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 2011

FINANCIAL HIGHLIGHTS

	2011	2010	**Changes**
Revenue *(HK$)*	**2,194,621,752**	1,682,163,641	**+30.5%**
Gross profit *(HK$)*	**607,338,502**	538,465,732	**+12.8%**
Profit attributable to equity holders of the Company *(HK$)*	**191,066,436**	198,363,839	**–3.7%**
Gross profit margin	**27.7%**	32.0%	
Net profit margin	**8.7%**	11.8%	
Basic earnings per share *(HK$)*	**20.4 cents**	21.9 cents	**–6.8%**
Stock turnover	**145 days**	154 days	
Finished goods turnover	**33 days**	32 days	
Debtors turnover	**45 days**	46 days	
Interim dividend declared *(HK$)*	**3.3 cents**	3.3 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 2011 (the "Period").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
		2011	2010
	Note	***HK$***	*HK$*
Revenue	4	**2,194,621,752**	1,682,163,641
Cost of sales		**(1,587,283,250)**	(1,143,697,909)
Gross profit		**607,338,502**	538,465,732
Selling and marketing costs		**(254,251,642)**	(189,210,966)
Administrative expenses		**(115,266,825)**	(88,540,721)
Other income and gains — net		**10,152,447**	3,838,608
Operating profit	5	**247,972,482**	264,552,653
Interest expense		**(17,075,118)**	(12,268,987)
Net foreign exchange transaction gain		**19,974,794**	3,293,162
Interest income		**2,075,679**	1,220,578
Share of post-tax loss of an associate		**(825,716)**	—
Profit before income tax		**252,122,121**	256,797,406
Income tax expense	6	**(61,055,685)**	(58,433,567)
Profit attributable to equity holders of the Company		**191,066,436**	198,363,839
Other comprehensive income			
Currency translation differences		**62,777,166**	20,436,037
Total comprehensive income attributable to equity holders of the Company		**253,843,602**	218,799,876
Earnings per share for profit attributable to the equity holders of the Company	7		
— basic	7(a)	**0.204**	0.219
— diluted	7(b)	**0.201**	0.216
Dividends	8	**30,935,906**	29,915,282

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2011** *HK$*	Audited 31 December 2010 *HK$*
ASSETS			
Non-current assets			
Property, plant and equipment	9	**2,628,036,134**	2,272,640,034
Leasehold land and land use rights	9	**161,956,792**	160,496,665
Intangible assets	9	**11,751,762**	11,085,320
Deferred income tax assets		**92,345,156**	87,688,594
Investment in an associate	10	**60,852,712**	—
Total non-current assets		**2,954,942,556**	2,531,910,613
Current assets			
Inventories		**1,230,415,922**	1,321,689,469
Trade receivables, other receivables and prepayments	11	**711,873,658**	647,011,913
Due from related parties		**17,376,274**	1,100,830
Derivative financial instruments		**197,842**	—
Pledged bank deposits		**56,139**	45,689
Cash and cash equivalents		**529,961,548**	389,551,782
Total current assets		**2,489,881,383**	2,359,399,683
Total assets		**5,444,823,939**	4,891,310,296
EQUITY			
Share capital		**93,745,169**	93,673,169
Share premium		**1,116,088,595**	1,113,265,875
Other reserves		**1,669,922,725**	1,481,216,626
Total equity		**2,879,756,489**	2,688,155,670

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Note	**Unaudited 30 June 2011** *HK$*	Audited 31 December 2010 *HK$*
LIABILITIES			
Non-current liabilities			
Borrowings	12	**649,942,541**	530,262,883
Deferred government grants		**69,064,244**	69,980,811
Deferred income tax liabilities		**2,815,468**	1,713,636
Total non-current liabilities		**721,822,253**	601,957,330
Current liabilities			
Trade payables, other payables and accrued expenses	13	**935,192,006**	980,263,434
Due to a related party	14	**34,271,284**	—
Borrowings	12	**807,672,312**	557,414,488
Current income tax liabilities		**66,109,595**	63,519,374
Total current liabilities		**1,843,245,197**	1,601,197,296
Total liabilities		**2,565,067,450**	2,203,154,626
Total equity and liabilities		**5,444,823,939**	4,891,310,296
Net current assets		**646,636,186**	758,202,387
Total assets less current liabilities		**3,601,578,742**	3,290,113,000

