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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

HIGHLIGHTS

- Revenue for the year ended 31 December 2012 amounted to RMB6,091.7 million, representing an increase of 0.6% compared to 2011.

- Profit for the year ended 31 December 2012 amounted to RMB750.5 million, representing a decrease of 16.9% compared to 2011.

- Earnings per share for the year ended 31 December 2012 amounted to RMB0.33, representing a decrease of 23.3% compared to 2011.

- A final dividend of HK10.0 cents per share is proposed for 2012, full year dividend amounted to HK20.5 cents.

The board (the "Board") of directors (the "Directors") of Billion Industrial Holdings Limited (the "Company") is pleased to announce the consolidated results for the year ended 31 December 2012 of the Company and its subsidiaries (collectively, the "Group"), together with comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	**2012** *RMB'000*	2011 *RMB'000*
Revenue	*2*	**6,091,703**	6,053,645
Cost of sales		**(4,984,052)**	(4,729,557)
Gross profit		**1,107,651**	1,324,088
Other revenue	*3*	**104,455**	58,149
Other net gain	*4*	**7,839**	33,577
Selling and distribution expenses		**(38,659)**	(31,412)
Administrative expenses		**(273,917)**	(267,818)
Profit from operations		**907,369**	1,116,584
Finance costs	*5(a)*	**(54,183)**	(34,854)
Profit before taxation	*5*	**853,186**	1,081,730
Income tax	*6*	**(102,707)**	(178,223)
Profit for the year		**750,479**	903,507
Earnings per share			
Basic and diluted *(RMB)*	*8*	**0.33**	0.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
Profit for the year	**750,479**	903,507
Other comprehensive income for the year		
Exchange differences on translation of financial statements of operations outside mainland China	**(12,820)**	(44,440)
Total comprehensive income for the year	**737,659**	859,067

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Fixed assets	*9*		
– Property, plant and equipment		**3,117,951**	2,548,810
– Construction in progress		**1,180,302**	547,703
– Interests in leasehold land held for own use under operating leases		**276,882**	193,575
		4,575,135	3,290,088
Deposits and prepayments	*11*	**441,542**	452,340
Deferred tax assets	*16(b)*	**1,091**	49
		5,017,768	3,742,477
Current assets			
Inventories	*10*	**444,942**	595,501
Trade and other receivables	*11*	**935,113**	1,120,575
Restricted bank deposits	*12*	**788,491**	698,968
Cash and cash equivalents	*13*	**644,049**	1,093,282
		2,812,595	3,508,326
Current liabilities			
Trade and other payables	*14*	**1,147,770**	1,274,472
Bank loans	*15*	**1,119,422**	484,043
Current taxation	*16(a)*	**51,589**	60,541
		2,318,781	1,819,056
Net current assets		**493,814**	1,689,270
Total assets less current liabilities		**5,511,582**	5,431,747

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Bank loans	*15*	**20,542**	235,496
Deferred tax liabilities	*16(b)*	**63,119**	80,636
		83,661	316,132
NET ASSETS		**5,427,921**	5,115,615
CAPITAL AND RESERVES			
Capital		**19,333**	19,333
Reserves		**5,408,588**	5,096,282
TOTAL EQUITY		**5,427,921**	5,115,615

NOTES

1 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and they have no material impact on the Group's consolidated financial statements as they were consistent with policies already adopted by the Group.

2 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 during the year is as follows:

	2012	2011
	RMB'000	*RMB'000*
Polyester filament yarns products	**6,085,473**	6,053,645
Polyester thin films products	**6,230**	–
	6,091,703	6,053,645

The Group's customer base is diversified and no individual customer had transactions which exceeded 10% of the Group's revenue during the years ended 31 December 2012 and 2011.

3 OTHER REVENUE

	2012	2011
	RMB'000	*RMB'000*
Bank interest income	**40,880**	36,832
Government grants	**55,748**	15,129
Sales of raw materials	**7,827**	6,188
	104,455	58,149

During the year, government grants of RMB55,748,000 (2011: RMB15,129,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and at the discretion of the relevant authorities.

4 OTHER NET GAIN

	2012	2011
	RMB'000	*RMB'000*
Net gain on sale of property, plant and equipment	**–**	54
Donation	**(1,494)**	(488)
Net exchange (loss)/gain	**(3,241)**	32,138
Net gain on financial assets and liabilities at a fair value through profit or loss	**12,321**	1,095
Others	**253**	778
	7,839	33,577

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2012	2011
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on bank advances and other borrowings	**36,970**	29,697
Other interest expenses	**17,708**	5,171
	54,678	34,868
Less: interest expense capitalised into construction in progress*	**495**	14
	54,183	34,854

* *The borrowing costs have been capitalised at a rate of 6.7% per annum (2011: 6.7%).*

(b) Staff costs:

