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BILLION INDUSTRIAL HOLDINGS LIMITED

百宏實業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2299)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

HIGHLIGHTS

- Revenue for the first half of 2012 amounted to RMB2,972 million, representing an increase of 0.1% over the same period last year
- Profit for the first half of 2012 amounted to RMB394 million, representing a decrease of 12.3% over the same period last year
- Earnings per share amounted to RMB0.17
- 2012 interim dividend of HK10.5 cents per share is declared

The board of directors (the “Board”) of Billion Industrial Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated income statement of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity, condensed consolidated cash flow statement, together with the comparative figures for the corresponding period in 2011, the unaudited consolidated statement of financial position of the Group as at 30 June 2012 together with audited comparative figures as at 31 December 2011, as follows:

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2012 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2012	2011
	Note	RMB'000	RMB'000
Revenue	4	2,972,444	2,969,223
Cost of sales		<u>(2,359,855)</u>	<u>(2,332,982)</u>
Gross profit		612,589	636,241
Other revenue	5	24,158	34,155
Other net gain	6	8,501	12,711
Selling and distribution expenses		(16,238)	(15,272)
Administrative expenses		<u>(125,445)</u>	<u>(107,827)</u>
Profit from operations		503,565	560,008
Finance costs	7(a)	<u>(31,276)</u>	<u>(21,415)</u>
Profit before taxation	7	472,289	538,593
Income tax	8	<u>(78,414)</u>	<u>(89,715)</u>
Profit for the period		<u>393,875</u>	<u>448,878</u>
Earnings per share			
Basic and diluted (RMB)	10	<u>0.17</u>	<u>0.24</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2012 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2012	2011
Note	RMB'000	RMB'000
Profit for the period	393,875	448,878
Other comprehensive income for the period		
Exchange differences on translation of financial statements of operations outside mainland China	<u>(10,449)</u>	<u>(13,696)</u>
Total comprehensive income for the period	<u>383,426</u>	<u>435,182</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2012 – unaudited

(Expressed in Renminbi)

		At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i> (audited)
	<i>Note</i>		
Non-current assets			
Fixed assets			
– Property, plant and equipment	11	2,791,458	2,548,810
– Construction in progress	12	977,059	547,703
– Interests in leasehold land held for own use under operating leases	13	199,161	193,575
		3,967,678	3,290,088
Deposits and prepayments	15	642,559	452,340
Deferred tax assets	18(b)	603	49
		4,610,840	3,742,477
Current assets			
Inventories	14	695,499	595,501
Trade and other receivables	15	959,518	1,120,575
Restricted bank deposits		719,090	698,968
Cash and cash equivalents	16	748,192	1,093,282
		3,122,299	3,508,326

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2012 – unaudited (Continued)

(Expressed in Renminbi)

		At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i> (audited)
	<i>Note</i>		
Current liabilities			
Trade and other payables	17	1,288,308	1,274,472
Bank loans		844,064	484,043
Current taxation	18(a)	44,546	60,541
		<u>2,176,918</u>	<u>1,819,056</u>
Net current assets		<u>945,381</u>	<u>1,689,270</u>
Total assets less current liabilities		<u>5,556,221</u>	<u>5,431,747</u>
Non-current liabilities			
Bank loans		192,240	235,496
Deferred tax liabilities	18(b)	92,733	80,636
		<u>284,973</u>	<u>316,132</u>
NET ASSETS		<u>5,271,248</u>	<u>5,115,615</u>
CAPITAL AND RESERVES	19		
Share capital		19,333	19,333
Reserves		<u>5,251,915</u>	<u>5,096,282</u>
TOTAL EQUITY		<u>5,271,248</u>	<u>5,115,615</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2012 – unaudited

(Expressed in Renminbi)

