Vinda International Holdings Limited
維 達 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3331)

Website: http://www.hkexnews.hk
http://www.vindapaper.com

"Healthy lifestyle starts from Vinda"

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

	2014	2013	**Changes**
Revenue *(HK$)*	**3,679,961,616**	3,313,654,946	**+11.1%**
Gross profit *(HK$)*	**1,085,525,744**	957,815,172	**+13.3%**
Operating profit *(HK$)*	**345,697,900**	383,831,048	**–9.9%**
Profit attributable to equity holders of the Company *(HK$)*	**222,175,903**	283,984,356	**–21.8%**
Gross profit margin	**29.5%**	28.9%	
Net profit margin	**6.0%**	8.6%	
Basic earnings per share *(HK$)*	**22.3 cents**	28.4 cents	**–21.5%**
Stock turnover	**109 days**	119 days	
Finished goods turnover	**37 days**	34 days	
Debtors turnover	**47 days**	49 days	
Interim dividend declared *(HK$)*	**4.0 cents**	4.8 cents	

RESULTS

The Board of Vinda International Holdings Limited ("Vinda International" or the "Company") is pleased to present the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014 (the "Period").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Note	***HK$***	*HK$*
Revenue	4	**3,679,961,616**	3,313,654,946
Cost of sales		**(2,594,435,872)**	(2,355,839,774)
Gross profit		**1,085,525,744**	957,815,172
Selling and marketing costs		**(527,190,462)**	(438,366,882)
Administrative expenses		**(207,999,030)**	(165,362,575)
Other income and (losses)/gains — net		**(4,638,352)**	29,745,333
Operating profit	5	**345,697,900**	383,831,048
Interest expense		**(38,655,446)**	(25,365,169)
Net foreign exchange transaction (loss)/gain		**(21,923,351)**	22,122,622
Interest income		**1,287,826**	2,130,709
Finance costs, net		**(59,290,971)**	(1,111,838)
Share of post-tax loss of an associate	10	**(4,358,121)**	(15,800,143)
Profit before income tax		**282,048,808**	366,919,067
Income tax expense	6	**(59,872,905)**	(82,934,711)
Profit attributable to equity holders of the Company		**222,175,903**	283,984,356
Other comprehensive income:			
Items that may be reclassified to profit or loss			
— Currency translation differences		**(44,732,549)**	77,108,126
— Hedging reserve		**1,783,470**	2,705,248
Total comprehensive income attributable to equity holders of the Company		**179,226,824**	363,797,730
Earnings per share for profit attributable to the equity holders of the Company			
— basic	7(a)	**0.223**	0.284
— diluted	7(b)	**0.222**	0.283
Dividends	8	**39,934,507**	47,984,769

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2014** *HK$*	Audited 31 December 2013 *HK$*
ASSETS			
Non-current assets			
Property, plant and equipment	9	**5,450,469,822**	5,101,881,171
Investment property	9	**31,616,709**	32,427,614
Leasehold land and land use rights	9	**284,370,645**	290,468,442
Intangible assets	9	**25,452,576**	21,235,148
Deferred income tax assets		**199,183,592**	204,808,552
Investment in an associate	10	**54,269,551**	58,757,692
Total non-current assets		**6,045,362,895**	5,709,578,619
Current assets			
Inventories		**1,497,345,858**	1,642,844,200
Trade receivables, other receivables and prepayments	11	**1,367,085,118**	1,286,276,545
Prepayments to and receivables from related parties		**85,650,483**	40,961,155
Restricted bank deposits		**1,313,587**	3,567,270
Cash and cash equivalents		**577,943,634**	689,702,649
Total current assets		**3,529,338,680**	3,663,351,819
Total assets		**9,574,701,575**	9,372,930,438
EQUITY			
Share capital		**99,836,269**	99,836,269
Share premium		**1,676,529,981**	1,676,529,981
Other reserves			
— Proposed dividend		**39,934,507**	107,823,170
— Others		**2,901,979,294**	2,762,686,977
Total equity		**4,718,280,051**	4,646,876,397

	Note	Unaudited 30 June 2014 HK$	Audited 31 December 2013 HK$
LIABILITIES			
Non-current liabilities			
Borrowings	12	**1,362,624,919**	1,705,003,809
Deferred government grants		**99,845,295**	102,873,484
Deferred income tax liabilities		**9,990,808**	7,222,427
Total non-current liabilities		**1,472,461,022**	1,815,099,720
Current liabilities			
Trade payables, other payables and accrued expenses	13	**1,584,493,785**	1,820,064,171
Due to a related party		**5,580,927**	5,217,791
Loan from a related party		**289,592,044**	—
Borrowings	12	**1,448,702,981**	1,032,432,973
Current income tax liabilities		**52,752,669**	40,320,964
Derivative financial instruments		**2,838,096**	12,918,422
Total current liabilities		**3,383,960,502**	2,910,954,321
Total liabilities		**4,856,421,524**	4,726,054,041
Total equity and liabilities		**9,574,701,575**	9,372,930,438
Net current assets		**145,378,178**	752,397,498
Total assets less current liabilities		**6,190,741,073**	6,461,976,117