	2012	2011
	RMB'000	*RMB'000*
Contributions to defined contribution retirement plan	**2,233**	1,413
Salaries, wages and other benefits	**131,915**	103,780
	134,148	105,193

(c) Other items:

	2012	2011
	RMB'000	*RMB'000*
Amortisation of interests in leasehold land held for own use under operating leases	**3,658**	3,138
Depreciation	**161,165**	148,217
Auditors' remuneration	**2,932**	2,374
Operating lease charges in respect of properties	**360**	995
Research and development costs*	**209,823**	195,902
Cost of inventories**	**4,984,052**	4,729,557

* *Research and development costs include RMB42,973,000 (2011: RMB37,109,000) 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 5(b) for each of these types of expenses.*

** *Cost of inventories include RMB216,497,000 (2011: RMB182,303,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.*

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

	2012	2011
	RMB'000	*RMB'000*
Current tax – PRC Income Tax		
Provision for the year	**121,266**	157,356
Deferred tax		
Origination and reversal of temporary differences	**13,695**	20,867
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(32,254)**	–
	(18,559)	20,867
	102,707	178,223

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	2012	2011
	RMB'000	*RMB'000*
Profit before taxation	**853,186**	1,081,730
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdiction concerned	**213,296**	272,659
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(32,254)**	–
Tax effect of non-deductible expenses	**10,010**	11,020
Tax concessions *(note (iii))*	**(88,345)**	(105,456)
Actual tax expenses	**102,707**	178,223

Notes:

(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 the years ended 31 December 2012 and 2011.

(iii) In accordance with the relevant PRC Corporate Income Tax Laws, regulations and implementation guidance notes, the subsidiary in mainland China – Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.*（福建百宏聚纖科技實業有限公司）("Billion Fujian") renewed the High and New Technology Enterprise Status in 2012 for a valid period of 3 years from 2012 to 2014 which entitles Billion Fujian to a reduced income tax rate at 15% during the valid period under the New Tax Law and its relevant regulations. Nevertheless this reduced tax rate cannot be applied in conjunction with the grandfathered tax holiday.

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

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

7 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2012	2011
	RMB'000	*RMB'000*
Interim dividend declared and paid of HK10.5 cents per share (2011: HK11.99 cents per share)	**197,560**	226,061
Final dividend proposed after the end of the reporting period of HK10.0 cents per ordinary share* (2011: HK12.20 cents per share)	**179,419**	227,793
	376,979	453,854

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

* *The total number of ordinary shares issued is 2,299,000,000 as at 31 December 2012. The Company has repurchased and cancelled 76,000,000 shares in January and February 2013. As at the date of approving the consolidated financial statements, the total number of ordinary shares in issue is 2,223,000,000.*

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

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

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB750,479,000 (2011: RMB903,507,000) and the weighted average of 2,299,000,000 ordinary shares (2011: 2,083,272,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2012	2011
Effect of issue upon legal establishment	**2**	2
Effect of issue of shares upon reorganisation	**198**	198
Effect of capitalisation issue	**1,724,249,800**	1,724,249,800
Effect of shares issued upon placing and public offering	**574,750,000**	359,022,000
Weighted average number of ordinary shares	**2,299,000,000**	2,083,272,000

There were no dilutive potential ordinary shares during the years ended 31 December 2012 and 2011, and therefore, diluted earnings per share is the same as the basic earnings per share.

9 FIXED ASSETS

	Buildings held for own use *RMB'000*	Plant and machinery *RMB'000*	Office and other equipment *RMB'000*	Motor Vehicles *RMB'000*	Sub-total *RMB'000*	Construction in progress *RMB'000*	Interests in leasehold land held for own use under operating leases *RMB'000*	Total *RMB'000*
Cost:								
At 1 January 2012	878,120	1,958,320	273,803	51,227	3,161,470	547,703	213,099	3,922,272
Additions	–	–	2,423	7,342	9,765	1,353,140	86,965	1,449,870
Transfers	401,765	310,380	8,396	–	720,541	(720,541)	–	–
At 31 December 2012	1,279,885	2,268,700	284,622	58,569	3,891,776	1,180,302	300,064	5,372,142
Accumulated depreciation and amortisation:								
At 1 January 2012	(114,783)	(404,344)	(76,450)	(17,083)	(612,660)	–	(19,524)	(632,184)
Charge for the year	(29,903)	(105,657)	(16,039)	(9,566)	(161,165)	–	(3,658)	(164,823)
At 31 December 2012	(144,686)	(510,001)	(92,489)	(26,649)	(773,825)	–	(23,182)	(797,007)
Net book value:								
At 31 December 2012	1,135,199	1,758,699	192,133	31,920	3,117,951	1,180,302	276,882	4,575,135
At 31 December 2011	763,337	1,553,976	197,353	34,144	2,548,810	547,703	193,575	3,290,088

(a) Interests in leasehold land held for own use under operating leases represent land use right in the PRC. As at 31 December 2012, the remaining period of the land use rights ranged from 44 to 50 years.

