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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 2020

HIGHLIGHTS

- Revenue for the first half of 2020 amounted to RMB3,615 million, representing a decrease of 22.1% over the same period last year.
- Profit for the first half of 2020 amounted to RMB225 million, representing a decrease of 44.1% over the same period last year.
- Earnings per share amounted to RMB0.11.

The board of directors (the “**Board**”) of Billion Industrial Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, condensed consolidated cash flow statement of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019, the unaudited consolidated statement of financial position of the Group as at 30 June 2020 together with audited comparative figures as at 31 December 2019, as follows:

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2020	2019
	<i>Note</i>	RMB’000	RMB’000
Revenue	4	3,614,662	4,639,037
Cost of sales		<u>(3,107,464)</u>	<u>(3,862,295)</u>
Gross profit		507,198	776,742
Other revenue	5	97,687	70,026
Other net (loss)/gain	6	(8,835)	18,404
Selling and distribution expenses		(43,172)	(42,964)
Administrative expenses		<u>(210,126)</u>	<u>(221,213)</u>
Profit from operations		342,752	600,995
Finance costs	7(a)	<u>(88,099)</u>	<u>(94,669)</u>
Profit before taxation	7	254,653	506,326
Income tax	8	<u>(29,287)</u>	<u>(103,002)</u>
Profit for the period attributable to equity shareholders of the Company		<u>225,366</u>	<u>403,324</u>
Earnings per share	10		
Basic and diluted (<i>RMB</i>)		<u>0.11</u>	<u>0.19</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period attributable to equity shareholders of the Company	225,366	403,324
Other comprehensive income for the period		
<i>Items that may be reclassified subsequently to profit or loss (after tax):</i>		
Exchange differences on translation of financial statements of operations outside mainland China	<u>(2,161)</u>	<u>11,402</u>
Total comprehensive income for the period attributable to equity shareholders of the Company	<u>223,205</u>	<u>414,726</u>

Notes: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited

(Expressed in Renminbi)

		At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i> (audited)
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	11	9,820,583	8,975,594
Intangible assets	12	9,500	10,586
Deposit and prepayments	14	413,967	715,052
		<u>10,244,050</u>	<u>9,701,232</u>
Current assets			
Inventories	13	2,779,815	2,204,027
Trade and other receivables	14	1,555,816	1,496,597
Other financial assets	15	–	310,245
Restricted bank deposits	16	3,670,430	2,578,903
Cash and cash equivalents	17	392,803	201,398
		<u>8,398,864</u>	<u>6,791,170</u>
Current liabilities			
Trade and other payables	18	7,798,740	7,733,903
Contract liabilities		123,925	163,383
Bank loans	19	2,909,481	1,142,549
Lease liabilities		762	1,515
Current portion of deferred income		472	944
Current taxation	20(a)	89,258	142,799
		<u>10,922,638</u>	<u>9,185,093</u>
Net current liabilities		<u>(2,523,774)</u>	<u>(2,393,923)</u>
Total assets less current liabilities		<u>7,720,276</u>	<u>7,307,309</u>

		At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i> (audited)
	<i>Note</i>		
Non-current liabilities			
Bank loans	19	659,219	471,433
Lease liabilities		5,756	5,561
Deferred tax liabilities	20(b)	<u>171,636</u>	<u>169,855</u>
		<u>836,611</u>	<u>646,849</u>
NET ASSETS		<u>6,883,665</u>	<u>6,660,460</u>
CAPITAL AND RESERVES	21		
Share capital		17,846	17,846
Reserves		<u>6,865,819</u>	<u>6,642,614</u>
TOTAL EQUITY		<u>6,883,665</u>	<u>6,660,460</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	
Note	21(a)	21(b)(i)	21(b)(ii)	21(b)(iii)	21(b)(iv)	21(b)(v)		
Balance at 1 January 2019	17,873	110,049	1,460	492,705	1,805,631	(175,140)	3,685,926	5,938,504
Changes in equity for the six months ended 30 June 2019								
Profit for the period	-	-	-	-	-	-	403,324	403,324
Other comprehensive income	-	-	-	-	-	11,402	-	11,402
Total comprehensive income for the period	-	-	-	-	-	11,402	403,324	414,726
Dividends approved in respect of the previous year	9(b)	-	-	-	-	-	(103,888)	(103,888)
Purchase of own shares								
- par value paid	(16)	-	-	-	-	-	-	(16)
- premium paid	-	(21,382)	-	-	-	-	-	(21,382)
- transfer between reserves	-	(16)	16	-	-	-	-	-
Balance at 30 June 2019	<u>17,857</u>	<u>88,651</u>	<u>1,476</u>	<u>492,705</u>	<u>1,805,631</u>	<u>(163,738)</u>	<u>3,985,362</u>	<u>6,227,944</u>
Balance at 1 January 2020	17,846	82,806	1,487	584,928	1,805,631	(175,275)	4,343,037	6,660,460
Changes in equity for the six months ended 30 June 2020								
Profit for the period	-	-	-	-	-	-	225,366	225,366
Other comprehensive income	-	-	-	-	-	(2,161)	-	(2,161)
Total comprehensive income for the period	-	-	-	-	-	(2,161)	225,366	223,205
Balance at 30 June 2020	<u>17,846</u>	<u>82,806</u>	<u>1,487</u>	<u>584,928</u>	<u>1,805,631</u>	<u>(177,436)</u>	<u>4,568,403</u>	<u>6,883,665</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2020	2019
Note	RMB'000	RMB'000
Operating activities		
Cash (used in)/generated from operations	(411,576)	2,891,849
Tax paid	<u>(81,047)</u>	<u>(71,888)</u>
Net cash (used in)/generated from operating activities	<u>(492,623)</u>	<u>2,819,961</u>
Investing activities		
Payment for the purchase of property, plant and equipment and intangible asset	(420,331)	(973,065)
Payment for wealth management products	–	(100,000)
Proceeds from the disposal of wealth management products	103,143	507,058
Payment for the structured deposits	–	(361,000)
Proceeds from the disposal of structured deposits	204,526	306,491
Uplift of restricted bank deposits	41,538	182,200
Placement of restricted bank deposits	(1,133,065)	(521,745)
Other cash flows arising from investing activities	<u>40,396</u>	<u>8,722</u>
Net cash used in investing activities	<u>(1,163,793)</u>	<u>(951,339)</u>
Financing activities		
Capital element of lease rentals paid	(148)	(139)
Interest element of lease rentals paid	(167)	(91)
Payments of repurchase of shares	–	(21,398)
Dividends paid to equity shareholders of the Company	9 –	(103,888)
Proceeds from new bank loans	3,015,760	1,794,943
Repayment of bank loans	(1,079,274)	(3,457,442)
Other cash flows used in financing activities	<u>(86,187)</u>	<u>(96,422)</u>
Net cash generated from/(used in) financing activities	<u>1,849,984</u>	<u>(1,884,437)</u>

