



**Consolidated Financial Semi-Annual Report
of PEIXIN International Group N.V.**

for the six months ended

30 June 2016

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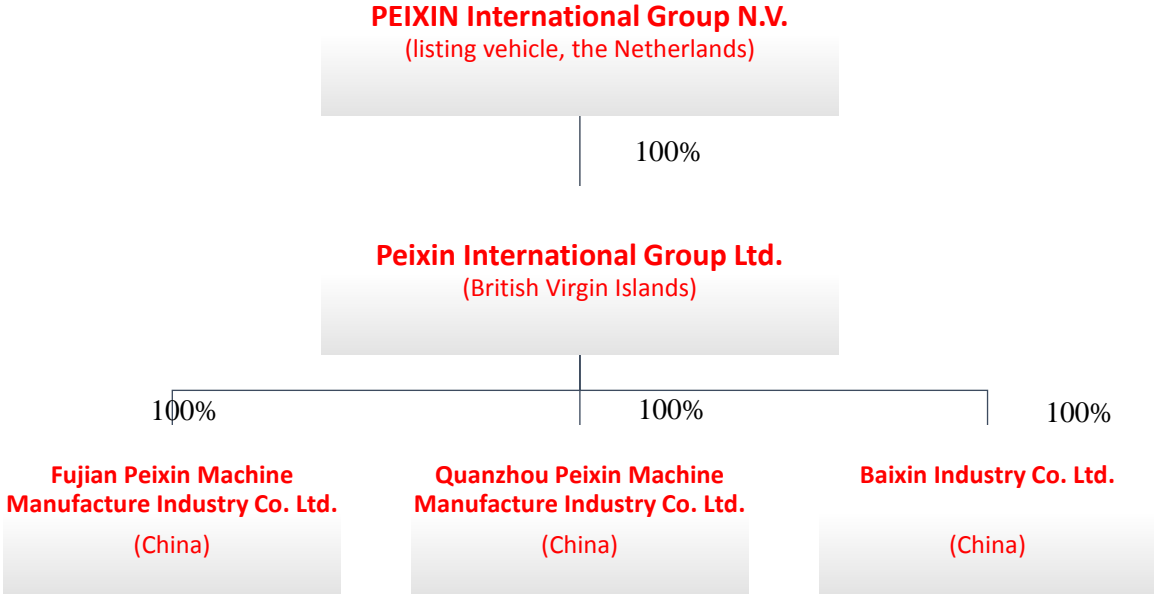
1. General information about the Group

1.1 The Group structure

As of the reporting date i.e. 30 June 2016 the Group was comprised of the parent company Peixin International Group N.V. (registered under the Dutch law with its seat in Amsterdam) and four subsidiaries. The Peixin International Group N.V. is the sole shareholder of Peixin International BVI, whereas Peixin International BVI (Peixin International Group Ltd.) is a sole shareholder of three subsidiaries: Fujian Peixin Machine Manufacture Industry Co. Ltd., Quanzhou Peixin Machine Manufacture Industry Co. Ltd. and Baixin Industry Co. Ltd.

As at the date of the publication semi-annual report, 80.77% of the Company’s share capital is held by P.I. Investment Limited, wholly owned by the current CEO Mr Qiulin Xie.

The current structure of the Group, at the publication date of the quarterly report, is presented below.



PEIXIN International Group N.V. is the vehicle created for listing shares on the Warsaw Stock Exchange. PEIXIN International Group N.V. is a public limited liability company (*naamloze vennootschap*) incorporated under Dutch law by a notarial deed dated 2 July 2013. The Company has its statutory seat (*statutaire zetel*) in Amsterdam, the Netherlands and its registered office at Joop Geesinkweg 901, 1114 AB Amsterdam, the Netherlands. The Company is registered with the trade register of the Chamber of Commerce in Amsterdam, under the number 58288449. The Company operates under the Dutch law.

Peixin International BVI (Peixin International Group Ltd.) is a limited liability company incorporated on 29 June 2004 under the laws of British Virgin Islands and registered in the Registrar of Companies under number 602294. The registered office of Peixin International BVI is Akara Bldg., 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands. Peixin International BVI is a holding company.

As of the reporting date Peixin International BVI was a sole shareholder of the following three subsidiaries:

— **Fujian Peixin**, which scope of business includes manufacturing and selling of precision machinery and equipment used for the production of various sanitary products,



Pictures above present insight into assembling workshop in Fujian

— **Quanzhou Peixin** has no operational activity. The company possesses certain land use rights, real estates and trademarks. Formerly performed operating activities.

— **Baixin Industry** is a special purpose subsidiary established in connection with purchase land in Yongchun county and investment in a new plant settled on this land. The sole shareholder of Baixin is Peixin International BVI, direct subsidiary of the Company. The registered capital of the Baixin amounts to five million euro and its registered office is Fujian Province, Yongchun city, Yongchun county. Baixin's scope of business is manufacturing including production of the general machines, as well as hygienic products machines and the other machine in the other industry.

Fujian Peixin, Quanzhou Peixin and Baixin Industry are limited liability companies formed under PRC laws with a status of wholly foreign owned enterprises.

1.2 Changes in the composition of the Group

During 1H 2016 composition of the Peixin Group didn't change.

1.3 Business and products description

The Group designs, produces and sells machines manufacturing daily-use hygiene products such as sanitary napkins, diapers, facial tissues and other products. Depending on the type and functionalities of machines, they can be divided for semi-automatic, fully-automatic, semi-servo or full-servo machines.

