was 255,000 tons per year, of which, the designed capacity of BOPET thin films was 182,500 tons per year, which has become a large enterprise manufacturing polyester thin films. The Group introduced the production lines and research and development equipment for BOPET thin films from Dornier in Germany, for which the products are positioned at the high-end functional polyester thin films market in the People's Republic of China (the "PRC"), applying in the areas including soft packaging, composite printing, electronic appliances, clothing and garments, safety and energy saving. The purification workshop management is implemented for the production workshops, meeting the stringent environmental requirements for producing different thin films. Also, the Group is developing vigorously new, environmentally friendly polyester thin film products which can be applied in various areas.

In addition, in order to further expand the overseas markets, the Group has established Billion Industrial (Vietnam) Co., Ltd. in Vietnam during the period under review, so as to develop the production business of the overseas polyester bottle chip and polyester filament yarns.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Sze Tin Yau *(Co-chairman)*
Mr. Wu Jinbiao
(Chief executive officer)
Mr. Wang Li
Mr. Wu Zhongqin (re-designated from non-executive director to executive director on 19 May 2017)
Mr. Liu Jingui
(appointed on 10 March 2017)
Mr. Xue Mangmang
(resigned on 10 March 2017)

Non-executive Directors

Mr. Zeng Wu *(Co-chairman)*
Mr. Wu Zhongqin (re-designated from non-executive director to executive director on 19 May 2017)

Independent Non-executive Directors

Mr. Chan Shek Chi
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. Wang Li
Mr. Wu Zhongqin
(appointed on 19 May 2017)
Mr. Liu Jingui
(appointed on 10 March 2017)
Mr. Xue Mangmang
(resigned on 10 March 2017)

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:
Luk & Partners
In Association with Morgan, Lewis & Bockius

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		
	2017	2016	Change
	RMB'000	RMB'000	
Operational Results			
Revenue	**3,271,633**	2,723,695	20.1%
Gross profit	**471,868**	306,490	54.0%
Profit from operations	**297,353**	198,967	49.4%
Profit for the period	**218,391**	130,125	67.8%

	As at 30 June		
	2017	2016	Change
	RMB'000	RMB'000	
Financial Position			
Non-current assets	**5,667,125**	5,689,951	–0.4%
Non-current liabilities	**161,803**	144,997	11.6%
Current assets	**3,300,172**	2,251,384	46.6%
Current liabilities	**3,472,894**	2,632,201	31.9%
Net current liabilities	**172,722**	380,817	–54.6%
Total equity	**5,332,600**	5,164,137	3.3%
Earnings per Share (RMB)	**0.10**	0.06	
Interim dividend (HK cent) *(Note 1)*	**5.9**	3.5	
Key Ratio Analysis			
Gross profit margin	**14.4%**	11.3%	
Operating profit margin	**9.1%**	7.3%	
Net profit margin	**6.7%**	4.8%	
Return on equity *(Note 2)*	**4.1%**	2.5%	
Current ratio *(Note 3)*	**0.95**	0.86	
Gearing ratio *(Note 4)*	**68.2%**	53.8%	

Notes:

1: The interim dividend of HK5.9 cents per share in cash will be paid on 12 September 2017

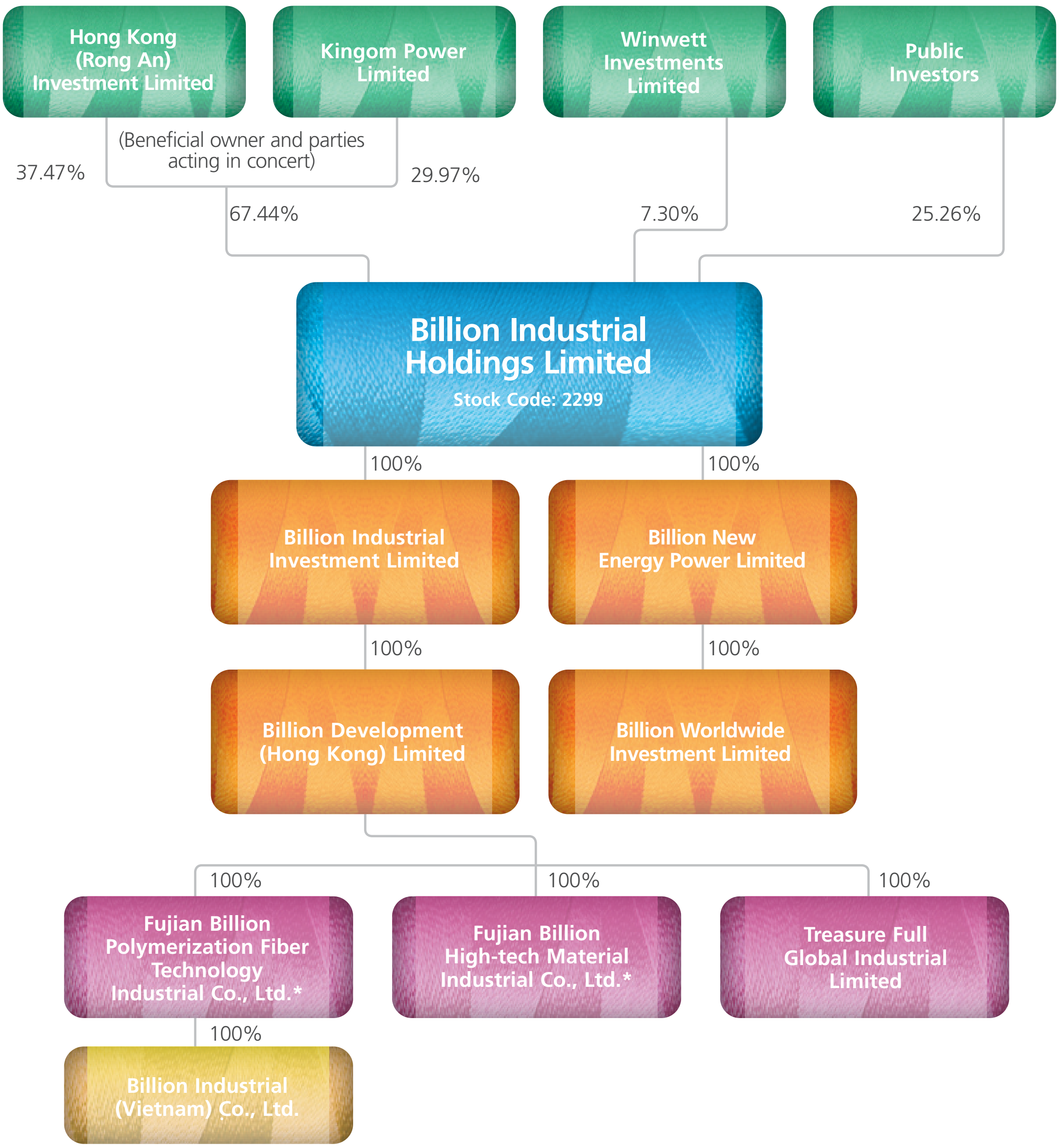
2: Return on equity: Profit for the period divided by total equity

3: Current ratio: Current assets divided by current liabilities

4: Gearing ratio: Total liabilities divided by total equity

Company Structure

as at 30 June 2017



		Place of incorporation	Place of operation
Note:	Billion Industrial Holdings Limited	: Cayman Islands	Hong Kong
	Billion Industrial Investment Limited	: British Virgin Islands	Hong Kong
	Billion New Energy Power Limited	: British Virgin Islands	Hong Kong
	Billion Development (Hong Kong) Limited	: Hong Kong	Hong Kong
	Billion Worldwide Investment Limited	: Hong Kong	Hong Kong
	Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.*	: PRC	Fujian, PRC
	Fujian Billion High-tech Material Industrial Co., Ltd.*	: PRC	Fujian, PRC
	Treasure Full Global Industrial Limited	: British Virgin Islands	Hong Kong
	Billion Industrial (Vietnam) Co., Ltd.	: Vietnam	Vietnam