		Six months ended 30 June	
		2020	2019
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>
Net increase/(decrease) in cash and cash equivalents		193,568	(15,815)
Cash and cash equivalents at 1 January		201,398	455,623
Effect of foreign exchange rate changes		<u>(2,163)</u>	<u>(6,712)</u>
Cash and cash equivalents at 30 June	17	<u>392,803</u>	<u>433,096</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

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 issue on 17 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Billion Industrial Holdings Limited (“**the Company**”) and its subsidiaries (together referred to as “**the Group**”) since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The annual consolidated financial statements for the year ended 31 December 2019 are available from the Company’s registered office.

As at 30 June 2020, the Group recorded net current liabilities totalling RMB2,523,774,000 (31 December 2019: RMB2,393,923,000). Based on the estimation of the future cash flows of the Group, after taking into account of (i) the cash balance as at 30 June 2020; (ii) the undraw bank facilities fall due after 30 June 2021; and (iii) the ability to renew the current bank loans upon expiry because of the Group's good track records and relationship with the banks, the directors are of the opinion that the Group will have sufficient working capital to finance its normal operation for the twelve months from the end of the reporting period of these consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business
- Amendment to HKFRS 16, Covid-19-Related Rent Concessions

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

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

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

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

4 REVENUE

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

Disaggregation of revenue

Revenue represents the sales value of goods supplied to customers (net of value-added tax, other sales tax and discounts). Disaggregation of revenue from contracts with customers by major products is as follows:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products lines		
– Polyester filament yarns products	2,803,279	3,706,753
– Polyester thin films products	<u>811,383</u>	<u>932,284</u>
	<u>3,614,662</u>	<u>4,639,037</u>

The Group's customer base is diversified. There is one customer (six months ended 30 June 2019: one) had transactions which exceeded 10% of the Group's aggregate revenue for the six months ended 30 June 2020.

The timing of revenue recognition of all revenue from contracts with customers is at a point in time.

As no obvious seasonality in demand for products, the Group has no seasonality in operations.

5 OTHER REVENUE

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	64,727	7,244
Government grants	19,205	57,992
Gains on sales of raw materials	13,276	4,744
Others	479	46
	<u>97,687</u>	<u>70,026</u>

Government grants of RMB18,733,000 and RMB57,693,000 for the six months ended 30 June 2020 and 2019 respectively were received from several local government authorities for the Group's contribution to the local economies, of which the entitlement was unconditional and at the discretion of the relevant authorities. The remaining amount of RMB472,000 (for the six months ended 30 June 2019: RMB299,000) were transferred from deferred income to consolidated income statement.

6 OTHER NET (LOSS)/GAIN

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Donations	(3,102)	(133)
Net exchange gain/(loss)	5,274	(10,763)
Net realised and unrealised gains on other financial assets	2,575	28,849
Others	(13,582)	451
	<u>(8,835)</u>	<u>18,404</u>

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
(a) Finance costs:			
Interest on bank advances and other borrowings	38,615	41,430	
Interest on lease liabilities	167	183	
Other interest expenses	56,874	55,356	
	95,656	96,969	
Less: interest expense capitalised into construction in progress	(7,557)	(2,300)	
	88,099	94,669	
(b) Staff costs:			
Contributions to defined contribution retirement plans	4,714	5,135	
Salaries, wages and other benefits	165,350	163,236	
	170,064	168,371	
(c) Other items:			
Amortisation	9,666	7,145	
Depreciation	228,867	181,089	
Research and development costs*	128,281	152,504	
Cost of inventories**	3,107,464	3,862,295	

* Research and development costs include RMB57,577,000 and RMB58,954,000 for the six months ended 30 June 2020 and 2019 respectively relating to staff costs in the research and development department and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) and note 7(c) for each of these types of expenses.

** Cost of inventories include RMB286,062,000 and RMB245,930,000 for the six months ended 30 June 2020 and 2019 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) and note 7(c) for each of these types of expenses.

8 INCOME TAX

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
Provision for income tax for the period	36,200	74,760
Over-provision in respect of prior years	(13,494)	(4,543)
Withholding tax on dividends	4,800	16,650
	<u>27,506</u>	<u>86,867</u>
Deferred tax		
Origination and reversal of temporary differences	1,781	6,135
Withholding tax on dividends	–	10,000
	<u>1,781</u>	<u>16,135</u>
	<u>29,287</u>	<u>103,002</u>

- (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) The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% to the six months ended 30 June 2020, except for Billion Development (Hong Kong) Limited (“**Billion Development**”) which is a qualifying corporation under the two-tiered Profits Tax rate regime. For Billion Development, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. No provision has been made for Hong Kong Profits Tax during the six months ended 30 June 2019 as the Group did not have assessable profits.
- (iii) The PRC’s statutory tax rate is 25%.
- (iv) In accordance with the relevant PRC Corporate Income Tax Laws, regulations and implementation guidance notes, the subsidiary in mainland China, Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.*(福建百宏聚纖科技實業有限公司) (“**Billion Fujian**”) was granted the Advanced and New Technology Enterprise Status for a valid period of 3 years from 2018 to 2020 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.

- (v) 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 Industry Co., Ltd.* (福建百宏高新材料實業有限公司) (“**Billion High-tech**”) was approved to be the Advanced and New Technology Enterprise Status for a valid period of 3 years from 2017 to 2019 which entitles Billion High-tech to a reduced income tax rate at 15% during the valid period under the New Tax Law and its relevant regulations. Billion High-tech has lodged application for renewal of Advanced and New Technology Enterprise Status and expected to receive the approval by the end of 2020.

Accordingly, Billion High-tech is subject to PRC income tax at 15% for the six months ended 30 June 2020 on a provisional basis before the renewal of the Advanced and New Technology Enterprise Status by the end of 2020.

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

On 6 April 2018, the Group had obtained the certificates of Hong Kong tax residents from the Inland Revenue Department of Hong Kong, which are effective from 2017 to 2019. Pursuant to the relevant regulations, the Group could still claim and enjoy tax treaty benefits after self-assessment.