The Group believes that the key features of its products are high quality and functionality offered at competitive prices. Due to technological development, the life cycle of the Group's products is approximately five years, and follows the life cycle of end products because the design change of the end products and raw materials used in its production require new technology and consequently new machines. This is the reason the Company constantly improves their technology to meet the market demand, obtain and attract more and more clients.

1.4 Market overview

The Group's business focuses on designing, researching, developing, manufacturing and selling precision machines manufacturing daily-use hygiene products including sanitary napkins, disposable diapers, tissues and other. The development of the machinery market is primarily driven by daily-use hygiene products market. The level of demand on the hygiene products market in particular depends on economic and demography factors such as level of income, consumption expenditure, population size and its structure as well as other like consumption habits or preferences. Furthermore, depending on the market sector (e.g. sanitary napkins, disposable diapers, tissues and other), the actual influence of particular drivers may vary.

According to Global Diaper Market Report 2014-2018 prepared by Kimberly-Clark, Svenska Cellulosa Aktiebolaget, P&G & Unicharm Corp Dominates the Market, one of the major drivers in this market is the increasing average disposable income among the population. There is a low level of volatility in the per capita disposable income of the people. Moreover, the purchasing power of people has increased exponentially. The affordability of diapers has grown in the developing countries, while there is a high penetration of diapers in the developed nations. One of the major trends in the market is the increased R&D investments by the vendors. The Global Diaper market is witnessing several innovations for the improvement of the performance and the efficiency of diapers. The investments are aimed to enhance the bio-degradability of the product and its safety for usage. The designing of diapers as well as the usage of improved and beltless technology are the focus of the R&D investments. Also, investments are made by the vendors for protection of their brands and to prevent infringement of copyright by other low-cost producers. Thus, the market is expected to experience increased R&D expenditure by the vendors to develop a sustainable competitive advantage. Further, the report states that one of the major challenges in this market is the declining birth rates in the developed markets. The decline occurred during the great recession, when there was high unemployment, which discouraged people to expand their families*.

Simultaneously, a new report by Allied Market Research titled, "Global Baby Diapers Market (Product Types and geography) - Size, Share, Global Trends, Company Profiles, Demand, Insights, Analysis, Research, Report, Opportunities, Segmentation and Forecast, 2013 - 2020", forecast that the global baby diapers' market would reach \$59.4 billion by 2020. Overall, disposable diapers segment garnered about 66% market share in the baby diapers' market owing to unique features such as ultra-absorbency, range of ergonomic shapes and sizes. The environmentally friendly and re-usability features of 'cloth diapers' would propel the baby diapers' market and these features eventually would lead to substantial market growth during the forecast period (as opposed to other segments). Most of the leading market players are focusing on sophisticated marketing programs and aggressive market expansion strategies, thus increasing suppliers' businesses. Geographically, increasing purchasing power, growing awareness and enhanced supply-side infrastructure in rural areas have influenced the growth of the Asia Pacific regional diapers' market**.

*source: <http://www.reuters.com>

** source: <http://www.prnewswire.com>

1.5 The most important events during 1H 2016

Personal changes in the composition of the corporate bodies

On 13 April 2016 Mr Bas Xue submitted resignation from holding both the function of the Administrative Manager and the Member of the Company's Management Board. The resignation becomes effective as of 13 April 2016. Information on resignation was disclosed by the Company in the current report No. 2/2016.

Moreover, after the reporting period, on 5 July 2016 Mr Kaida Xie submitted his resignation from the position of the Member of the Company's Management Board. In the same day, also Mr Zhimin Huang submitted resignation from holding both the function of the Chief Financial Officer and the Member of the Company's Management Board. Additionally, on 5 July 2016 Mr Shen Ming submitted his resignation from the position of the Member of the Company's Supervisory Board. Information on abovementioned resignations was disclosed by the Company in the current report No. 7/2016.

Annual General Meeting

In connection with the abovementioned changes in the composition of the corporate bodies the Company decided to cancel the AGM convened on 8 July 2016. Decision of the Company was dictated by the lack of possibility to ensure representation of the Company's corporate bodies during the meeting. Information was disclosed in the current report No. 8/2016.

2. Selected financial data

'000 EUR	1H 2015	1H 2016
revenues	34,950	19,573
gross profit	11,512	4,197
operating profit	8,087	944
EBITDA	9,545	1,312
profit before tax	8,146	1,065
net profit	7,141	885
cash flow from operating activities	5,334	(299)
cash flow from investing activities	(700)	(948)
cash flow from financing activities	-	-
net increase in cash and cash equivalents	4,634	(1,771)
'000 EUR	31 Dec 2015	30 June 2016
non-current assets	37,628	36,218
current assets	46,617	42,872
total assets	84,245	79,090
long-term liabilities	-	-
short-term liabilities	7,119	5,298
total equity	77,126	73,792
paid-in capital	13,000	13,000

2.1 Profit & loss account

2.1.1 Revenues

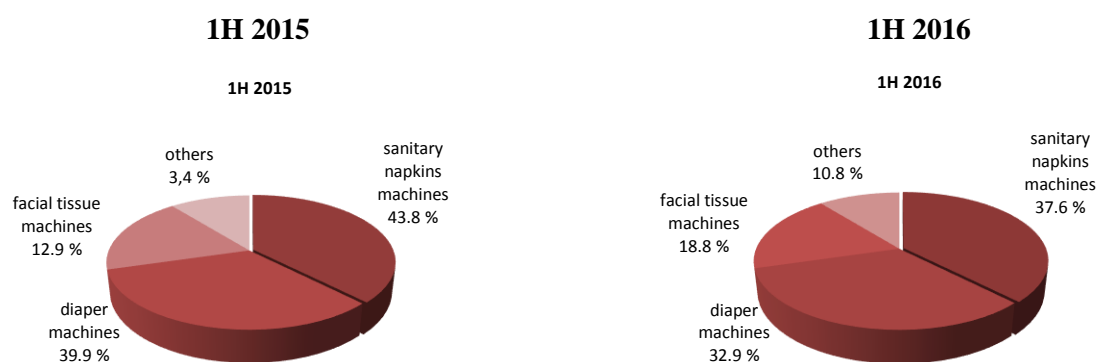
Revenues are generated from sales of sanitary napkin machines, diaper machines, facial tissue machines and other paper machines.