Note	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total equity
	RMB'000 19(a)	RMB'000 19(b)(i)	RMB'000 19(b)(ii)	RMB'000 19(b)(iii)	RMB'000 19(b)(iv)	RMB'000	RMB'000
Balance at 1 January 2011	1,787,457	–	72,992	18,174	–	476,916	2,355,539
Changes in equity for the six months ended 30 June 2011							
Profit distribution prior to the listing	–	–	–	–	–	(324,569)	(324,569)
Elimination of paid-in capital on reorganisation	(1,787,457)	–	–	1,787,457	–	–	–
Issue of shares upon reorganisation	19(a)(ii) –	–	–	–	–	–	–
Capitalisation issue	14,522	(14,522)	–	–	–	–	–
Share issued under placing and public offering, net of issuing expenses	4,811	2,446,828	–	–	–	–	2,451,639
Total comprehensive income for the period	–	–	–	–	(13,696)	448,878	435,182
Balance at 30 June 2011	<u>19,333</u>	<u>2,432,306</u>	<u>72,992</u>	<u>1,805,631</u>	<u>(13,696)</u>	<u>601,225</u>	<u>4,917,791</u>
Balance at 1 January 2012	19,333	2,206,245	163,237	1,805,631	(44,440)	965,609	5,115,615
Changes in equity for the six months ended 30 June 2012							
Dividends approved in respect of the previous year	9(b) –	(227,793)	–	–	–	–	(227,793)
Total comprehensive income for the period	–	–	–	–	(10,449)	393,875	383,426
Balance at 30 June 2012	<u>19,333</u>	<u>1,978,452</u>	<u>163,237</u>	<u>1,805,631</u>	<u>(54,889)</u>	<u>1,359,484</u>	<u>5,271,248</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2012 – unaudited

(Expressed in Renminbi)

	<i>Note</i>	Six months ended 30 June	
		2012	2011
		<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities		401,033	475,266
Net cash used in investing activities		(806,668)	(627,678)
Net cash generated from financing activities		<u>71,242</u>	<u>2,086,488</u>
Net (decrease)/increase in cash and cash equivalents		(334,393)	1,934,076
Cash and cash equivalents at 1 January		1,093,282	151,392
Effect of foreign exchange rate changes		<u>(10,697)</u>	<u>(8,245)</u>
Cash and cash equivalents at 30 June	16	<u><u>748,192</u></u>	<u><u>2,077,223</u></u>

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 20 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 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”), which term collectively includes HKASs and Interpretations issued by the HKICPA.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those 2011 annual financial statements in their report dated 28 February 2012.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group. None of the developments are relevant to the Group's current financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

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

4 REVENUE

The principal activities of the Group are the manufacturing and sales of polyester filament fiber products.

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

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Domestic sales	2,678,015	2,564,658
Export sales	294,429	404,565
	<u>2,972,444</u>	<u>2,969,223</u>

The Group's customer base is diversified, no individual customer had transactions which exceeded 10% of the Group's revenue during the period ended 30 June 2012 and 2011.

5 OTHER REVENUE

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	19,615	12,789
Government grants*	466	14,158
Gain on sales of raw materials	4,077	7,208
	<u>24,158</u>	<u>34,155</u>

* Government grants of RMB466,000 and RMB14,158,000 for the six months ended 30 June 2012 and 2011 respectively were received from several local government authorities for the Group's contribution to the local economies, of which the entitlement was unconditional and at the discretion of the relevant authorities.

6 OTHER NET GAIN

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Donations	(18)	(15)
Net exchange gain	3,679	11,634
Net gain on financial liabilities at a fair value through profit or loss	4,714	62
Others	126	1,030
	<u>8,501</u>	<u>12,711</u>

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2012	2011
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest on bank borrowings	18,586	16,263
	Other interest expenses	12,690	5,152
		<u>31,276</u>	<u>21,415</u>
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	941	632
	Salaries, wages and other benefits	64,911	47,896
		<u>65,852</u>	<u>48,528</u>
(c)	Other items:		
	Amortisation of interests in leasehold land	1,751	1,576
	Depreciation	78,239	70,497
	Operating lease charges in respect of properties	180	220
	Research and development*	97,612	67,722
	Cost of inventories**	2,359,855	2,332,982

* *Research and development costs include RMB21,548,000 and RMB16,857,000 for the six months ended 30 June 2012 and 2011 respectively relating to staff costs of employees in the research and development department and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.*

** *Cost of inventories include RMB104,893,000 and RMB85,672,000 for the six months ended 30 June 2012 and 2011 respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.*

8 INCOME TAX

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax for the period	66,871	79,658
Deferred tax		
Origination and reversal of temporary differences	11,543	10,057
	78,414	89,715

- (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 earn any income subject to Hong Kong profits tax during each of the six months ended 30 June 2012 and 2011.
- (iii) In accordance with the relevant PRC Corporate Income Tax Laws, regulations and implementation guidance note, a 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 in 2009 for a valid period of three years from 2009 to 2011 which entitles Billion Fujian to a reduced income tax rate at 15% during the valid period under the Tax Law and its relevant regulations. Billion Fujian has lodged application for renewal of Advanced and New Technology Enterprise status and expected to receive the approval by the end of 2012.

Accordingly, Billion Fujian is subject to PRC income tax at 15% for the six months ended 30 June 2012 on a provisional basis before the renewal of the Advanced and New Technology Enterprise status by the end of 2012.