Withholding tax on dividends represents tax charged by the PRC tax authority on dividends distributed by the Group’s subsidiaries in the PRC during the period.

* *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:**

No interim dividend declared for the period ended 30 June 2020 and 2019.

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
No final dividend in respect of the previous financial year, approved and paid during the period (2019: HK5.7 cents per share)	—	103,888

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 RMB225,366,000 (six months ended 30 June 2019: RMB403,324,000) and the weighted average of 2,122,098,000 ordinary shares (six months ended 30 June 2019: 2,124,550,000 ordinary shares) in issue during the interim period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2020	2019
	<i>'000</i>	<i>'000</i>
Issued ordinary shares at 1 January	2,122,098	2,125,308
Effect of shares repurchased	—	(758)
Weighted average number of ordinary shares at 30 June	<u>2,122,098</u>	<u>2,124,550</u>

There were no dilutive potential ordinary shares during each of the six months ended 30 June 2020 and 2019, and therefore, diluted earnings per share is the same as the basic earnings per share.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Other property, plant and equipment

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Net book value, at 1 January	6,361,538	4,896,239
Exchange adjustments	11,698	907
Additions	–	78
Transfer from construction in progress (note 11(b))	11,810	1,859,147
Disposals	(72)	(1,445)
Depreciation charge for the period/year	<u>(228,867)</u>	<u>(393,388)</u>
At 30 June/31 December	<u><u>6,156,107</u></u>	<u><u>6,361,538</u></u>

(b) Construction in progress

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
At 1 January	2,114,406	1,203,120
Exchange adjustments	14,559	1,410
Additions	845,190	2,769,023
Transfer to other property, plant and equipment (note 11(a))	<u>(11,810)</u>	<u>(1,859,147)</u>
At 30 June/31 December	<u><u>2,962,345</u></u>	<u><u>2,114,406</u></u>

(c) Right-of-use assets

The analysis of the net book value of the Group's right-of-use assets by class of underlying assets is as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Included in "property, plant and equipment":		
Interests in leasehold land held for own use, carried at depreciated cost	698,077	495,200
Buildings leased for own use, carried at depreciated cost	<u>4,054</u>	<u>4,450</u>
	<u><u>702,131</u></u>	<u><u>499,650</u></u>

12 INTANGIBLE ASSETS

Intangible assets represented emission rights of nitrogen oxides and softwares, the amortisation are calculated using the straight-line method to allocate the cost over the period of the relevant rights for 5 and 10 years respectively.

13 INVENTORIES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Raw materials	777,518	567,153
Work in progress	48,958	55,596
Finished goods	<u>1,953,339</u>	<u>1,581,278</u>
	<u>2,779,815</u>	<u>2,204,027</u>

14 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 month	427,636	219,078
1 to 2 months	138,458	32,029
2 to 3 months	136,738	67,095
Over 3 months	<u>14,793</u>	<u>31,323</u>
Trade debtors and bills receivable, net of loss allowance*	717,625	349,525
Deposits, prepayments and other receivables	<u>1,252,158</u>	<u>1,862,124</u>
	1,969,783	2,211,649
Less: Non-current portion of deposits and prepayments	<u>(413,967)</u>	<u>(715,052)</u>
	<u>1,555,816</u>	<u>1,496,597</u>

* As at 30 June 2020, the Group recognised RMB593,000 as loss allowance (31 December 2019: RMB83,000).

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

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

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

15 OTHER FINANCIAL ASSETS

Other financial assets represent financial assets carried at FVPL.

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Wealth management products	–	103,972
Structured deposits	–	206,273
	<u>–</u>	<u>310,245</u>

16 RESTRICTED BANK DEPOSIT

The restricted bank deposit of RMB260,360,000 (31 December 2019: 39,770,000) and RMB3,410,070,000 (31 December 2019: 2,539,133,000) were pledged to the banks to secure certain bank loans and bills payable respectively.

17 CASH AND CASH EQUIVALENTS

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Cash at bank and in hand	<u>392,803</u>	<u>201,398</u>

18 TRADE AND OTHER PAYABLES

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 date of invoice, is as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	1,648,215	2,789,314
More than 3 months but within 6 months	1,587,528	1,872,668
More than 6 months but within 1 year	2,996,642	1,442,913
More than 1 year	<u>2,311</u>	<u>1,915</u>
Trade creditors and bills payable	6,234,696	6,106,810
Other payables and accrual charges	291,079	289,611
Payables for acquisition of equipment	1,118,656	1,181,039
Construction payables	<u>154,309</u>	<u>156,443</u>
	<u>7,798,740</u>	<u>7,733,903</u>

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

Certain bills payable are secured by restricted bank deposits (see note 16).

19 BANK LOANS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year or on demand	<u>2,909,481</u>	<u>1,142,549</u>
After 1 year but within 2 years	114,832	90,082
After 2 years but within 5 years	542,255	378,364
After 5 years	<u>2,132</u>	<u>2,987</u>
	<u>659,219</u>	<u>471,433</u>
	<u>3,568,700</u>	<u>1,613,982</u>

At 30 June 2020, the bank loans were secured or guaranteed as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Bank loans		
– secured	271,627	51,714
– unsecured	<u>3,297,073</u>	<u>1,562,268</u>
	<u>3,568,700</u>	<u>1,613,982</u>

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Properties	45,815	45,570
Restricted bank deposits (<i>Note 16</i>)	<u>260,360</u>	<u>39,770</u>
	<u>306,175</u>	<u>85,340</u>

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Provision of income tax	<u>89,258</u>	<u>142,799</u>

(b) Deferred tax liabilities recognised:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Deferred tax liabilities arising from:		
Charged/(credited) to profit or loss:		
– Depreciation of property, plant and equipment	193,914	189,704
– Other financial assets	–	1,536
– Others	<u>(22,278)</u>	<u>(21,385)</u>
	<u>171,636</u>	<u>169,855</u>

(c) Deferred tax assets not recognised

At 30 June 2020, certain subsidiaries of the Group have not recognised deferred tax assets in respect of cumulative tax losses of RMB226,090,000 (31 December 2019: RMB263,851,000) 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 2020, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in mainland China amounted to RMB2,230,376,000 (31 December 2019: RMB2,951,220,000). Deferred tax liabilities of RMB111,519,000 (31 December 2019: RMB147,561,000) 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.