* *For identification purposes only*

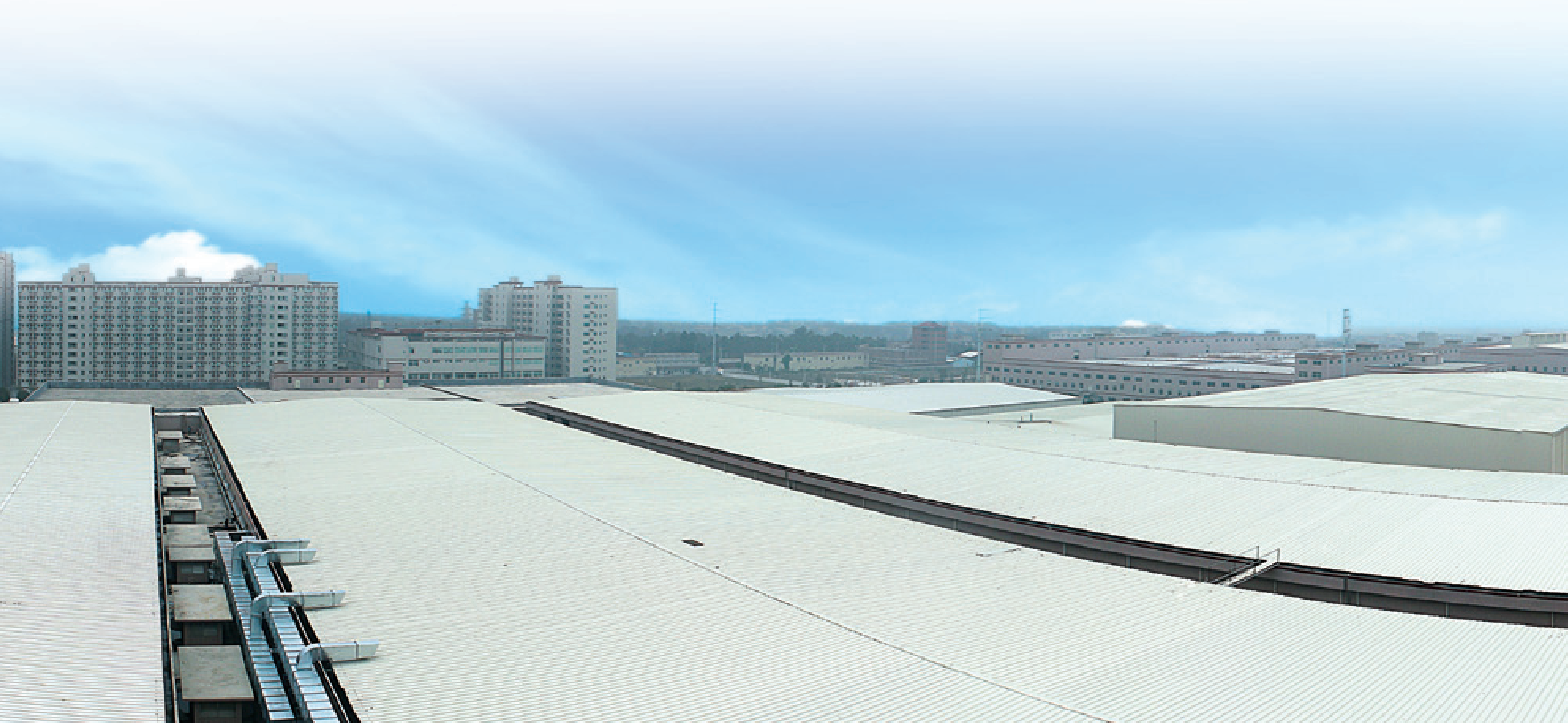
Production Sites

Production Site A and B

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

Production Site C and D

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



Production Sites

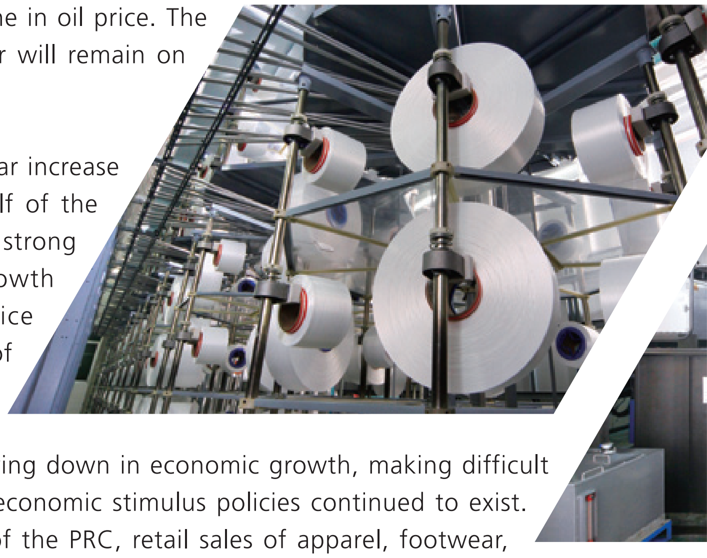
Designed capacity as at 30 June 2017:

FDY+POY	:	785,000 tons per year
DTY	:	513,000 tons per year
BOPET	:	182,500 tons per year
BOPET Chips	:	72,500 tons per year

Management Discussion and Analysis

CHANGES IN MACRO-ECONOMIC ENVIRONMENT

The global economy continued to improve in the first half of 2017. The developed economies recovered stably overall with the economies in the U.S., Eurozone and Japan recovering in general. Among the emerging economies, China and India continued to spearhead the growth. However, the imbalance global recovery without any sign of robust structural growth still posed some risks and uncertainties. In the first half of 2017, international bulk commodity trading recovered but with increasing volatility. Both U.S. crude oil futures and Brent crude oil futures gave a short and strong rebound, reaching US$50 per barrel from approximately US$45 per barrel, followed by decline in oil price. The primary focus of oil price trend in the second half of the year will remain on changes in production capacity and inventory of crude oil.



In the first half of 2017, China's GDP represented a year-on-year increase of 6.9%, continuing its stable economic trend in the first half of the year. Sales and purchases in commodity markets recorded strong recovery. Various economic indicators recorded stable growth with employment improving continuously, commodity price maintaining at a reasonable range and international balance of payments improving persistently. From an internal perspective of China's economic development, the "three-phase aggregated" challenges from the simultaneous dealing of slowing down in economic growth, making difficult structural adjustments, and absorbing the effects of previous economic stimulus policies continued to exist. According to the data from the National Bureau of Statistics of the PRC, retail sales of apparel, footwear, hats and textile products amounted to RMB717.2 billion in the first half of 2017, representing a year-on-year increase of 7.3%. The pace of economic growth corresponded with the development momentum of "making stability while making progress slowly, making progress while maintaining stability".

INDUSTRY REVIEW

The textile industry in China is closely related to the macro-economic development of the country. The accelerating global economic recovery and bouncing back of international market demand stimulated the export of textile products in the PRC. The stable growth in domestic macro-economy provided positive support for demand in domestic market. The growth in urban and rural resident income, construction of new types of urbanization and full implementation of the Two-Child Policy had facilitated the growth in consumption of upgraded textile products, and laid the foundation for stable industry operation. Moreover, the pace of "going out" in relation to the overseas layout of textile enterprises was accelerated and the progress of the "One Belt One Road" in China created favorable conditions for expanding international markets of textile industry and maintaining its market share. In addition, the continuous recovery in polyester filament yarns industry had driven the stable increase in polyester filament yarns price and saw further growth in the profitability of enterprises.

Management Discussion and Analysis

The downstream industry of polyester thin films comprise mainly businesses engaged in production and sale of plastic soft packages which are primarily used in food and beverages, consumer goods and pharmaceutical industries. With the constant application expansion of polyester thin films in downstream industry, product differentiated development is the trend of industry development. Inventing and producing various functional thin films products with special features will become the direction of development for polyester thin films enterprises. After the Group had completed the entire expansion plan for the functional and environmentally friendly polyester thin films production in 2016, it has become the largest polyester thin films manufacturer in Southern China. The Group will proactively deploy resources to research and develop various differentiated products, targeting at building a flagship enterprise in the polyester new material industry, further expanding the scale, sharpening its competitive edge and leverage on its manufacturing advantages to enter into the high-end thin film products sector from a high starting point.

BUSINESS REVIEW

The Group continued to strive for product quality improvement and development of differentiated products during the period under review. The market demand for the Group's products remained strong. Also, with the continuous recovery in the differentiated polyester filament yarn industry, the sales of the Group recorded a stable growth during the period under review.

The prominent research and development as well as our innovation capacity are the foundation of our sustainable development. We emphasize on and persist to pursuing the technology innovation approach of a combination of "Production, Learning, Research and Application", strive to research and develop new products and enhance product added value. Through our strong research and development team, the Group continued to: (i) co-operate with colleges and institutions, continuously contribute substantial funds and resources in research and development to form a multi-disciplinary project research and development chain; (ii) obtain patent and proprietary technology results; (iii) vigorously support the implementation of the differentiated operating philosophy; and (iv) ensure the on-going launching of new products which served as a guidance to the market.

The management team of the Group applied scientific management software to (i) achieve networking and informationization management during the course of production; (ii) arrange production allocation among various products; and (iii) allocate equipments between production and research and development to maximize the usage of production capacity. The scientific production management process enhanced the production efficiency of the Group, which enables the Group to constantly launch new production on time targeting at market demand with a view to increase the strengths of product differentiation. During the period under review, the Group's research and development expenses amounted to RMB106,981,000, representing 3.3% of its revenue. Our research and development efforts mainly focus on improving product quality, improving production efficiency, and enhancing the innovation capability of the Group in every aspect from chemical fiber to textile fabrics.

Management Discussion and Analysis

The Group strived to establish a digital and intelligent automatic chemical fiber production workshop, and is the front runner of realizing the full process of intelligent automatic production in the industry. Moreover, the second fully automated storage and retrieval system of the Group have commenced operation during the period under review. The automated storage and retrieval system adopts the double-shelf set-up to further shorten the time spent for stock in or stock out, improving space utilization, increasing management efficiency and saving labour costs. In addition, the automated three-dimensional storage and retrieval system was designed based on the specific environmental conditions. For example, in order to accommodate local temperature and humidity in Quanzhou, it is designed with rust removal and four-proof measures, namely lightning-proof, damp-proof, typhoon-proof and storm-proof, to ensure the system life and stable operation.

The Group has all along been paying great attention to marketing channel expansion and customer services. Our flexible sales strategies enable us to understand market situations in time with a focus on customers' experience. Feedback from customers is communicated to the technology and production center in a timely manner to ensure two-way interaction, providing fast and effective product after-sales services. By taking the advantage of having the biggest polyester fiber production base in Southern China, while consolidating our market share in Fujian and Guangdong Provinces, we also strived to develop international markets and continued to improve our response to the market whilst expanding the emerging markets. Based on the feedback of downstream users in the emerging markets, we made functional improvement and technology upgrade to our existing product lines with suitable marketing strategy, strengthened quality control on export products, and maintained cost advantages. The Group's export sales for the period under review increased by RMB60,211,000 or 13.7% compared to the same period in 2016, which represents a further increase in the Group's brand popularity and market share in overseas markets.

