ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
正業國際控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 3363)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHT:

- Revenue recorded a growth of 3.75% to RMB617,900,000 which was mainly generated from the growth in corrugated medium paper business;
- Gross profit increased 18.14% to RMB137,295,000;
- Gross profit margin increased from 19.51% to 22.22% due to increase in the sales of new products and technical improvement which had enhanced the efficiency of production facilities and lowered the costs of sales;
- Profit raised 3.98% to RMB32,725,000 during the period.

The board of directors (the “**Board**”) of Zhengye International Holdings Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2012 (the “**period**” or the “**period under review**”) together with the comparative figures for the corresponding period in 2011 as set out below.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTES	Six months ended 30 June **2012** RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Revenue	**3**	**617,900**	595,580
Cost of sales		**(480,605)**	(479,364)
Gross profit		**137,295**	116,216
Other income	**4**	**6,189**	2,445
Other gains and losses	**5**	**(648)**	355
Distribution and selling expenses		**(23,704)**	(15,844)
Administrative expenses		**(40,330)**	(26,671)
Listing expenses		**-**	(11,810)
Finance costs	**6**	**(18,260)**	(13,807)
Research and development expenses		**(15,329)**	(11,902)
Profit before tax	**7**	**45,213**	38,982
Income tax expense	**8**	**(12,488)**	(7,511)
Profit and total comprehensive income for the period		**32,725**	31,471
EARNINGS PER SHARE			
Basic (RMB)	**10**	**0.07**	0.08
Diluted (RMB)	**10**	**0.07**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2012

	NOTES	**30 June 2012 RMB'000 (unaudited)**	31 December 2011 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	**11**	**493,416**	398,052
Prepaid lease payments		**56,023**	56,707
Other intangible assets	**12**	**5,890**	6,609
Deposits paid for acquisition of property, plant and equipment		**21,265**	18,022
Deposit for leasehold land		**6,750**	6,750
		583,344	486,140
Current Assets			
Inventories		**122,978**	112,933
Trade and other receivables	**13**	**616,226**	625,311
Prepaid lease payments		**1,368**	1,368
Pledged bank deposits	**14**	**154,395**	94,255
Restricted bank deposits	**14**	**414**	2,027
Bank balances and cash	**14**	**72,957**	130,692
		968,338	966,586
Current Liabilities			
Trade and other payables	**15**	**431,123**	418,847
Tax liabilities		**5,984**	2,986
Obligations under finance leases		**20,242**	13,169
Amounts due to directors	**16**	**1,434**	3,816
Amounts due to related parties	**16**	**-**	66
Bank borrowings	**17**	**553,344**	499,227
		1,012,127	938,111
Net Current (Liabilities) Assets		**(43,789)**	28,475
Total Assets Less Current Liabilities		**539,555**	514,615
Capital and Reserves			
Share capital	**18**	**41,655**	41,655
Reserves		**436,183**	429,132
Total Equity		**477,838**	470,787
Non-current Liabilities			
Bank borrowings	**17**	**10,080**	-
Deferred tax liabilities	**19**	**4,681**	5,932
Obligations under finance leases		**46,956**	37,896
		61,717	43,828
		539,555	514,615