21 CAPITAL AND RESERVES

(a) Share capital

Authorised and issued share capital

	Par value HK\$	Number of shares	Nominal value of ordinary shares HK\$	
Authorised				
At 31 December 2019 and 30 June 2020	0.01	10,000,000,000	100,000,000	
	Par value HK\$	Number of shares	Nominal value of ordinary shares HK\$ RMB	
Issued and fully paid:				
At 1 January 2019	0.01	2,125,308,000	21,253,080	17,872,618
Repurchase of shares	0.01	(1,940,000)	(19,400)	(16,314)
At 30 June 2019	0.01	2,123,368,000	21,233,680	17,856,304
Repurchase of shares	0.01	(1,270,000)	(12,700)	(10,680)
At 31 December 2019 and 30 June 2020	0.01	2,122,098,000	21,220,980	17,845,624

(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.

(ii) *Capital redemption reserve*

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

(iii) *Statutory reserve*

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

(iv) *Capital reserve*

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

(v) *Exchange reserve*

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

22 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

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

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

- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2019 categorised into		
	Fair value at 31 December 2019 <i>RMB'000</i>	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Recurring fair value measurement				
Other financial assets:	310,245	—	310,245	—

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

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

23 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Contracted for	1,782,627	1,607,060
Authorised but not contracted for	97,750	195,022
	<u>1,880,377</u>	<u>1,802,082</u>

24 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	2,553	2,410
Post-employment benefits	<u>47</u>	<u>42</u>
	<u>2,600</u>	<u>2,452</u>

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

(b) Transactions with a related party

The Group had not entered any transactions with a related party for each of the six months ended 30 June 2020 and 2019.

25 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGES IN MACRO-ECONOMIC ENVIRONMENT

In the first half of 2020, the global trend of economic recession triggered by the outbreak of the novel coronavirus (the “**COVID-19**”) and the tension in the Sino-US relation have been gradually and adversely impacting the global economic landscape. According to the “Global Economic Prospects” report published by World Bank in June 2020, the global economy is estimated to shrink by 5.2% in 2020, representing the “most severe recession since World War II” which will mark 2020 the year with the most economies recording a decline in per capita output since 1870.

With improved epidemic prevention and control since March, together with policies implemented to boost consumption, the markets and industries started to gradually resume their business operation and production. The global economy began to show signs of recovery from the impacts of the epidemic. In order to manage the huge discrepancies in the pace of recovery in different regions due to varying results of prevention and control efforts in face of the adversely affected business activities in global trade, many countries around the world have been proposing and enhancing their economic stimulus policies to cope with economic downturn and rising unemployment brought by the epidemic. The progress of global recovery largely depends on the sustainability and effectiveness of various economic stimulus policies and the improvement of the world economic governance.

In the first half of 2020, China’s gross domestic product (“**GDP**”) was approximately RMB45.6614 trillion, representing a year-on-year decrease of 1.6% in terms of comparable prices. On a quarterly basis, the second quarter recorded a year-on-year growth of 3.2%, up by 10 percentage points compared with the first quarter, representing a strong recovery from the downturn in the first quarter. Faced with the global epidemic, China continued to deepen its supply-side structural reforms so as to cope with increasing risks and challenges at home and abroad. From a global perspective, the GDP of many major countries in the world saw a double-digit decline due to the impacts of the epidemic. Compared with other countries, despite China was able to recover relatively quicker from the epidemic, the economic landscape for the second half of 2020 remains austere due to the uncertainties over the Sino-US relations and the gradual slowdown of the growing domestic demand.

INDUSTRY REVIEW

The textile and apparel industry employs a large number of workers and plays an important role in ensuring the employment of residents, protecting the market players and stabilizing the supply chain of the industry chain. In 2020, China's textile industry faces an increasingly complicated external environment with issues arising from the outbreak of COVID-19 around the globe, increasing risk points of the global economy and the domestic structural issues. The epidemic is causing economic losses due to both the decreased domestic sales of textile enterprises and the loss of foreign trade orders and intensifying international competition, which brought huge impacts on foreign demand to the textile and apparel industry. Despite the adverse impact from the epidemic, the development trend of China's macro economy will remain positive in long term due to its continuing effort to stabilize growth for the domestic macro-economic policies. In recent years, China's textile industry has seen the trend of growing export of textile machinery and chemical fibers with higher technology content and added value. Trade tensions and the epidemic may accelerate the adjustment of the industry. As the epidemic is better controlled, the textile industry has started to gain development as a result of the effort of the Chinese government promulgating various anti-epidemic support measures to ease the operating pressure of the textile enterprises so as to ensure the overall steady progress and stable development in the industry.

BUSINESS REVIEW

With the mission of “providing eco-friendly products for the public, aspiring to be the world's premier supplier of consumer product materials”, the Group implements the operation philosophy of “creating green products”. In order to achieve “technology innovation and improving competitive strength”, the Group persists in pursuing the technology innovation in a comprehensive approach addressing “Production, Learning, Research and Application”. The Group formulates the deepened reform proposal through technology improvement, technology innovation, product mix optimization and recruiting innovative talents, strives to research and develop new products and enhance product added value, and improves brand values and market competitiveness of the Company. As a “High Technology Enterprise” and the “Pilot Demonstration Enterprise of Intelligent Manufacturing in Fujian Province”, the Group is the first enterprise pioneering in the application of the full process intelligent automatic production in the industry. The Group leverages on the digitalization, networking and modularization of automatic equipment to keep on improving its products' quality and production volume. During the epidemic, the Group showed great resilience to risks. Benefiting from technologies and equipment such as intelligent transformation, intelligent production, intelligent packaging and intelligent storage, our production was less impacted by the epidemic. The Group's production lines of each workshop continued to run at full speed during the critical period of the first outbreak of the epidemic when manpower was largely limited. The capability of maintaining operation benefits from the automation, which proves that our forward-looking decision made years ago to carry out intelligent transformation, and also reinforces the Group's determination towards further intelligent upgrade.

The management team of the Group applied scientific management software to achieve networking and informatization of the management during the course of production, to allocate production among various products and to allocate equipment between production and research and development to maximize the utilization of production capacity. The scientific production management process enhanced the production efficiency of the Group, which enabled the Group to constantly launch new products on time targeting at market demand with a view to increasing the strengths of product differentiation. Our ES fiber project successfully commenced production on 27 June 2020. ES fiber is a kind of bicomponent skin-core structure composite fiber where the skin component has a low melting point and good flexibility and the core component has a high melting point and high strength. After heating, a portion of the skin component will be melted and bonded together, and the rest maintains the fiber properties while enjoying a low thermal shrinkage rate. It is particularly suitable for use in through air drying process to manufacture products such as sanitary materials, thermal filling materials and filtration materials. With respect to model selection and main equipment installation, our ES fiber project adopts German facilities. The excellent equipment largely ensures the Group's product innovation and technological innovation. The Group targets at the high-end customers to provide them with high-end customized products according to their demand, as a gradual process to enter into the international high-end market. Moving forward, the Group expects more promising prospects for the ES fiber business as to demand and application. High value-added products can generate higher profits, which will also consolidate the position of the Group in the industry.