Revenues breakdown by segments

The following table presents the Group's revenues broken down into product categories for 1H 2015 and 1H 2016.

	1H 2015		1H 2016		Change in revenues
	Unit	'000 EUR	Unit	'000 EUR	%
Sanitary napkins machines	37	15,313	19	7,360	-52%
Diaper machines	27	13,962	13	6,434	-54%
Facial tissue machines	243	4,499	175	3,671	-18%
Other paper machines	47	1,176	81	2,108	79%
Total	354	34,950	289	19,573	-44%

Sales breakdown by segments for 1H 2015 and 1H 2016 is presented on charts below.



Sales geographic breakdown

The Group distributes its products in China directly to its end users. The Group distributes its products internationally (i) through China-based trading companies that sell the Group's products on to customers and (ii) directly to international customers.

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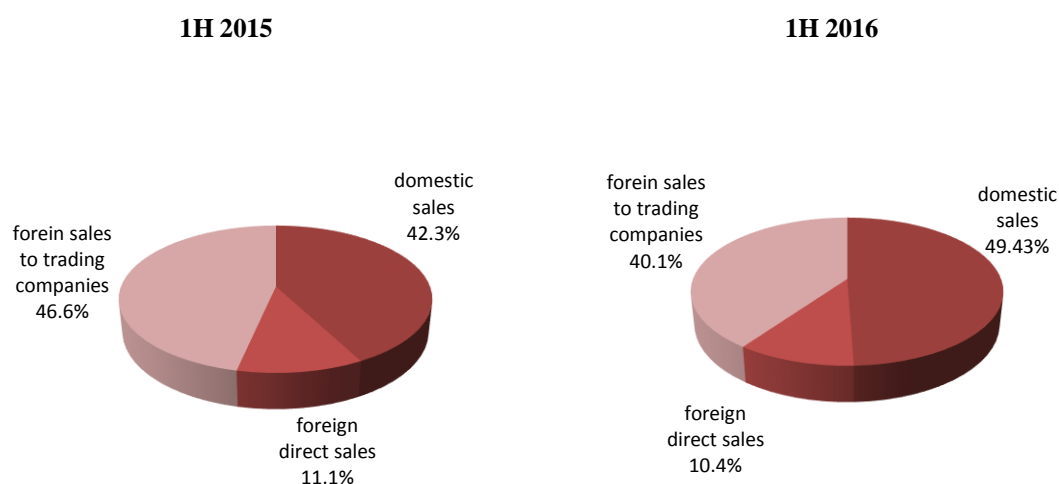
The following table presents the Group's revenues and number of units sold broken down geographically for the period of the 1H 2015 and 1H 2016.

	1H 2015	1H 2016	Change
Revenue:	'000 EUR	'000 EUR	%
Direct sales			
- Mainland China	14,767	9,676	-34%
- Outside Mainland China	3,892	2,044	-47%
Sales to trading companies	16,291	7,853	-52%
Total	34,950	19,573	-44%

The following table presents the Group's number of units sold broken down geographically for the period of the 1H 2015 and 1H 2016.

	1H 2015	1H 2016
Direct sales		
- Mainland China	159	135
- Outside Mainland China	64	39
Sales to trading companies	131	115
Total	354	289

Sales geographic breakdown for the period of 1H 2014 and 1H 2015 is presented on charts below.



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2.1.2 Cost of Goods Sold

The following table presents the Group's cost of sales.

	1H 2015	1H 2016	Change
	'000 EUR	'000 EUR	%
Changes in inventories of finished goods and work in progress	-2,682	(1,671)	-38%
Materials consumed in production	20,972	14,590	-30%
- Glue machines and motors	6,942	4,740	-32%
- Steel	4,937	3,404	-31%
- Electric controllers	3,580	2,587	-28%
- Knife roller\cylinder	835	572	-32%
- Other components	3,860	2,692	-30%
- Auxiliary materials	818	596	-27%
Labor	2,358	1,532	-35%
Depreciation and amortization	863	556	-36%
Outsourced manufacturing cost	798	516	-35%
Taxes and surcharges *	242	158	-35%
Water and electricity	288	190	-34%
Others	121	79	-35%
Foreign currency translation difference	478	(573)	-220%
Total	23,438	15,376	-34%

**Taxes and surcharges are mainly Urban Maintenance and Construction Tax (7% of Valued Added Tax payment amount), Extra Charges of Education Fund (3% of Valued Added Tax payment amount) and Local Surcharge for Education Fund (2% of Valued Added Tax payment amount).*

2.1.3 Gross profit

The following table presents the Group's gross profit broken down by product categories.

	1H 2015	1H 2016	Change
	'000 EUR	'000 EUR	%
Segment gross profit			
Sanitary napkins machines	5,111	1,650	-68%
Diaper machines	4,570	1,367	-70%
Facial tissue machines	1,525	738	-52%
Other paper machines	306	280	-8%
Total	11,512	4,036	-65%

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The following table presents the Group's gross profit margin broken down into product categories.