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited			
		Attributable to equity holders of the Company			
		Share capital	**Share premium**	**Other reserves**	**Total**
	Note	*HK$*	*HK$*	*HK$*	*HK$*
Balance as at 1 January 2013		99,938,269	1,668,318,024	2,350,661,375	4,118,917,668
Profit for the period		—	—	283,984,356	283,984,356
Other comprehensive income					
Items that may be reclassified to profit or loss					
— Currency translation differences		—	—	77,108,126	77,108,126
— Hedging reserve		—	—	2,705,248	2,705,248
Total comprehensive income for the six months ended 30 June 2013		—	—	363,797,730	363,797,730
Transaction with owners					
Employees share option scheme					
— Value of employee services		—	—	13,857,000	13,857,000
— Exercise of options		30,000	2,095,008	(550,848)	1,574,160
Dividends	8	—	—	(112,964,143)	(112,964,143)
Transaction with owners		30,000	2,095,008	(99,657,991)	(97,532,983)
Balance as at 30 June 2013		99,968,269	1,670,413,032	2,614,801,114	4,385,182,415
Balance as at 1 January 2014		**99,836,269**	**1,676,529,981**	**2,870,510,147**	**4,646,876,397**
Profit for the period		**—**	**—**	**222,175,903**	**222,175,903**
Other comprehensive income					
Items that may be reclassified to profit or loss					
— Currency translation differences		**—**	**—**	**(44,732,549)**	**(44,732,549)**
— Hedging reserve		**—**	**—**	**1,783,470**	**1,783,470**
Total comprehensive income for the six months ended 30 June 2014		**—**	**—**	**179,226,824**	**179,226,824**
Transaction with owners					
Dividends	8	**—**	**—**	**(107,823,170)**	**(107,823,170)**
Transaction with owners		**—**	**—**	**(107,823,170)**	**(107,823,170)**
Balance as at 30 June 2014		**99,836,269**	**1,676,529,981**	**2,941,913,801**	**4,718,280,051**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six months ended 30 June **2014** ***HK$***	 2013 *HK$*
Cash flows from operating activities:			
— cash generated from operations		**210,956,403**	268,056,271
Cash flows from investing activities:			
— purchases of property, plant and equipment		**(556,988,936)**	(742,427,259)
— purchases of intangible assets		**(9,144,528)**	(3,427,855)
— purchases of leasehold land and land use rights		**—**	(92,097,788)
— proceeds on disposal of property, plant and equipment		**129,946**	2,736,060
— investment in an unlisted associate		**—**	(20,500,000)
— interest received		**1,287,826**	2,130,709
Cash flows used in investing activities — net		**(564,715,692)**	(853,586,133)
Cash flows from financing activities:			
— dividends paid	8	**(107,823,170)**	(112,964,143)
— repayments of borrowings	12	**(1,100,183,102)**	(1,095,760,829)
— proceeds from borrowings	12	**1,167,600,311**	1,808,029,007
— loan from a related party		**289,646,465**	—
— proceeds from shares issued		**—**	1,574,160
Cash flows generated from financing activities — net		**249,240,504**	600,878,195
Net (decrease)/increase in cash and cash equivalents		**(104,518,785)**	15,348,333
Cash and cash equivalents at beginning of the period		**689,702,649**	753,586,651
Exchange differences		**(7,240,230)**	6,000,694
Cash and cash equivalents at end of the period		**577,943,634**	774,935,678

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2014

1 GENERAL INFORMATION

Vinda International Holdings Limited (the "Company") was incorporated on 17 August 1999 in the Cayman Islands with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company acts as an investment holding company and provides management as well as financial support services to its subsidiaries. The Company and its subsidiaries are collectively referred to as the "Group". The principal activities of the Group are the manufacture and sale of household consumable paper.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 10 July 2007.

On 9 September 2013, SCA Group Holding BV, a subsidiary of Svenska Cellulosa Aktiebolaget AB, made a voluntary conditional cash offer to acquire all outstanding shares of the Company. The cash offer was finally closed on 11 November 2013. After the close of the cash offer, Svenska Cellulosa Aktiebolaget AB became the ultimate holding company of the Group.

The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 18 July 2014.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with HKAS 34 "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2.1 Going-concern basis

The Group meets its day-to-day working capital requirements through its bank facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial information.

3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2014:

HKAS 36 (Amendment) "Impairment of assets" is effective for annual periods beginning on or after 1 January 2014. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

HK (IFRIC) Interpretation 21 "Levies" is effective for annual periods beginning on or after 1 January 2014. This is an interpretation of HKAS 37 "Provisions, contingent liabilities and contingent assets". HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

Amendments and interpretations as mentioned above are not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

(b) Standards, amendments and interpretations to existing standards effective in 2014 but not relevant to the Group

		Effective for annual periods beginning on or after
HKAS 32 (Amendment)	Financial Instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
Amendment to HKAS 39	Financial Instruments: Recognition and measurement, on novation of derivatives	1 January 2014
HKFRS 10, 12 and HKAS 27 (Amendment)	Consolidation for investment entities	1 January 2014