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited			
	Attributable to equity holders of the Company			
	Share capital	Share premium	Other reserves	Total
	HK$	*HK$*	*HK$*	*HK$*
Balance as at 1 January 2010	90,464,169	838,018,579	1,141,425,655	2,069,908,403
Profit for the period	—	—	198,363,839	198,363,839
Other comprehensive income				
— currency translation differences	—	—	20,436,037	20,436,037
Total comprehensive income for the six months ended 30 June 2010	—	—	218,799,876	218,799,876
Transaction with owners				
Employees share option scheme				
— Value of employee services	—	—	3,657,261	3,657,261
— Exercise of options	188,200	7,452,572	(2,032,412)	5,608,360
Dividends	—	—	(81,417,752)	(81,417,752)
Transaction with owners	188,200	7,452,572	(79,792,903)	(72,152,131)
Balance as at 30 June 2010	90,652,369	845,471,151	1,280,432,628	2,216,556,148
Balance as at 1 January 2011	**93,673,169**	**1,113,265,875**	**1,481,216,626**	**2,688,155,670**
Profit for the period	**—**	**—**	**191,066,436**	**191,066,436**
Other comprehensive income				
— currency translation differences	**—**	**—**	**62,777,166**	**62,777,166**
Total comprehensive income for the six months ended 30 June 2011	**—**	**—**	**253,843,602**	**253,843,602**
Transaction with owners				
Employees share option scheme				
— value of employee services	**—**	**—**	**17,165,042**	**17,165,042**
— Exercise of options	**72,000**	**2,822,720**	**(749,120)**	**2,145,600**
Dividends	**—**	**—**	**(81,553,425)**	**(81,553,425)**
Transaction with owners	**72,000**	**2,822,720**	**(65,137,503)**	**(62,242,783)**
Balance as at 30 June 2011	**93,745,169**	**1,116,088,595**	**1,669,922,725**	**2,879,756,489**

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK$	*HK$*
Cash flows from operating activities	**260,192,967**	162,508,393
Cash flows from investing activities:		
— purchases of property, plant and equipment	**(345,665,717)**	(136,760,184)
— purchases of intangible assets	**(1,882,324)**	(2,777,239)
— purchases of leasehold land and land use rights	**—**	(14,443,188)
— proceeds from disposal of property, plant and equipment	**729,773**	120,748
— investment in an unlisted associate	**(61,500,000)**	—
— other investing cash flows — net	**2,075,679**	1,220,578
Cash flows used in investing activities	**(406,242,589)**	(152,639,285)
Cash flows from financing activities:		
— dividends paid	**(81,553,425)**	(81,417,752)
— repayments of borrowings	**(544,124,524)**	(439,138,499)
— proceeds from borrowings	**907,968,832**	486,767,240
— (increase)/decrease in pledged deposits	**(10,450)**	675,792
— proceeds from shares issued	**2,145,600**	5,608,360
Cash flows generated from/(used in) financing activities	**284,426,033**	(27,504,859)
Net increase/(decrease) in cash and cash equivalents	**138,376,411**	(17,635,751)
Cash and cash equivalents at beginning of the period	**389,551,782**	346,949,107
Exchange differences	**2,033,355**	3,218,128
Cash and cash equivalents at end of the period	**529,961,548**	332,531,484

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2011

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 services to its subsidiaries. The Company and its subsidiaries are collectively referred to as the "Group". The principal activities of the Group are mainly manufacture and sale of household consumable paper.

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

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 HK dollars, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 31 August 2011.

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 2011 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 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 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 2010, 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 standard and amendment to standard are mandatory for the first time for the financial year beginning 1 January 2011.

Amendment to HKAS 34 "Interim financial reporting" is effective for annual periods beginning on or after 1 January 2011. It emphasizes the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. The change in accounting policy only results in additional disclosures.