(b) As at 31 December 2012, the Group was applying for interests in leasehold land held for own use under operating leases, with net book value of RMB73,601,000 (2011: RMB25,081,000) from the relevant PRC government authorities.

The analysis of net book value of properties is as follows:

	2012	2011
	RMB'000	*RMB'000*
In Hong Kong		
– medium-term leases *(note 15)*	**49,364**	50,514
Outside Hong Kong		
– medium-term leases	**1,362,717**	906,398
	1,412,081	956,912
Representing:		
Buildings held for own use	**1,135,199**	763,337
Interests in leasehold land held for own use under operating leases	**276,882**	193,575
	1,412,081	956,912

10 INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**126,809**	257,168
Work in progress	**43,268**	43,955
Finished goods	**274,865**	294,378
	444,942	595,501

11 TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade debtors	**472,074**	197,794
Bills receivable	**203,301**	246,044
Deposits, prepayments and other receivables	**691,225**	1,129,077
	1,366,600	1,572,915
Less: non-current portion of deposits and prepayments	**(441,542)**	(452,340)
	925,058	1,120,575
Derivative financial assets		
– forward exchange contracts	**10,055**	–
	935,113	1,120,575

All of the current trade and other receivables are expected to be recovered or recognised as expenses within one year.

As at 31 December 2012, the Group had discounted bank acceptance bills totalling RMB253,680,000 (2011: nil) and endorsed bank acceptance bills totalling RMB297,594,000 (2011: RMB370,201,000), which are derecognised as financial assets. These bank acceptance bills matured within six months from date of issue.

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

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

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the date of billing, is as follows:

	2012	2011
	RMB'000	*RMB'000*
Current	**675,368**	430,985
Less than 1 month past due	**2**	3,925
More than 1 month but less than 3 months past due	**1**	8,299
More than 3 months but less than 1 year past due	**2**	7
More than 1 year	**2**	622
	7	12,853
	675,375	443,838

Trade debtors are due within 90 to 180 days from the date of billing, except for those due from related parties which were repayable on demand.

(b) Trade debtors and bills receivable that are not impaired

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

The trade and bills receivables as at 31 December 2012 were not impaired. Receivables that were past due but not impaired relate to the trade balance with related parties which were repayable on demand and a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

12 RESTRICTED BANK DEPOSITS

The restricted bank deposits of RMB788,491,000 (2011: RMB698,968,000) were pledged to the banks to secure certain bank bills payable and bank loans *(see notes 14 and 15)*.

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2012	2011
	RMB'000	*RMB'000*
Deposits with banks and other financial institutions	**129,931**	584,726
Cash at bank and in hand	**514,118**	508,556
Cash and cash equivalents in the consolidated statement of financial position	**644,049**	1,093,282

At 31 December 2012, cash at bank balances were placed with banks in the PRC amounted to RMB470,902,000 (2011: RMB370,364,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

14 TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade creditors and bills payable	**835,149**	924,279
Other payables and accrued charges	**107,220**	119,201
Equipment payables	**45,793**	11,560
Construction payables	**9,788**	60,634
Receipts in advance	**148,786**	155,499
	1,146,736	1,271,173
Derivative financial liabilities		
– forward exchange contracts	**940**	2,228
– interest rate swaps	**94**	1,071
	1,034	3,299
	1,147,770	1,274,472

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

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**742,840**	788,083
More than 3 months but within 6 months	**85,557**	127,331
More than 6 months but within 1 year	**280**	1,921
More than 1 year	**6,472**	6,944
	835,149	924,279

15 BANK LOANS

At 31 December 2012, the bank loans were repayable as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 1 year or on demand	**1,119,422**	484,043
After 1 year but within 2 years	**1,622**	214,823
After 2 years but within 5 years	**4,865**	5,810
After 5 years	**14,055**	14,863
	20,542	235,496
	1,139,964	719,539

At 31 December 2012, the bank loans were secured as follows:

	2012	2011
	RMB'000	*RMB'000*
Bank loans		
– secured	**780,093**	689,539
– unsecured	**359,871**	30,000
	1,139,964	719,539

Certain bank loans were secured by assets of the Group as set out below:

	2012	2011
	RMB'000	*RMB'000*
Properties *(note 9)*	**49,364**	50,514
Pledged trade receivables	**18,962**	7,429
Restricted bank deposits	**740,571**	658,330
	808,897	716,273

16 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2012	2011
	RMB'000	*RMB'000*
Provision for the year	**121,266**	157,356
Tax paid	**(130,218)**	(124,346)
	(8,952)	33,010
Balance of tax provision relating to prior years	**60,541**	27,531
	51,589	60,541