The Group intends to achieve high-end upgrade from manufacturing to "intelligent manufacturing" by focusing on technology innovation and to realize the traditional industry transformation and upgrading to high efficiency with low consumption through the automatic equipment digitalization, networking and modularization, so as to present a sound momentum with steady improvement in quality and production. Accordingly, the Group plans to invest approximately US$222,000,000 in expansion of polyester filament yarns business. It is expected that the annual production capacity of polyester filament yarns products of the Group will increase by approximately 220,000 tons upon the completion of the expansion plan.

The Group will continue to strengthen its effort to facilitate innovation and enhance new market expansion, and integrate with national planning and policies for the chemical fiber industry and polyester thin film industry and the opportunities brought by "One Belt One Road". The Group established Billion Industrial (Vietnam) Co., Ltd. in Vietnam during the period under review for development of the Vietnam production business, and believed that these new investments will benefit the Group and record favorable financial returns.

Management Discussion and Analysis

FINANCIAL REVIEW

Operational Performance

1. Revenue

Total revenue of the Group for the period under review amounted to RMB3,271,633,000 (for the first half of 2016: RMB2,723,695,000), representing an increase of 20.1% as compared to the same period of last year. Revenue attributable to the sales of polyester filament yarns, the Group's main products, was RMB2,699,228,000, accounting for 82.5% of the total revenue. Revenue attributable to the sales of polyester thin films was RMB572,405,000, accounting for 17.5% of the total revenue. The revenue analysis of the two products is as follow:

Polyester filament yarns

The Group adopts melt-direct spinning differentiated chemical fiber production line which is technologically advanced by global standard, and possesses the leading spinning and texturing equipment and technology in the industry. The Group positions its polyester filament yarn products in the middle and high-end markets both domestically and abroad, a majority of which are differentiated products and 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 apparels, footwear, home furnishings and industrial use.

Revenue attributable to the sales of polyester filament yarns products for the period under review was RMB2,699,228,000, representing an increase of RMB123,947,000 as compared to the revenue of RMB2,575,281,000 in the first half of 2016 or an increase of 4.8%. The average selling price of polyester filament yarns during the period under review was RMB9,108 per ton, representing an increase of RMB1,664 or 22.4% as compared to the average selling price of RMB7,444 per ton in the first half of 2016. Although the sales volume of the Group's polyester filament yarns products during the period under review decreased from 345,969 tons in the first half of 2016 to 296,349 tons during the period under review or a decrease of 14.3%, the overall revenue of the Group's polyester filament yarns products maintained a stable growth.

Polyester thin films

The Group's polyester thin films can be widely used in various sectors including packaging, magnetic materials, imaging, industry, electronics and electrical appliances, with its principal products positioned at the middle and high-end markets both domestically and abroad. The Group re-engineered its polyester thin film production lines to conduct research and development on various categories of thin film products under different raw material formulae and various technological conditions. For its products, the Group passed the ISO9001 quality control system and national QS audit certification, and obtained the "food use plastic packaging material" product permit, thereby having fulfilled entirely the standardized and regulating corporate management standard.

Management Discussion and Analysis

The Group completed the entire expansion plan for producing functional and environmentally friendly polyester thin films in the second half of 2016, and with the second to fifth production lines officially put into operation. Therefore, revenue attributable to the sales of polyester thin film products during the period under review was RMB572,405,000, representing an increase of RMB423,991,000 or 285.7% as compared to RMB148,414,000 in the first half of 2016. The average selling price of polyester thin film during the period was RMB7,766 per ton, representing an increase of RMB46 or 0.6% as compared to RMB7,720 per ton in the first half of 2016.

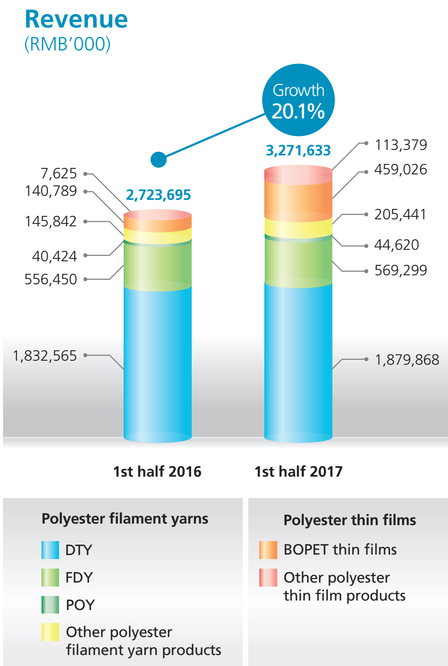
Breakdown of Revenue and Sales Volume (By Product)

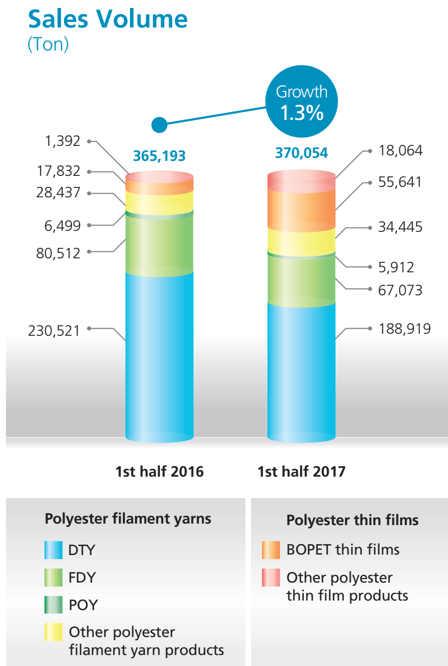
	Revenue For the six months ended 30 June				Sales volume For the six months ended 30 June			
	2017		2016		**2017**		2016	
	RMB'000	**Percentage**	RMB'000	Percentage	**Tons**	**Percentage**	Tons	Percentage
Polyester filament yarns								
DTY	**1,879,868**	**57.4%**	1,832,565	67.3%	**188,919**	**51.1%**	230,521	63.1%
FDY	**569,299**	**17.4%**	556,450	20.5%	**67,073**	**18.1%**	80,512	22.0%
POY	**44,620**	**1.4%**	40,424	1.5%	**5,912**	**1.6%**	6,499	1.8%
Other polyester filament yarn products*	**205,441**	**6.3%**	145,842	5.3%	**34,445**	**9.3%**	28,437	7.8%
Sub-total	**2,699,228**	**82.5%**	2,575,281	94.6%	**296,349**	**80.1%**	345,969	94.7%
Polyester thin films								
BOPET thin films	**459,026**	**14.0%**	140,789	5.1%	**55,641**	**15.0%**	17,832	4.9%
Other polyester thin film products**	**113,379**	**3.5%**	7,625	0.3%	**18,064**	**4.9%**	1,392	0.4%
Sub-total	**572,405**	**17.5%**	148,414	5.4%	**73,705**	**19.9%**	19,224	5.3%
Total	**3,271,633**	**100.0%**	2,723,695	100.0%	**370,054**	**100.0%**	365,193	100.0%

* *Other polyester filament yarn products represent polyethylene terephthalate ("PET") chips and wasted filament generated during the production process.*

** *Other polyester thin film products represent polyester chips, polyester films and wasted filament generated during the production process.*

Management Discussion and Analysis





Sales by geographic region

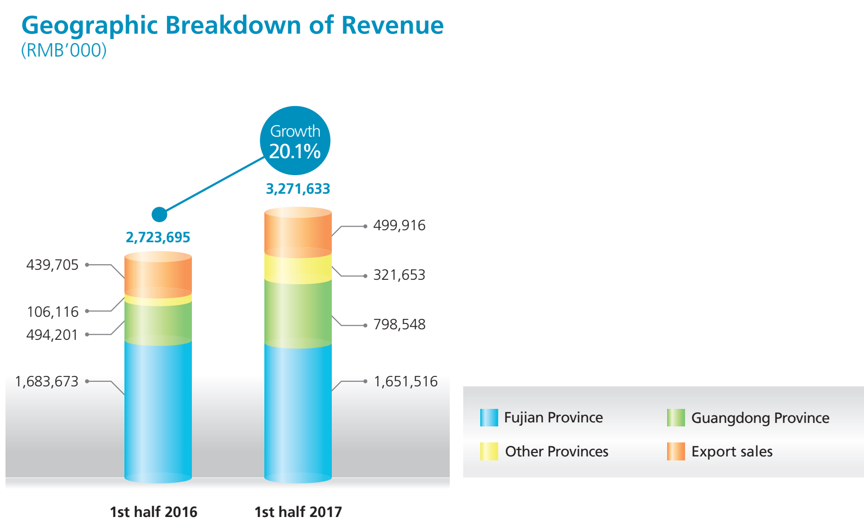
During the period under review, the Group actively expanded and consolidated its market share in overseas market by improving its products and service quality and increasing its brand recognition. Although the percentage of export sales revenue of the Group declined slightly from 16.1% in the first half of 2016 to 15.3% during the period under review, the export sales revenue increased by 13.7% from RMB439,705,000 in the first half of 2016 to RMB499,916,000 during the period under review. Approximately 84.7% of the Group's revenue was generated from domestic market sales, of which 50.5% was from sales to customers in Fujian Province and 24.4% to customers in the adjacent Guangdong Province. In addition, the Group's polyester chips shops were equipped with professional marketing staff in Ningbo in order to explore other provincial markets, where it provided customized product development services to its customers and developed strategic partners.