As a leading enterprise in Fujian, the Group has been dedicated to building the front-end platform for foreign economic and trading cooperation in recent years. In active response to the national call, the Group decided to invest in Vietnam to build a polyester factory as early as 2016. On 3 May 2020, the Group officially commenced the second project, i.e. the "polyester bottle chips project with an annual production capacity of 250,000 tons", under phase I of the Group's investment in and construction of the "700,000-ton differentiated chemical fiber project" in Tay Ninh, Vietnam. The main product of the project is bottle grade chips suitable for making bottles for water such as mineral water and purified water. Coupled with the "polyester filament yarns and chips project with an annual production capacity of 200,000 tons", which commenced operation in September 2019, the two projects under phase I of our investment in and construction of the "700,000-ton differentiated chemical fiber project" in Vietnam have completed construction. The Group targets to develop these projects so as to create a demonstration platform for China-Vietnam production capacity cooperation, being a further great leap forward for the development of the Group. Leveraging on the geographical location of Vietnam and its huge market potential, the Group will continue to capitalize on its opportunities and utilise its strengths as a large-scale corporation to differentiate itself from the competitors and enter the textile and polyester bottle chips market in Vietnam.

The Group has always been highly valuing the importance of marketing channel expansion and customer services. The flexible sales strategies enable it to understand market situations in time, focus on customers' experience and timely communicate the feedback from customers to the technology and production center, in order to ensure the bilateral interaction and providing fast and efficient product aftersales services. While consolidating its market share in Fujian and Guangdong Provinces, the Group also strived to develop international markets and continued to improve its response to the market whilst expanding the emerging markets. According to the feedback of downstream users in the emerging markets, the Group made functional improvement and technology upgrade to its existing product lines with suitable marketing strategy, strengthened quality control on export products, and maintained cost advantages.

The Group's major subsidiaries, Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd. (福建百宏聚纖科技實業有限公司) ("**Billion Fujian**") and Fujian Billion High-tech Material Industry Co., Ltd.* (福建百宏高新材料實業有限公司) ("**Billion High-tech**") have been awarded as high technology enterprises. During the period under review, the revenue from and the research and development expenses of the Group's differentiated products amounted to RMB2,514,707,000 and RMB128,281,000, representing 69.6% and 3.5% of the total revenue respectively. The Group's research and development focused on improving the product quality and production efficiency, as well as enhancing its innovative capability in all aspects from chemical fiber to textile fabrics. The Group believes that, despite the epidemic and other external factors which to some extent affected its short-term profits, the Group remains confident in the short- and medium-term development as it continues to push ahead its innovative capability and intelligentization achievements, alongside with the application for patents in China, increasing national income, optimizing demographic structure and consumption upgrade.

FINANCIAL REVIEW

Operational Performance

1. Revenue

Total revenue of the Group for the period under review amounted to RMB3,614,662,000 (for the first half of 2019: RMB4,639,037,000), representing a decrease of 22.1% as compared to the same period of last year. Revenue attributable to the sales of polyester filament yarns, the Group's main products, was RMB2,803,279,000, accounting for 77.6% of the total revenue. Revenue attributable to the sales of polyester products was RMB811,383,000, accounting for 22.4% of the total revenue. The revenue analysis of the two products is as follow:

Polyester filament yarns

The Group adopts melt-direct spinning differentiated chemical fiber production line which is technologically advanced by global standard, and possesses the leading spinning and texturing equipment and technology in the industry. The Group's polyester filament yarns products are positioned at the middle and high-end markets both domestically and abroad, a majority of which are differentiated products and have special physical features and functionalities, such as cotton-like fibers, protection against ultraviolet rays, moisture and sweat-absorption, flame-resistant, abrasion-resistant, super-soft, super-shining and antibacterial. These products are widely used in apparel, footwear and home furnishings and high-end fabrics and textiles for industry. The Group has a clear positioning of its product solutions which targets at the mid to high-end market. In response to the needs of the target markets, the product plan designs are based on the production of differential oerlikon fibers and functional fibers. The commencement of production of the facility of Billion Vietnam, a subsidiary of the Group, and the ES fiber project has further expanded the production capacity of the polyester filament yarns. However, the outbreak of the epidemic since the beginning of 2020 has imposed short-term impacts on the operating environment of the Group.

Revenue attributable to the sales of polyester filament yarns products for the period under review was RMB2,803,279,000, representing a decrease of RMB903,474,000 or 24.4% as compared to RMB3,706,753,000 in the first half of 2019. The average selling price of polyester filament yarns in the period under review was RMB8,230 per ton, representing a decrease of RMB2,230 or 21.3% as compared to RMB10,460 per ton in the first half of 2019.

Polyester products

The Group's polyester products can be widely used in various sectors including packaging, magnetic materials, imaging, industry, electronics and electrical appliances, with its principal products positioned at the middle and high-end markets both domestically and abroad. The Group re-engineered its polyester products production lines to conduct research and development on various categories of thin films products under different raw material formulae and various technological conditions. The Group introduced the production lines and research and development equipment with advanced international standards for biaxially-oriented polyethylene terephthalate (“**BOPET**”) thin films from Dornier in Germany, which mainly focuses on the production, research and development and sales of BOPET thin films. It has become one of the largest polyester thin films production enterprises in China. In addition, the commencement of production of the facility of Billion Vietnam has also expanded the production capacity of polyester products of the Group.

Revenue attributable to the sales of polyester products for the period under review was RMB811,383,000, representing a decrease of RMB120,901,000 or 13.0% as compared to RMB932,284,000 in the first half of 2019. The average selling price of polyester products in the period under review was RMB7,170 per ton, representing a decrease of RMB2,438 or 25.4% as compared to RMB9,608 per ton in the first half of 2019. However, the sales volume of the Group's polyester thin films products during the period under review increased from 97,035 tons in the first half of 2019 to 113,171 tons during the period under review or an increase of 16.6%. The sales volume of the polyester thin film products increased mainly due to the commencement of production of the facility of Billion Vietnam and the development of the polyester bottle chip business in Vietnam. Although the sales revenue of the Group's polyester products decreased for the period under review, the sales volume continued to record steady growth.