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

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Pre-operating expenses *RMB'000*	**Depreciation and amortisation of fixed assets** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Deferred tax arising from:				
At 1 January 2011	–	66,509	(6,789)	59,720
Charged/(credited) to profit or loss	(49)	21,714	(798)	20,867
At 31 December 2011	(49)	88,223	(7,587)	80,587
At 1 January 2012	(49)	88,223	(7,587)	80,587
Charged/(credited) to profit or loss	(1,042)	(20,552)	3,035	(18,559)
At 31 December 2012	(1,091)	67,671	(4,552)	62,028

Reconciliation to the consolidated statement of financial position

	2012 ***RMB'000***	2011 *RMB'000*
Deferred tax assets recognised in the consolidated statement of financial position	**(1,091)**	(49)
Deferred tax liabilities recognised in the consolidated statement of financial position	**63,119**	80,636
	62,028	80,587

(c) Deferred tax assets not recognised

The Company has not recognised deferred tax assets in respect of cumulative tax losses of RMB44,775,000 (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 31 December 2012, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in mainland China amounted to RMB1,665,519,000 (2011: RMB983,163,000). Deferred tax liabilities of RMB83,276,000 (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.

17 COMMITMENTS

(a) Capital commitments in respect of fixed assets outstanding at 31 December 2012 not provided for in the consolidated financial statements were as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Authorised but not contracted for	**293,167**	550,921
Authorised and contracted for	**818,190**	1,543,640
	1,111,357	2,094,561

(b) At 31 December 2012, the total future minimum lease payments under a non-cancellable operating lease are payable as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 1 year	**360**	360
After 1 year but within 5 years	**1,440**	1,440
Over 5 years	**2,250**	2,610
	4,050	4,410

The Group is the lessee in respect of oil storage area held under an operating lease. The lease runs for an initial period of twenty years. It does not include contingent rentals.

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGES IN GLOBAL AND CHINA'S ECONOMY

While China's economy was able to avoid a "hard landing" in 2012, GDP growth was only 7.8%, dropping below 8% for the first time in the past 13 years. Domestic economic growth was challenged by several factors, including weak domestic demand, decelerating investments and structural economic transformation. Under the government tightened monetary policy and loosened fiscal policies, the GDP growth rate suffered a year on year decline in three consecutive quarters and stabilized only in the fourth quarter. In 2012, the nominal growth in retail sales of consumer goods was 14.3% year on year, accounting for 51.8% of GDP growth. Retail sales of apparel/footwear and hat/textile products by retail enterprises with operating income above the designation size increased by 18% as compared to those of 2011. According to the National Bureau of Statistics, retail sales of apparel, footwear and hats, and textile products amounted to RMB116.2 billion in December, representing a year-on-year increase of 16.4%, with the growth rate decreasing by 10.3 percentage points year over year. Cumulative retail sales amounted to RMB977.8 billion from January to December, representing a year-on-year increase of 18%, with the growth rate dropping by 6.2 percentage points year over year.

Outside China, as developed countries continued to deleverage their economies, international market demand remained sluggish and trade conflicts persisted. During the first three quarters, the global manufacturing industry kept shrinking, reflecting ongoing challenges in the global economy. In September, the manufacturing sectors of most major developed countries continued to shrink. Meanwhile, the performance of the manufacturing sectors of emerging economies remained mixed.

INDUSTRY REVIEW

In terms of raw materials, owing to the steady rebound in crude oil prices and the insufficient Para-xylene (PX) production capacity both domestic and overseas, the price of purified terephthalic acid (PTA) started to rebound in 2012. We will continue to monitor closely the new changes affecting the operation that are brought by the trend in raw materials prices as well as the trend in PTA production capacity.

Average selling prices of polyester filament yarns in 2012 were lower than those in 2011. This was mainly due to the fluctuating product prices that echoed the volatility of raw materials prices. Along with the gradual recovery of raw materials prices and the enlarged Global-Chinese market cotton price gap in the second half of 2012, the gross profit margin of the chemical fiber industry was supported in the short term.

The stagnant production is primarily due to the export difficulties of textile industry in the downstream, a result of increasing backlog of apparel and fabrics inventory. The growth rate of Chinese textile exports declined in the first half of the year but underwent a slow recovery in the second half. As a result, the profit margin of filament yarns, including FDY, POY, DTY and industrial filament, has declined to its lowest levels in recent years. However, we believe that the possibility of renewed decrease in these margins is remote, as margins of POY are approaching break-even and DTY's margins are firm. In the apparel industry, inventories of domestic sports apparel/footwear brands remained high while international apparel/footwear brands shifted their focus to second and third tier cities, confronting the footwear and apparel industries with new challenges. Although the home furnishings industry in general was still in its fast growing stage, the growth rate slowed down. In addition to the weakening overseas demand, increased competition from some emerging economies such as Bangladesh, Vietnam, and India, following the rapid increase in Chinese labour costs further exacerbated the decrease of domestic textile products exports.