Management Discussion and Analysis

Geographic Breakdown of Revenue

	For the six months ended 30 June			
	2017		2016	
	RMB'000	**Percentage**	RMB'000	Percentage
Domestic sales				
Fujian Province	**1,651,516**	**50.5%**	1,683,673	61.8%
Guangdong Province	**798,548**	**24.4%**	494,201	18.2%
Other Provinces	**321,653**	**9.8%**	106,116	3.9%
Export sales*	**499,916**	**15.3%**	439,705	16.1%
Total	**3,271,633**	**100.00%**	2,723,695	100.0%

* *Export sales were mainly made to countries such as Turkey, Italy, Belgium, Brazil, United States, Spain, Russia and Poland.*



2. *Cost of Sales*

Cost of sales of the Group for the period under review was RMB2,799,765,000, representing an increase of 15.8% as compared to the cost of sales of RMB2,417,205,000 in the first half of 2016. Such an increase was mainly attributable to the increase in sales volume and raw materials prices. The cost of sales for polyester filament yarns was RMB2,304,759,000, accounting for 82.3% of the total cost of sales. The cost of sales for polyester thin films was RMB495,006,000, accounting for 17.7% of total cost of sales. The percentages of costs of sales of these two types of products were generally in-line with the percentages of their respective sales volumes.

Polyester filament yarns

Average cost of sales for polyester filament yarns increased from RMB6,603 per ton in the first half of 2016 to RMB7,777 per ton during the period under review, representing an increase of RMB1,174 or 17.8% per ton, which was mainly due to the increase in the selling prices of purified terephthalic acid ("PTA") and mono ethylene glycol ("MEG"), the raw materials of polyester filament yarns products. The average price of raw materials for polyester filament yarns increased from RMB4,927 per ton in the first half of 2016 to RMB5,915 per ton during the period under review, representing an increase of RMB988 or 20.1% per ton.

Polyester thin films

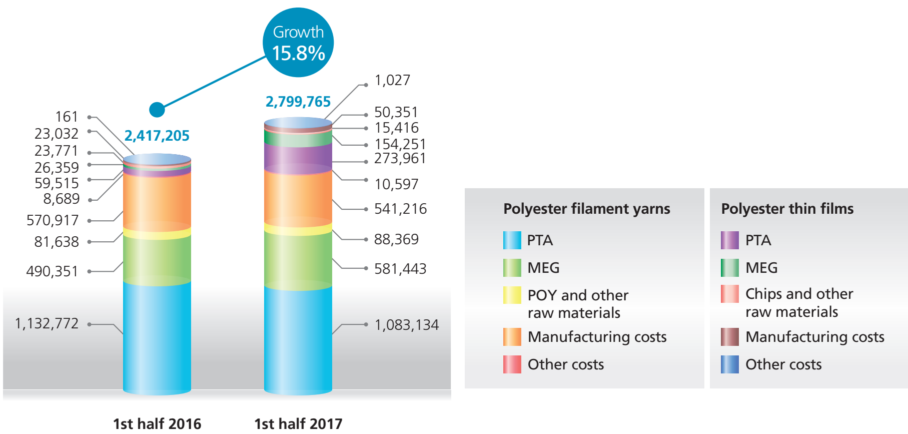
Average cost of sales for polyester thin films dropped from RMB6,910 per ton in the first half of 2016 to RMB6,716 per ton during the period under review, representing a decrease of RMB194 or 2.8% per ton, which was mainly due to the decrease in manufacturing costs upon the completion of the entire expansion plan for producing functional and environmentally friendly polyester thin films.

Management Discussion and Analysis

Breakdown of Cost of Sales

	For the six months ended 30 June			
	2017		2016	
	RMB'000	**Percentage**	RMB'000	Percentage
Polyester filament yarns				
Cost of raw materials				
PTA	**1,083,134**	**38.7%**	1,132,772	46.8%
MEG	**581,443**	**20.8%**	490,351	20.3%
POY and other raw materials	**88,369**	**3.1%**	81,638	3.4%
Sub-total	**1,752,946**	**62.6%**	1,704,761	70.5%
Manufacturing costs	**541,216**	**19.3%**	570,917	23.6%
Other costs	**10,597**	**0.4%**	8,689	0.4%
Sub-total	**2,304,759**	**82.3%**	2,284,367	94.5%
Polyester thin films				
Cost of raw materials				
PTA	**273,961**	**9.8%**	59,515	2.4%
MEG	**154,251**	**5.5%**	26,359	1.1%
Chips and other raw materials	**15,416**	**0.6%**	23,771	1.0%
Sub-total	**443,628**	**15.9%**	109,645	4.5%
Manufacturing costs	**50,351**	**1.8%**	23,032	1.0%
Other costs	**1,027**	**–**	161	–
Sub-total	**495,006**	**17.7%**	132,838	5.5%
Total	**2,799,765**	**100.0%**	2,417,205	100.0%

Breakdown of Cost of Sales
(RMB'000)



3. *Gross Profit*

Gross profit of the Group for the period under review was RMB471,868,000, which increased by RMB165,378,000, representing an increase of 54.0% as compared to RMB306,490,000 in the first half of 2016. Sales volume of the Group during the period under review increased by 4,861 tons, representing an increase of 1.3% as compared to the first half of 2016. Average selling price of products per ton increased by an average of RMB1,383 per ton, representing an increase of 18.5% from RMB7,458 per ton in the first half of 2016 to RMB8,841 per ton during the period under review, while average cost of products per ton during the period also increased by an average of RMB947 per ton, representing an increase of 14.3% from RMB6,619 per ton in the first half of 2016 to RMB7,566 per ton during the period under review. Therefore, the average gross profit of products per ton increased from RMB839 in the first half of 2016 to RMB1,275 during the period under review. As the increase in the average selling price of products per ton was much higher than the increase in average cost of products per ton, gross profit margin increased by 3.1 percentage points from 11.3% in the first half of 2016 to 14.4% during the period under review.

Polyester filament yarns

Average selling price of polyester filament yarn products increased by an average of RMB1,664 per ton, representing an increase of 22.4% from RMB7,444 in the first half of 2016 to RMB9,108 during the period under review. The average gross profit of polyester filament yarn per ton increased from RMB841 in the first half of 2016 to RMB1,331 during the period under review. The gross profit margin increased by 3.3 percentage points from 11.3% in the first half of 2016 to 14.6% during the period under review.

Polyester thin films

Average selling price of polyester thin films products per ton increased by an average of RMB46 per ton, representing an increase of 0.6% from RMB7,720 per ton in the first half of 2016 to RMB7,766 per ton during the period under review. The average gross profit of polyester thin films products per ton increased from RMB810 in the first half of 2016 to RMB1,050 during the period. The gross profit margin increased by 3.0 percentage points from 10.5% in the first half of 2016 to 13.5% during the period under review.

During the period under review, the increase in gross profit and gross profit margin of the Group was primarily attributable to the decrease in average manufacturing cost of products per ton arising from the completion of entire expansion plan of the polyester thin film production, as well as the continuous recovery of the differentiated polyester filament yarn industry.

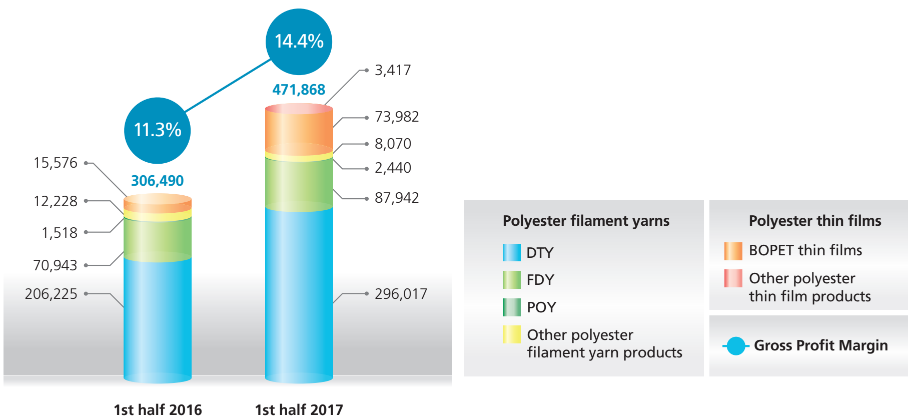
Analysis of gross profit by product

	For the six months ended 30 June			
	2017		2016	
	RMB'000	**Percentage**	RMB'000	Percentage
Polyester filament yarns				
DTY	**296,017**	**62.7%**	206,225	67.3%
FDY	**87,942**	**18.7%**	70,943	23.1%
POY	**2,440**	**0.5%**	1,518	0.5%
Other polyester filament yarn products*	**8,070**	**1.7%**	12,228	4.0%
Sub-total	**394,469**	**83.6%**	290,914	94.9%
Polyester thin films				
BOPET thin films	**73,982**	**15.7%**	15,576	5.1%
Other polyester thin film products**	**3,417**	**0.7%**	–	–
Sub-total	**77,399**	**16.4%**	15,576	5.1%
Total	**471,868**	**100.0%**	306,490	100.0%

* *Other polyester filament yarn products represent PET chips and wasted filament generated during the production process.*

** *Other polyester thin film products represent polyester chips, polyester films and wasted filament generated during the production process.*

Gross Profit and Gross Profit Margin
(RMB'000)



Breakdown of Product Selling Price, Cost and Gross Profit (Average per ton)

	For the six months ended 30 June	
	2017	2016
	RMB	RMB
Polyester filament yarns		
Average selling price per ton	**9,108**	7,444
Average cost of sales per ton	**7,777**	6,603
Average gross profit per ton	**1,331**	841
Average gross profit margin	**14.6%**	11.3%
Polyester thin films		
Average selling price per ton	**7,766**	7,720
Average cost of sales per ton	**6,716**	6,910
Average gross profit per ton	**1,050**	810
Average gross profit margin	**13.5%**	10.5%

Management Discussion and Analysis

4. Other revenue

Other revenue of the Group for the period under review amounted to RMB38,915,000, representing an increase of 19.8% as compared to RMB32,480,000 in the first half of 2016. Other revenue mainly included gain from government grants, bank interest income and gain on sales of raw materials. Such change was mainly attributable to the combined effect of an increase in gain from government grants and a decrease in bank interest income as compared to that of the same period last year.