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

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

9 DIVIDENDS

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Interim dividend proposed after the interim period of HK10.5 cents per share (2011: HK11.99 cents per share)	<u>196,790</u>	<u>226,061</u>

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

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

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

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB393,875,000 (six months ended 30 June 2011: RMB448,878,000) and the weighted average of 2,299,000,000 ordinary shares (2011: 1,863,968,232 ordinary shares) in issue during the interim period.

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2012 and 2011, and therefore, diluted earnings per share is the same as the basic earnings per share.

11 PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Net book value, at 1 January	2,548,810	2,286,023
Additions	320,887	351,658
Transfer from construction in progress (<i>note 12</i>)	–	59,429
Disposals (net carrying amount)	–	(83)
Depreciation charge for the period/year	<u>(78,239)</u>	<u>(148,217)</u>
At 30 June/31 December	<u><u>2,791,458</u></u>	<u><u>2,548,810</u></u>

12 CONSTRUCTION IN PROGRESS

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
At 1 January	547,703	28,235
Additions	429,356	578,897
Transfer to property, plant and equipment (<i>note 11</i>)	<u>–</u>	<u>(59,429)</u>
At 30 June/31 December	<u><u>977,059</u></u>	<u><u>547,703</u></u>

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

Interests in leasehold land held for own use under operating leases represent land use rights in the PRC. At 30 June 2012, the remaining period of the land use rights ranged from 44 to 50 years.

14 INVENTORIES

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Raw materials	226,384	257,168
Work in progress	34,508	43,955
Finished goods	434,607	294,378
	<u>695,499</u>	<u>595,501</u>

15 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Current	719,550	430,985
Less than 1 month past due	3,265	3,925
More than 1 month but less than 3 months past due	82	8,299
More than 3 months but less than 1 year past due	84	7
More than 1 year past due	–	622
Trade debtors and bills receivable, net of allowance for doubtful debts	722,981	443,838
Deposits, prepayments and other receivables	877,331	1,129,077
	<u>1,600,312</u>	<u>1,572,915</u>
Less: non-current portion of deposits and prepayments	642,559	452,340
	<u>957,753</u>	<u>1,120,575</u>
Derivative financial assets – forward exchange contracts	1,765	–
	<u>959,518</u>	<u>1,120,575</u>

At 30 June 2012 and 31 December 2011, all of the current trade and other receivables are expected to be recovered or recognised as expenses within one year.

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

Non-current portion of deposits and prepayments represents deposits for purchase of property, plant and equipment and prepayment for interests in leasehold land and for construction and construction materials.

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

16 CASH AND CASH EQUIVALENTS

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Deposits with banks and other financial institutions	300,000	584,726
Cash at bank and in hand	448,192	508,556
Cash and cash equivalents in the consolidated statement of financial position	<u>748,192</u>	<u>1,093,282</u>

17 TRADE AND OTHER PAYABLES

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

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Within 3 months or on demand	825,496	788,083
After 3 months but within 6 months	15,624	127,331
After 6 months but within 1 year	293	1,921
More than 1 year	7,033	6,944
Trade creditors and bills payable	848,446	924,279
Other payables and accrual charges	117,838	119,201
Equipment payables	191,024	11,560
Construction payables	20,501	60,634
Interests in leasehold land	6,159	–
Receipts in advance	103,990	155,499
Financial liabilities measured at amortised cost	1,287,958	1,271,173
Derivative financial liabilities		
– Interest rate swaps	350	1,071
– Forward exchange contracts	–	2,228
	<u>1,288,308</u>	<u>1,274,472</u>

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

18 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Provision of PRC income tax	<u>44,546</u>	<u>60,541</u>

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Deferred tax assets arising from Billion High-tech:		
– Pre-operating expense	<u>(603)</u>	<u>(49)</u>
Deferred tax liabilities arising from Billion Fujian:		
– Depreciation and amortisation of fixed assets	101,356	88,223
– Others	<u>(8,623)</u>	<u>(7,587)</u>
	<u>92,733</u>	<u>80,636</u>

(c) Deferred tax assets not recognised

At 30 June 2012, the Company has not recognised deferred tax assets in respect of cumulative tax losses of RMB34,443,000 (31 December 2011: RMB28,876,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

As at 30 June 2012, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in mainland China amounted to RMB1,377,446,000 (31 December 2011: RMB983,163,000). Deferred tax liabilities of RMB68,872,000 (31 December 2011: RMB49,158,000) 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.