	1H 2015	1H 2016	Change
			(unaudited)
Segment gross margin	%	%	p.p.
Sanitary napkins machines	33.4	22.4	(11.0)
Diaper machines	32.7	21.3	(11.4)
Facial tissue machines	33.9	20.1	(13.8)
Other paper machines	26.0	13.3	(12.7)
Total gross margin	32.9	20.6	(12.3)

2.1.4 *Other income/expenses*

The following table presents the Group's other income broken down by categories.

	1H 2015	1H 2016	Change
	'000 EUR	'000 EUR	%
Government grant	-	-	-
Rental income	22	20	-9%
Sales of spare parts	43	15	-65%
Total	65	35	-46%

2.1.5 *Distribution and Selling Expenses*

The table below presents the distribution and selling expenses.

	1H 2015	1H 2016	Change
	'000 EUR	'000 EUR	%
Staff costs	348	331	-5%
Marketing and advertising costs	427	377	-12%
Post-sales services costs	228	215	-6%
Traveling costs	34	28	-18%
Depreciation	2	2	-11%
Agency costs	27	21	-22%
Others	138	97	-30%
Total	1,204	1,071	-11%

2.1.6 *Administrative expenses*

	1H 2015	1H 2016	Change
	‘000 EUR	‘000 EUR	%
Staff costs	296	283	-4%
Depreciation and amortization charges	170	162	-5%
Entertainment and office expenses	83	80	-4%
Miscellaneous taxes	79	74	-6%
External advisors	-	-	-
Others	180	160	-11%
Total	808	759	-6%

2.1.7 *Research and Development Expenses*

The following table presents the Group’s research and development expenses broken down into categories.

	1H 2015	1H 2016	Change
	‘000 EUR	‘000 EUR	%
Materials	794	788	-1%
Staff costs	377	368	-2%
External advisors	209	208	0%
Depreciation charges	98	95	-3%
Total	1,478	1,459	-1%

2.1.8 *Balance sheet*

2.1.8.1 *Non-current assets*

Property, plant and equipment

Property plant and equipment increased by EUR 1,096 thousand or by 5.8% from EUR 19,048 thousand as at 31 December 2015 to EUR 17,952 thousand in 1H 2016.

2.1.8.2 *Current assets*

Inventories

Inventories comprise materials and components used for production as well as work in-progress and finished goods. The table below presents the breakdown of inventories of the Group as at 31 December 2015 and 30 June 2016.

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	31 December 2015	30 June 2016	Change
	‘000 EUR	‘000 EUR	%
Raw materials and consumables	2,799	2,530	-10%
Work in progress	6,044	5,379	-11%
Finished goods	2,999	2,428	-19%
Total	11,842	10,337	-13%

Trade and other receivables

Trade and other receivables decreased by EUR 443 thousand, from EUR 15,166 thousand as of 31 December 2015 to EUR 14,723 thousand as of 30 June 2016.

Bank balances and cash

Bank balances and cash decreased by EUR 1,771 thousand or 9.0%, from EUR 19,583 thousand as of 31 December 2015 to EUR 17,812 thousand as of 30 June 2016.

2.1.8.3 Current liabilities

Trade and other payables

Trade and other payables consist of amounts payable to suppliers for the purchase of raw materials and products. Trade and other payables decreased by EUR 1,832 thousand or 45.9% from EUR 3,990 thousand as at 31 December 2015 to EUR 2,158 thousand in 1H 2016.

Indebtedness

The Company doesn't have any long term or short term debt as of 31 December 2015 and 30 June 2016.

Advance from customers

Advance from customers decreased by EUR 167 thousand or 7.2 %, from EUR 2, 307 thousand as at 31 December 2015 to EUR 2,140 thousand in 1H 2016.

2.1.8.4 Non-current liability

In the period covered by the consolidated final financial statement, the Group did not have non-current liabilities.

2.1.8.5 Capital and reserves.

Capital and reserves increased by EUR 3,334 thousand or 4.3%, from EUR 77,126 thousand as at 31 December 2015 to EUR 73,792 thousand in 1H 2016, mainly as the result of the result of profit and the gain from foreign currency translation.

2.1.9 *Cash flow*

	1H 2015	1H 2016
	‘000 EUR	‘000 EUR
net cash from operating activities	5,334	(299)
net cash from investing activities	-700	(948)
net cash from financing activities	-	-
net movement in cash and cash equivalents	4,634	(1,247)
- exchange difference	2,443	(524)
cash at the beginning of the period	13,150	19,583
cash at the end of the period	20,227	17,812

In 1H2016 the Group generated EUR -299 thousand from operating activities thanks to profit.

Company invested EUR 948 thousand throughout 1H 2016 mainly in the construction of building.

2.2 Key factors affecting operating and financial results

2.2.1 *Unusual items, one-off events*

Over the period ended 30 June 2016, there were no unusual items ore one-off events which affected the Group’s operating and financial results.

2.2.2 *Important events and transactions that took place during the period and their consequences for the financial position of the Group if they are significant*

Over the period ended 30 June 2016, no important events or transactions took place that are significant for the financial position of the Group.

2.2.3 *Seasonality*

The Group’s business is slightly seasonal. The Group usually generates relatively less sales in the first quarter due to the Chinese New Year and the factories closure for 2 weeks. However, slightly more sales are normally generated in the fourth quarter of the year due to the fact that clients want to have the product delivered by the end of the year in order to start the business after the Chinese New Year holiday period.