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group:

HKFRS1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of rights issues
HK(IFRIC) Int — 14 (Amendment)	Prepayments of a minimum funding requirement
HK(IFRIC) Int — 19 (Amendment)	Extinguishing financial liabilities with equity instruments

Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA, except for amendment to HKAS 34 "Interim financial reporting" as disclosed in note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

		Effective date
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
HKFRS 7 (Amendment)	Disclosures — Transfers of financial assets	1 January 2012
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKFRS 9	Financial instruments	1 January 2013
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013

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	
	2011	2010
	HK$	*HK$*
Sales of goods	**2,117,913,627**	1,580,054,468
Sales of semi-finished goods and other materials	**76,708,125**	102,109,173
Total revenue	**2,194,621,752**	1,682,163,641

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 about 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 also determined that no geographical segment information is presented as about 90% of the Group's sales are derived within the 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. For the six months ended 30 June 2011, the Group derives its revenue from external customers in Mainland China is HK$1,964,513,405 (for the six months ended 30 June 2010: HK$1,465,171,205), from Hong Kong is HK$212,994,838 (for the six months ended 30 June 2010: HK$204,971,065), and from overseas is HK$17,113,509 (for the six months ended 30 June 2010: HK$12,021,371).

The total non-current assets are analysed as follows:

	As at	
	30 June 2011	31 December 2010
	Unaudited	Audited
	HK$	*HK$*
Total non-current assets other than deferred tax assets and investment in an associate		
— Mainland China	**2,770,385,798**	2,414,232,192
— Hong Kong and overseas	**31,358,890**	29,989,827
Deferred tax assets	**92,345,156**	87,688,594
Investment in an associate	**60,852,712**	—
Total non-current assets	**2,954,942,556**	2,531,910,613

5 Operating profit

The following items have been (credited)/charged to the operating profit during the six months ended 30 June 2011 and 2010:

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK$	*HK$*
Amortisation of deferred government grants	**(2,518,594)**	(2,445,878)
Foreign exchange loss/(gain), net	**(2,828,294)**	3,463,602
Provision for impairment of receivables	**6,765,073**	6,269,778
Write-back of impairment of inventories	**(195,368)**	(223,085)
Amortisation of share option and outright charge	**17,165,042**	3,657,261
Depreciation of property, plant and equipment	**71,365,918**	60,833,105
Amortisation of intangible assets	**1,476,697**	984,525
Amortisation of leasehold land and land use rights	**2,378,987**	1,260,832
Net gain on derivative financial instruments	**(196,127)**	—
Loss on disposal of property, plant and equipment	**1,128,235**	337,816

6 Income taxes

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2010: 16.5%) on the estimated assessable profit for the period. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries or regions in which the Group operates.

	Unaudited	
	Six months ended 30 June	
	2011	2010
	HK$	*HK$*
Current income tax		
— Hong Kong profits tax	**6,413,740**	11,897,301
— PRC enterprise income tax	**56,704,473**	46,784,912
Deferred income tax	**(2,062,528)**	(248,646)
	61,055,685	58,433,567

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 2011 is 24.2% (the estimated average tax rate for the six months ended 30 June 2010 was 22.8%). The increase in average annual tax rate is mainly due to the expiry of the tax holiday of certain Group's subsidiaries located in mainland China, which enjoyed the reductions in the statutory income tax rate in prior years.

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	
	2011	2010
Profit attributable to equity holders of the Company *(HK$)*	**191,066,436**	198,363,839
Weighted average number of ordinary shares in issue	**936,930,935**	905,133,012
Basic earnings per share *(HK$ per share)*	**0.204**	0.219

(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 sharers. The Company's potentially dilutive ordinary shares comprised share options.

	Unaudited	
	Six months ended 30 June	
	2011	2010
Profit attributable to equity holders of the Company *(HK$)*	**191,066,436**	198,363,839
Weighted average number of ordinary shares in issue	**936,930,935**	905,133,012
Adjustments for share options	**15,946,777**	12,135,334
Weighted average number of ordinary shares for diluted earnings per share	**952,877,712**	917,268,346
Diluted earnings per share *(HK$ per share)*	**0.201**	0.216

8 Dividends

On 30 March 2011, the Board of Directors proposed a dividend in respect of the year ended 31 December 2010 of HK$81,553,425, representing HK$0.087 per ordinary share. The dividend was paid in June 2011.