Domestic demand for functional biaxially-oriented polyethylene terephthalate (BOPET) continued to rise. Owing to the strong market demand, profitability remains at a relatively high level despite substantial increases in domestic production capacity in the recent years. This was particularly true in Southern China, where there are relatively few companies producing relevant products and market supply and demand remained stable. In the future, the Group expects to produce differentiated BOPET products that will enable it to further enhance its competitive edge and gross profit margin. Management is confident in the growth potential and profitability of its BOPET business.

BUSINESS REVIEW

Stable Sales in Domestic Market

Due to the volatility in raw materials market prices, our clients generally reduced inventory levels during the first half of the year to lower inventory risk. The decrease in average selling prices of our products was slightly higher than the drop in raw materials prices of PTA, resulting in a decline of the overall profit margin in the industry. Average selling prices of our products in the second half of the year were stabilized following the rebound in raw materials prices. Driven by the need to replenish inventories in the downstream industries since the fourth quarter, the sales volumes and prices of products increased. However, looking back throughout the year, our sales volumes grew slightly despite the drop in average selling prices as compared with 2011. Sales of the Group were maintained at their normal level, with production to sales ratio basically reaching 100%. At the same time, the overall profitability of the Group also remained stable due to our long term investment in research and development and our marketing efforts in promoting differentiated products. The product differentiation rate reached 68.3% throughout 2012. Our high differentiation rate gave us bargaining power in the market, and it continued to be one of the main reasons that we could maintain a relative stable gross margin.

In the domestic market, despite volatility in the downstream textile and apparel industry, the demand for our products remained stable, driven by stable overall supply and demand of the polyester filament yarns in Southern China and capacity expansion at our major customers in Fujian and Guangdong Province, our strong markets traditionally.

Production Capacity Expansion

As of 31 December 2012, our designed capacity for FDY and POY was increased to approximately 580,000 tons per year and our designed capacity for DTY was increased to approximately 415,000 tons per year.

In addition, the production at the new site commenced gradually. By the end of 2013, the designed capacity of the Group for FDY and POY will be further increased to approximately 785,000 tons per year according to plan, while the designed capacity for DTY will further increased to approximately 493,000 tons per year.

The construction of the production facilities for BOPET is slightly behind schedule due to the earlier start of the rainy season in 2012. The production capacity of the aforesaid BOPET was completed in November and trial production has commenced, with an initial production capacity of approximately 36,500 tons per year. The Group marketed its BOPET products actively. Customers' feedback has been positive and we believe this will lay a good foundation for the future development of this new business line. Total production capacity of BOPET of the Group is planned to gradually reach 255,000 tons per year by 2014.

Product Research and Development

As of 31 December 2012, we owned 39 national patents registered in China and have applied for another 13 national patents. Among all our patented products, 32 of them are already in production and sold to our customers. Our research and development activities relied on our experienced research and development team. Our expenditure on research and development in 2012 was RMB209,823,000.

As at 31 December 2012, revenue of the Group from its differentiated polyester filament yarns was RMB4,162,309,000, representing 68.3% of total revenue for the year. The Group believes that its products, protected by national patents, will be well recognized in both the domestic and international markets and provide the company with a strong competitive edge.

FINANCIAL REVIEW

Operational Performance

1. Revenue

The revenue of the Group in 2012 was RMB6,091,703,000, representing an increase of 0.6% compared to the revenue of RMB6,053,645,000 in 2011. The average selling price per ton of polyester filament yarns, the Group's main products accounting for 99.9% of the total revenue, was RMB12,876, representing a decrease of RMB2,448 or 16.0% compared to the average selling price of RMB15,324 per ton in 2011. The decrease in selling price was mainly due to the decrease of raw materials prices. Besides, as a result of the intense market competition of downstream products and heavy cost pressure and as the Group is at the upstream industry sector, its selling price was adjusted downward.

Despite a decrease of 16.0% in the selling price, the Group's revenue increased by 0.6% compared to 2011. This was attributed to the increase of sales volume by 78,091 tons or 19.8% from 395,049 tons in 2011 to 473,140 tons during the year. As the Company's proceeds raised from the first listing of Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in May 2011 were gradually put into the construction of plants and installation of machines, the increase of the production capacity in the year results in such increase in sales volume in the year.

Production of BOPET was commenced by the end of the year with a sales volume of 511 tons and a revenue of RMB6,230,000, accounting for 0.1% of the total revenue and total sales volume.

As the Group's production facilities are located in Jinjiang City of Fujian Province with booming textile industry and the consumer market in the PRC (in particular, apparel, home furnishings and footwear) was still growing, the demand for the products of the Group was also increasing. The sales by geographic region during the year were comparable to that of 2011 with 75.4% of sales from customers in Fujian Province, 12.2% sold to Guangdong Province.