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Share options reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2011 (audited)	17	-	60,624	-	(23,239)	252,384	289,786
Profit and total comprehensive income for the period	-	-	-	-	-	31,471	31,471
Arising from exchange of shares upon Group Reorganisation	150	-	-	-	(150)	-	-
New issue of shares by way of public offering	10,414	138,503	-	-	-	-	148,917
Shares capitalisation	31,074	(31,074)	-	-	-	-	-
Transaction costs attributable to issue of shares	-	(14,461)	-	-	-	-	(14,461)
At 30 June 2011 (unaudited)	41,655	92,968	60,624	-	(23,389)	283,855	455,713
At 1 January 2012 (audited)	**41,655**	**92,968**	**76,369**	**105**	**(23,389)**	**283,079**	**470,787**
Profit and total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**32,725**	**32,725**
Recognition of equity-settled share-based payments	**-**	**-**	**-**	**2,126**	**-**	**-**	**2,126**
Dividends recognised as distribution	**-**	**-**	**-**	**-**	**-**	**(27,800)**	**(27,800)**
At 30 June 2012 (unaudited)	**41,655**	**92,968**	**76,639**	**2,231**	**(23,389)**	**288,004**	**477,838**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Profit before tax	**45,213**	38,982
Adjustments for:		
Finance costs	**18,260**	13,807
Interest income	**(1,813)**	(878)
Depreciation of property, plant and equipment	**12,757**	11,385
Amortisation of prepaid lease payments	**684**	684
Amortisation of other intangible assets	**719**	-
Share-based payment expense	**2,126**	-
Loss on disposal of property, plant and equipment	**-**	12
Operating cash flows before movements in working capital	**77,946**	63,992
Increase in inventories	**(10,045)**	(15,957)
Decrease (Increase) in trade and other receivables	**9,085**	(28,855)
Increase in amount due from a related party	**-**	(450)
Increase (Decrease) in trade and other payables	**3,742**	(20,075)
(Decrease) Increase in amounts due to directors	**(2,382)**	2,053
Decrease in amounts due to related parties	**(66)**	(629)
Withdrawal of restricted bank deposits	**1,613**	-
Cash generated from operations	**79,893**	79
Income tax paid	**(10,741)**	(4,585)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**69,152**	(4,506)
INVESTING ACTIVITIES		
Interest received	**1,813**	878
Proceeds from disposals of property, plant and equipment	**38**	245
Purchase of property, plant and equipment	**(72,582)**	(18,848)
Deposits paid for acquisition of property, plant and equipment	**(3,243)**	(18,160)
Placement of pledged bank deposits	**(199,740)**	-
Withdrawal of pledged bank deposits	**139,600**	44,851
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(134,114)**	8,966

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Interest paid	**(18,421)**	(13,807)
Dividends paid	**(27,800)**	-
Proceeds from issue of new shares pursuant to the public offerings, net of listing expenses	**-**	134,456
Repayments of obligations under finance leases	**(10,749)**	(1,682)
New bank and other borrowings raised	**516,489**	369,705
Repayment of bank and other borrowings	**(452,292)**	(368,292)
NET CASH FROM FINANCING ACTIVITIES	**7,227**	120,380
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(57,735)**	124,840
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**130,692**	31,472
CASH AND CASH EQUIVALENTS AT 30 JUNE	**72,957**	156,312

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION

Pursuant to the Group Reorganisation, the Company became the holding company of TYAZ International Limited and its subsidiaries on 4 March 2011 upon completion of the Group Reorganisation.

The Group resulting from the Group Reorganisation is considered as a continuing entity. Accordingly, the condensed consolidated financial statements of the Group have been prepared using the principles of merger accounting which are consistent with the principles as stated in Accounting Guideline 5 "Merger Accounting under Common Control Combinations" issued by Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as if the Group Reorganisation had occurred from the date when the combining entities first came under the control of the ultimate controlling party.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

In preparing the condensed consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration of the Company and the Group in light of its net current liabilities of RMB43,789,000 as at 30 June 2012. On the basis that the Group has secured credit facilities of approximately RMB182,206,000 which remains unutilised at the date of the condensed consolidated financial statements ended 30 June 2012, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except for the cancellation of share-based payment, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA.

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets; and
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segment.

Six months ended 30 June 2012 (unaudited)

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
Segment Revenue			
External sales	**355,915**	**261,985**	**617,900**
Inter-segment sales	**-**	**47,351**	**47,351**
	355,915	**309,336**	**665,251**
Segment profit	**20,954**	**31,246**	**52,200**
Unallocated corporate expenses, net			**(6,987)**
Group's profit before tax			**45,213**

Six months ended 30 June 2011 (unaudited)

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
Segment Revenue			
External sales	353,987	241,593	595,580
Inter-segment sales	-	61,738	61,738
	353,987	303,331	657,318
Segment profit	29,471	24,102	53,573
Unallocated corporate expenses, net			(14,591)
Group's profit before tax			38,982

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment result represented the profit earned by each segment without allocation of legal and professional fee, bank interest income and other corporate income and expenses.

No reconciliation of reportable segment revenues is provided as the total revenues for reportable segments excluded inter-segment revenue is the same as the Group's revenue.

4. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	**1,813**	878
Government grant	**3,800**	1,220
Sundry income	**576**	347
	6,189	2,445

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Exchange (loss) gain, net	**(648)**	367
Loss on disposals of property, plant and equipment	**-**	(12)
	(648)	355

6. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank and other borrowings wholly repayable within five years	**17,783**	12,960
Finance lease	**477**	847
	18,260	13,807

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	**12,757**	11,385
Amortisation of prepaid lease payments	**684**	684
Amortisation of other intangible assets (included in cost of sales)	**719**	-
Share-based payment expenses (included in administrative expenses)	**2,126**	-

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	**10,539**	7,168
Deferred tax (note 19)		
Current period	**1,949**	343
Income tax expense	**12,488**	7,511

The tax charge for the period represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries established in the PRC.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated statement of comprehensive income as the Group had no assessable profit arising in Hong Kong for both periods.

Under the Law of The People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to Article Eight of The Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises which became effective from 9 April 1991 and expired since 1 January 2008, Foreign Investment and Foreign Enterprises for production were approved to enjoy 2-year income tax exemption commencing from their first profit-making year of operations, and thereafter to a 50% relief for the following three years ("**Certain Conditions 1**"). This policy was still in effect when the income tax rate unified in 1 January 2008 if an enterprise was in the process of this transition stage at that point.

According to the approval documents issued by the Ministry of Finance, the Ministry of Technology and the State Administration of Taxation, high-technology enterprises should be eligible for a preferential income tax rate at 15% ("**Certain Conditions 2**").

Zheng Ye Packaging (Zhongshan) Company Limited ("**Zheng Ye Packaging (Zhongshan)**") and Zhongshan Yong Fa Paper Industry Company Limited ("**Yong Fa Paper**") obtained the Certificate of High-Technology in 2009 and the applicable income tax rate was 15% in 2011 based on Certain Conditions 2. In 2012, Zheng Ye Packaging (Zhongshan) has renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate. As at 30 June 2012, the renewal of the Certificate of High-Technology of Yong Fa Paper is still under progress, and the applicable income tax rate of Yong Fa Paper is 25% for the period under review.

According to document (Zhongshanguoshuipuzi [2009] 001) issued by Dongsheng District Office of Zhongshan Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zheng Ye Alliance Packaging was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012.

According to document (Zhudouguoshuihan [2008] 51) issued by Doumen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zheng Ye Packaging (Zhuhai) was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012.

9. DIVIDENDS

During the current interim period, a final dividend of RMB2.78 cents per share and a special dividend of RMB2.78 cents per share in respect of the year ended 31 December 2011 (2011: Nil) were declared and paid to the owners of the Company. The aggregate amount of the final dividend and special dividend declared and paid in the interim period amounted to RMB27,800,000 (2011: Nil).

No dividends were paid, declared or proposed during the interim period. The directors have determined that no dividend will be paid in respect of the interim period.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**32,725**	31,471
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**500,000,000**	394,337,017

11. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the period is summarised as follows:

	RMB'000
As at 1 January 2011 (audited)	284,070
Additions of plant and equipment	27,327
Disposals of plant and equipment	(257)
Depreciation for the period	(11,385)
As at 30 June 2011 (unaudited)	299,755
As at 1 January 2012 (audited)	**398,052**
Additions of plant and equipment	**108,159**
Disposals of plant and equipment	**(38)**
Depreciation for the period	**(12,757)**
As at 30 June 2012 (unaudited)	**493,416**

12. OTHER INTANGIBLE ASSETS

	Development costs **RMB'000**
As at 1 January 2011 (audited) and 30 June 2011 (unaudited)	**-**
As at 1 January 2012 (audited)	**6,609**
Charge for the period	**(719)**
As at 30 June 2012 (unaudited)	**5,890**

Development costs are internally generated.

Such intangible assets are amortised on a straight-line basis over 5 years.