5. Other net (loss)/gain

Other net loss of the Group during the period under review amounted to RMB5,471,000 (for the first half of 2016: other net gain amounted to RMB19,120,000). Other net loss mainly comprised the loss on financial assets and liabilities at fair value through profit or loss and the net exchange loss. Such change was mainly attributable to the combined effect of an increase in loss on financial assets and liabilities at fair value through profit or loss and a decrease in net exchange loss.

6. Selling and distribution expenses

Selling and distribution expenses of the Group for the period under review amounted to RMB42,975,000, representing an increase of 47.4% as compared to RMB29,147,000 in the first half of 2016. Selling and distribution expenses mainly comprised transportation costs, wages of our sales staff, operating expenses and promotion expenses. Such increase was mainly due to the increase in relevant transportation costs resulted from the increase in sales volume in other provinces and overseas during the period under review.

7. Administrative expenses

Administrative expenses of the Group for the period under review amounted to RMB164,984,000, increased by 26.9% as compared to RMB129,976,000 in the first half of 2016. Administrative expenses mainly comprised research and development costs, depreciation on office equipment, staff wages, general office expenses, professional and legal fees etc. Such change was mainly due to the increase in the costs of research and development on polyester thin films products of the Group during the period under review.

8. Finance costs

Finance costs of the Group for the period under review amounted to RMB29,365,000, decreased by 17.7% as compared to RMB35,678,000 in the first half of 2016. Such change was mainly due to the decrease in interests on bank advances and other borrowings resulted from a decrease in average bank loans during the period under review.

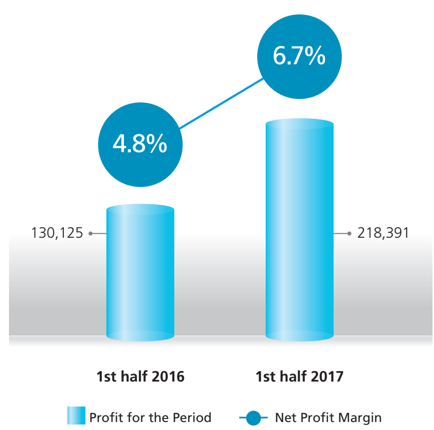
9. *Income tax*

Income tax of the Group for the period under review amounted to RMB49,597,000, increased by 49.6% as compared to RMB33,164,000 in the first half of 2016. Such change was mainly due to an increase of profit before income tax of the Group resulting from the recovery of the differentiated polyester filament yarn industry and the increase in sales volume of polyester thin film products upon the completion of entire expansion plan for the Group's polyester thin films production.

10. *Profit for the period*

Profit of the Group for the period under review amounted to RMB218,391,000, increased by RMB88,266,000 or 67.8% as compared to RMB130,125,000 in the first half of 2016, which was mainly attributable to the recovery of the differentiated polyester filament yarn industry and the increase in sales volume of polyester thin film products upon the completion of entire expansion plan for the Group's polyester thin films production.

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



Management Discussion and Analysis

Financial position

1. *Liquidity and capital resources*

As at 30 June 2017, cash and cash equivalent of the Group amounted to RMB88,164,000, decreased by RMB227,133,000 or 72.0% as compared to RMB315,297,000 as at 31 December 2016.

During the period under review, net cash outflow from operating activities amounted to RMB386,937,000 which was mainly attributable to the Group increased inventory to meet the demand of the second half as a result of promising prospects. Also the Group shortened the payment time to secure more discounts. Net cash outflow from investing activities amounted to RMB334,638,000, which mainly comprised the combined effect of the capital expenditure of RMB173,420,000, increase in placement of the structured deposit RMB500,000,000, decrease in other financial assets of RMB259,391,000 and the decrease in restricted bank deposits of RMB58,138,000. Net cash inflow generated from financing activities amounted to RMB496,181,000, which mainly comprised the net increase in bank loans of RMB640,519,000, repurchase of shares of RMB27,326,000 and the payment of 2016 final dividends amounting to RMB91,127,000 during the period.

During the period under review, inventory turnover days were 40.7 days (for the first half of 2016: 34.8 days), an increase of 5.9 days as compared to the same period last year, which was mainly due to the increased stocks by the Group for sales activities in the second half of the year due to the recovery of the industry. The trade receivable turnover days were 19.8 days (for the first half of 2016: 40.3 days), representing a decrease of 20.5 days as compared to the same period last year, which was mainly due to the efficiency gains resulting from improved accounts receivable collection procedures. The trade payable turnover days were 48.9 days (for the first half of 2016: 33.1 days), representing an increase of 15.8 days as compared to the same period last year.

As at 30 June 2017, the Group had capital commitments of RMB2,192,298,000, which were mainly used for the expansion of domestic production capacity as well as development of the Vietnam production business.

2. *Capital Structure*

As at 30 June 2017, the total liabilities of the Group amounted to RMB3,634,697,000, whereas capital and reserves amounted to RMB5,332,600,000. The gearing ratio (total liabilities divided by total equity) was 68.2%. Total assets amounted to RMB8,967,297,000. The debt-to-assets ratio (total assets divided by total liabilities) was 2.5 times. Bank loans of the Group amounted to RMB2,202,772,000, of which RMB2,188,595,000 were repayable within one year, and RMB14,177,000 were repayable after one year. Among the bank borrowings, 67.5% were guaranteed by the Company, Billion Fujian and Billion High-Tech and 0.7% were secured by mortgage on a property of the Group.

Significant investments held, material acquisitions and disposals of subsidiaries, and future plans for material investments or acquiring capital assets

As at 30 June 2017, as disclosed in note 18 under the section headed "Notes to the Financial Statements" of this interim report, the Group held unlisted available-for-sale securities (collectively, the "Investments") totaling approximately RMB1,023,995,000. Information of the Investments as at 30 June 2017 is stated as follows:

Name of the wealth management products issuer	Name of the wealth management products	Initial investments cost RMB'000	Unrealised gains on fair value change for the six months ended 30 June 2017 RMB'000	Fair value as at 30 June 2017 RMB'000	Percentage to the Group's net assets as at 30 June 2017
China Construction Bank	Qianyuan-Fubao Wealth Management Product	600,000	15,909	615,909	11.5%
China Construction Bank	Qianyuan-Fuli Wealth Management Product	250,000	5,041	255,041	4.8%
China Merchants Bank	Dianjin-Zengli Wealth Management Product	150,000	3,045	153,045	2.9%

Qianyuan-Fubao Wealth Management Product and Qianyuan-Fuli Wealth Management Product (collectively, "CCB Wealth Management Product") and Dianjin-Zengli Wealth Management Product (collectively, "CMB Wealth Management Product") represented 9.7% and 1.7% respectively of the total assets of the Group as at 30 June 2017.

China Construction Bank and China Merchants Bank do not guarantee the principal or any return on the Investments. In the event that the value of the underlying asset in the respective relevant investment portfolio of China Construction Bank or China Merchants Bank falls below the principal amount of the Investments purchased by the Group at the time of the redemption or maturity of the Investments, the Group may lose the entire amount of principal invested in the Investments.

We believe that the Investments offer better returns when compared to the fixed-term deposit interest rates offered by commercial banks in China and the Investments are for the purpose of optimizing the use of the Group's idle cash without adversely affecting the Group's working capital and operations of the main business of the Group. The directors are of the view that the terms of the Investments are fair and reasonable and are in the interests of the Group and its Shareholders as a whole.

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

Management Discussion and Analysis

The Group will continue to seek opportunities in utilising its idle cash by investing in appropriate financial products. The Company's future plan in the coming year for other material investments and additions of capital assets are primarily related to the expansion of domestic production capacity as well as development of the Vietnam production business. The Company intends to finance such plan through internally generated funds and bank loans.

Charges on assets

Save as disclosed in the paragraph headed "– Financial position – 2. Capital Structure" above, there was no other charge on Group's assets as of 30 June 2017.

Contingent liabilities

As at 30 June 2017, the Group did not have any contingent liabilities (2016: 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 2017, the Group's foreign currency risk exposure was mainly derived from the net assets exposure denominated in United States Dollars of RMB132,107,000 and net liabilities exposure denominated in Euro of RMB4,547,000.

Employees and remuneration

As at 30 June 2017, the Group had a total of 4,088 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 arrangements on a regular basis. Apart from pension, the Group also grants discretionary bonus to certain employees as awards in accordance with individual performance.

BUSINESS OUTLOOK

As the largest polyester filament yarns manufacturer in Southern China and China's top 500 private enterprises, the Group is devoted to the integration of differential and functional polyester filament with high quality to satisfy the demands of both domestic and foreign brand enterprises. We drive the technical upgrades of textile products in surrounding regions, enrich and expand the industrial chains of textile-related industries, and explore opportunities for expanding its competitive products such as super textile-cotton to the local markets in the PRC nationwide as well as overseas markets. Through integrating with the national planning and policies for the chemical fiber industry and polyester thin film industry and the opportunities brought by "One Belt One Road", the Group established Billion Industrial (Vietnam) Co., Ltd. in Vietnam during the period under review for expanding its overseas polyester bottle chip and polyester filament yarns businesses. Moreover, as disclosed in the announcement of the Company dated 12 April 2017, the Group is expected to invest approximately US$222,000,000 in aggregate for the expansion plan of polyester filament yarns and the estimated annual production capacity of which will be approximately 220,000 tons.