Revenue and Sales Volume by Products

	Revenue				Sales volume			
	2012		2011		**2012**		2011	
	RMB'000	***Percentage***	*RMB'000*	*Percentage*	***Tons***	***Percentage***	*Tons*	*Percentage*
Polyester filament yarns								
DTY	**4,659,313**	**76.5%**	4,090,959	67.6%	**341,712**	**72.2%**	247,754	62.7%
FDY	**1,098,172**	**18.0%**	1,370,393	22.6%	**92,542**	**19.6%**	91,844	23.2%
POY	**31,896**	**0.5%**	91,495	1.5%	**3,140**	**0.7%**	6,997	1.8%
Others*	**296,092**	**4.9%**	500,798	8.3%	**35,235**	**7.4%**	48,454	12.3%
Sub-total	**6,085,473**	**99.9%**	6,053,645	100.0%	**472,629**	**99.9%**	395,049	100.0%
Polyester thin films	**6,230**	**0.1%**	–	–	**511**	**0.1%**	–	–
Total	**6,091,703**	**100.0%**	6,053,645	100.0%	**473,140**	**100.0%**	395,049	100.0%

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

Geographic Breakdown of Sales

	2012		2011	
	RMB'000	***Percentage***	*RMB'000*	*Percentage*
Domestic sales				
Fujian Province	**4,595,149**	**75.4%**	4,537,880	75.0%
Guangdong Province	**740,474**	**12.2%**	849,065	14.0%
Other Provinces	**80,745**	**1.3%**	76,607	1.3%
Export sales	**675,335**	**11.1%**	590,093	9.7%
Total	**6,091,703**	**100.0%**	6,053,645	100.0%

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

2. *Cost of Sales*

The cost of sales of the Group in 2012 was RMB4,984,052,000, representing an increase of 5.4% compared to the cost of sales of RMB4,729,557,000 in 2011. The increase was attributable to the scissor effect of increase in sales volume and decrease in raw materials prices. Sales volume of the Group during the year was 473,140 tons, representing an increase of 19.8% as compared with the 395,049 tons in 2011. The prices of raw materials for the polyester filament yarns, the Group's main products which accounted for 99.9% of the total costs were dropped from the average of RMB10,176 per ton in 2011 to the average of RMB8,844 per ton during the year, and the cost per ton decreased by RMB1,332, representing a decrease of 13.1%, among which, the costs for PTA recorded a largest decline, representing a decrease in average sale costs per ton of RMB1,441. The Group's key raw materials, namely PTA and mono ethylene glycol (MEG), accounting for 75.3% of the total cost of sales, were also directly affected by the prices of crude oil, which is the key raw material of PTA and MEG.

In addition, as the production capacity expansion for the Group's DTY was more rapid than that for its FDY and POY during the year, the internal output of POY was unable to meet the demand for the production of DTY (POY is raw material for DTY), as such, the Group procured externally the POY for production of DTY in the year.

Analysis of Cost of Sales

	2012	2011
	RMB'000	*RMB'000*
Cost of raw materials		
PTA	**2,729,083**	2,850,363
MEG	**1,026,340**	1,019,893
POY	**260,439**	–
Other raw materials	**169,078**	149,772
	4,184,940	4,020,028
Manufacturing costs	**784,037**	693,483
Other costs	**15,075**	16,046
	4,984,052	4,729,557

Note: PTA refers to purified terephthalic acid
MEG refers to mono ethylene glycol

Analysis of Cost of Sales per Ton of Main Products Polyester Filament Yarns

	2012		2011	
	RMB	***Percentage***	*RMB*	*Percentage*
Raw materials				
PTA	**5,774**	**54.8%**	7,215	60.3%
MEG	**2,172**	**20.7%**	2,582	21.5%
POY	**551**	**5.2%**	–	–
Other raw materials	**347**	**3.3%**	379	3.2%
	8,844	**84.0%**	10,176	85.0%
Manufacturing costs	**1,659**	**15.7%**	1,755	14.7%
	10,503	**99.7%**	11,931	99.7%
Other costs	**32**	**0.3%**	41	0.3%
Average cost per ton	**10,535**	**100.0%**	11,972	100.0%

3. *Gross Profit*

The gross profit of the Group for the year 2012 was RMB1,107,651,000, decreased by RMB216,437,000, or 16.3% as compared to the RMB1,324,088,000 in 2011. Although sales volume during the year increased by 78,091 tons, representing an increase of 19.8% as compared with 2011, the average selling price per ton of polyester filament yarn products (accounting for 99.9% of total gross profit) decreased by RMB2,448 per ton, representing a decrease of 16.0% from the RMB15,324 in 2011 to the RMB12,876 during the year. The average gross profit per ton decreased from the RMB3,352 in 2011 to the RMB2,341 during the year. The gross profit margin decreased by 3.7% from 21.9% in 2011 to 18.2% in 2012.