2.2.4 *Events after the end of the period that have not been reflected in the financial statements for the period /material subsequent events/*

There were no events after the end of period that have not been reflected in the financial statements or would affect financial statements in any way.

2.2.5 *Nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial year*

The Company did not publish any estimates of amounts in 2016.

2.3 Risk factors

2.3.1 *Risk factors relating to the industry in which the Group operates*

The Group operates in a competitive environment. Increased competition or the entry of new competitors, combined with any failure to compete effectively with its competitors, may result in lower margins or in a loss of the Group's revenues.

The Group's business focuses on the manufacturing of precision machinery used for the production of sanitary products including sanitary napkins, diapers and facial tissues.

An increase in competition and new competitors could arise at any time. In particular, due to the economic slowdown and the results of the financial crisis in industrialised countries, the Group's international competitors may increase their sales activities in the markets of China and other growing economies. Existing and new competitors may establish more advanced production facilities or have greater financial resources, which could allow them to compete aggressively by lowering the prices of their products or expanding their production capacity. To remain competitive, the Group must continue to invest significant resources in increasing its production capacity, the on-going development of new products and improvement of existing products, in particular. There can be no assurance that the Group will have sufficient resources to increase its competitiveness or that such investments will improve the Group's position in relation to its competitors.

Increased competition or the arrival of new competitors could result in lower margins or a loss of revenues, either of which could have a material adverse effect on the Group's business, financial condition, and operation results.

Fluctuations in the supply and price of components and raw materials such as steel and alloy steel and other steel-based components could result in increased costs that the Group may only be able to pass on to its customers partially or not at all

As part of the Group's operations, the Group must obtain sufficient quantities of components and raw materials, most importantly steel and alloy steel, and steel-based components, at acceptable prices. Furthermore, steel and alloy steel have been subject to substantial pricing cyclically. The Group cannot assure you that price fluctuations of components and raw materials will not occur in the future or that the Group will be able to pass on cost increases to its customers in part or entirely. Failure to pass on cost increases to its customers in part or entirely could adversely affect the Group's business operations and financial results.

Availability of bank financing

The availability of bank financing for the Group in China is limited. Based on its knowledge of the market practice, the Company believes that receiving bank borrowings without providing collateral in the form of leasehold rights to the land or buildings may be very difficult if at all possible. Almost all of the Group's land and premises are pledged as of the date of hereby report. Consequently, the Group believes that it has a very limited capacity to obtain further bank financing until it acquires new real estate which would be eligible to be used as a pledge.

If the Group is unable to obtain further bank financing or alternative financing, this may have a material adverse effect on the Group's business, revenues, financial condition and results of operations.

2.3.2 Risk factors relating to the Group

The Group is exposed to fluctuations in foreign exchange rates. Fluctuations in currency exchange rates could have material adverse effects on the business, financial condition and results of operations of the Group.

Direct sales outside mainland China were realized by executing direct orders from international clients. It is the only method for the Company to generate the foreign currency. In the next 3-5 years, the Group would like to focus on direct international sales in order to benefit from potentially increasing margins and close the relationship with the clients. Therefore, the revenue generated by foreign currency will be increasing. Consequently, fluctuations in currency rates may influence the Group's results of operations, especially when the time between a sale of the Group's products and receiving payment is significant and the currency rate changes during this time.

Moreover, the Company's competitive position may change as a result of unfavorable currency rate fluctuation. The RMB appreciation may lead to higher prices for the Group's products in overseas markets and may have an adverse effect on the Company's export sales.

As a result, fluctuations in currency exchange rates could have material adverse effects on the business, financial condition and results of operations of the Group.

The inventory levels of raw materials, parts and components for the production of the Group's machines may not be adequate and may expose the Group to additional costs or affect the Group's ability to deliver products in a timely manner

Due to the nature of the Group's production process, the Group does not maintain ready-to-sell machines in its inventory. The Group usually concludes one-year contracts with its suppliers to keep the Group's inventory level of raw materials, parts and components that the Group purchases from suppliers to manufacture its machines. Due to the planned increase in the production scale, occasional shortages in inventories may occur in the future. If the level of raw materials, parts and components in the Group's inventory is insufficient, the Group will need to purchase them from its suppliers at a price which may not always be satisfactory. This may expose the Group to additional production costs. Moreover, if the Group's inventory level is too low and the Group fails to purchase additional raw materials, parts or components in a timely manner, the Group may fail to meet delivery deadlines and consequently may lose sales.

The operations of the Group are subject to uncertainties and contingencies beyond its control that could result in material disruptions and adversely affect its results of operations. A material disruption of the operations of the Group or the operations of its suppliers or customers due to force majeure events could materially and adversely affect the results of operations

The operations of the Group are subject to uncertainties and contingencies beyond its control that could result in material disruptions and adversely affect its results of operations. These include war, riot, public disorder, civil commotion, fire, earthquake, flood and other natural calamities, epidemics, outbreaks of infectious disease, terrorism, whether locally or nationwide, or incidents such as industrial accidents, equipment failures, malfunctions of information systems or other operational problems, strikes or other labour difficulties and disruptions of public infrastructure such as roads, ports or utilities. In addition,

the Group's production processes are power intensive and require a constant supply of electricity. Any failure in power generation facilities, transmission systems and other infrastructure or a general scarcity of electricity could therefore also result in a decline in production output or even a suspension of production.