In addition, an interim dividend of HK$0.033 per share (2010: HK$0.033 per share) was proposed by the Board of Directors on 31 August 2011. This interim dividend, amounting to approximately HK$30,935,906 (2010: HK$29,915,282), has not been recognised as a liability in this condensed consolidated interim financial information. It will be recognised in shareholders' equity in the year ending 31 December 2011.

9 Capital expenditures

		Unaudited	
	Property, plant and equipment	**Leasehold land and land use rights**	**Intangible assets**
	HK$	*HK$*	*HK$*
Six months ended 30 June 2010			
Opening net book amount1 January 2010	1,838,591,852	145,408,286	6,881,218
Additions	142,081,641	14,443,188	2,777,239
Disposals	(458,564)	—	—
Depreciation and amortisation *(Note 5)*	(60,833,105)	(1,260,832)	(984,525)
Exchange differences	16,323,007	1,545,343	98,353
Closing net book amount 30 June 2010	1,935,704,831	160,135,985	8,772,285
Six months ended 30 June 2011			
Opening net book amount 1 January 2011	**2,272,640,034**	**160,496,665**	**11,085,320**
Additions	**373,254,254**	**—**	**1,882,324**
Disposals	**(1,858,008)**	**—**	**—**
Depreciation and amortisation *(Note 5)*	**(71,365,918)**	**(2,378,987)**	**(1,476,697)**
Exchange differences	**55,365,772**	**3,839,114**	**260,815**
Closing net book amount 30 June 2011	**2,628,036,134**	**161,956,792**	**11,751,762**

10 Investment in an associate

	Unaudited
	HK$
1 January 2011	—
Investment in an unlisted associate (i)	**61,500,000**
Share of post-tax loss of an associate	**(825,716)**
Exchange differences	**178,428**
30 June 2011	**60,852,712**

The information of the unlisted associate at 30 June 2011 is as follows:

Name	Place and date of incorporation	Percentage of equity interest attributable to the Group	Assets	Liabilities	Revenues	Net loss
			HK$	*HK$*	*HK$*	*HK$*
V-Care Holdings Limited ("V-Care")	British Virgin Islands 2 July 2009	41% (directly held)	153,745,101	5,323,852	846,576	(2,013,941)

(i) On 16 December 2010, the Company together with Fu An International Company Limited ("Fu An"), a substantial shareholder of the Company, Dynasty Fortune Partners, L.P. ("Dynasty Fortune"), a related party of the Company, Cathay Capital Holdings II, L.P. ("Cathay Capital"), an independent third party, entered into an Investment and Shareholders' Agreement with V-Care. Pursuant to the Investment and Shareholders' Agreement, the Company, Fu An, Dynasty Fortune and Cathay Capital undertook to invest an aggregate sum of HK$300,000,000 into V-Care by way of subscription of new shares issued by V-Care. Upon completion of the subscription, the Company, Fu An, Dynasty Fortune and Cathay Capital will hold the equity interest of V-Care by 41%, 39%, 7% and 13% respectively.

As of 30 June 2011, the Company has paid HKD61,500,000 in cash for the subscription of the new shares issued by V-Care, and holds 41% of V-Care's share capital then outstanding.

11 Trade receivables, other receivables and prepayments

	As at 30 June 2011	As at 31 December 2010
	Unaudited	Audited
	HK$	*HK$*
Trade receivables, net	**559,460,086**	486,445,433
Other receivables	**128,927,291**	143,977,398
Notes receivable	**2,777,245**	1,714,439
Prepayments	**20,709,036**	14,874,643
	711,873,658	647,011,913

The majority of the Group's sales allows credit terms ranging from 30 to 90 days. At 30 June 2011 and 31 December 2010, the ageing analyses of the trade receivables and notes receivable based on invoice date were as follows:

	As at	
	30 June 2011	31 December 2010
	Unaudited	Audited
	HK$	*HK$*
Within 3 months	**507,142,780**	446,213,221
4 months to 6 months	**36,208,727**	32,171,746
7 months to 12 months	**15,663,605**	7,605,866
Over 1 year	**3,222,219**	2,169,039
	562,237,331	488,159,872