Gross profit and gross profit margin both decreased from 2011 to the above-mentioned percentages were primarily attributable to the impact of the following three factors:

(i) Decrease in the price of major raw materials, PTA and MEG (accounting for 75.3% of the cost of sales of the Group during the year), led to the decrease in the product selling prices of the entire industry;

(ii) During the year, market competition of downstream products was intense and operation of textile manufacturers was still tough, thus the pressure on the costs of downstream products also exerted pressure on the selling prices of polyester filament yarns, which recorded higher decrease than that of the raw materials and led to the decrease in the gross profit margin;

(iii) During the year, the completion of part of new plants and part of production facilities have arrived at the production site, which expanded the production capacity in stages and increased the production volume and led to an increase in the sales volume and revenue. As the sales volume effect is less than the price effect, gross profit and gross profit margin both decreased from 2011.

Analysis of Gross Profit by Products

	2012		2011	
	RMB'000	***Percentage***	*RMB'000*	*Percentage*
Polyester filament yarns				
DTY	**913,969**	**82.5%**	962,500	72.7%
FDY	**173,681**	**15.7%**	306,536	23.2%
POY	**1,039**	**0.1%**	12,810	1.0%
Others*	**17,718**	**1.6%**	42,242	3.1%
Sub-total	**1,106,407**	**99.9%**	1,324,088	100.0%
Polyester thin films	**1,244**	**0.1%**	–	0.0%
Total	**1,107,651**	**100.0%**	1,324,088	100.0%

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

Average Gross Profit Per Ton of Main Products Polyester Filament Yarns

	2012	2011
	RMB	*RMB*
Average selling price per ton	**12,876**	15,324
Average cost of sales per ton	**10,535**	11,972
Average gross profit per ton	**2,341**	3,352
Average gross profit margin	**18.2%**	21.9%

4. Other Revenue

Other revenue of the Group in 2012 amounted to RMB104,455,000, representing an increase of 79.6% as compared to the RMB58,149,000 in 2011. It was primarily attributable to the increase in the amount of government grants during the year. Government grants mainly include taxation rewards for enterprises (企業納稅獎勵), development funds on cotton-like polyester filament yarns from provincial governments (省級補助研究超仿棉滌綸長絲開發經費) and rewards for technology (科技獎).

5. Other Net Gain

Other net gain of the Group in 2012 amounted to RMB7,839,000, representing a decrease of 76.7% as compared to the RMB33,577,000 in 2011. It was mainly due to the exchange loss during the year.

6. Selling and Distribution Expenses

Selling and distribution expenses of the Group in 2012 amounted to RMB38,659,000, representing an increase of 23.1% as compared to the RMB31,412,000 in 2011. Such costs mainly included transportation cost, insurance premium, wages of our sales staff and promotion expenses. Such increase was mainly due to the increase in sales volume during the year.

7. *Administrative Expenses*

Administrative expenses of the Group in 2012 amounted to RMB273,917,000, increased by 2.3% compared to the RMB267,818,000 in 2011. Administrative expenses mainly included research and development costs, staff wages, depreciation on office equipment, general office expenses and professional and legal fees.

Research and development costs during the year was RMB209,823,000, increased by 7.1% compared to the RMB195,902,000 in 2011.

During the year, administrative expenses increased slightly, including the increase of staff wages due to the expansion of the Group and the depreciation on office equipment.

8. *Finance Costs*

Finance costs of the Group in 2012 amounted to RMB54,183,000, increased by 55.5% compared to the RMB34,854,000 in 2011. It was mainly because the increase on discounted bills expenses and bank borrowings.

9. *Income Tax*

Income tax of the Group in 2012 amounted to RMB102,707,000, representing a decrease of 42.4% as compared to RMB178,223,000 in 2011. It was mainly due to the decrease in profit before taxation during the year.

During the year, Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.*（福建百宏聚纖科技實業有限公司）, a principal subsidiary of the Group, had successfully renewed its status for three years as a high technology enterprise and can continue to enjoy corporate income tax at the concessionary rate of 15% up to 2014. 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 a corporate 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. Profit for the year

Profit of the Group for the year 2012 amounted to RMB750,479,000 (2011: RMB903,507,000), representing a decrease of RMB153,028,000 or 16.9% as compared to 2011. Net profit margin was 12.3% (2011: 14.9%), representing a decrease of 2.6% in net profit margin when compared to 2011. The decrease was mainly due to the decrease of RMB216,437,000 in gross profit during the year.

Financial Position

1. Liquidity and Capital Resources

As at 31 December 2012, the cash and cash equivalent of the Group amounted to RMB644,049,000, as compared to RMB1,093,282,000 as at 31 December 2011, decreased by RMB449,233,000 or 41.1%. Such a decrease was mainly due to the capital expenditure amounted to RMB1,422,460,000 for the expansion of plants and the purchase of production facilities to increase the production capacity of polyester filament yarn and functional environmentally-friendly BOPET during the year.

During the year, net cash inflow from operating activities amounted to RMB1,094,415,000, net cash outflow used in investing activities amounted to RMB1,472,562,000, and net cash outflow used in financing activities amounted to RMB60,271,000. The Group primarily uses the cash inflow from operating activities to satisfy the requirements of working capital.