Breakdown of Revenue and Sales Volume (By Product)

	Revenue				Sales volume			
	For the six months ended 30 June				For the six months ended 30 June			
	2020	2019	2020	2019	2020	2019	2020	2019
	<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>
Polyester filament yarns								
DTY	2,136,648	59.1%	2,620,676	56.5%	229,481	50.6%	223,673	49.5%
FDY	346,571	9.6%	608,508	13.1%	47,274	10.4%	61,078	13.5%
POY	45,800	1.3%	30,854	0.7%	8,133	1.8%	4,316	1.0%
Other polyester filament yarns products*	274,260	7.6%	446,715	9.6%	55,721	12.3%	65,305	14.5%
Sub-total	2,803,279	77.6%	3,706,753	79.9%	340,609	75.1%	354,372	78.5%
Polyester products								
BOPET thin films	642,908	17.8%	774,781	16.7%	79,627	17.5%	74,716	16.6%
Other polyester product**	168,475	4.6%	157,503	3.4%	33,544	7.4%	22,319	4.9%
Sub-total	811,383	22.4%	932,284	20.1%	113,171	24.9%	97,035	21.5%
Total	3,614,662	100.0%	4,639,037	100.0%	453,780	100.0%	451,407	100.0%

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

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

Sales by geographic region

The Group's overseas sales revenue increased from RMB537,394,000 in the first half of 2019 to RMB639,228,000 during the period under review or an increase of 18.9%. Consequentially, the percentage of overseas sales revenue also increased from 11.6% in the first half of 2019 to 17.7% during the period under review, representing an increase of 6.1 percentage points. The epidemic disrupted the international shipping, which affected the Group's overseas sales to China. Nevertheless, the second project under phase I of the Group's investment in and construction of the "700,000-ton differentiated chemical fiber project" in Tay Ninh, Vietnam fully commenced production, which boosted the sales of the overall overseas sales of the Group. Approximately 82.3% of the Group's revenue was generated from domestic market sales, of which 55.7% was from sales to customers in Fujian Province and 19.4% to customers in the adjacent Guangdong Province. The textile manufacturing industries in these two provinces have been booming, resulting in a relatively strong demand for the Group's products.

Geographic Breakdown of Revenue

	For the six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>
Domestic sales				
Fujian Province	2,014,577	55.7%	2,729,490	58.8%
Guangdong Province	702,457	19.4%	1,015,469	21.9%
Other Provinces	258,400	7.2%	356,684	7.7%
Overseas sales*	<u>639,228</u>	<u>17.7%</u>	<u>537,394</u>	<u>11.6%</u>
Total	<u>3,614,662</u>	<u>100.0%</u>	<u>4,639,037</u>	<u>100.0%</u>

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

2. *Cost of Sales*

Cost of sales of the Group for the period under review was RMB3,107,464,000, representing a decrease of 19.5% as compared to the cost of sales of RMB3,862,295,000 in the first half of 2019. Such a change was mainly attributable to the combined effect of the decrease in sales volume and raw materials prices. The cost of sales for polyester filament yarns was RMB2,502,945,000, accounting for 80.5% of the total cost of sales. The cost of sales for polyester products was RMB604,519,000, accounting for 19.5% of total cost of sales.

Polyester filament yarns

Average cost of sales for polyester filament yarns decreased from RMB8,757 per ton in the first half of 2019 to RMB7,348 per ton during the period under review, representing a decrease of RMB1,409 or 16.1% per ton, which was mainly due to the decrease in the raw materials selling price of purified terephthalic acid (“PTA”) and mono ethylene glycol (“MEG”). The average price of raw materials for polyester filament yarns decreased from RMB6,855 per ton in the first half of 2019 to RMB5,230 per ton during the period under review, representing a decrease of RMB1,625 or 23.7% per ton. PTA and MEG, major raw materials for products of the Group, accounted for 71.2% of the total cost of sales of polyester filament yarns and the price of which was directly affected by the price of their raw material, i.e. crude oil.

Polyester products

Average cost of sales for polyester thin films decreased from RMB7,823 per ton in the first half of 2019 to RMB5,342 per ton during the period under review, representing a decrease of RMB2,481 or 31.7% per ton, which was mainly due to the decrease in selling price of PTA and MEG. The average price of raw materials for polyester products decreased from RMB7,042 per ton in the first half of 2019 to RMB4,618 per ton during the period under review, representing a decrease of RMB2,424 or 34.4% per ton.

Breakdown of Cost of Sales

	For the six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>
Polyester filament yarns				
Cost of raw materials				
PTA	1,201,609	38.6%	1,719,626	44.6%
MEG	468,227	15.1%	576,878	14.9%
POY and other raw materials	<u>111,527</u>	<u>3.6%</u>	<u>132,763</u>	<u>3.4%</u>
Sub-total	1,781,363	57.3%	2,429,267	62.9%
Manufacturing costs	720,998	23.2%	672,067	17.4%
Other costs	<u>584</u>	<u>0.0%</u>	<u>1,844</u>	<u>0.1%</u>
Sub-total	<u>2,502,945</u>	<u>80.5%</u>	<u>3,103,178</u>	<u>80.4%</u>
Polyester products				
Cost of raw materials				
PTA	348,717	11.2%	486,247	12.6%
MEG	146,877	4.7%	152,235	3.9%
Chips and other raw materials	<u>27,083</u>	<u>0.9%</u>	<u>44,826</u>	<u>1.2%</u>
Sub-total	522,677	16.8%	683,308	17.7%
Manufacturing costs	81,601	2.7%	75,228	1.9%
Other costs	<u>241</u>	<u>0.0%</u>	<u>581</u>	<u>0.0%</u>
Sub-total	<u>604,519</u>	<u>19.5%</u>	<u>759,117</u>	<u>19.6%</u>
Total	<u>3,107,464</u>	<u>100.0%</u>	<u>3,862,295</u>	<u>100.0%</u>

3. Gross Profit

Gross profit of the Group for the period under review was RMB507,198,000, which decreased by RMB269,544,000, representing a decrease of 34.7% as compared to RMB776,742,000 in the first half of 2019. Sales volume of the Group during the period under review increased by 2,373 tons, representing an increase of 0.5% as compared to that in the first half of 2019. Average selling price of products per ton decreased by an average of RMB2,311 per ton, representing a decrease of 22.5% from RMB10,277 per ton in the first half of 2019 to RMB7,966 per ton during the period under review, while average cost of products per ton also decreased by an average of RMB1,708 per ton, representing a decrease of 20.0% from RMB8,556 per ton in the first half of 2019 to RMB6,848 per ton during the period under review. Therefore, the average gross profit of products per ton decreased from RMB1,721 in the first half of 2019 to RMB1,118 during the period under review. As the decrease in the average selling price of products per ton was much higher than the decrease in average cost of products per ton, gross profit margin decreased by 2.7 percentage points from 16.7% in the first half of 2019 to 14.0% during the period under review.