12 Borrowings

	As at	
	30 June 2011	31 December 2010
	Unaudited	Audited
	HK$	*HK$*
Non-current	**649,942,541**	530,262,883
Current	**807,672,312**	557,414,488
	1,457,614,853	1,087,677,371

Movements in borrowings are analysed as follows:

	Unaudited
	HK$
Six months ended 30 June 2010	
Opening amount as at 1 January 2010	863,222,792
New borrowings	486,767,240
Repayments of borrowings	(439,138,499)
Exchange differences	8,292,317
Closing amount as at 30 June 2010	919,143,850
Six months ended 30 June 2011	
Opening amount as at 1 January 2011	**1,087,677,371**
New borrowings	**907,968,832**
Repayments of borrowings	**(544,124,524)**
Exchange differences	**6,093,174**
Closing amount as at 30 June 2011	**1,457,614,853**

(a) As at 30 June 2011, the contractual maturities of the Group's non-derivative financial liabilities were as follows:

	On demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total Amount
	HK$	*HK$*	*HK$*	*HK$*	
As at 30 June 2011					
Term loans subject to a repayment on demand clause	**442,096,683**	**—**	**—**	**—**	**442,096,683**
Other bank loans	**—**	**365,575,629**	**543,117,143**	**106,825,398**	**1,015,518,170**
Trade payables	**—**	**521,305,498**	**—**	**—**	**521,305,498**
Other payables	**—**	**246,241,040**	**—**	**—**	**246,241,040**
As at 31 December 2010					
Term loans subject to a repayment on demand clause	85,500,000	—	—	—	85,500,000
Other bank loans	—	471,914,488	340,166,426	190,096,457	1,002,177,371
Trade payables	—	580,094,715	—	—	580,094,715
Other payables	—	167,878,069	—	—	167,878,069

Among HKD442 million term loans subject to a repayment on demand clause, HKD195 million is short term loan, HKD54 million is long term loan to be repaid within one year and HKD193 million is with the repayment term over one year.

(b) Interest expenses on borrowings for the six months ended 30 June 2011 were HK$17,075,118 (six months ended 30 June 2010: HK$12,268,987).

(c) In June 2011, the Group obtained a syndicate loan facility of HK$750 million with the interest of HIBOR plus 2.35% to finance the construction of the plant and purchase of production equipment as well as for working capital. The loan facility is of a 3 year term with an option to extend for 1 more year. The Company will repay the loan on a quarterly basis in the period from December 2012 to June 2014. As at 30 June 2011, none of the loan has been drawn down under this syndicate loan facility.

13 Trade payables, other payables and accrued expenses

	As at	
	30 June 2011	31 December 2010
	Unaudited	Audited
	HK$	*HK$*
Trade payables	**521,305,498**	580,094,715
Notes payable	**21,611,690**	23,891,598
Other payables	**246,241,040**	251,724,345
Accrued expenses	**146,033,778**	124,552,776
	935,192,006	980,263,434

Aging analysis of trade payables and notes payable as at 30 June 2011 and 31 December 2010 are as follows:

	As at	
	30 June 2011	31 December 2010
	Unaudited	Audited
	HK$	*HK$*
Within 3 months	**526,271,460**	586,867,970
4 months to 6 months	**11,771,164**	8,844,268
7 months to 12 months	**557,911**	2,462,446
1 year to 2 years	**4,316,653**	4,015,199
2 years to 3 years	**—**	1,363,730
Over 3 years	**—**	432,700
	542,917,188	603,986,313

14 Other payables due to a related party

	As at	
	30 June 2011	31 December 2010
	Unaudited	Audited
	HK$	*HK$*
— Fu An Trading (Hong Kong) Limited ("Fu An Trading")	**34,271,284**	—