19 CAPITAL AND RESERVES

(a) Share capital

(i) Authorised and issued share capital

	Par value HK\$	Number of shares	Nominal value of ordinary shares HK\$
<i>Authorised:</i>			
At 31 December 2011 and 30 June 2012	0.01	<u>10,000,000,000</u>	<u>100,000,000</u>
	Par value HK\$	Number of shares	Nominal value of ordinary shares HK\$ RMB
<i>Issued and fully paid:</i>			
At 31 December 2011 and 30 June 2012	0.01	<u>2,299,000,000</u>	<u>22,990,000</u> <u>19,333,268</u>

(ii) Issue of shares upon reorganisation and capitalisation issue

On 17 March 2011, the Company issued 198 ordinary shares at par for cash to broaden the capital base of the Company.

(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 and retained profits, of the Company as at 30 June 2012 was HK\$2,308,838,000 (as at 31 December 2011: HK\$2,596,168,000).

(ii) *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.

(iii) *Capital reserve*

The capital reserve in the consolidated statement of financial position at 30 June 2012 mainly represents premium received from capital injection which are required to be included in their reserves by the PRC regulations.

(iv) *Exchange reserve*

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

20 CAPITAL COMMITMENTS

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

	At 30 June 2012 <i>RMB'000</i>	At 31 December 2011 <i>RMB'000</i>
Authorised but not contracted for	373,840	550,921
Contracted for	<u>1,249,086</u>	<u>1,543,640</u>
	<u>1,622,926</u>	<u>2,094,561</u>

21 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

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

	Six months ended 30 June 2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Short-term employee benefits	3,413	2,842
Post-employment benefits	<u>36</u>	<u>13</u>
	<u>3,449</u>	<u>2,855</u>

Total remuneration is disclosed in “staff costs” (*see note 7(b)*).

(b) Transactions with a related party

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

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods		
Fujian Jinjiang City Hengxinglong Polyester Co., Ltd.		
("Hengxinglong Polyester") (<i>notes 1 and 2</i>)		
福建省晉江市恒興隆化纖條綸有限公司	26	318

Note 1: The English translation of the name is for reference only. The official name of the entity is in Chinese.

Note 2: Hengxinglong Polyester is owned by Mr. Wu Qingshun, the son of Mr. Wu Jianshe, one of the directors of the Group.

(c) Balances with a related party

At 30 June 2012 and 31 December 2011, the Group did not have balance with a related party.

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGES IN GLOBAL AND CHINA'S ECONOMIC ENVIRONMENT

In the first half of 2012, the recovery of the global economy remained uncertain as it was still affected by the European debt crisis. However, we did see signs of economic recovery although the growth in the U.S. has been slower than previously expected.

While adjusting its economic structure, the economic growth of China has further slowed down in the first half of 2012, but it still remain at a rapid and stable pace if measured by international standard. With weaker demand from foreign markets, domestic demand has evidently become more important in supporting China's economic growth. We also saw rapid growth of retail sales in the second and third tier cities due to the continuing growth of domestic consumer demand.

INDUSTRY REVIEW

In terms of raw material, the price of purified terephthalic acid (PTA) has been in a downward trend in the first half of 2012 on the back of decreasing crude oil price and further production capacity expansion in China. We believe that the further expansion of PTA production capacity in China and our growing volumes of raw material procurement will increase our bargaining power with our suppliers, enabling us to source raw materials at more favorable prices.

With the decline in the prices of raw materials and further drop in the price of cotton with a substitute effect, profit in the chemical fiber industry were further squeezed. Although the profitability of regular polyester filament yarns suffered a decline, the differentiated products still maintained certain profit margin.

With respect to the downstream textile and apparel market, the export value of textile and apparel fluctuated in the first half of 2012 as a result of global economic uncertainty, while the domestic market maintained a stable growth. In addition to the weakening overseas demand, exports of textile products were also affected by the weakening competitiveness to some emerging markets such as Bengal, Vietnam and India due to rapidly increasing labor costs in China.

In China, biaxially-oriented polyethylene terephthalate (BOPET) products are still in an introductory stage. Though it is a segment of the polyester industry, its profitability remains at a relatively high level. The Company is confident of the growth potential and profitability of its BOPET business.