13. TRADE AND OTHER RECEIVABLES

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Trade receivables	**348,712**	302,287
Advances to suppliers	**2,102**	3,443
Bills receivables	**234,873**	300,280
Prepayment	**7,376**	4,676
Other receivables	**23,163**	14,625
Total trade and other receivables	**616,226**	625,311

The Group allows a credit period of 30 to 150 days (31 December 2011: 30 to 120 days) to its trade customers except for the new customers newly accepted which payment is made when goods are delivered. For those major customers with a good credit quality, the Group also allows them to settle the payments by bills with term of 60 to 180 days guaranteed by bank.

The following is an aged analysis of trade receivables, presented based on the invoice date at the end of the reporting period:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
0 to 60 days	**280,013**	241,120
61 to 90 days	**37,556**	32,702
91 to 180 days	**30,635**	28,213
Over 180 days	**508**	252
	348,712	302,287

14. PLEDGED BANK DEPOSITS, RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB154,395,000 (31 December 2011: RMB94,255,000) have been pledged to bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets.

Restricted bank deposits represent deposits restricted for the use of designated construction projects and import duties to local customs respectively.

Bank balances carry interest at market rates within range from 0.01% to 0.44% (31 December 2011: 0.01% to 0.50%) per annum. The pledged deposits carry interest rates which range from 0.44% to 3.30% (31 December 2011: 0.01% to 3.23%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

15. TRADE AND OTHER PAYABLES

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Trade payables	**262,853**	285,678
Bills payables - secured	**86,836**	65,740
Other taxes payables	**26,612**	24,564
Payroll and welfare payables	**21,928**	17,380
Construction payables	**24,471**	15,776
Others	**8,423**	9,709
	431,123	418,847

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
0 to 60 days	**140,784**	173,619
61 to 90 days	**73,477**	20,352
91 to 180 days	**46,992**	87,296
Over 180 days	**1,600**	4,411
	262,853	285,678

The credit period on purchase of material is 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

16. AMOUNTS DUE TO DIRECTORS/RELATED PARTIES

The amounts are non-trade related, unsecured, interest free and repayable on demand.

17. BANK BORROWINGS

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Bank loans, secured	553,429	496,949
Bank loans, unsecured	9,995	2,278
	563,424	499,227
Carrying amount repayable:		
On demand or within one year	553,344	499,227
More than one year, but not exceeding two years	10,080	-
	563,424	499,227

During the current period, the Group obtained new bank borrowings amounting to approximately RMB516,489,000 (six months ended 30 June 2011: RMB369,705,000).

Bank and other borrowings as at period end were secured by the pledged of assets set out in note 22.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	30 June 2012	31 December 2011
Effective interest rate:		
Fixed rate borrowings	2.65% to 8.50% per annum	3.17% to 8.55% per annum
Variable rate borrowings	Benchmark rate per annum	Benchmark rate per annum

Benchmark interest rate is quoted by the Peoples' Bank of China.

18. SHARE CAPITAL

		Number of share	Share Capital HK$
Ordinary shares of HK$0.10 each			
Authorised:			
At 1 January 2011	(i)	2,000,000	200,000
Increase in authorised capital on 4 March 2011	(ii)	998,000,000	99,800,000
At 30 June 2011, 1 January 2012 and 30 June 2012		**1,000,000,000**	**100,000,000**
Issued and fully paid:			
At 1 January 2011	(i)	1	0.1
Issue of shares on 4 March 2011	(iii)	1,999,999	200,000
Shares capitalisation	(iv)	373,000,000	37,300,000
New issue of shares by way of public offering	(v)	125,000,000	12,500,000
At 30 June 2011, 1 January 2012 and 30 June 2012		**500,000,000**	**50,000,000**
			RMB’000
Presented as: (At 31 December 2011 and 30 June 2012)			**41,655**

Notes:

(i) On 18 August 2010, the Company was incorporated in Bermuda under the Companies Act as an exempted company with an authorised share capital of HK$200,000 divided into 2,000,000 Shares. On 1 September 2010, one Share was allotted and issued, nil paid, to Mr.Hu Zheng.

(ii) On 4 March 2011, the authorised share capital of the Company was increased from HK$200,000 divided into 2,000,000 shares of a par value of HK$0.10 each to HK$100,000,000 divided into 1,000,000,000 shares with a par value of HK$0.10 each, by the creation of 998,000,000 ordinary shares with a par value of HK$0.10 each.