Any such disruption of the Group's operations could disrupt, limit or delay its production, prevent it from meeting customer orders, increase its production costs or require it to spend additional capital expenditures, each of which could materially and adversely affect its results of operations. Force majeure events may also materially and adversely affect the operational performance of the Group's suppliers or customers, resulting in a decreased demand for the Group's products in the relevant markets. In such event, the business, financial condition and results of operations of the Group may be materially and adversely affected.

Delays in the Group's delivery of products due to the failure to meet deadlines may have a negative impact on the Group's customer relationships and business reputation

The business of the Group is largely based on customer relationships. If the Group fails to deliver its products in line with its deadlines, this may affect the Group's relationships with its clients and the Group's reputation. In such event, the business, financial condition and results of operations of the Group may be materially and adversely affected.

If the Group experiences a significant number of claims, including warranty claims, the Group's costs might increase substantially, and the Group's reputation and brand name could suffer

Typically, the Group sells its machines with warranty terms covering a period of one year after the sale, except for certain parts of its machines, e.g. (belt, knives), that are not subject to warranty terms. The Group's product warranty typically requires the Group to provide after-sales services that cover parts and labor for non-maintenance repairs, except for repairs that are caused by operator abuse or improper use or negligence and are not attributable to normal wear and tear. Repair and replacement of certain parts and components of the Group's machines, such as electrical apparatus control systems, are not covered by the Group but are covered by the manufacturers of such parts and components. However, in the event that such third-party suppliers refuse to perform their warranty obligations or to indemnify the Group for providing warranty services to customers to repair such parts and components, the Group may incur additional warranty costs or incurred costs may not be recovered.

If the Group experiences significant claims, including warranty claims, or if the Group's repair and replacement costs associated with warranty claims increase significantly, the Group may incur greater costs. Moreover, an increase in claims, including warranty claims, could affect its reputation and consequently result in a material adverse effect, financial condition, results of operations and prospects.

Research and development efforts of the Group may not yield the expected benefits and the Group may not be able to introduce successful products and maintain the competitiveness of its product offerings. If the Group is unable to anticipate trends in technological or product development or follow the market trends and rapidly develop the new and innovative technologies or products that are required by the Group's customers, the Group may not be able to produce sufficiently advanced products at competitive prices, which in turn may have a material and adverse impact on the Group's business, financial position and results of operations.

The market for the Group's products is characterized by continuous technological developments and innovation to provide better product performance and address the increasingly complex market needs.

As a result, the Group has been focusing on research and development activities, which require considerable human resources and capital investments. However, the Group's research and development efforts may not be successful or yield the anticipated level of economic benefit. In addition, even if the Group's research and development efforts are successful, the Group may not be able to apply these newly developed technologies to products that will be accepted by the market, or the Group may not be able to apply them in a timely manner to take advantage of opportunities in the market. The level of economic benefit that can be derived from newly developed technologies or products may also be affected by the ability and promptness of the Group's competitors to replicate these technologies or products or develop more advanced or cheaper alternatives. If the Group's technologies are replicated, replaced or made redundant, or if the demand for the Group's products is not as anticipated, the Group's turnover associated with such technologies or products may not offset the costs that the Group has incurred in developing such new technologies. Furthermore, if the Group is unable to anticipate trends in technological or product development or follow the market trends and rapidly develop the new and innovative technologies or products that are required by the Group's customers, the Group may not be able to produce sufficiently advanced products at competitive prices, which in turn may have a material and adverse impact on the Group's business, financial position and results of operations.

The Group revenue depends on effective sales through the distribution network and its expansion. The Group cannot ensure that its selling efforts will be satisfactory and there can be no assurance that its marketing and development efforts will not prove costly or ineffective. If the Group fails to expand or develop its sales network as planned or if it loses its best performing salesmen, the Group may not be able to meet its sales' targets, which may have a material and adverse impact on the Group's business, financial position and results of operations.

As of end of 1H 2016, the Group's distribution network consists of 29 salesmen operating mainly in coastal areas of China and direct overseas market, which generate substantially all of the Group's revenue.

Domestically, the Group intends to extend its distribution coverage from the current coastal areas of China to other inland and economically growing regions. The Group also intends to intensively increase its direct presence in selected overseas markets such as India, Turkey and USA by increasing promotional efforts such as targeted advertising and participation in exhibitions to increase its ability to directly distribute its products to international customers. Late 2013 the Group made a decision to establish first overseas office in Ankara, Turkey. The office has been operational since January 2014. The Group cannot ensure that its selling efforts will be satisfactory and there can be no assurance that its marketing and development efforts will not prove costly or ineffective. Moreover, the Group may not be able to successfully deal with legal and regulatory conditions in foreign countries that are different from those in China, what may impact its international expansion. If the Group fails to expand or develop its sales network as planned or if it loses its best performing salesmen, the Group may not be able to meet its sales' targets, which may have a material and adverse impact on the Group's business, financial position and results of operations.

The Group may not be able to implement its strategy. Achieving the Group's strategic objectives is contingent upon a range of factors which are beyond the Group's control, including, in particular, market conditions and the general business and regulatory environment. The Group's failure to implement its strategic objectives may have a material adverse effect on the Group's business, revenues, financial condition and results of operations.

The Group's strategic objectives are to extend sales in China, increase direct international coverage, strengthen brand recognition, focus further on R&D and quality enhancing as well as further increase production capacities (detailed information on strategy is included in the point 1.6 below).