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2014 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 19	Defined benefit plans	1 July 2014
HKFRS 2	Share-based payment	1 July 2014
HKFRS 3	Business combinations	1 July 2014
HKFRS 8	Operating segments	1 July 2014
HKFRS 13	Fair value measurement	1 July 2014
HKAS 16	Property, plant and equipment	1 July 2014
HKAS 24	Related party disclosures	1 July 2014
HKAS 37	Provisions, contingent liabilities and contingent assets	1 July 2014
HKAS 38	Intangible assets	1 July 2014
HKAS 39	Financial instruments — Recognition and measurement	1 July 2014
HKAS 40	Investment property	1 July 2014
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendments to HKFRS 11	Joint arrangements	1 January 2016
Amendments to HKAS16	Property, plant and equipment	1 January 2016
Amendments to HKAS 38	Intangible assets	1 January 2016
HKFRS 9	Financial instruments	1 January 2018

4 SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of household consumable paper. Revenue is analysed as follows:

	Unaudited Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Sales of goods	**3,642,984,565**	3,268,457,086
Sales of semi-finished goods and other materials	**34,579,821**	41,968,552
Processing trade	**2,397,230**	3,229,308
Total revenue	**3,679,961,616**	3,313,654,946

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and top management. The executive committee reviews the Group's internal reporting in order to assess performance and allocate resources.

Based on these reports, the executive committee has determined that no business segment information is presented as over 90% of the Group's sales and operating profits are derived from the sales of paper products, which is considered one business segment with similar risks and returns.

The executive committee has determined that no geographical segment information is presented as over 90% of the Group's sales are derived within the People's Republic of China ("PRC") and over 90% operating assets of the Group are located in the PRC, which is considered one geographic location with similar risks and returns.

The Company is domiciled in Hong Kong. The result of its revenue from external customers in Mainland China, Hong Kong and overseas for the six months ended 30 June 2014 is HK$3,368,373,172 (for the six months ended 30 June 2013: HK$3,044,055,807), HK$284,130,444 (for the six months ended 30 June 2013: HK$260,471,351), HK$27,458,000 (for the six months ended 30 June 2013: HK$9,127,788) respectively.

The total non-current assets are analysed as follows:

	As at	
	30 June	31 December
	2014	2013
	Unaudited	Audited
	HK$	*HK$*
Total non-current assets other than deferred tax assets and investment in an associate		
— Mainland China	**5,763,325,383**	5,416,066,216
— Hong Kong and overseas	**28,584,369**	29,946,159
Deferred tax assets	**199,183,592**	204,808,552
Investment in an associate	**54,269,551**	58,757,692
Total non-current assets	**6,045,362,895**	5,709,578,619

5 OPERATING PROFIT

The following items have been (credited)/charged to the operating profit during the six months ended 30 June 2014 and 2013:

	Unaudited Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Amortisation of deferred government grants	**(2,047,902)**	(1,699,549)
Foreign exchange loss/(gain), net	**33,388,693**	(31,366,483)
Provision for impairment of receivables	**3,642,389**	10,135
Provision/(write-back) for impairment of inventories	**309,922**	(484,509)
Share option expenses	**—**	13,857,000
Depreciation of property, plant and equipment *(Note 9)*	**172,072,291**	117,159,696
Depreciation of investment property *(Note 9)*	**509,842**	502,477
Amortisation of intangible assets *(Note 9)*	**4,713,745**	2,538,043
Amortisation of leasehold land and land use rights *(Note 9)*	**3,324,331**	2,263,322
Loss on disposal of property, plant and equipment	**165,479**	442,280

6 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 2013: 16.5%) on the estimated assessable profit for the year. The applicable corporate income tax rate for Mainland China subsidiaries are 25% except for subsidiaries which are qualified as High and New Technology Enterprises ("HNTE") and would be entitled to enjoy a beneficial tax rate of 15%. The subsidiaries which are qualified as HNTE can additionally deduct 50% of qualified research and development expenses when calculating the taxable income. Taxation on profits outside Mainland China and Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries or cities in which the Group operates.

Pursuant to the qualification of HNTE, Vinda Paper (Xiaogan) Co., Ltd., a wholly owned subsidiary of the Group, enjoys a favourable tax rate of 15% and an additional deduction of 50% of qualified research and development expenses when calculating the taxable income.

	Unaudited Six months ended 30 June	
	2014	2013
	HK$	*HK$*
Current income tax		
— Hong Kong profits tax	**25,603,562**	15,974,967
— PRC enterprise income tax	**27,558,399**	81,842,276
Deferred income tax	**6,710,944**	(14,882,532)
	59,872,905	82,934,711

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 30 June 2014 is 21.23% (the estimated tax rate for the six months ended 30 June 2013 was 22.60%).

7 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average numbers of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2014	2013
Profit attributable to equity holders of the Company *(HK$)*	**222,175,903**	283,984,356
Weighted average number of ordinary shares in issue	**998,362,686**	999,581,084
Basic earnings per share *(HK$ per share)*	**0.223**	0.284

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all diluted potential ordinary shares. The Company's potentially dilutive ordinary shares comprised of share options.

	Unaudited Six months ended 30 June	
	2014	2013
Profit attributable to equity holders of the Company *(HK$)*	**222,175,903**	283,984,356
Weighted average number of ordinary shares in issue	**998,362,686**	999,581,084
Adjustments for share options	**954,590**	3,824,768
Weighted average number of ordinary shares for diluted earnings per share	**999,317,276**	1,003,405,852
Diluted earnings per share *(HK$ per share)*	**0.222**	0.283

8 DIVIDENDS

On 26 March 2013, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2012 of HK$0.113 per ordinary share. The actual final dividends paid for the year ended 31 December 2012 was HK$112,964,143 based on the 999,682,686 issued shares outstanding at that time.