(iii) On 4 March 2011, the Company issued 1,999,999 ordinary shares of HK$0.10 each pursuant to the Group Reorganisation in exchange for the entire issued share capital of TYAZ International Limited and became the ultimate holding company of the Group.

(iv) Pursuant to written resolutions on 19 May 2011, the Directors resolved to capitalise HK$37,300,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 373,000,000 Shares as a result of Global Offering (as defined in the Prospectus).

(v) In connection with the Company's initial public offering, 125,000,000 Shares of HK$0.10 each were issued at a price of HK$1.43 for a total cash consideration, before expenses, of approximately HK$178,750,000 (equivalent to RMB148,917,000). Dealings in the Shares on the Main Board of the Stock Exchange commenced on 3 June 2011.

19. DEFERRED TAXATION

The following are the major deferred taxation liabilities recognised and movement thereon during the current and preceding interim period:

	Depreciation differences RMB'000	Undistributable profit of subsidiaries RMB'000	Total RMB'000
At 1 January 2011 (audited)	1,907	-	1,907
Charge for the period	343	-	343
At 30 June 2011 (unaudited)	2,250	-	2,250
At 1 January 2012 (audited)	**2,732**	**3,200**	**5,932**
Reversal of deferred tax liability upon distribution of profits	**-**	**(3,200)**	**(3,200)**
Charge for the period	**449**	**1,500**	**1,949**
At 30 June 2011 (unaudited)	**3,181**	**1,500**	**4,681**

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at the end of the current interim period, the aggregate amount of taxable temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised amounted to RMB198,301,000 (31 December 2011: RMB168,031,000).

No deferred tax liability has been recognised in respect of these differences because the Group's is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

20. SHARE-BASED PAYMENTS

The Company has granted certain share options (the "**Old Options**") to subscribe for shares of HK$0.10 each in the capital of the Company (the "**Shares**") to certain directors and eligible employees (the "**Employees**") of the Company and the Group under the share option scheme of the Company adopted on 3 June 2011 (the "**Scheme**"). Due to the significant drop in the price of Shares resulting from the downturn of the global market, the Old Options no longer served as effective incentives for the Employees as the exercise price of these share options were much higher than the market price of the Shares. Therefore, the Company cancelled the outstanding Old Options previously granted to the Employees to subscribe for a total of 14,100,000 Shares at an exercise price of HK$1.43 per Share with vesting period from 16 September 2011 to 31 March 2015 (both days inclusive). In consideration of the Employees irrevocably and unconditionally agreeing to the cancellation of the Old Options, the Company paid HK$1.00 each of the relevant holders of the Old Options. Furthermore, no compensation or any consequential loss had been payable to the relevant holders of the Old Options as a result of such cancellation and there was not any adverse finance effect on the Company as a result of the cancellation of the Old Options.

Pursuant to a resolution passed on 20 January 2012, the Company offered to grant new share options (the "**New Options**") which entitle the holders thereof to subscribe for a total of 21,350,000 Shares of the Company to the Directors and Employees of the Group subject to acceptance of the grantees (the "**Grantees**"), under the Scheme, which New Options would expire on 30 June 2015.

The table below discloses movement of the Company's share options held by the Group's employees:

	Number of share options
Outstanding as at 1 January 2012	**14,100,000**
Granted during the period	**21,350,000**
Cancelled during the period	**(14,100,000)**
Outstanding as at 30 June 2012	**21,350,000**

There is no share options exercised or expired during the six months ended 30 June 2012.

In the current interim period, the New Options were granted on 20 January 2012. The fair values of the New Options determined at the dates of grant using the Binomial model were HK$4,761,000.

During the period, the Group recognised the expense of RMB998,000 and RMB1,128,000 in relation to the cancellation of the Old Options and the grant of the New options by the Company respectively (for the six months ended 30 June 2011: nil) .

21. MAJOR NON-CASH TRANSACTIONS

During the period, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB26,882,000 (for the six months ended 30 June 2011: Nil).

22. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking and other facilities granted to the Group at the end of the reporting period:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Buildings and construction in progress	**44,888**	46,730
Plant and machinery	**105,547**	122,481
Land use right	**57,391**	58,075
Trade receivables	**115,000**	138,559
Bills receivables	**36,930**	44,500
Pledge bank deposits	**154,395**	94,255
Inventories	**69,999**	101,395
	584,150	605,995

23. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating leases in respect of leased properties are as follows:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Within one year	**19,795**	11,949
On the second to fifth year inclusive	**19,942**	14,203
After five years	**9,056**	6,309
	48,793	32,461

Operating lease payments represent rentals payable by the Group for certain of its office premises and plant and equipment. Leases are negotiated for a term of one to five years. Rentals are fixed at the date of signing of lease agreements.

24. CAPITAL COMMITMENTS

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
Capital expenditure in respect of acquisition of new property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	**47,986**	64,460

25. RELATED PARTIES TRANSACTIONS AND BALANCES

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye (Group) Company Limited ("**Zheng Ye Group**")	With the common controlling shareholders
Zhongshan City Zhong Fa Equipment Rental Company Limited ("**Zhong Fa Equipment**")	With the common controlling shareholders

(b) Related parties transactions

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Rental expenses of property		
- Zheng Ye Group (Note)	**2,172**	2,172
Rental expenses of vehicles		
- Zhong Fa Equipment	**99**	99

Note:

Rental deposit of RMB450,000 paid to Zheng Ye Group has been included in trade and other receivables on the condensed consolidated statement of financial position at 30 June 2012.

(c) Operating lease commitments to related parties as lessee

	30 June	31 December
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Within one year		
- Zheng Ye Group	**4,344**	2,622
- Zhong Fa Equipment	**198**	198
	4,542	2,820
On the second to fifth year inclusive		
- Zheng Ye Group	**2,172**	900
- Zhong Fa Equipment	**99**	198
	2,271	1,098
	6,813	3,918

The above commitments are included in the amounts disclosed in the note 23.

(d) Related parties balances

Amount due from a related party, amounts due to directors and amounts due to related parties are separately disclosed on the condensed consolidated statement of financial position.

(e) Compensation of key management

The remuneration of directors of the Company and other members of key management during the period were as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other benefits	**6,725**	3,916
Retirement benefits scheme contributions	**34**	47
	6,759	3,963

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The total turnover of the Group for the period under review amounted to RMB617,900,000, representing a growth of 3.75% compared with RMB595,580,000 for the six months ended 30 June 2011. All the sales from the Group were generated from the PRC, turnover from paper-based packaging products and corrugated medium paper represented about 57.60% and 42.40% respectively (for the six months ended 30 June 2011: 59.44% and 40.56% respectively) of the total turnover of the Group.

Paper-based packaging products

The turnover of our paper-based packaging products recorded 0.54% growth from RMB353,987,000 in the first six months of 2011 to RMB355,915,000 during the period under review. Even the selling price per unit increased 5.95% compared with the same period last year, the sales volume of paper-based packaging products dropped 5.10% compared with the same period last year, which was mainly attributable to the increase the higher selling price per unit of honeycomb products. The turnover of honeycomb products increased by RMB10,606,000, representing an increase of 48.84% for the six months ended 30 June 2011 of RMB21,717,000 to RMB32,323,000 for the period under review. The Group established four additional factories for the paper-based packaging division during the period under review. The factories located at Zhengzhou, Wuhan and Shijiazhuang had commenced productions. The factory at Hefei also had commenced productions at July this year. It anticipates the paper-based packaging products will bring the growth in the second half of this year.

Corrugated medium paper

The turnover of corrugated medium paper increased from RMB241,593,000 in the first six months of 2011 to RMB261,985,000 in the first six months of 2012, representing an increase of 8.44%, which was mainly attributable to the technical improvement which had enhanced efficiency of production facilities. The sales volume of corrugated medium paper increased 17.46% compared with the same period last year, but the selling price per unit dropped 7.68% compared with the same period last year.