Achieving these strategic objectives is contingent upon a range of factors which are beyond the Group's control, including, in particular, market conditions and the general business and regulatory environment. Strategy implementation requires the Group to provide sufficient financing for its growth as well as to manage its growth properly and integrate operation technologies, products and personnel. The Group can give no assurance that its efforts will have the expected effect. In addition, the Group may incur substantial costs to introduce new products from which the Group may be unable to ultimately realize significant revenues. If revenues do not increase as a result of the introduction of such products, the costs associated therewith may exceed revenue. The Group's failure to implement its strategic objectives may have a material adverse effect on the Group's business, revenues, financial condition and results of operations.

The Group's strategy assumes that the Group's production capacity needs to be significantly increased to meet the expected growing demand for its products. These assumptions are based on the Company's best knowledge and perception of the market trends, and its competitive position in the market. However, if the Company's assumptions concerning the machinery market and its competitive position are incorrect, or the market develops contrary to the Company's expectations, the assumed investment plan may prove overestimated and the Company may not be able to fully utilize its increased production capacity. Furthermore, a failure to implement the Group's strategy may also prevent the production capacity from being fully utilized. In such case, the costs and expenses borne by the Group to implement the overestimated investment plan may not translate into an increase in the Group's revenues.

Success of the Group depends in part on its ability to enhance its production capacity, which is subject to risks and uncertainties. If the Group is unable to increase its production capacity, it may not be able to achieve the desired level of production and revenues, which may have an adverse effect on the Group's financial condition, results of operations and business.

The Group is planning to increase its production capacity, which is one of the factors on which the success of the Group depends (detailed information on investment plan is included in the point 1.7 below).

The Group's ability and efforts to enhance its manufacturing capabilities are subject to significant risks and uncertainties, including: the Group's ability to obtain funding and the Group's ability to obtain the required approvals from relevant government authorities to acquire additional facilities.

If the Group is unable to increase its production capacity, it may not be able to achieve the desired level of production and revenues, which may have an adverse effect on the Group's financial condition, results of operations and business.

2.3.3 Internal risk management and control systems for the main risks

The goal of the Company with the risk management and control systems is aiming to meet our strategic objectives as well as effectively protecting the Company and its brands against any, especially financial damage. Continuity and sustainability of the business are as important to the Company as growing and operating the business. The risk management and control system aims to ensure that the risks of the Company are identified and managed effectively, and that the operational and financial objectives are met in compliance with applicable laws and regulations at a reasonable level of assurance. The systems

also protect the safety and health of our employees, customers and consumers. A system of controls that ensures adequate financial reporting is in place.

The Company is aiming to be a sustainable and performance-driven company. This is achieved by doing business, which by nature involves taking risks and managing those risks. Structured risk assessments are integrated in change projects, business planning, performance monitoring processes, common processes and system implementations and business optimization activities. The risk management and control systems are considered to be in balance with the Group's risk profile, although such systems can never provide absolute assurance. Risk management and control systems are subject to continuous review and adaptations in order to remain in balance with its growing business size and the changes in its risk profile.

The Management Board has overall responsibility for the Group's risk management and control systems. It is responsible for resource allocation and risk management policy setting. Its overall effectiveness is subject to review by Supervisory Board as well as its Audit Committee.

2.4 Strategy

The Group's objective is to maintain and further strengthen its position as a market leader among domestic producers of daily-use hygiene product machines both in terms of revenue and quality. The Group also aims to increase its international presence and increase its direct international sales. To achieve this, the Group intends to implement the following goals:

- Extend sales in China to benefit from the expected growth in the daily-use hygiene product industry there and expand its international coverage
- Establish international branches in the world's developing regions (South Africa and Oceania), and some already-developed markets (Turkey, Central and Eastern Europe)
- Strengthen brand recognition
- Further focus on R&D and quality enhancement , such as new generation of baby diaper machines
- Further increase production capacity
- Labor training and reserving for the coming production extension

2.5 Significant investment CAPEX

By the end of 2015 the Company did not receive from the local Chinese government any settlements concerning new schedule of investment plan. According to the land purchase agreement described in current report No. 11/2014 the Company is under the process of the investment in the new plant, nevertheless because of delays in expenditures which supposed to be made by the local government into the infrastructure, on a zone were the Company's plot is located, like wiring installation, water-supply system, etc., the initial investments planned by the Company had to be postponed. At the moment the Company conducts consultations with the local government concerning modification of the investment schedule in the new plant, but the consultations are not finalized yet. More detailed information was disclosed by the Company in the current report No. 12/2015.

2.6 Dividend policy

On 27 June 2016 the Management Board of the Company decided to maintain decision disclosed in the current report No. 7/2015 in regard to the net profit for 2015. Consequently Management Board proposed to allocate its consolidated net profit for 2015 for raising reserve capitals with the intention to finance investments. Recommendation of the Management Board results in particular from the fact that net profit achieved in 2015 was lower than in the previous years. Another reason of the Management Board's decision is the fact that since cancellation of the SPO the Company hasn't raised significant external sources of funding yet. What is more, the Company expects that the declining economy situation in China and overseas markets also justifies abovementioned decision. Information on recommendation of the Management Board was disclosed in the current report No. 6/2016.

On 6 July 2016 the Company decided to cancel the AGM convened on 8 July 2016. Decision of the Company was dictated by the lack of possibility to ensure representation of the Company's corporate bodies during the meeting, in connection with unexpected changes in the composition of the corporate bodies of the Company. Information on Cancellation of the Annual General Meeting of Shareholders was disclosed in the current report No. 8/2016.

2.7 Shareholders and shares

2.7.1 Share capital structure

As of 30 June 2016 the Company's share capital consisted of 13,000,000 ordinary shares with a nominal value of EUR 1 each.