BUSINESS REVIEW

Actively Expand to Emerging Markets while Maintain Stable Sales in Domestic Market

Due to the volatility in raw materials price, some of our clients reduced their inventory level in the first half of the year to lower their risk. The decrease of average selling prices of the products slightly exceeded the decrease of raw material prices, resulting in a decline of the overall profit margin in the industry. However, our sales volumes increased despite the drop in sales price. At the same time, the overall profitability of the Company also remained stable due to our long term investment in research and development and our marketing efforts in promoting differentiated products. In the first half of 2012, our differentiated products contributed to 67.6% of our total revenues. This higher proportion of differentiated products ensured us the bargaining power in the market, and it was one of the main reasons that we maintained a relative stable gross and net profit margin.

In the domestic consumption market, although the downstream textile and apparel industry had experienced some fluctuation, the overall supply and demand of the polyester filament yarns in Southern China remained as a supply shortage in the first half of 2012. As of the end of June 2012, the sales volume in the domestic market increased over 15% when compared to the same period last year. In the domestic market, sales revenue in Fujian Province increased slightly. We re-adjusted our market focus in time and shifted more products for selling in the domestic market. Hence, sales revenue from overseas market decreased slightly.

Capacity Expansion on Schedule

As of 30 June 2012, our total designed capacity for fully drawn yarn (FDY) and partially oriented yarn (POY) was approximately 475,000 tons per year (TPY) and our designed capacity for drawn textured yarn (DTY) had increased to approximately 399,000 TPY.

In addition, the construction of a new production site was completed on time and production commenced gradually as scheduled. We expect the total designed capacity of the Group for FDY and POY to reach 580,000 TPY by the end of this year, while the designed capacity for DTY to increase to approximately 493,000 TPY. In addition, by the end of 2013, our total designed capacity for FDY and POY will increase to approximately 785,000 TPY as scheduled.

The Board has approved the investment of approximately RMB1,936,700,000 for the expansion of functional environmentally-friendly BOPET business. The construction of the production facilities for functional environmentally-friendly BOPET is slightly behind schedule due to the earlier start of the rainy season this year. We expect that the trial production of functional environmentally-friendly BOPET will commence by the end of August 2012, with an initial annual production capacity of approximately 36,500 tons. We have started to actively market our functional environmentally-friendly BOPET products and contact some potential customers, and have received positive initial feedback from them. We believe this has laid a good foundation for the future development of this new business line. Our total production capacity of functional environmentally-friendly BOPET was planned to reach 255,000 tons by 2014 gradually, which will make us the largest functional environmentally-friendly BOPET producer in Southern China and possibly nationwide.

Research and Development

As of 30 June 2012, we owned 34 national patents registered in China and have applied for registration of another 10 patents. With the support of our strong research and development capability, among all patents granted, 26 of our patented products are already in production and selling to our customers. Our expenditure on research and development in the first half of 2012 was RMB97,612,000.

For the first half of 2012, revenue from our differentiated polyester filament yarns was RMB2,010,325,000, representing 67.6% of total revenue. It is expected that the proportion of differentiated products in our total revenue will reach 69% for the year 2012. We believe that our differentiated products with national patents will be well recognized by both the domestic and international markets with highly competitive edge.

FINANCIAL REVIEW

Operational Situation

1. *Revenue*

In the first half of 2012, revenue of the Group amounted to RMB2,972,444,000 (the first half of 2011: RMB2,969,223,000), representing an increase of 0.1% as compared with the same period last year. The slight increase in sales was attributable to the increase in sales volume during the period. The decrease in the prices of raw material during the period led to a decrease of average selling prices of products within the industry including the products of the Group.

During the period, sales volume was 214,571 tons (the first half of 2011: 193,364 tons), representing an increase of 11% as compared with the same period last year. Since the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in May last year, the Group has undergone plant construction and has installed more production equipment, as a result, the production capacity was increased during the period which enabled the Group to meet the market demand.

With respect to quantity, as the Group is located in Jinjiang City of Fujian Province, in the vicinity of an area with booming textile industry, despite the economic growth slowed down slightly during the period, the consumer market in the PRC (such as footwear, home furnishings and apparel) was still growing, the demand for the products of the Group was also increasing. Furthermore, the high quality of Group’s products is one of the reasons that make them very popular among its customers.

With respect to the selling price, owing to the decrease in the prices of raw materials, the average cost per ton decreased by RMB1,067 from RMB12,065 of the same period last year to RMB10,998 during the period. However, the average selling price per ton of the Group’s products decreased by RMB1,503 from RMB15,356 of the same period last year to RMB13,853, which was larger than the decrease in cost. This was attributable to the intense market competition of downstream products and heavy cost pressure. As the Group is at the upstream industry sector, its selling price was adjusted downward. As a result, the revenue of the Group only increased by 0.1% despite of the 11% increase in sales volume.