PROSPECT

The critical and complex economic situation has dampened the growth of the global economy and caused rapid correction for international trade. The Group believes that, notwithstanding the slowdown of the economy of the PRC, the economy will move towards recovery with the impetus of structural adjustment and the relaxation of the monetary policy, which is also instrumental to the increase in the volume of production for the four additional factories for the paper-based packaging products of the Group. Also, the Chinese government's continued support of the "Energy-saving Appliances Subsidy" policy will indirectly allow the Group to maintain stable growth in the sales of paper-based packaging products. As for the corrugated medium paper, the fourth production line will commence trial production in September this year. This will further diversify the types of products and increase the volume of production of the Group, which is expected to bring further growth in corrugated medium paper and contribute positively in terms of turnover and gross profit to the Group.

The Group will continue to strive to develop new products, explore new technique and technology to increase the competitiveness of our products. In addition, the Group will maintain its capital strength while keeping an eye on any new opportunities emerged in the market with the aim of enhancing the productivity and profitability of the Company when the economy is improved and consumption demand becomes stronger in the future so as to maximize the returns to shareholders.

Cost of sales

The Group's cost of sales increased from RMB479,364,000 for the six months ended 30 June 2011 to RMB480,605,000 for the period under review, representing an increase of 0.26%.

Paper-based packaging products

As for the paper-based packaging products, the cost of sales decreased by RMB1,619,000 or 0.57% from RMB285,233,000 for the six months ended 30 June 2011 to RMB283,614,000 for the period under review.

Corrugated medium paper

As for the corrugated medium paper, the cost of sales increased by RMB2,860,000 or 1.47% from RMB194,131,000 for the six months ended 30 June 2011 to RMB196,991,000 for the period under review.

Gross profit and gross profit margin

Due to above mentioned factors, the gross profit increased by RMB21,079,000 or 18.14% from RMB116,216,000 for the six months ended 30 June 2011 to RMB137,295,000 for the period under review. The overall gross profit margin of the Group for the period under review was 22.22% compared with 19.51% for the six months ended 30 June 2011.

The gross profit margin of paper-based packaging products increased from 19.42% for the six months ended 30 June 2011 to 20.31% for the period under review, an increase of 4.58%, which was mainly attributable to the strict control in costs of sales.

The gross profit margin of corrugated medium paper increased by 26.26% from 19.65% for the six months ended 30 June 2011 to 24.81% for the period under review. During the period under review, the increase in sales volume of the higher gross profit from new 65g/ m^2 corrugated medium paper, it represented from 2.72% of the turnover of corrugated medium paper for the first six months last increased to 12.87% of the turnover of corrugated medium paper for the period under review. The decrease of cost of production per unit was mainly attributable the technical improvement which had enhanced efficiency of production facilities, it results the growth of 9.27% in the production of corrugated medium paper.

Distribution and selling expenses

The Group's distribution and selling expenses increased by approximately 49.61% from RMB15,844,000 for the six months ended 30 June 2011 to RMB23,704,000 for the period under review, representing about 2.66% and 3.84% of the Group's turnover respectively. The increases were mainly attributable to our business expansion as a result of the commencement of production with the Group's production lines located at Shijiazhuang, Hefei, Wuhan and Zhengzhou and the increase in our transportation cost during the period under review.

Administrative expenses

The Group's administrative expenses increased by about 51.21% from RMB26,671,000 for the six months ended 30 June 2011 to RMB40,330,000 for the period under review, representing about 4.48% and 6.53% of the Group's turnover respectively. The increase was mainly due to our planned business expansion during the period under review and the increase in rentals and staff costs compared with the same period last year.

Finance costs

Finance costs of the Group increased by about 32.25% from RMB13,807,000 for the six months ended 30 June 2011 to RMB18,260,000 for the period under review, which was mainly due to the increase in bank borrowings and finance leases for funding a new production line as a result of the Group's business expansion.

Interest rates of bank borrowings were at fixed rates ranging from 2.65 % to 8.50% per annum during the period under review, compared with 3.17% to 8.55% per annum in the same period last year.

Research and development expenses

Research and development expenses of the Group increased by around 28.79% from RMB11,902,000 for the six months ended 30 June 2011 to RMB15,329,000 for the period under review. The increase was mainly due to our goal to improve the competitiveness of our products and develop new products in response to the demand from customers and research on new technology and new process aiming to enhance production efficiency and product quality.