On 24 February 2011, Vinda Paper (Guangdong) Company Limited ("Vinda Paper (Guangdong)"), a wholly-owned subsidiary of the Company, entered into a Land Use Rights Transfer Agreement with Fu An Trading. Pursuant to the Agreement, Vinda Paper (Guangdong) has agreed to sell and Fu An Trading has agreed to purchase the land use right for the land located in Jiangmen for a cash consideration of RMB28,500,000. As at 30 June 2011, Fu An Trading has paid the total sum of RMB28,500,000 (equivalent to HKD34,271,284), but the title of the land use right has not been transferred.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2011, the global economy maintained its growth impetus from 2010, and China's gross domestic product (GDP) grew 9.6% compared to the same period last year. Nevertheless, global economic growth was hindered by uncertainties lingering over political upheavals in North Africa, the European debt crisis, as well as the tsunami and nuclear leak crisis sparked by the earthquake in north-eastern Japan. In China, the operating environment for corporations large and small, and also the daily lives of its citizens were under immense pressure from rising raw material commodity prices, continual shortage of electricity and water, and worsening inflation.

Nevertheless, China's demand for household paper products, particularly quality household paper, remains robust as the living standard of the Chinese continues to improve. Annual per capita consumption of household paper in China increased from 3.14 kilograms in 2009 to 3.48 kilograms in 2010. In the past, market growth was driven by consumption volume, but today, product quality upgrade is gradually becoming the driving force instead; thus, creating a favourable operating environment for Vinda International ("the Group").

Wood pulp is the major raw material used in household paper products. During the period under review, the price of wood pulp entered a trend of stabilization after hitting its peak at the end of last year. The Group managed to maintain its profitability and mitigate the risk of falling margins by launching products with higher gross profit margins and adopting flexible pricing strategies. On the other hand, the Central Government has further tightened environmental regulations and eliminated 7.45 million tons of obsolete production capacity in the paper production industry. As such, industry consolidation has accelerated and has paved the way for the Group's healthy development.

For the six months ended 30 June 2011, the Group's turnover surged 30.5% year-on-year to HK$2,194,621,752 with a gross profit of HK$607,338,502. Profit attributable to shareholders amounted to HK$191,066,436 while earnings per share reached HK$20.4 cents.

Business Review

2011 marks the 26th year of Vinda International's establishment. Based on its extensive experience in the household paper industry and its distinct insight into the needs of the market, the Group has formulated its 6th five-year plan which lays down the development blueprint for the next five years. The five-year plan sets clear objectives and maps out well-defined and practical strategies for all areas such as business development, brand and product enhancement as well as sales channel and capacity expansion.

The "Vinda" brand is one of the strongest competitive advantages of the Group. In the six-month period of this first year of the 6th five-year plan, the Group has dedicated great effort and achieved an impressive 30.5% growth in turnover. Sales of toilet rolls grew by 32.7%, while that of handkerchief tissue, box tissue, softpack and wet tissue, which are targeted at mid-market and up-market consumers, posted a year-on-year growth of 39.8%. Building on the success of the Pleasant Goat series, the Group further empowered the Vinda brand during the period, by co-launching the new Kung Fu Panda series with Dreamworks Inc., a renowned animation company in the United States. Employing an online and offline marketing campaign named "維達柔韌有功夫", the Group has expanded its market to adults with higher purchasing power and youths with passion for animation.

In order to fully capture the soaring demand, the Group has devised a detailed plan for production expansion, which is being implemented progressively. During the period under review, the Group's additional capacity of 25,000 tons in Zhejiang commenced operation. In late August, trial runs for a total of 50,000 tons of new capacity in Liaoning and Zhejiang were completed. When another 25,000 tons of new capacity in Sichuan commences operation in the fourth quarter, the Group will have an aggregate annual production capacity of 470,000 tons by the end of 2011. Furthermore, the Group is preparing for construction of a plant in Laiwu, Shandong Province. The construction plan has passed environmental assessment and completion of this plant is expected to equip the Group with the means to meet the strong demand for household paper products in the region, allowing the Group to achieve more savings in logistics cost and benefit from greater economies of scale.

With respect to cost of sales, international wood pulp price rose continuously since 2009, and has stabilized after reaching the all-time high in the third quarter of 2010. Despite the stable trend in the first half of 2011, the price of wood pulp has risen substantially as compared to the corresponding period last year. In response to such high raw material prices, the Group has made several adjustments to the selling prices of its products since last year, and was able to largely offset the adverse impacts caused by the price fluctuations of wood pulp. During the period, the Group deepened its well-established partnerships with certain selected wood pulp suppliers and continued to create new alliances. It adhered to achieve stable profitability by introducing products with higher gross profit margins and adopting flexible pricing strategies.