The sales by geographic region were comparable to that of the same period last year. There was a slight increase in sales in our province (i.e. Fujian Province), which resulted a slight decrease in the sales in Guangdong Province and export sales.

Analysis of Revenue and Sales Volume by Products

	Revenue				Sales volume			
	Six months ended 30 June				Six months ended 30 June			
	2012		2011		2012		2011	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>	<i>Tons</i>	<i>Percentage</i>	<i>Tons</i>	<i>Percentage</i>
DTY	2,285,575	76.9%	1,909,975	64.3%	155,540	72.5%	115,532	59.7%
FDY	562,895	18.9%	723,039	24.4%	44,565	20.8%	46,745	24.2%
POY	2,086	0.1%	37,030	1.2%	182	0.1%	2,695	1.4%
Others*	121,888	4.1%	299,179	10.1%	14,284	6.6%	28,392	14.7%
Total	2,972,444	100%	2,969,223	100%	214,571	100%	193,364	100%

* Others represent polyethylene terephthalate (PET) chips and wasted filament produced in the process of production.

Geographic Breakdown of Sales

	Six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>
Domestic sales				
Fujian Province	2,282,451	76.8%	2,152,573	72.5%
Guangdong Province	355,849	12.0%	392,066	13.2%
Other provinces	39,715	1.3%	20,019	0.7%
Export sales	294,429	9.9%	404,565	13.6%
Total	2,972,444	100%	2,969,223	100%

Note: Regions of export sales mainly include Vietnam, Turkey, Korea, Belgium and Italy.

2. Cost of Sales

The cost of sales of the Group in the first half of 2012 was RMB2,359,855,000 (first half of 2011: RMB2,332,982,000), representing an increase of 1.2% as compared with the same period last year.

The increase in cost of sales was attributable to the increase in sales volume. Sales volume of the Group during the period was 214,571 tons (the first half of 2011: 193,364 tons), representing an increase of 11% as compared with the same period last year. The average cost per ton decreased by RMB1,067 to RMB10,998 from RMB12,065 of the same period last year, representing a decrease of 8.8%, which was attributable to the decrease in the prices of key raw materials of products, in particular PTA. The prices of PTA and mono ethylene glycol (MEG) were also directly affected by the prices of crude oil, which is the key raw material of PTA and MEG.

As the increase in the production capacity of DTY was faster than that of FDY and POY during the period, the Group is required to source externally 10,411 tons of POY, a major raw material for the production of DTY, to meet the production needs of DTY.

Other raw materials and manufacturing costs increased slightly by RMB127 per ton (accounted for 1.2% of average cost per ton) in total as compared with the same period last year. The increase was mainly attributable to the slight increase in costs of spin finish oil, direct labour wages and other production maintenance.

Analysis of Cost of Sales

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of raw materials		
PTA	1,307,485	1,452,509
MEG	480,180	479,393
POY	100,551	–
Other raw materials	94,455	68,842
	1,982,671	2,000,744
Manufacturing costs	370,897	326,004
Other costs	6,287	6,234
Total	<u>2,359,855</u>	<u>2,332,982</u>

Analysis of Cost of Sales per Ton

	Six months ended 30 June			
	2012		2011	
	<i>RMB</i>	<i>Percentage</i>	<i>RMB</i>	<i>Percentage</i>
Raw materials				
PTA	6,093	55.4%	7,512	62.3%
MEG	2,238	20.3%	2,479	20.5%
POY	469	4.3%	—	0%
Other raw materials	440	4.0%	356	3.0%
	9,240	84.0%	10,347	85.8%
Manufacturing costs	1,729	15.7%	1,686	14.0%
Other costs	29	0.3%	32	0.2%
	10,998	100.0%	12,065	100.0%

3. Gross Profit

During the period, the gross profit of the Group amounted to RMB612,589,000 (the first half of 2011: RMB636,241,000), representing a decrease of 3.7% as compared with the same period last year. Although sales volume increased by 21,207 tons as compared with the same period last year, average gross profit per ton decreased by RMB436, leading to a decrease of RMB23,652,000 in gross profit as compared with the same period last year. The gross profit margin also decreased from 21.4% in the same period last year to 20.6%, which was attributable to the more competitive business environment during the period as compared with the same period last year, coupled with a greater decline in selling prices than cost of raw materials.