The Group will facilitate its industry to achieve high-end upgrade from manufacturing to "intelligent manufacturing" by relying on technology innovation and to realize the traditional industry transformation and upgrading to high efficiency with low consumption through the automatic equipment digitalization, networking and modularization, so as to present a sound momentum with steady improvement in quality and production. We will continue to improve the processing system of functional differentiated products, improve labour productivity, product quality, research and development capacity of new products and energy efficiency utilization, so as to form a new model of reproducible polyester filament yarn melt-direct spinning intelligent manufacturing and promote for industry application, as well as lead the industry transformation and upgrade.

The continuous launching of new products enables the products of the Company to cover wider application segments and penetrate into more differentiated segmented market. By leveraging on higher value-to-cost, certain products replaced similar imported products and alternative products in other materials, effectively resisted the risks brought by competition, and ensured the profitability and growth of the Group while integrating the technology and cost advantages whilst forming new sectors for profit growth. Upon the completion of expansion plan for functional and environmentally friendly polyester thin films production of the Group, the sales volume and sales of polyester thin films products recorded a significant growth, further increase is expected to the sales of polyester thin films products and also its proportion to the total revenue 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 27 to 54, which comprises the consolidated statement of financial position of Billion Industrial Holdings Limited as of 30 June 2017 and 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 as at 30 June 2017 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

15 August 2017

Consolidated Income Statement

for the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2017	2016
	Note	**RMB'000**	RMB'000
Revenue	*4*	**3,271,633**	2,723,695
Cost of sales		**(2,799,765)**	(2,417,205)
Gross profit		**471,868**	306,490
Other revenue	*5*	**38,915**	32,480
Other net (loss)/gain	*6*	**(5,471)**	19,120
Selling and distribution expenses		**(42,975)**	(29,147)
Administrative expenses		**(164,984)**	(129,976)
Profit from operations		**297,353**	198,967
Finance costs	*8(a)*	**(29,365)**	(35,678)
Profit before taxation	*8*	**267,988**	163,289
Income tax	*9*	**(49,597)**	(33,164)
Profit for the period attributable to equity shareholders of the Company		**218,391**	130,125
Earnings per share	*11*		
Basic and diluted (RMB)		**0.10**	0.06

The notes on pages 33 to 54 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 10.

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2017	2016
	Note	**RMB'000**	RMB'000
Profit for the period attributable to equity shareholders of the Company		**218,391**	130,125
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss (after tax):			
Exchange differences on translation of financial statements of operations outside mainland China		**46,197**	(27,865)
Available-for-sale securities:			
Net movement in fair value reserve		**14,811**	694
Total comprehensive income for the period attributable to equity shareholders of the Company		**279,399**	102,954

The notes on pages 33 to 54 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2017 – unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2017 RMB'000**	At 31 December 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment			
– Other property, plant and equipment	*12*	**4,916,124**	4,949,225
– Construction in progress	*13*	**39,565**	44,979
– Interests in leasehold land held for own use under operating leases	*14*	**430,471**	422,078
		5,386,160	5,416,282
Intangible assets	*15*	**4,176**	–
Deposits and prepayments	*17*	**276,789**	236,927
		5,667,125	5,653,209
Current assets			
Inventories	*16*	**761,018**	496,442
Trade and other receivables	*17*	**1,179,645**	598,064
Other financial assets	*18*	**1,023,995**	1,255,848
Restricted bank deposits		**107,350**	165,488
Fixed deposits held at banks with maturity over three months		**140,000**	150,000
Cash and cash equivalents	*19*	**88,164**	315,297
		3,300,172	2,981,139
Current liabilities			
Trade and other payables	*20*	**1,194,760**	1,632,592
Bank loans		**2,188,595**	1,592,240
Current portion of deferred income		**15,937**	17,365
Current taxation	*21(a)*	**73,602**	59,793
		3,472,894	3,301,990

Consolidated Statement of Financial Position

at 30 June 2017 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000 (audited)
Net current liabilities		**(172,722)**	(320,851)
Total assets less current liabilities		**5,494,403**	5,332,358
Non-current liabilities			
Bank loans		**14,177**	15,505
Defer income		**556**	7,810
Deferred tax liabilities	*21(b)*	**147,070**	137,389
		161,803	160,704
NET ASSETS		**5,332,600**	5,171,654
CAPITAL AND RESERVES	*22*		
Share capital		**18,064**	18,112
Reserves		**5,314,536**	5,153,542
TOTAL EQUITY		**5,332,600**	5,171,654

Approved and authorised for issue by the Board of Directors on 15 August 2017.

Sze Tin Yau
Director

Wu Jinbiao
Director

The notes on pages 33 to 54 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2017 – unaudited

(Expressed in Renminbi)

		Attributable to equity shareholders of the Company								
	Note	Share capital RMB'000 *22(a)*	Share premium RMB'000 *22(b)(i)*	Capital redemption reserve RMB'000 *22(b)(ii)*	Statutory reserve RMB'000 *22(b)(iii)*	Capital reserve RMB'000 *22(b)(iv)*	Exchange reserve RMB'000 *22(b)(v)*	Fair value reserve RMB'000 *22(b)(vi)*	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2016		18,317	807,937	1,016	325,126	1,805,631	(112,014)	–	2,317,973	5,163,986
Changes in equity for the six months ended 30 June 2016										
Profit for the period		–	–	–	–	–	–	–	130,125	130,125
Other comprehensive income		–	–	–	–	–	(27,865)	694	–	(27,171)
Total comprehensive income for the period		–	–	–	–	–	(27,865)	694	130,125	102,954
Dividends approved in respect of the previous year	*10(b)*	–	(54,854)	–	–	–	–	–	–	(54,854)
Purchase of own shares										
– par value paid		(106)	–	–	–	–	–	–	–	(106)
– premium paid		–	(47,843)	–	–	–	–	–	–	(47,843)
– transfer between reserves		–	(106)	106	–	–	–	–	–	–
Balance at 30 June 2016		18,211	705,134	1,122	325,126	1,805,631	(139,879)	694	2,448,098	5,164,137
Balance at 1 January 2017		**18,112**	**589,275**	**1,221**	**357,883**	**1,805,631**	**(206,102)**	**5,067**	**2,600,567**	**5,171,654**
Changes in equity for the six months ended 30 June 2017										
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**218,391**	**218,391**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**46,197**	**14,811**	**–**	**61,008**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**46,197**	**14,811**	**218,391**	**279,399**
Dividends approved in respect of the previous year	*10(b)*	**–**	**(91,127)**	**–**	**–**	**–**	**–**	**–**	**–**	**(91,127)**
Purchase of own shares	*22(a)(ii)*									
– par value paid		**(48)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(48)**
– premium paid		**–**	**(27,278)**	**–**	**–**	**–**	**–**	**–**	**–**	**(27,278)**
– transfer between reserves		**–**	**(48)**	**48**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 30 June 2017		**18,064**	**470,822**	**1,269**	**357,883**	**1,805,631**	**(159,905)**	**19,878**	**2,818,958**	**5,332,600**

The notes on pages 33 to 54 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2017 RMB'000	2016 RMB'000
Operating activities			
Cash (used in)/generated from operations		**(357,494)**	357,555
Tax paid		**(29,443)**	(18,523)
Net cash (used in)/generated from operating activities		**(386,937)**	339,032
Investing activities			
Payment for the purchase of property, plant and equipment		**(684)**	(81)
Expenditure on construction in progress		**(136,715)**	(99,631)
Payment for interests in leasehold land held for own use under operating leases and intangible assets		**(36,021)**	–
Proceeds from disposal of property, plant and equipment		**452**	–
Proceeds from the disposal of other financial assets		**359,391**	–
Payment for other financial assets		**(100,000)**	(167,000)
Placement of the structured deposits		**(500,000)**	–
Uplift of restricted bank deposits		**126,599**	1,014,498
Placement of restricted bank deposits		**(68,461)**	(65,372)
Uplift of fixed deposits held at banks with maturity over three months		**10,000**	–
Placement of fixed deposits held at banks with maturity over three months		**–**	(10,000)
Other cash flows arising from investing activities		**10,801**	35,551
Net cash (used in)/generated from investing activities		**(334,638)**	707,965
Financing activities			
Payments of repurchase of shares		**(27,326)**	(47,949)
Dividends paid to equity shareholders of the Company		**(91,127)**	(54,854)
Proceeds from new bank loans		**2,040,215**	2,840,166
Repayment of bank loans		**(1,399,696)**	(3,817,203)
Other cash flows arising from financing activities		**(25,885)**	(53,785)
Net cash generated from/(used in) financing activities		**496,181**	(1,133,625)
Net decrease in cash and cash equivalents		**(225,394)**	(86,628)
Cash and cash equivalents at 1 January		**315,297**	518,690
Effect of foreign exchange rate changes		**(1,739)**	9,210
Cash and cash equivalents at 30 June	*19*	**88,164**	441,272

The notes on pages 33 to 54 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 15 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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 Billion Industrial Holdings Limited ("the Company") and its subsidiaries (together referred to as "the Group") since the 2016 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 the audit committee of the Company. It has also 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 26.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 17 March 2017.

1 BASIS OF PREPARATION (Continued)

As at 30 June 2017, the Group has net current liabilities amounted to RMB172,722,000 (31 December 2016: RMB320,851,000). The directors have evaluated all the relevant facts available to them and are of the opinion that there are good track records or relationships with the banks which enhance the Group's ability to renew the current bank loans upon expiry or to use the undrawn banking facilities to enable the Group to meet its financial obligations as and when they fall due for the twelve months from the reporting date of this interim financial report. Accordingly, the interim financial report has been prepared on a going concern basis.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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 consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business, manufacture and sales of polyester products in a single geographical region, which is the People's Republic of China (the "PRC"). Accordingly, no segmental analysis is presented.