Business Strategy

After 25 years of efforts, Vinda International has extended its national market coverage to approximately 220,000 points of sales and solidified its leading position in southern China, central China, Beijing and Hong Kong. Given its wide experience in the household paper product operations and brand equity, coupled with the detailed plan of production capacity and sales network expansion, the Group will further develop its existing markets and dedicate additional efforts in extending into the eastern, western and north-eastern China markets.

With its healthy and strong distribution network, there is good reason to believe that the Group can sustain business growth. The Group not only works closely with distributors, outlets and direct clients to boost retail performance, but is also dedicated to supporting its distributors and partners, actively sourcing new clients and enhancing market coverage of its products. During the period, Vinda International's first ever national distributor conference was launched. The conference theme was "我愛維達・幸福共贏" and successfully lifted the sales while strengthening bonds with the distributors. As at 30 June 2011, there were a total of 155 (31 December 2010: 141) sales offices and 1,050 (31 December 2010: 856) distributors.

The Group remains market-oriented and has fostered various "Star Products" aimed at different consumer clusters. Utilizing diverse and targeted marketing strategies, the Group has raised the competitiveness of each product, aiming to secure a larger market share. We have also actively optimized our product mix by promoting the sales of non-toilet roll products which command higher gross profit margins, with a view to gradually strengthening and enhancing the Group's profitability.

Personal Care Product Business Rollout

With regards to the expansion of the personal care product business, V-Care Holdings Limited ("V-Care"), an associate established by the Group and other investors at the end of 2010, has recorded satisfactory progress during the period. The baby diaper products are marketed under the Group's first diaper brand, "Babifit". At present, V-Care has not only established a strong product development team and sales and marketing team, but it has also completed the trial production and test marketing of Babifit products with encouraging initial market reception. Since late August, V-Care has begun systematically rolling-out all product series under the Babifit brand so as to offer more choices to the consumers and cater to the needs of babies of different age groups. It not only further broadened our product offerings but also laid a solid foundation for the Group to increase its revenue and earnings in the long run.

Adherence to Green Management and Improved Operational Efficiency

Vinda International has always adhered to the production and management concepts of "high quality, low wastage and high efficiency" and persistently worked towards its target of achieving "safety, environmental protection, quality and cost reduction" in its production.

Environmental requirements in China are tightening, and the Central Government has set defined goals of reducing carbon emission, determined to eliminate small factories that cannot meet environmental standards. In view of this situation, the Group has continually strengthened its technological upgrades and reiterated its energy-saving and emission reduction policies during the period. These upgrades included optimizing its sewage treatment system by utilizing biological sewage treatment and water recycle technologies, which effectively reduced the water usage per ton of paper at our factories, resulting in annual water savings of approximately 1 million tons. The Group also improved the incoming water temperature control and waste emission systems of boilers and employed steam reuse technique that enhanced its production efficiency to reduce energy usage by approximately 15,000 tons of coal equivalent per annum.

While constantly introducing technical upgrades, the Group has also actively protected the intellectual property of its self-developed upgrades. During the period, the Group obtained 11 new patents, 4 copyright patents on software and 1 invention patent, all of which are for achievements in energy saving. These achievements have made contributions to our workshop management and help us increase the production efficiency of our factories.

Human Resources and Management

Our high-caliber employees are vital to sustaining the Group's competitiveness and ability to create value. During the period, the Group actively recruited fresh university graduates under its newly-launched management trainee programme to source and groom talents who will be instrumental in our pursuit for corporate excellence. Moreover, we are honored to have Mr. Ouyang Heping join us as Chief Human Resources Officer. Mr. Ouyang has held various senior human resources management positions in a number of local and multi-national corporations. With his extensive experience in the industry, Mr. Ouyang will help the Group effectively address its rising human resources needs by devising and implementing a series of professional enhancement and personal development programmes.

Our staff remuneration packages are reviewed regularly, taking into account local market conditions, individual experience and performance to ensure their competiveness in the industry. Furthermore, the Group attracts and retains able staff with our share option scheme. During the period under review, the Group granted 4,837,000 share options to its employees and directors pursuant to its share option scheme. The aggregate cost of the grant amounted to HK$15,538,000 was fully reflected in the results of the first half 2011.