Gross profit margin decreased from 21.4% in the same period last year to 20.6% during the period, representing a decline of 0.8% in gross profit margin, which was primarily attributable to the impact of the following three factors:

- (i) Decrease in the price of crude oil (being the key raw material of PTA and MEG, accounted for 75.7% of the cost of sales of the Group) led to the decrease in the prices of PTA and MEG, which in turn resulted in the decrease in the product selling prices of the entire industry;
- (ii) During the period, market competition of downstream products was intense and textile industry was in a tougher position than that of the same period last year, thus the pressure on the costs of downstream products also exerted pressure on the selling prices of polyester filament yarns; and
- (iii) Products of the Group were of high quality and thus the Group possessed stronger bargaining power in selling prices. In addition, the economies of scale resulted from the increase in production volume enabled the Group to reduce its average production cost per ton, thereby minimising the decrease in gross profit margin.

Analysis of Gross Profit by Products

	Six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>
DTY	503,909	82.3%	431,672	67.9%
FDY	98,497	16.1%	170,035	26.7%
POY	186	0.0%	7,979	1.2%
Others	9,997	1.6%	26,555	4.2%
	<u>612,589</u>	<u>100.0%</u>	<u>636,241</u>	<u>100.0%</u>

Average Gross Profit of Product Per Ton

	Six months ended 30 June	
	2012	2011
	<i>RMB</i>	<i>RMB</i>
Average sales price per ton	13,853	15,356
Average cost of sales per ton	<u>10,998</u>	<u>12,065</u>
Average gross profit per ton	<u>2,855</u>	<u>3,291</u>
Average gross profit margin per ton	<u>20.6%</u>	<u>21.4%</u>

4. Other Revenue

During the period, other revenue amounted to RMB24,158,000 (the first half year of 2011: RMB34,155,000), representing a decrease of 29.3% as compared with the same period last year. Other revenue includes bank interest income, government grants and gain on disposal of raw materials. Such decrease was primarily attributable to the decrease in the amount of government grants and the projects subsidised as compare with the same period last year. The government grants during the period included sponsorship for patents application, patent awards from Quanzhou Municipal Bureau of Science and Technology and subsidies for export credit insurance premium.

5. Other Net Gain

During the period, other net gain amounted to RMB8,501,000 (the first half year of 2011: RMB12,711,000), representing a decrease of 33.1% as compared with the same period last year. Other net gain mainly comprised of net exchange gain and net gain on financial liabilities at fair value through profit or loss. Such decrease was primarily attributable to the decrease in net exchange gain as compare with the same period last year.

6. *Selling and Distribution Expenses*

During the period, selling and distribution expenses amounted to RMB16,238,000 (the first half year of 2011: RMB15,272,000), representing an increase of 6.3% as compared with the same period last year. Such costs mainly included transportation cost, travel expenses and wages of our sales staff. Owing to the increase of 11% in sales volume during the period as compared to the same period last year, selling and distribution expenses, such as transportation cost, also increased slightly.

7. *Administrative Expenses*

During the period, administrative expenses amounted to RMB125,445,000 (the first half year of 2011: RMB107,827,000), representing an increase of 16.3% as compared with the same period last year. Administrative expenses mainly included staff wages, general office expenses, professional and legal fees, depreciation on office equipment and research and development costs. The increase of administrative expenses was primarily attributable to the increase of research and development cost during the period.

During the period, research and development expenses amounted to RMB97,612,000 (the first half year of 2011: RMB67,722,000), representing an increase of 44.1% as compared with the same period last year. Research and development expenses included the wages of our research and development personnel, depreciation of research and development equipment, raw materials consumed and research and development outsourcing expenses paid to Donghua University.

8. *Finance Costs*

During the period, finance costs amounted to RMB31,276,000 (first half year of 2011: RMB21,415,000), representing an increase of 46.0% as compared with the same period last year. Such increase was attributable to the increase in interest costs as a result of the increase in bank borrowings and discounted bills during the period as compared to the same period last year.

9. *Income Tax*

During the period, the Group's income tax was RMB78,414,000 (the first half year of 2011: RMB89,715,000), representing a decrease of 12.6% as compared with the same period last year, which was due to the decrease in profit before taxation.

10. Profit for the Period

Profit for the period amounted to RMB393,875,000 (the first half year of 2011: RMB448,878,000), representing a decrease of 12.3% as compared with the same period last year. Net profit margin for the period was 13.3% (the first half year of 2011: 15.1%), representing a decrease of 1.8% in net profit margin as compared with the same period last year. The decrease was mainly due to the decrease in gross profit and increase in research and development expenses.

Financial Position

1. Liquidity and Capital Resources

As at 30 June 2012, cash and cash equivalent of the Group amounted to RMB748,192,000 (31 December 2011: RMB1,093,282,000), decreased by 31.6%. Such decrease was mainly due to an increase in capital expenditure for the expansion of production capacity of polyester filament yarn and the construction of production facilities for functional environmentally-friendly BOPET during the period.