On 27 March 2014, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2013 of HK$107,823,170, representing HK$0.108 per ordinary share. The final dividend was paid on 20 June 2014.

On 18 July 2014, the Board of Directors has resolved to declare an interim dividend of HK$0.04 per share (2013: HK$0.048 per share). This interim dividend, amounting to HK$39,934,507 (2013: HK$47,984,769), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year ending 31 December 2014.

9 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY, LEASEHOLD LAND AND LAND USE RIGHTS AND INTANGIBLE ASSETS

	Unaudited			
	Property, plant and equipment	**Investment property**	**Leasehold land and land use rights**	**Intangible assets**
	HK$	*HK$*	*HK$*	*HK$*
Six months ended 30 June 2013				
Opening net book amount as at 1 January 2013	3,987,486,971	32,435,570	185,167,942	12,954,724
Additions	725,048,561	—	101,963,369	3,427,855
Disposals	(3,178,340)	—	—	—
Depreciation and amortisation *(Note 5)*	(117,159,696)	(502,477)	(2,263,322)	(2,538,043)
Exchange differences	72,309,737	577,972	3,354,307	114,616
Closing net book amount as at 30 June 2013	4,664,507,233	32,511,065	288,222,296	13,959,152
Six months ended 30 June 2014				
Opening net book amount as at 1 January 2014	**5,101,881,171**	**32,427,614**	**290,468,442**	**21,235,148**
Additions	**570,397,019**	**—**	**—**	**9,144,528**
Reclassification	**(8,268)**	**8,268**	**—**	**—**
Disposals	**(295,425)**	**—**	**—**	**—**
Depreciation and amortisation *(Note 5)*	**(172,072,291)**	**(509,842)**	**(3,324,331)**	**(4,713,745)**
Exchange differences	**(49,432,384)**	**(309,331)**	**(2,773,466)**	**(213,355)**
Closing net book amount as at 30 June 2014	**5,450,469,822**	**31,616,709**	**284,370,645**	**25,452,576**

During the period, the Group has capitalized borrowing costs, including interest expenses and related foreign exchange loss, amounting to HK$11,803,449 (2013: interest expenses and exchange gain of HK$3,295,472) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 2.46% (2013: 0.69%).

10 INVESTMENT IN AN ASSOCIATE

	Unaudited 30 June 2014	Audited 31 December 2013
	HK$	*HK$*
Beginning of the period	**58,757,692**	64,357,657
Additional investment in an unlisted associate	**—**	20,500,000
Share of post-tax loss of an associate	**(4,358,121)**	(26,976,817)
Exchange differences	**(130,020)**	876,852
	54,269,551	58,757,692

11 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2014 Unaudited *HK$*	31 December 2013 Audited *HK$*
Trade receivables	**958,130,758**	915,812,348
Other receivables *(Note (a))*	**376,607,491**	346,506,944
Notes receivable	**15,012,415**	6,382,988
Prepayments	**30,594,304**	27,191,726
Less: Provision for impairment of trade receivables	**(13,259,850)**	(9,617,461)
	1,367,085,118	1,286,276,545

(a) Other receivables mainly comprised creditable input value added tax.

The majority of the Group's sales is with credit terms ranging from 30 to 90 days. As at 30 June 2014 and 31 December 2013, the ageing analysis of the trade receivables based on invoice date was as follows:

	As at 30 June 2014 Unaudited *HK$*	31 December 2013 Audited *HK$*
Within 3 months	**879,692,102**	854,781,509
4 months to 6 months	**55,263,942**	46,992,878
7 months to 12 months	**19,829,728**	8,841,000
Over 1 year	**3,344,986**	5,196,961
	958,130,758	915,812,348

12 BORROWINGS

	As at 30 June 2014 Unaudited *HK$*	31 December 2013 Audited *HK$*
Non-current	**1,362,624,919**	1,705,003,809
Current	**1,448,702,981**	1,032,432,973
	2,811,327,900	2,737,436,782

Movements in borrowings are analysed as follows:

	Unaudited *HK$*
Six months ended 30 June 2013	
Opening amount as at 1 January 2013	2,069,218,272
New borrowings	1,808,029,007
Repayments of borrowings	(1,095,760,829)
Exchange differences, net	7,891,580
Closing amount as at 30 June 2013	2,789,378,030
Six months ended 30 June 2014	
Opening amount as at 1 January 2014	**2,737,436,782**
New borrowings	**1,167,600,311**
Repayments of borrowings	**(1,100,183,102)**
Exchange differences, net	**6,473,909**
Closing amount as at 30 June 2014	**2,811,327,900**

Interest expenses on borrowings for the six months ended 30 June 2014 were HK$46,628,757 (six months ended 30 June 2013: HK$41,495,704) including HK$7,973,311 capitalized in the construction-in-progress (six months ended 30 June 2013: HK$16,130,535).