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	
	2017	2016
	RMB'000	RMB'000
Polyester filament yarns products	**2,699,228**	2,575,281
Polyester thin films products	**572,405**	148,414
	3,271,633	2,723,695

The Group's customer base is diversified. No individual customer (six months ended 30 June 2016: one customer) had transactions which exceeded 10% of the Group's aggregate revenue for the six months ended 30 June 2017.

5 OTHER REVENUE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Bank interest income	**11,586**	23,024
Government grants	**19,308**	1,513
Gain on sales of raw materials	**7,918**	7,937
Others	**103**	6
	38,915	32,480

Government grants of RMB10,625,000 and RMB1,513,000 for the six months ended 30 June 2017 and 2016 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. The remaining amounted to RMB8,683,000 (for the six months ended 30 June 2016: nil) were transferred from deferred income to consolidated income statement.

6 OTHER NET (LOSS)/GAIN

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Donations	**(85)**	(62)
Net exchange loss	**(1,153)**	(3,918)
Net gain on sale of property, plant and equipment	**376**	–
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	**(15,355)**	22,763
Available-for-sale securities: reclassified from equity	**9,391**	–
Others	**1,355**	337
	(5,471)	19,120

7. OTHER COMPREHENSIVE INCOME

(a) Available-for-sale securities

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Changes in fair value recognised during the period	**27,538**	816
Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal	**(9,391)**	–
Net deferred tax charged to other comprehensive income	**(3,336)**	(122)
Net movement in the fair value reserve during the period recognised in other comprehensive income	**14,811**	694

8 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
(a) Finance costs:		
Interest on bank advances and other borrowings	**25,406**	27,258
Other interest expenses	**3,959**	8,420
	29,365	35,678
(b) Staff costs:		
Contributions to defined contribution retirement plans	**2,649**	2,243
Salaries, wages and other benefits	**111,330**	103,003
	113,979	105,246
(c) Other items:		
Amortisation of interests in leasehold land held for own use under operating leases and intangible assets	**4,977**	4,838
Depreciation	**162,568**	139,906
Operating lease charges in respect of properties	**636**	252
Research and development costs*	**106,981**	82,832
Cost of inventories**	**2,799,765**	2,417,205

* *Research and development costs include RMB46,952,000 and RMB30,148,000 for the six months ended 30 June 2017 and 2016 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 8(b) for each of these types of expenses.*

** *Cost of inventories include RMB197,987,000 and RMB195,530,000 for the six months ended 30 June 2017 and 2016 respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 8(b) for each of these types of expenses.*

(Expressed in Renminbi unless otherwise indicated)

9 INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax for the period	**44,748**	21,147
(Over)/under-provision in respect of prior years	**(1,496)**	986
	43,252	22,133
Deferred tax		
Origination and reversal of temporary differences	**6,345**	11,031
	49,597	33,164

(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 2017 and 2016.

(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") was granted Advanced and New Technology Enterprise status for a valid period of three years from 2015 to 2017 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.*

10 DIVIDENDS

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

	2017	2016
	RMB'000	RMB'000
Interim dividend declared after the interim period of HK5.9 cents per share (2016: HK3.5 cents per share)	**107,340**	65,118

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	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the period, HK4.8 cents per share (2015: HK3.0 cents per share)	**91,127**	54,854

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB218,391,000 (six months ended 30 June 2016: RMB130,125,000) and the weighted average of 2,151,653,000 ordinary shares (six months ended 30 June 2016: 2,173,126,000 ordinary shares) in issue during the interim period.

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2017 and 2016, and therefore, diluted earnings per share is the same as the basic earnings per share.

12 OTHER PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Net book value, at 1 January	**4,949,225**	4,211,722
Exchange adjustments	**(1,467)**	3,156
Additions	**684**	431
Transfer from construction in progress *(note 13)*	**130,326**	1,030,139
Disposals	**(76)**	(37)
Depreciation charge for the period/year	**(162,568)**	(296,186)
At 30 June/31 December	**4,916,124**	4,949,225

13 CONSTRUCTION IN PROGRESS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
At 1 January	**44,979**	832,831
Additions	**124,912**	242,287
Transfer to property, plant and equipment *(note 12)*	**(130,326)**	(1,030,139)
At 30 June/31 December	**39,565**	44,979

14 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 with lease terms of 50 years in the PRC.

15 INTANGIBLE ASSETS

Intangible assets represented emission rights of nitrogen oxides. Intangible asset is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost over the period of the relevant right for 5 years.

16 INVENTORIES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Raw materials	**298,494**	154,380
Work in progress	**25,872**	24,420
Finished goods	**436,652**	317,642
	761,018	496,442

17 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 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 month	**146,411**	181,470
1 to 2 months	**85,222**	89,969
2 to 3 months	**68,011**	80,682
Over 3 months	**22,037**	43,392
Trade debtors and bills receivable	**321,681**	395,513
Deposits, prepayments and other receivables	**631,308**	418,018
Structured deposits	**500,000**	–
Derivative financial assets		
– Forward exchange contracts	**3,445**	21,460
	1,456,434	834,991
Less: Non-current portion of deposits and prepayments	**(276,789)**	(236,927)
	1,179,645	598,064

17 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.

The Group placed principal-guaranteed structured deposits in a reputable bank in the PRC amounting to RMB500,000,000 (31 December 2016: nil) with term of 90 days. The expected annual rate of returns include a fixed rate of 1.55% and floating rates ranged from 2.43% to 2.47% which are indexed to the price of gold in London Gold Market.

The Group made prepayments RMB201,184,000 (31 December 2016: RMB182,710,000) for interests in leasehold land for certain properties held for own use in the PRC and Vietnam. The related ownership certificates are under application as at 30 June 2017.

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.

18 OTHER FINANCIAL ASSETS

Other financial assets represent unlisted available-for-sale. As at 30 June 2017, the Group invested in wealth management products issued by reputable banks in the PRC with the aggregate principals amount of RMB1,000,000,000 (31 December 2016: RMB1,250,000,000). There are no fixed or determinable returns of these bank wealth management products and the returns of principals are not guaranteed.

19 CASH AND CASH EQUIVALENTS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Deposits with banks and other financial institutions within three months to maturity when placed	**–**	200,000
Cash at bank and on hand	**88,164**	115,297
	88,164	315,297

20 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 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	**610,779**	719,697
More than 3 months but within 6 months	**73,121**	222,686
More than 6 months but within 1 year	**1,288**	49,453
More than 1 year	**1,833**	363
Trade creditors and bills payable	**687,021**	992,199
Other payables and accrual charges	**216,490**	209,790
Payables for acquisition of equipment	**58,177**	50,154
Construction payables	**1,054**	962
Receipts in advance	**231,863**	377,710
Financial liabilities measured at amortised cost	**1,194,605**	1,630,815
Derivative financial liabilities		
– Forward exchange contracts	**155**	1,777
	1,194,760	1,632,592

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

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Provision of PRC income tax	**73,602**	59,793

(b) Deferred tax liabilities recognised:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Deferred tax liabilities arising from:		
Charged/(credited) to profit or loss:		
– Depreciation and amortisation of fixed assets	**162,172**	153,253
– Others	**(19,219)**	(16,645)
	142,953	136,608
Charged to reserves:		
– Available-for-sale securities	**4,117**	781
	147,070	137,389

(c) Deferred tax assets not recognised

At 30 June 2017, certain subsidiaries of the Group have not recognised deferred tax assets in respect of cumulative tax losses of RMB140,254,000 (31 December 2016: RMB127,930,000) 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.

(Expressed in Renminbi unless otherwise indicated)

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(d) Deferred tax liabilities not recognised

From 1 January 2008, a non-resident enterprise without an establishment or a place of business in the PRC or which has an establishment or a place of business in the PRC but whose relevant income is not effectively connected with the establishment or place of business in the PRC, will be subject to a withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident may be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise.

All of the Group's subsidiaries incorporated in the PRC are foreign-invested enterprises directly and wholly owned by a Hong Kong incorporated subsidiary. Accordingly, the deferred tax liabilities will be provided for the undistributed profits of the Group's PRC subsidiaries based on the expected dividends to be distributed from these subsidiaries in the foreseeable future and the expected withholding tax rate of 5%.

As at 30 June 2017, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in mainland China amounted to RMB2,965,899,000 (31 December 2016: RMB2,767,802,000). Deferred tax liabilities of RMB148,295,000 (31 December 2016: RMB138,390,000) 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.