During the period, net cash inflow from operating activities amounted to RMB401,033,000, net cash outflow used in investing activities amounted to RMB806,668,000, and net cash inflow from financing activities amounted to RMB71,242,000. The Group primarily uses the cash inflow from operating activities to satisfy the requirements of working capital.

As at 30 June 2012, the Group had capital commitments of RMB1,622,926,000, which was mainly used for the expansion of Group's production capacity of polyester filament yarns and development of functional environmentally-friendly BOPET business.

2. Capital Structure

As at 30 June 2012, the total liabilities of the Group amounted to RMB2,461,891,000, and the capital and reserve amounted to RMB5,271,248,000. The gearing ratio (total liabilities divided by total equity) was 46.7%. Bank borrowings of the Group amounted to RMB1,036,304,000, of which RMB844,064,000 were repayable within one year and RMB192,240,000 were repayable after one year. Among the bank borrowings, 80.1% were secured by fixed assets, bills receivable, trade receivables and restricted bank deposits.

Contingent Liabilities

As at 30 June 2012, the Group did not have any contingent liabilities.

Foreign Currency Risk

As substantially all of the Group's revenue, costs and expenses are denominated in Renminbi, the Group's operation is not exposed to significant foreign currency risk. The Group's foreign currency risk exposure was derived from its bank loans and payment for purchasing production equipment denominated in United States Dollars, Hong Kong Dollars and Euro.

Employees and Remuneration

As at 30 June 2012, the Group has a total of 3,449 employees. Remuneration for employees is determined with reference to work performance, professional experiences and the prevailing market practices. The management reviews the Group's employee remuneration policy and arrangement on a regular basis. Apart from pension, the Group also awards discretionary bonus to certain employees based on their performance.

BUSINESS OUTLOOK

The year 2012 is full of challenges for both China and the global economy. We are still facing very acute global economic situation, which will bring a series of uncertainties to our business operation.

Meanwhile, we believe that the domestic market will recover earlier than the overseas market. In the consumer sector, the growth of home furnishings market remains at a relatively high growth level which will further enhance the demand for polyester products. At the same time, as the inventories of textile and apparel companies are depleting, we believe that demand for our products will increase as our customers need to replenish inventories in August and September before the traditional peak season. Looking ahead, we will actively expand our sales in the emerging overseas markets in addition to continuing expanding our presence in the domestic market. In addition, we believe the BOPET business, a new growth driver for the Company, will better balance our product portfolio, and lower the risk of our industry concentration.

Interim Dividend

The Board resolved to declare an interim dividend of HK10.5 cents per share in cash for the six months ended 30 June 2012. It is expected that the dividend will be paid on or about 27 September 2012 to those shareholders whose names appear on the Company's register of members on 25 September 2012.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 21 September 2012 to Tuesday, 25 September 2012, 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., Thursday, 20 September 2012.

Compliance with the Code on Corporate Governance Practices

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and the revised code, namely Corporate Governance Code (the "Revised Code"), became effective on 1 April 2012. The Company has complied with all the applicable code provisions of the Former Code from 1 January 2012 to 31 March 2012. The Company has also complied with all the code provisions of the Revised Code from 1 April 2012 to 30 June 2012, except the new code provision C.1.2 which requires the Company to provide all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail.

During the period from 1 April 2012 to 30 June 2012, the management of the Company did not provide monthly updates to all members of the Board as required by new code provision C.1.2, as all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company, and the management has provided to all the independent non-executive Directors, in a timely manner, updates on any material changes to the position and prospects of the Company and sufficient background or explanatory information for matters brought before the Board.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors’ securities transactions. Having made specific enquiry of all the directors, the Company has confirmed with all directors that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2012.

Audit Committee

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

The audit committee of the Company has met and discussed with external auditors of the Group, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the results of the Group for the six months ended 30 June 2012.

Purchase, Sale or Redemption of Listed Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of Company’s listed shares during the six months ended 30 June 2012.

By Order of the Board
Billion Industrial Holdings Limited
Sze Tin Yau
Chairman

Hong Kong, 20 August 2012

As at the date of this announcement, the Board comprises Mr. Sze Tin Yau, Mr. Wu Jinbiao, Mr. Wu Jianshe, and Mr. He Wen Yao as executive directors, and Mr. Yeung Chi Tat, Ms. Zhu Meifang and Mr. Ma Yuliang as independent non-executive directors.