13 TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

	As at	
	30 June 2014	31 December 2013
	Unaudited	Audited
	HK$	*HK$*
Trade payables	**878,804,448**	1,113,007,617
Notes payables	**20,653,973**	3,412,027
Other payables	**410,915,097**	439,774,855
Accrued expenses	**274,120,267**	263,869,672
	1,584,493,785	1,820,064,171

Ageing analysis of trade payables and notes payables as at 30 June 2014 and 31 December 2013 were as follows:

	As at	
	30 June 2014	31 December 2013
	Unaudited	Audited
	HK$	*HK$*
Within 3 months	**890,208,804**	1,066,381,206
4 months to 6 months	**863,241**	21,918,953
7 months to 12 months	**4,434,820**	26,850,535
Over 1 year	**3,951,556**	1,268,950
	899,458,421	1,116,419,644

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2014 (the"Period"), China's retail sales decelerated amid the central government's measures to promote frugality. The market for fast-moving consumer goods remained weak. In particular, the growth in household paper market slackened. Nevertheless, the Group, as a leading industry player, saw its sales growth rate still exceed the industry's average, and recorded a 11.1% growth year on year to HK$3,680.0 million in revenue during the Period, and continued to maintain healthy development in its core business. Moreover, the Group's move to optimize its product mix began to bear fruit. Roll and non-roll products respectively accounted for 54.8% and 45.2% of the total sales. Notably, higher-margin products such as softpack, box tissue and wet wipe posted significant sales growths of 37.2%, 11.8% and 63.2% respectively.

During the Period, the Group's gross profit rose by 13.3% year on year to HK$1,085.5 million. Overall gross profit margin was maintained at a healthy level of 29.5% because of the optimization of the product mix. However, added production capacity in the industry exceeded the increment in consumption, temporarily disturbing the balance between production and demand in the industry cycle and thus bringing down the capacity utilization rate. This also compelled the industry players to engage in price competition. It was inevitable that the Group had to face such a market situation, and a way to cope with it is to reinforce the Group's market share by stepping up sales and marketing efforts. In addition to the difficulties mentioned above, the substantial decrease in other income (including government subsidies) for the first half of 2014 also took its toll on the profitability. As a result, operating profit declined by 9.9% to HK$345.7 million.

For the first half of 2014, the Group's borrowings (including shareholder loan) increased by HK$311 million year on year, thus ratcheting up the financing cost. Profit attributable to the shareholders declined by 21.8% year on year to HK$222.2 million. One of the main reasons behind the decrease in profit was that the Group recorded a foreign exchange loss of HK$33.4 million (first half of 2013: a foreign exchange gain of HK$31.4 million) as Renminbi weakened against the Hong Kong dollars and US dollars during the Period. Most of the transactions of the Group's business were denominated in and settled in Renminbi while most of its borrowings were denominated in Hong Kong dollars and the US dollars. Nevertheless, the foreign exchange loss would not have any significant impact on the Group's core business profitability and cash flow. According to the Group's financial policies, there are restrictions on the Group's involvement in any speculative foreign exchange transactions which are not related to its business operations or not for the purpose of hedging. Therefore, the foreign exchange loss was not due to speculation in currencies. The Group is confident about maintaining healthy development in its core business.

Basic earnings per share were HK$0.223 (first half of 2013: HK$0.284). In appreciation of the shareholders' continued support, the board of directors proposed payment of an interim dividend of HK$0.04 per share for the six months ended 30 June 2014 (first half of 2013: HK$0.048 per share).

Wide Recognition for Brand Innovation

Founded for almost three decades, Vinda has always adopted a market-oriented approach to its branding. The Group sought to use innovative branding strategy but not "price competition" to make breakthroughs amid the slowing economy, weak consumer sentiment and overcapacity in production. The move will help distinguish its brand image and reputation from those of its peers. In international consumer panel Kantar Worldpanel's "Brand Footprint 2014" that rates fast-moving consumer goods (FMCG) brands in China, Vinda improved its ranking by six positions to 19th in 2013 from 2012. In addition, the Group's marketing campaign "Ultra Strong National Bus Tour" for its tissue brand "Ultra Strong" is selected to be one of the successful global case studies featured in Kantar Worldpanel's "2014 Brand Footprint Report".

Vinda followed up the successful "Ultra Strong National Bus Tour" for 2013 with "Ultra Strong National Bus Tour — The Second Season" for the Period, which was conducted in 14 major cities on mainland China to promote the products of the "Ultra Strong" series. The campaign enabled the Group to exchange views with hypermarkets and consumers and cement ties with them, thus enhancing Vinda's brand, reputation and customer loyalty. To raise its market penetration among families with young children, the Group sponsored one of the most viewed variety shows "Fashion Kids" (《潮童天下》) produced by Dragon Television and hired a famous mainland actress Madam Ye Yiqian, who already had a child, as a guest in the programme. Its creative "Vinda Tissue-made Wedding Gown Show for Families" attracted media coverage by a number of newspapers and television stations, thus enhancing the image and raising the awareness of the Vinda brand.

Innovation in Marketing and Sales Channels

In the first half of 2014, revenue from the traditional distributors, modern hypermarkets and supermarkets, corporate clients and E-commerce accounted for 49.0%, 33.3%, 12.6% and 5.1% respectively. As at 30 June 2014, the Group had 216 sales offices and 1,231 distributors.