As at 31 December 2012, the Group had capital commitments of RMB1,111,357,000, which was mainly used in the expansion of production capacity of polyester filament yarn and the development of functional environmentally-friendly BOPET business.

2. Capital Structure

As at 31 December 2012, the total liabilities of the Group amounted to RMB2,402,442,000 and the capital and reserve amounted to RMB5,427,921,000. The gearing ratio (total liabilities divided by total equity) was 44.3%. The Group's bank loans amounted to RMB1,139,964,000, of which RMB1,119,422,000 were repayable within one year and RMB20,542,000 were repayable over one year. Among the bank borrowings, 68.4% were secured by properties, trade receivables and restricted bank deposits.

Contingent Liabilities

As at 31 December 2012, the Group did not have any contingent liabilities (2011: nil).

Foreign Currency Risk

As substantially all 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 31 December 2012, the Group's foreign currency risk exposure is mainly derived from the net liabilities exposure denominated in United States Dollars of RMB283,093,000, the net liabilities exposure denominated in Euro of RMB152,745,000 and the net assets exposure denominated in GBP of RMB119,626,000.

Employees and Remuneration

As at 31 December 2012, the Group has a total of 3,531 employees. Remuneration for employees is determined in accordance with performance, professional experiences and the prevailing market conditions. Management reviews the Group's employee remuneration policy and arrangement on a regular basis. Apart from pension, the Group also grants discretionary bonus to certain employees as awards in accordance with individual performance.

BUSINESS OUTLOOK

The year 2013 will be full of challenges and opportunities for both Chinese and the global economy. The fundamental issue of the global economic imbalance still has not been resolved, resulting in weak private sector investment and consumption in developed countries. Additionally, developing countries may face the dilemma of assuring economic recovery while suppressing inflation. Such factors will bring a series of uncertainties to business operations of the Group.

Meanwhile, we believe that the recovery in the domestic market that started at the end of 2012 will continue for a period of time, but its specific duration and potency will depend on the direction of the real economy in next several months. In the consumer sector, the growth of home furnishings market remains relatively strong and should further enhance the demand for polyester products. At the same time, as inventories on the textile industry are relative low, we believe the needs for replenishing inventories will drive the demand for our products. Looking ahead, we will actively expand our sales to the emerging overseas markets in addition to further strengthen our presence in the domestic market steadily and continuously. We are confident that the BOPET business, a new growth driver for the Company, will better balance product portfolio of the Group, and enable us to diversify our risk across industries.

DIVIDEND

The Board has recommended the payment of a final dividend of HK10.0 cents per share of the Company for the year ended 31 December 2012. The proposed final dividend, if approved by the shareholders at the annual general meeting, will be paid to the shareholders whose names appear on the register of members of the Company on 8 May 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6 May 2013 to Wednesday, 8 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, 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 Friday, 3 May 2013.

Subject to shareholders' approval of the proposed final dividend at the AGM, the relevant dividends will be paid on Friday, 10 May 2013, to shareholders whose names appear on the register of members of the Company on Wednesday, 8 May 2013.

AUDIT COMMITTEE

The audit committee of the Board had reviewed, together with the management and external auditors of the Company, KPMG, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2012. The financial statements had been agreed with external auditors of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The Company is committed to the establishment of good corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company therefore strives to attain and maintain effective corporate governance practices and procedures.

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 31 December 2012, except for the new code provision C.1.2 in the Revised Code 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 31 July 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.

According to Rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the Board of the Company by 31 December 2012. As at 31 December 2012, the Board comprises 4 executive Directors, 4 non-executive Directors and 3 independent non-executive Directors, therefore, the Company failed to comply with the requirement of Rule 3.10A. The Company has made endeavors but will require more time to identify suitable candidate(s) to act as the additional independent non-executive Director(s) of the Board and will continue with such endeavours to comply with the Listing Rules as soon as practicable. Further announcement(s) will be made in relation to change in Directors of the Company or in the roles and functions of the Directors of the Company as and when necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by directors of the Company. All the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintain the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules for the year ended 31 December 2012 and up to and as at the date of this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the Company's website (www.baihong.com) and the designated website of the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2012 containing all the information required by Appendix 16 of the Listing Rules will be despatched to the shareholders and available on the above websites in due course.

By order of the Board
Billion Industrial Holdings Limited
Sze Tin Yau
Co-chairman

Hong Kong, 11 March 2013

As at the date of this announcement, the Board comprises Mr. Sze Tin Yau, Mr. Wu Jinbiao, Mr. Yu Heping and Mr. Xue Mangmang as executive directors, Mr. Chen Jinen, Mr. Yang Donghui, Mr. Yang Jun and Mr. Ding Guoqiang as non-executive directors and Mr. Yeung Chi Tat, Ms. Zhu Meifang and Mr. Ma Yuliang as independent non-executive directors.