Polyester filament yarns

Average selling price of polyester filament yarns products decreased by an average of RMB2,230 per ton, representing an increase of 21.3% from RMB10,460 in the first half of 2019 to RMB8,230 during the period under review. The average gross profit of polyester filament yarns products per ton decreased from RMB1,703 in the first half of 2019 to RMB882 during the period under review. The gross profit margin decreased by 5.6 percentage points from 16.3% in the first half of 2019 to 10.7% during the period under review.

Polyester products

Average selling price of polyester products per ton decreased by an average of RMB2,438 per ton, representing a decrease of 25.4% from RMB9,608 per ton in the first half of 2019 to RMB7,170 per ton during the period under review. The average gross profit of polyester products per ton increased from RMB1,785 in the first half of 2019 to RMB1,828 during the period under review. The gross profit margin increased by 6.9 percentage points from 18.6% in the first half of 2019 to 25.5% during the period under review.

During the period under review, the decrease in gross profit and gross profit margin of the Group's polyester filament yarns was primarily attributable to impacts of the epidemic outbreak in early 2020, which affected various industries including the textile industry and imposed certain short-term impacts on the operating environment of the Group. Nonetheless, the commencement of the production of the Vietnam project partially offset the impacts arising from the epidemic. As a result, the gross profit and gross profit margin of the polyester products increased as compared with the same period of last year. With regard to the Group's business, the epidemic led to the delay of certain production and delivery in the first quarter. Nonetheless, the production activities of the Group's facility located in Jinjiang, China, gradually resumed normal operation since March 2020 in an orderly manner, while the production and sales in the facility in Vietnam were not materially affected. The Group's production capacity continued to expand as planned.

Analysis of gross profit by product

	For the six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>
Polyester filament yarns				
DTY	299,517	59.0%	513,010	66.0%
FDY	12,533	2.5%	97,501	12.6%
POY	(935)	(0.2%)	(8,616)	(1.1%)
Other polyester filament yarns products*	<u>(10,781)</u>	<u>(2.1%)</u>	<u>1,680</u>	<u>0.2%</u>
Sub-total	<u>300,334</u>	<u>59.2%</u>	<u>603,575</u>	<u>77.7%</u>
Polyester products				
BOPET thin films	205,387	40.5%	170,223	21.9%
Other polyester products**	<u>1,477</u>	<u>0.3%</u>	<u>2,944</u>	<u>0.4%</u>
Sub-total	<u>206,864</u>	<u>40.8%</u>	<u>173,167</u>	<u>22.3%</u>
Total	<u>507,198</u>	<u>100.0%</u>	<u>776,742</u>	<u>100.0%</u>

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

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

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

	For the six months ended 30 June	
	2020	2019
	RMB	RMB
Polyester filament yarns		
Average selling price per ton	8,230	10,460
Average cost of sales per ton	<u>7,348</u>	<u>8,757</u>
Average gross profit per ton	<u>882</u>	<u>1,703</u>
Average gross profit margin	<u>10.7%</u>	<u>16.3%</u>
Polyester products		
Average selling price per ton	7,170	9,608
Average cost of sales per ton	<u>5,342</u>	<u>7,823</u>
Average gross profit per ton	<u>1,828</u>	<u>1,785</u>
Average gross profit margin	<u>25.5%</u>	<u>18.6%</u>

4. Other revenue

Other revenue of the Group for the period under review amounted to RMB97,687,000 representing an increase of 39.5% as compared to RMB70,026,000 in the first half of 2019. Other revenue included bank interest income, government grants and gains on sales of raw materials. Such change was mainly attributable to the combined effect of an increase in bank interest income and gains on sales of raw materials, and a decrease in government grants as compared to those of the same period last year.

5. Other (loss)/gain, net

Other loss, net of the Group during the period under review amounted to RMB8,835,000 as compared to gain, net of RMB18,404,000 in the first half of 2019. Other (loss)/gain, net mainly comprised the realised loss on other financial assets, donation expenses and net exchange gain. Such change was mainly attributable to the combined effect of the increase in realised loss on other financial assets and donation expenses, and the increase in net exchange gain.

6. *Selling and distribution expenses*

Selling and distribution expenses of the Group for the period under review amounted to RMB43,172,000, representing an increase of 0.5% as compared to RMB42,964,000 in the first half of 2019. Selling and distribution expenses mainly comprised transportation costs, wages of our sales staffs, operating expenses and promotion expenses. Such increase was mainly due to the combined effect of the decrease in relevant transportation costs resulted from the partial suspension of the operation of facilities in Fujian Province for approximately two weeks after the Lunar New Year holidays in accordance with the government's regulations, and the increase in transportation costs upon commencement of production of Billion Vietnam.

7. *Administrative expenses*

Administrative expenses of the Group for the period under review amounted to RMB210,126,000, decreased by 5.0% as compared to RMB221,213,000 in the first half of 2019. Administrative expenses mainly comprised research and development costs, depreciation on office equipment, staff wages, general office expenses, professional and legal fees etc. Such change was mainly due to the slight decrease in research and development expenses during the period under review.

8. *Finance costs*

Finance costs of the Group for the period under review amounted to RMB88,099,000, decreased by 6.9% as compared to RMB94,669,000 in the first half of 2019. Such change was mainly due to the decrease in related interests as a result of the decrease in the weighted average interest rate of bank loan during the period under review.

9. *Income tax*

Income tax of the Group for the period under review amounted to RMB29,287,000, decreased by 71.6% as compared to RMB103,002,000 in the first half of 2019. Such change was mainly due to a decrease in profit before income tax and a decrease of the payment of withholding income tax arising from dividends distribution to Billion Development (Hong Kong) Limited by Billion Fujian during the period under review.

10. *Profit for the period*

Profit of the Group for the period under review amounted to RMB225,366,000, decreased by RMB177,958,000 or 44.1% as compared to RMB403,324,000 in the first half of 2019, which was mainly attributable to the short-term impacts arising from the outbreak of the epidemic since the beginning of 2020 on the operating environment of the Group.