In the era when O2O (Online-to-Offline) business model is flourishing, E-commerce not only eliminates geographical constraints for business expansion but also spurs the reform of China's marketing and sales channels. The Group's E-commerce team has made significant progress by building long-term partnerships with a number of major online shopping website operators and by stepping up its marketing and sales efforts with mobile telecommunications. The E-commerce has been a source of steady revenue of the Group, and is expected to account for a higher proportion of the revenue in the future.

Raising Production Efficiency and Improving Production Equipment

For the first half of 2014, the Group sold 256,377 tons of household paper, or 8.6% more than that in the same period of 2013. As at 30 June 2014, the Group's aggregate annual production capacity was 760,000 tons. It did not add any production capacity during the Period, but will increase its annual production capacity in Guangdong by 70,000 tons and that in Zhejiang by 60,000 tons in the fourth quarter of the year as planned. The Group's total annual designed production capacity is expected to rise to 890,000 tons by the end of 2014.

Moreover, the Group aimed to raise the operational efficiency with excellent logistic management service. Its factory in Sanjiang Town, Jiangmen City in Guangdong Province has adopted automated stereoscopic warehousing since 2012, and has since significantly raised the efficiency of distribution. During the Period, the Group planned to introduce automated stereoscopic warehousing into its production plant in Zhejiang Province. The work, which will eliminate the bottlenecks in sales and distribution, is expected to be completed by the end of this year.

Flexible Wood Pulp Procurement Strategy

Wood pulp is the major raw material in the production of household paper products. During the Period, the price of the short-fibre (bleached hardwood kraft pulp) decreased slightly, and the Group capitalized on the trend by increasing the ratio of inventory to production output. The move is expected to assuage the pressure of the possible rise in production cost in the second half of the year when wood pulp prices are predicted to be volatile. To mitigate the possible impact of the fluctuating wood pulp prices and to reduce the production costs, the Group will continue its flexible procurement strategy while maintaining strong ties with its long-term suppliers.

Developing Hygiene Products Businesses

During the Period, the baby diaper market was very competitive as major brands tried to capitalize on the government's policy of allowing a couple to have two children if either member of that couple is the only offspring. They did so by competing for larger market shares with upgraded products and concessionary offers. As a new comer to the baby diaper market, our team gradually built up insights on the market. The Group needs to step up efforts on product research and development, invest immense resources in building up its brand, promotion and establishing sales channels in order to boost sales, gain trust from the market and help spread word of mouth for the brand. The Group's sanitary napkin business actively built sales channels with hypermarkets and online shopping website operators during the Period after its successful trial sales of the VIA brand sanitary napkin in Southern and Central China in 2013. It also enhanced its brand and reputation with TV commercials and advertisements on the Internet. Nevertheless, VIA had not yet contributed any significant revenue to the Group because the regional sales network for the brand was not yet fully developed and that the synergy from sharing Vinda's distribution network was not yet fully achieved.

During the Period, the Group appointed HSBC as its adviser to assist it in conducting a review of its business development strategy. In view of China's rising household income and its improving hygiene standards, we judge that the personal care industry has bright prospects. After a careful and elaborate study, the Group put forward a proposal to its associate company V-Care Holdings Limited ("V-Care") for acquiring a 59% equity stake in the latter and then executed the proposal in July of 2014. V-Care would become an indirect wholly-owned subsidiary of the Group upon the completion of the proposed transaction, and will thus be able to take full advantage of the Group's resources, including a strong sales team, distribution network and other facilities. The move will facilitate the development of the Group's personal care product business and help speed up the business's turnaround. Please refer to the Company's announcement dated on 7 July, 2014 for the details of this transaction.

Meanwhile, the Group entered into agreements with subsidiaries of SCA, a leading global hygiene & forest products company, 17 July 2014. Upon the completion of the transaction, the Group will integrate SCA's business operation located in Mainland China, Hong Kong and Macau and obtain the exclusive rights of using various SCA's global brands in these regions. The Group will spearhead the business initiatives including brand management, sale and supply chain management, while SCA will continue to provide innovation and technical support for the business. The Group believes that this strengthened cooperation will effectively combine the competitive advantages of the two parties and provide an impetus to the development of the Group's hygiene product business of household care, baby care, feminine care and elderly care. It will also help the Group to gain larger market shares and maximise the shareholder value. Please refer to the Company's announcement dated on 18 July 2014 for the details of this transaction.

To fulfill its mission to improve the standards of household hygiene and provide quality household paper to every family, the Group will implement a multi-brand strategy and build up an international hygiene product business platform with the complementary strengths of itself and SCA.

Advocating Green Production and Being Socially Responsible

Based on the principle of sustainable development, the Group dedicates itself to environmental protection and ecological sustainability, and advocates green manufacturing through energy saving and industrial emission reduction. During the Period, the Group and SCA jointly participated in a tree-planting campaign in Ningxia, China. The Group also actively participated in the national and provincial governments' work on research on saving energy and reducing industrial emissions and setting environmental standards, including the carbon footprint study by the China National Pulp and Paper Research Institute and the energy efficiency work organized by the Guangdong Paper Association. All of the works were aimed at reducing manufacturing cost and improving energy efficiency. In terms of the usage of water resources, the Group has improved its sewage treatment system to maintain the recycling rate at 95%. It also upgraded the automated production equipment to improve supply chain efficiency. In order to support its green manufacturing, the Group purchased raw materials from pulp suppliers which had International Forest Certification.