Income tax expense

During the period under review, the Group's income tax expense was RMB12,488,000 (for the six months ended 30 June 2011: RMB7,511,000), accounting for 27.62% of the total profit (for the six months ended 30 June 2011: 19.27%).

Profit and total comprehensive income

Due to the above factors, the Group's net profit for the period under review was RMB32,725,000, with an increase of about 3.98% compared with RMB31,471,000 for the six months ended 30 June 2011. Despite the facts that the costs of research and development investment, finance costs, factory lease, salary, other operation and administrative expenses were on the rise compared with the same period last year, the Group still managed to record an increase in gross profit and the profit during the period under review compared with the same period last year owing to the strenuous efforts of the Group's management and staff in maintaining the growth in sales volume while keeping its costs of sales under tight control.

Current assets and capital resources

Cash flow

As at 30 June 2012, the net amount of the Group's cash flow decreased to RMB72,957,000. The amounts arising from operating activities and financing activities were RMB69,152,000 and RMB7,227,000 respectively, while the cash outflow of investment activities recorded during the period under review was RMB134,114,000.

The net amount of the cash outflow arising from investment activities were RMB72,582,000 for the payment of purchasing properties, factories and facilities and RMB60,140,000 for the placement of pledged bank deposits.

Inventories

The inventories slightly increased to about RMB122,978,000 as at 30 June 2012, compared with about RMB112,933,000 as at 31 December 2011. It was mainly due to an increase in waste paper inventory. As at 30 June 2012, the inventory turnover days were about 45 days (31 December 2011: 41 days) which was at a normal level.

Trade receivables

As at 30 June 2012, the trade receivables amounted to RMB348,712,000 (31 December 2011: RMB302,287,000). The Group granted credit period of 30 to 150 days (31 December 2011: 30 to 120 days) to our paper-based packaging products customers and credit period of 30 to 75 days to our corrugated medium paper customers. The turnover days for trade receivables were extended to 97 days (31 December 2011: 94 days).

Trade payables

As at 30 June 2012, the trade payables amounted to RMB262,853,000 (31 December 2011: RMB285,678,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of our suppliers. The turnover days for trade payables were 105 days (31 December 2011: 105 days).

Bank borrowings

As at 30 June 2012, the balance of the Group's bank borrowings amounted to RMB563,424,000 (31 December 2011: RMB499,227,000).

As at 30 June 2012, total gearing ratio was about 36.31% (31 December 2011: 34.36%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio was 70.25%, which was calculated on the basis of the amount of borrowings less cash and bank balances as a percentage of the shareholders' interest (31 December 2011: 57.83%).

Pledge of assets

As at 30 June 2012, the Group pledged certain assets with carrying value of RMB584,150,000 as collateral for the Group's borrowing (31 December 2011: RMB605,995,000).

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 30 June 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules as the code for securities transactions by Directors. All the Directors, after specific enquiries by the Company, confirmed that they had complied with the required standards as set out in the Model Code throughout the period under review.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period under review.

CORPORATE GOVERNANCE

The Company had applied the principles of the Corporate Governance Code which became effective on 1 April 2012 (formerly the Code on Corporate Governance Practices) (the "**CG Code**") as set out in Appendix 14 to the Listing Rules and complied with the code provisions and certain recommended best practices set out in the CG Code throughout the period under review.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.zhengye-cn.com). The interim report for the six months ended 30 June 2012 will be dispatched to the shareholders and will be available on the aforesaid websites in due course.

AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2012 have not been audited but have been reviewed by Deloitte Touche Tohmatsu, the auditors of the Company, and the audit committee of the Company (comprised all the independent non-executive directors of the Company).

EVENTS AFTER THE REPORTING PERIOD

As at the date of approval of this interim condensed financial information, the Group has no event after the reporting period that need to be disclosed.

By order of the Board
Zhengye International Holdings Company Limited
Hu Zheng
Chairman

Hong Kong, 24 August 2012

As at the date of this announcement, the Board comprised Mr Hu Zheng, Mr Hu Hanchao and Mr Hu Hancheng as executive directors, Mr Hu Hanxiang as non-executive director and Mr Chung Kwok Mo John, Mr Wu Youjun and Mr Zhu Hongwei as independent non-executive directors.