Financial position

1. *Liquidity and capital resources*

As at 30 June 2020, cash and cash equivalent of the Group amounted to RMB392,803,000, increased by RMB191,405,000 or 95.0% as compared to RMB201,398,000 as at 31 December 2019.

During the period under review, net cash outflow from operating activities amounted to RMB492,623,000. Net cash outflow from investing activities amounted to RMB1,163,793,000, which mainly comprised the capital expenditure of RMB420,331,000 and the net increase of restricted bank deposit placement of RMB1,091,527,000. Net cash inflow from financing activities amounted to RMB1,849,984,000, which mainly comprised the net increase in bank loans of RMB1,936,486,000 during the period.

During the period under review, inventory turnover days were 145.9 days (for the first half of 2019: 90.8 days), an increase of 55.1 days as compared to the same period last year, which was mainly due to the increased inventory after the expansion of the Group to prepare for the sales activities in the second half of the year. The trade receivable turnover days were 26.9 days (for the first half of 2019: 6.1 days), representing an increase of 20.8 days as compared to the same period last year, which was mainly due to the decrease in the discounting of trade receivables during the period. The trade payable turnover days were 376.9 days (for the first half of 2019: 132.0 days), representing an increase of 244.9 days as compared to the same period last year mainly due to the growth scale of the Group and the Group's increasing discretion authority over goods payments, which increased the discounting of notes.

As at 30 June 2020, the Group had capital commitments of RMB1,880,377,000, which were mainly used for the expansion of domestic production capacity as well as development of the Vietnam production business.

2. *Capital Structure*

As at 30 June 2020, the total liabilities of the Group amounted to RMB11,759,249,000, whereas capital and reserves amounted to RMB6,883,665,000. The gearing ratio (total liabilities divided by total equity) was 170.8%. Total assets amounted to RMB18,642,914,000. The debt-to-assets ratio (total assets divided by total liabilities) was 1.6 times. Bank loans of the Group amounted to RMB3,568,700,000, of which RMB2,909,481,000 were repayable within one year, and RMB659,219,000 were repayable after one year. 7.6% of the bank borrowings were secured by properties and restricted bank deposits.

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

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

The Company's future plan in the coming year for other material investments and additions of capital assets are primarily related to the expansion of domestic production capacity as well as development of the Vietnam production business. The Company intends to finance such plan through internally generated funds and bank loans.

Charges on assets

Save as disclosed in the paragraph headed "Financial position – 2. Capital Structure" above, there was no other charge on Group's assets as of 30 June 2020.

Contingent liabilities

As at 30 June 2020, the Group did not have any contingent liabilities (2019: Nil).

Foreign currency risk

As most of the Group's operating costs and expenses are denominated in Renminbi, the Group's operation is not exposed to significant foreign currency risk. As at 30 June 2020, the Group's foreign currency risk exposure was mainly derived from the net liabilities exposure denominated in United States Dollars of RMB181,338,000 and net liabilities exposure denominated in Euro of RMB48,778,000.

Employees and remuneration

As at 30 June 2020, the Group had a total of 7,098 employees. The remuneration for employees is determined in accordance with their performance, professional experience and the prevailing market conditions. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Apart from pension, the Group also grants discretionary bonus to certain employees as awards in accordance with individual performance.

BUSINESS OUTLOOK

Due to the outbreak of COVID-19, China's domestic GDP for the first quarter of 2020 after seasonal adjustment fell by approximately 11% quarter-on-quarter. However, China's domestic GDP for the second quarter grew by approximately 12% quarter-on-quarter since its strong turnaround in March. Looking into the second half of the year, with the implementation of favorable policies, it is expected that the production, sales and exports of the textile industry will become steadier and more balanced in the course of adjustment.

After more than one year of planning and construction, the manufacturing facilities of polyester industrial yarns, which has an annual production capacity of approximately 250,000 tons, commenced operation on 17 July 2020. The Group has been committed to constructing its industrial yarn products with the belief of “high quality, high starting point, specialization, and serving various fields”. The Group adopts world-class advanced polyester process in its production by introducing the latest high-speed spinning winder of Oerlikon Barmag (a German brand), which can produce a full range of products including ordinary high-strength, low-shrink, ultra-low-shrink, activated, anti-wicking and water-repellent, car seat belt wear-resistant and special sewing thread and non-ferrous type, as complemented by the plied and twisted lines and twisting device to enrich the product structure. Meanwhile, the Group is equipped with the whole-process intelligent production and management from the latest intelligent winding, product inspection, packaging to storage, together with the optimized application of Oerlikon Barmag's automation solution. The Group is also among the top ten industrial yarn manufacturers in China. The project has led the Group to expand the business of polyester industrial yarn products, marking another milestone towards the whole industry chain layout of the Group. The Group will continue to provide customers with high-end quality products and gradually take the lead in the market.

The official commencement of the second project under phase I of Billion Vietnam's “700,000-ton differentiated chemical fiber project” marks a milestone during the Group's journey in exploring the emerging markets. Following the second project commencement, the phase II of the project, i.e. the “polyester bottle chips project with an annual production capacity of 250,000 tons” is now under active preparation and construction. In addition, the Group is investing approximately US\$230 million to set up a production line for polyester thin films over a period of three years from 2019 to 2021. The estimated gross capacity upon completion will be approximately 255,000 tons per annum. Upon the completion of the expansion projects including Billion Vietnam's phase II project and polyester thin film project, the Group will further expand its scale and increase the sales volume and sales revenue of its products. Despite the outbreak of COVID-19 that would result in some short-term impacts on the overall textile industry and the sales of the Group, the Group remains confident in the medium and long-term development of the business in the well-founded textile industry.

INTERIM DIVIDEND

The board (“**Board**”) of directors (“**Directors**”) of the Company resolved not to declare an interim dividend for the six months ended 30 June 2020.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the six months ended 30 June 2020, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. Having made specific enquiry of all the directors, the Company has confirmed with all directors that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 3.21 and 3.22 of Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control system of the Group. The audit committee comprises three members: Mr. Chan Shek Chi, Mr. Lin Jian Ming and Mr. Shih Chun Pi. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Chan Shek Chi. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Company on financial reporting matters including a review of the unaudited interim financial information of the Group for the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

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

Hong Kong, 17 August 2020

As at the date of this announcement, the Board comprises Mr. Sze Tin Yau and Mr. Wu Jinbiao as executive directors, Mr. Zhang Shengbai as non-executive director and Mr. Chan Shek Chi, Mr. Lin Jian Ming and Mr. Shih Chun Pi as independent non-executive directors.