As a conscientious enterprise, the Group strives to fulfill its corporate social responsibilities. It has set up "Vinda Charity Foundation" to give care and assistance directly to the needy people in China. The foundation operates such welfare facilities as rest houses and welfare houses, and programmes to take care of those who are living on very low social security benefits and the disabled. The Group also organized volunteer teams regularly to participate in community service. Moreover, the Group has set up the "Vinda Environmental Conservation Scholarship" scheme at the Department of Geography and Resource Management in The Chinese University of Hong Kong to encourage students who are interested in environmental studies to pursue careers in environmental protection in the future. The students are expected to work for the sustainable development of society after they graduated. During the Period, the Group was awarded the status of "Caring Company" by The Hong Kong Council of Social Service in recognition of its contribution to society, environmental protection and the well-being of its employees.

Improving Management Performance and Enhancing Human Resources Management

The Group recognizes the importance of sound corporate governance to a company's success, its business development and shareholder value. Training in corporate governance is organized for the directors and senior management from time to time, and the disclosure system is regularly reviewed so as to improve transparency. The Group has also established a mechanism to monitor and review the internal control of its departments and operational procedure. During the Period, the Group set up a risk management committee with an aim of raising the standard of its risk management.

High-caliber staff is the key to the Group's competitiveness and value creation. The Group consistently enhances its personnel management by carrying out performance management reform and organizational restructuring, reorganizing job positions and duties, as well as providing professional training and education subsidies for employees, thus raising the Group's practices to international standards. As at 30 June 2014, the Group had a total of 7,442 employees. Employee remuneration packages are reviewed regularly and benchmarked to local market conditions as well as based on the staff's experience and performance to ensure the competitiveness of the Group's remuneration package. Furthermore, the Group operates a share option scheme to attract and retain talents.

Liquidity, Financial Resources and Bank Loans

The Group's financial position remained healthy. As at 30 June 2014, the Group's bank and cash balances (including restricted bank deposits of HK$1,313,587 (31 December 2013: HK$3,567,270)) amounted to HK$579,257,221 (31 December 2013: HK$693,269,919), and short-term, long-term loans and also loan from a related party amounted to HK$3,100,292,374 (31 December 2013: HK$2,737,436,782). 44.0% of the bank borrowings are medium- to long- term (2013: 62.3%). The annual interest rates of bank loans ranged from 1.14% to 6.90%.

As at 30 June 2014, the gearing ratio was 65.7% (31 December 2013: 58.9%), which was calculated on the basis of the amount of total borrowings as a percentage of the total shareholders' equity. The net gearing ratio, which was calculated on the basis of the amount of total borrowings less cash and cash equivalents and restricted bank deposits as a percentage of the total shareholders' equity, was 53.4% (31 December 2013: 44.0%).

As at 30 June 2014, unutilized credit facilities amounted to approximately HK$6.08 billion (2013: HK$5.61 billion).

Foreign Exchange and Fair Value Interest Rate risk

The majority of the Group's assets and sales business are located in the PRC and Hong Kong. Most of our transactions are denominated and settled in Renminbi while most of the key raw materials are imported from overseas and denominated and paid in US dollar. The Group also borrows most of the long term loans and the short term loans denominated in HKD or USD.

Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. As at 30 June 2014, the Group still had a floating-to-fixed interest rate swap to manage its cash flow interest rate risk and the contract will expire soon. As the costs of capital the Group financed from the market still keep stable, the management will not further convert borrowings from floating rates to fixed rates in the short run and also keep monitoring the fluctuation of the market and modify the strategy on the interest rate risk control in time accordingly.

Prospects

Over the years, China's household paper market has been expanding rapidly. However, the growth in the inelastic demand for the commodity has been slowing down recently. This, coupled with the added production capacity going on stream, will probably make the competition remain intense this and next years. Furthermore, the government is enforcing stricter environmental regulations, posing an additional challenge to the industry. To cope with the situation, an industry player will have to upgrade and transform its business as well as to improve the product quality. Only then will it be able to make steady progress and win out in the market consolidation. In the long run, the country's urbanization, the government's policy to allow a couple to have two children if either member of that couple is the only offspring, and the population aging will stimulate demand for hygiene products.

Vinda International, as a leading industry player, will do its best to take on challenges and grasp any business opportunities with an aim of maintaining its market leadership. Looking ahead, the Group will adhere to the philosophy of "Maintaining Consistent Growth, Controlling Costs and Enhancing Product Mix" while carrying out the following missions:

1. Brand innovation: to keep revitalizing the Vinda brand and hygiene products;

2. Product innovation: to optimize the product mix and to meet the demand of different groups of consumers by providing them with various products of different brand positioning;

3. Marketing innovation: to expand e-commerce platforms and sales network;

4. Procurement innovation: to seek synergies in wood pulp procurement;

5. Supply chain innovation: to improve logistics management; and

6. Green innovation: to step up the low-carbon emission programme in its operations and enhance its sustainable development model.

Vinda International, with the concerted effort of both its management team and employees, aspires to be consumers' most preferred household hygiene brand and to deliver the best returns to its shareholders.