22 CAPITAL AND RESERVES

(a) Share capital

(i) Authorised and issued share capital

	Par value	Number of shares	Nominal value of ordinary shares
	HK$		HK$
Authorised			
At 31 December 2016 and 30 June 2017	0.01	10,000,000,000	100,000,000

(Expressed in Renminbi unless otherwise indicated)

22 CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

(i) *Authorised and issued share capital* (Continued)

	Note	Par value HK$	Number of shares	Nominal value of ordinary shares HK$	RMB
Issued and fully paid:					
At 1 January 2016		0.01	2,178,160,000	21,781,600	18,317,073
Repurchase of shares		0.01	(12,598,000)	(125,980)	(105,942)
At 30 June 2016		0.01	2,165,562,000	21,655,620	18,211,131
Repurchase of shares		0.01	(11,770,000)	(117,700)	(98,979)
At 31 December 2016 and 1 January 2017		**0.01**	**2,153,792,000**	**21,537,920**	**18,112,152**
Repurchase of shares	*22(a)(ii)*	**0.01**	**(5,756,000)**	**(57,560)**	**(48,405)**
At 30 June 2017		**0.01**	**2,148,036,000**	**21,480,360**	**18,063,747**

(ii) *Purchase of own shares*

During the interim period, the Company repurchased 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 2017	444,000	5.64	5.25	2,123
March 2017	730,000	5.49	5.17	3,390
April 2017	1,264,000	5.63	5.29	6,079
May 2017	2,558,000	5.84	5.17	12,092
June 2017	760,000	5.66	5.44	3,642
	5,756,000			27,326

22 CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

(ii) Purchase of own shares (Continued)

Pursuant to section 37(3) of the Companies Law of the Cayman Islands, 5,756,000 shares were repurchased in the six months ended 30 June 2017 and the repurchased shares were cancelled. 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 RMB48,000 was transferred from share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of approximately HK$30,857,000 (equivalent to RMB27,278,000) was charged to share premium.

(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 but after offsetting the accumulated losses, of the Company as at 30 June 2017 was HK$421,273,000 (equivalent to RMB401,219,000); as at 31 December 2016 was HK$559,910,000 (equivalent to RMB523,657,000).

(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.

22 CAPITAL AND RESERVES (Continued)

(b) Nature and purpose of reserves (Continued)

(iv) Capital reserve

The capital reserve of the Group mainly represented the difference between the paid-up capital of Billion Fujian and the nominal value of shares issued by the Company in exchange during the Group's reorganisation in 2011.

(v) Exchange reserve

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

(vi) Fair value reserve

The fair value reserve comprises the net change in the fair value of available-for-sale securities held at the end of the reporting period.

23 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.

23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Fair value hierarchy (Continued)

	Fair value at 30 June 2017 RMB'000	Fair value measurements as at 30 June 2017 categorised into (Level 1) RMB'000	(Level 2) RMB'000	(Level 3) RMB'000
Recurring fair value measurement				
Other financial assets:				
Available-for-sale equity instruments:				
– Unlisted	**1,023,995**	**–**	**1,023,995**	**–**
Derivative financial instruments:				
– Forward exchange contracts	**3,445**	**–**	**3,445**	**–**
Financial liabilities:				
Derivative financial instruments:				
– Forward exchange contracts	**155**	**–**	**155**	**–**

	Fair value at 31 December 2016 RMB'000	Fair value measurements as at 31 December 2016 categorised into (Level 1) RMB'000	(Level 2) RMB'000	(Level 3) RMB'000
Recurring fair value measurement				
Other financial assets:				
Available-for-sale equity instruments:				
– Unlisted	1,255,848	–	1,255,848	–
Derivative financial instruments:				
– Forward exchange contracts	21,460	–	21,460	–
Financial liabilities:				
Derivative financial instruments:				
– Forward exchange contracts	1,777	–	1,777	–

During the six months ended 30 June 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: 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.

23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

The fair value of financial assets in Level 2 is determined by discounting the expected future cash flows at prevailing market interest rate as at the end of the reporting period. The discount rate used is derived from the relevant onshore Renminbi Swap curve as at the end of the reporting period plus an adequate constant credit spread.

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

24 CAPITAL COMMITMENTS

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for	**771,000**	284,792
Authorised but not contracted for	**1,421,298**	250,325
	2,192,298	535,117

25 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for directors and key management personnel of the Group, including amounts paid to the Company's directors, is as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Short-term employee benefits	**3,075**	2,664
Post-employment benefits	**47**	39
	3,122	2,703

Total remuneration is included in "staff costs" *(see note 8(b))*.

25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with a related party

The Group entered into the following significant transactions with a related party:

	Six months ended 30 June	
	2017	2016
	RMB'000	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")	**5,626**	10,628
Purchase of materials		
CECEP Costin Group	**–**	47

The related party transactions in respect of sales of goods to CECEP Costin Group and purchase of materials from CECEP Costin Group above constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

* *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 30 June 2017	At 31 December 2016
	RMB'000	RMB'000
Trade payable from CECEP Costin Group	**6**	50
Receipt in advance from CECEP Costin Group	**1**	3,126

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. The Group has decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017 (Continued)

HKFRS 9, Financial instruments (Continued)

(a) Classification and measurement *(Continued)*

The Group is in the process of making an assessment of the impact of the new standard is expected to be in the period of initial application. As the Group has not completed its assessment, further impacts may be identified in due course.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services.

The Group is in the process of making an assessment of the impact of the new standard is expected to be in the period of initial application. As the Group has not completed its assessment, further impacts may be identified in due course.

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017 (Continued)

HKFRS 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. At 30 June 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB10,565,210 for properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt HKFRS 16 in its 2018 consolidated financial statements.

INTERIM DIVIDEND

The board ("Board") of directors ("Directors") of the Company resolved to declare an interim dividend of HK5.9 cents per share in cash for the six months ended 30 June 2017. The dividend will be paid on 12 September 2017 to those shareholders whose names appear on the Company's register of members on 1 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 30 August 2017 to Friday, 1 September 2017, 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 Tuesday, 29 August 2017.

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

As at 30 June 2017, 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 (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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[(1)]	Interest in controlled corporation	1,448,732,808	67.44%
Mr. Wu Jinbiao[(2)]	Interest in controlled corporation	156,820,000	7.30%

Notes:

(1) 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 dated 13 January 2014 (the "Shareholders' Deed") entered into by and among others, Kingom Power and Hong Kong (Rong An) Investment Limited ("Hong Kong Rong An"), Kingom Power was 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.

(2) Mr. Wu Jinbiao owned 100% of the issued shares of Winwett Investments Limited, which directly owned 156,820,000 shares of the Company. Accordingly, Mr. Wu Jinbiao was deemed to be interested in all the shares of the Company owned by Winwett investments Limited by virtue of the SFO.

(3) Base on a total of 2,148,036,000 issued shares of the Company as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executives of the Company had or was 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, 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 2017, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had or were 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 which were recorded in the register required to be kept under section 336 of the SFO:

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	67.44%

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)]	Interest in controlled corporation	1,448,732,808	67.44%
China Energy Conservation and Environmental Protection Group ("CECEP")[(c)]	Interest in controlled corporation	1,448,732,808	67.44%
Kingom Power Limited[(d)]	Beneficial owner and parties acting in concert	1,448,732,808	67.44%
Winwett Investments Limited	Beneficial owner	156,820,000	7.30%
Ever Luxuriant Global Trading Limited ("Ever Luxuriant")	Beneficial owner	205,730,000	9.58%
Mr. Huang Shao Rong[(e)]	Beneficial owner and interest in controlled corporation	224,509,000	10.45%
Haibin International Investments Limited ("Haibin International")	Beneficial owner	142,860,000	6.65%
Mr. Lin Haibin[(f)]	Beneficial owner and interest in controlled corporation	164,809,000	7.67%
Export-Import Bank of China	Person having a security interest in shares	300,000,000	13.97%

General Information

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 by Hong Kong Rong An by virtue of the SFO.

(e) Mr. Huang Shao Rong directly owned 18,779,000 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 2017, 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 which were recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 31 March 2011 (the "Share Option Scheme") whereby the Directors are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the shares in issue as of 18 May 2011, i.e. 229,900,000 shares, which represented 10.7% of the total issued share capital of the Company as of 30 June 2017. No option may be granted to any person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

The period within which the options must be exercised will be specified at the time of grant and is to be determined by the Board at its absolute discretion, subject to the requirement that such period shall not be longer than 10 years from the adoption date pursuant to the Share Option Scheme, unless the Company obtains separate shareholders' approval in relation to such grant. Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit, including the time or period before the right to exercise the option in respect of all or any of the shares shall vest, provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme.

The amount payable on acceptance of an option is HK$1.0. The exercise price of an option shall be determined by the Board and notified to a proposed beneficiary at the time of offer of the option, and shall not be less than the highest of:

(a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day;

(b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and

(c) the nominal value of the shares.

General Information

Unless otherwise terminated by the Board or the shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from 18 May 2011, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

No options have been granted under the Share Option Scheme since its adoption up to 30 June 2017.

As at 30 June 2017, the remaining life of the Share Option Scheme was about three years and ten months.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the six months ended 30 June 2017, the Company repurchased its own shares on the Stock Exchange, details of which are as follows:

Month/year	Number of shares bought back	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid RMB'000
January 2017	444,000	5.64	5.25	2,123
March 2017	730,000	5.49	5.17	3,390
April 2017	1,264,000	5.63	5.29	6,079
May 2017	2,558,000	5.84	5.17	12,092
June 2017	760,000	5.66	5.44	3,642
	5,756,000			27,326

Pursuant to section 37(3) of the Companies Law of the Cayman Islands, 5,756,000 shares were repurchased during the six months ended 30 June 2017 and the repurchased shares were cancelled. 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 approximately RMB48,000 was transferred from share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of approximately HK$30,857,000 (equivalent to approximately RMB27,278,000) was charged to share premium.

The purchase of the Company's shares during the period under review was effected by the Directors pursuant to the mandate from shareholders received at the annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

CHANGES IN DIRECTORS' INFORMATION

On 19 May 2017, Mr. Wu Zhongqin, who was formerly a non-executive Director, was re-designated as an executive Directors of the Company. Please refer to the announcement of the Company dated 19 May 2017 for further details.

Save as disclosed above, there is no other information in respect of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Corporate Governance

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the six months ended 30 June 2017, 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 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 2017.

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, risk management 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 2017 and this interim report.

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

2017

INTERIM REPORT 中期報告