The Company has an authorized share capital of EUR 50,000,000 consisting of 50,000,000 ordinary shares with a nominal value EUR 1 of each.

2.7.2 Major shareholders and shares

As of 30 June 2016 the Company's shareholding structure was as follows:

Shareholder	number of shares	% in the share capital
P.I. Investment Limited (wholly owned by Mr Qiulin Xie)	10,500,000	80.77%
Xinsheng Investment Holding Ltd - fully controlled by Mr Zhang Fan (Macau Resident)	600,000	4.62%
Jinyuan Investment Holding Ltd - fully controlled by Mr Li Meiqing (HK Resident)	539,202	4.15%
others	1,360,798	10.47 %
Total	13,000,000	100%

The Company holds no information of any changes in the significant shareholders of the Company since the publication of the report for 3Q2015, as well as annual report for 2015.

2.7.3 Issue of new shares

The Company's share capital comprises 13,000,000 shares with a nominal value of EUR 1 each.

In 1H 2016 the Company did not issue any debt securities nor made any repurchases or repayments of debt or equity securities.

2.7.4 Changes in ownership of shares and rights to shares by Management Board members in the six month ended 30 June 2016 and until the date of publication of the report

At the date of publication of this semi-annual report, to the best of the Company's knowledge none of the Management Board members, other than Mr. Xie, held directly Company's shares or rights to shares.

2.7.5 Changes in ownership of shares and rights to shares by Supervisory Board members in the six month ended 30 June 2016 and until the date of publication of the report

To the best of the Company's knowledge none of the Supervisory Board members held Company's shares or rights to shares in the six months ended 30 June 2016 and until the date of publication of this semi-annual report and there was no changes in their shareholding or the number of rights to shares.

2.7.6 Special rights to control over the Company

There are no Company's shares that give special rights to control over the Company to shareholders.

2.7.7 Corporate bodies

The Company has a two-tier board structure consisting of a Management Board and a Supervisory Board. The Management Board is the statutory executive body and is responsible for the day-to-day management of the Company, including, amongst other things, formulating the Company's strategies and policies and setting and achieving the Company's objectives.

The Supervisory Board supervises and advises the Management Board. In addition, Supervisory Board approval is required for certain important decisions of the Management Board.

2.7.8 Management Board

The Management Board members were appointed by the General Meeting on 9 September 2013 for a period of four years, provided that the members of the Management Board retire periodically in accordance with a rotation plan drawn up by the Supervisory Board.

As of 30 June 2016 the Management Board was composed of the following members:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Member since</u>	<u>Term</u>	<u>End of term</u>
Qiulin Xie	56	Chairman	2 July 2013	4 years	the date of the annual General Meeting in 2017
Zhimin Huang	37	Chief Financial Officer	29 June 2015	3 years	the date of the annual General Meeting in 2018*
Kaida Xie	29	Sales and Marketing Manager	9 September 2013	2 years	the date of the annual General Meeting in 2017*

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On 13 April 2016 Mr Bas Xue submitted resignation from holding both the function of the Administrative Manager and the Member of the Company's Management Board. The resignation becomes effective as of 13 April 2016. Information on resignation was disclosed by the Company in the current report No. 2/2016.

* After the reporting period, on 5 July 2016 Mr Kaida Xie submitted his resignation from the position of the Member of the Company's Management Board. In the same day, also Mr Zhimin Huang submitted resignation from holding both the function of the Chief Financial Officer and the Member of the Company's Management Board. Additionally, on 5 July 2016 Mr Shen Ming submitted his resignation from the position of the Member of the Company's Supervisory Board. Information on abovementioned resignations was disclosed by the Company in the current report No. 7/2016.

2.7.9 *Supervisory Board*

As of 30 June 2016 the Supervisory Board was composed of the following members:

Name	Age	Position	Independent	Member since	Term	End of term
Ya Li	36	Chairman	No	10 September 2013	4 years	the date of the annual General Meeting in 2017
Ming Shen*	53	Member	Yes	10 September 2013	4 years	the date of the annual General Meeting in 2017
Liem Tsong Lucien Tjon	54	Member	Yes	10 September 2013	3 years	the date of the annual General Meeting in 2016
Zhanghe Du	46	Member	No	29 June 2015	2 years	the date of the annual General Meeting in 2017
Rongfu Wu	30	Member	No	10 September 2013	4 years	the date of the annual General Meeting in 2018

* After the reporting period, on 5 July 2016 Mr Shen Ming submitted his resignation from the position of the Member of the Company's Supervisory Board. Information on abovementioned resignations was disclosed by the Company in the current report No. 7/2016.

3. Statement of the Management Board of Peixin International Group N.V. on compliance of the consolidated semi-annual financial statements

The Management Board of Peixin International Group N.V. hereby represent that to the best of their knowledge:

- semi-annual financial statements of Peixin International Group N.V. for the period ended 30 June 2016 and the comparable information are prepared in accordance with the applicable accounting,
- the semi-annual accounts for the period ended 30 June 2016 give a true and fair view of the assets, the liabilities, the financial position and the profits or the loss of the Company and the joint ventures included in the consolidation,
- the semi-annual report for the period ended 30 June 2016 give a true and fair view of the important events of the past six-month period and their impact on the half-year financial statements, as well as the principal risks and uncertainties for the six-month period to come, and the most important related party transactions,
- consolidated semi-annual financial statements of Peixin International Group N.V. was not audited by an auditor.

**The semi-annual financial reporting has not been audited by an auditor.*

Members of the Management Board:

Qiulin Xie

Chairman

30 September 2016 Amsterdam,

The Netherlands