As at 30 June 2011, the Group has 6,189 staff members.

Liquidity, Financial Resources and Bank Loans

The Group's financial position remained healthy. As at 30 June 2011, the Group's bank and cash balances amounted to HK$529,961,548 (31 December 2010: HK$389,551,782), and short-term and long-term loans in aggregate amounted to HK$1,457,614,853 (31 December 2010: HK$1,087,677,371). The annual interest rates of bank loans ranged from 1.15% to 6.65%.

As at 30 June 2011, the gross gearing ratio was 50.6% (31 December 2010: 40.5%), 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 bank balances and cash, and restricted deposits as a percentage of the total shareholders' equity, was 32.2% (31 December 2010: 26.0%).

As at 30 June 2011, unutilized credit facilities amounted to approximately HK$3.29 billion, including the committed syndicated term loan facility of HK$750 million obtained in June 2011.

Foreign Exchange and Interest Rate Risks

The majority of the Group's assets and businesses are located in Mainland China and Hong Kong. Most transactions are denominated and settled in RMB while the greater part of key raw materials are imported from overseas and paid in US dollars. The Group borrows both in the mainland and Hong Kong at interest rates on a floating basis. As at 30 June 2011, the Group had outstanding bilateral financial contracts with certain financial institutions to hedge part of its interest rate exposure in Hong Kong into fixed interest rates and currency exposure. The surplus or deficit, if any, arising from the contractor will be dealt with in the balance sheet.

Future Prospects

2011 marks the start of China's 12th Five-Year Plan as well as the beginning of Vinda International's 6th five-year plan. We anticipate that the economy of China will maintain its strong growth momentum and the consolidation of our industry will accelerate as the Central Government will continue to implement stricter environmental policies.

In 2011, the focus will be on implementing the following strategies:

1. Intensify efforts to build the "Vinda" brand and expand the sales network, optimize the product mix and cultivate the personal care product business;

2. Closely monitor market developments, pay attention to and evaluate wood pulp quality from domestic suppliers so as to increase flexibility in choosing raw materials without jeopardizing the quality of Vinda's products;

3. Continue to expand production capacity in a systematic manner and to implement production safety standards, working towards a medium- to long-term output goal of 700,000 tons of paper;

4. Adhere to principles of environmental protection and enhance the environmental protection efforts; and

5. Further optimize the information flow, and promote the management of information systems

Looking forward, the Group will remain committed to quality, enhance our brand image and improve our operational efficiency. With our solid brand presence and foundation, we believe that the Group will be able to maintain its leading position in the industry.

Interim Dividend

The Board has resolved to declare an interim dividend of HK$0.033 per share for the period ended 30 June 2011 (2010: HK$0.033) totaling approximately HK$30,935,906. The interim dividend will be paid on or about 31 October 2011 to shareholders whose names appear on the register of members of the Company on 19 October 2011.

Close of Register of Members

The register of members of the Company will be closed from 17 October 2011 to 19 October 2011 (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 Service Limited, at Shops 1712–1726, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on 14 October 2011 for registration of transfer.

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

During the six months ended 30 June 2011, 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 maintaining 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 2011, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code for dealing in securities of the Company by the directors of the Company. Having made specific enquiry with all the directors of the Company, all of them confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2011.

Audit Committee

The audit committee of the Company has three members of independent non-executive directors, namely Mr. Kam Robert, Mr. Hui Chin Tong, Godfrey and Mr. Tsui King Fai. 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 report for the six months ended 30 June 2011.

Remuneration Committee

The Company's remuneration committee comprises Dr. Cao Zhen Lei, Mr. Tsui King Fai and Mr. Hui Chin Tong, Godfrey. The chairman of the remuneration committee is Dr. Cao Zhen Lei. 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 three members comprising two independent non-executive directors, namely, Mr. Hui Chin Tong, Godfrey and Mr. Tsui King Fai and an executive director, Mr. Li Chao Wang. The chairman of the nomination committee is Mr. Hui Chin Tong, Godfrey.