Interim Dividend

The Board has resolved to declare an interim dividend of HK4.0 cents per share for the period ended 30 June 2014 (2013: HK4.8 cents per share) totaling approximately HK$39,934,507. The interim dividend will be paid on or about 10 October 2014 to shareholders whose names appear on the register of members of the Company on 17 September 2014.

Closure of Register of Members

The register of members of the Company will be closed from 15 September 2014 to 17 September 2014 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on 12 September 2014 for registration of transfer.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Company is committed to maintain a high standard of corporate governance practices by emphasizing a quality board of directors, sound internal control, transparency and accountability to all the shareholders of the Company. For the six months ended 30 June 2014, the Company has complied with all the code provisions set out in the Corporate Governance Code, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the following deviation:

Dr. CAO Zhen Lei resigned as an independent non-executive director and a member of the remuneration committee of the Company on 20 June 2014. Following the resignation, the number of independent non-executive directors of the Company falls to three, which does not meet the requirement under Rule 3.10A of the Listing Rules. The Board will appoint an appropriate person to fill the vacancy as soon as possible within three months from 20 June 2014 pursuant to Rule 3.11 of the Listing Rules.

Updates on Directors' information under Rule 13.51B(1) of the Listing Rules

With effect from 20 June 2014, Dr. CAO Zhen Lei resigned as an independent non-executive director and a member of the remuneration committee of the Company. Details of the above resignation are set out in the announcement of the Company dated 20 June 2014.

Directors' Securities Transactions

The Company has adopted a code for securities transactions by directors of the Company (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules on the Stock Exchange. Having made specific enquiry with all the directors of the Company (the "Directors" or individually the "Director"), all of them confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the Directors during the six months ended 30 June 2014.

Audit Committee

The Company's audit committee has four members comprising three independent non-executive directors, namely, Mr. KAM Robert, Mr. HUI Chin Tong, Godfrey and Mr. TSUI King Fai and a non-executive director, Mr. Jan Lennart PERSSON. The chairman of the audit committee is Mr. KAM Robert. The audit committee is accountable to the Board and the principal duties of the audit committee include the reviews and supervision of the financial reporting process. It also reviews the effectiveness of internal audit, internal controls and risk evaluation, including the interim results and interim report for the six months ended 30 June 2014.

Remuneration Committee

The Company's remuneration committee has four members comprising three independent non-executive directors, namely, Dr. CAO Zhen Lei (resigned on 20 June 2014), Mr. TSUI King Fai and Mr. HUI Chin Tong, Godfrey and a non-executive director, Mr. Ulf Olof Lennart SODERSTROM. The chairman of the remuneration committee is Mr. TSUI King Fai. The principal duty of the remuneration committee is to regularly monitor the remuneration and other benefits of all the directors and senior management to ensure that levels of their remuneration and compensation are appropriate.

Nomination Committee

The Company's nomination committee has five members comprising three independent non-executive directors, namely, Mr. KAM Robert, Mr. HUI Chin Tong, Godfrey and Mr. TSUI King Fai, an executive director, Mr. LI Chao Wang and a non-executive director, Mr. Jan Christer JOHANSSON. The chairman of the nomination committee is Mr. HUI Chin Tong, Godfrey. The principal duty of the nomination committee is to consider and recommend to the Board suitably qualified persons to be appointed directors and is responsible for reviewing the structure, size and composition of the Board on a regular basis.

Risk Management Committee

The Company's risk management committee has four members comprising two executive directors, Ms. YU Yi Fang and Ms. ZHANG Dong Fang, a non-executive director, Mr. Ulf Olof Lennart SODERSTROM and an independent non-executive director, Mr. TSUI King Fai. The chairman of the risk management committee is Mr. TSUI King Fai. The principal duty of the risk management committee is to assist the Board in deciding the Group's risk level and risk appetite, and considering the Company's risk management strategies and gives directions where appropriate.

Publication of Results Announcement and Interim Report

This announcement is published on the websites of the Company (www.vindapaper.com) and the Stock Exchange (www.hkexnews.hk). The 2014 interim report of the Company will be despatched to the shareholders and available on the same websites in due course.

Acknowledgement

On behalf of the Board, I extend my gratitude to all our staff for their hard work and dedication.

By Order of the Board
Vinda International Holdings Limited
LI Chao Wang
Chairman

Hong Kong, 18 July 2014

As at the date of this announcement, the Board of the Company comprises:

Executive Directors:
Mr. LI Chao Wang
Ms. YU Yi Fang
Ms. ZHANG Dong Fang
Mr. DONG Yi Ping

Non-executive Directors:
Mr. Jan Christer JOHANSSON
Mr. Jan Lennart PERSSON
Mr. Johann Christoph MICHALSKI
Mr. Ulf Olof Lennart SODERSTROM

Independent Non-executive Directors:
Mr. KAM Robert
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

Alternate Directors:
Ms. LI Jielin (alternate to Mr. LI, Ms. YU and Mr. DONG)
Mr. CHIU Bun (alternate to Mr. MICHALSKI and Mr. SODERSTROM)
Mr. Gert Mikael SCHMIDT (alternate to Mr. JOHANSSON and Mr. PERSSON)