

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2013**

FINANCIAL HIGHLIGHT:

- Revenue recorded a growth of 13.82% to RMB703,282,000 which was mainly generated from the growth in paper-based packaging products business from Central China;
- Gross profit slipped 1.19% to RMB135,659,000;
- Gross profit margin decreased from 22.22% to 19.29% due to the shutdown production for four weeks because of the technical improvement under the corrugated medium paper segment, it lowered the efficiency of production facilities;
- Profit decreased 22.31% to RMB25,425,000 during the period;
- Basic and diluted earnings per share decreased from RMB0.07 to RMB0.05 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 2013 (the “**period**” or the “**period under review**”) together with the comparative figures for the corresponding period in 2012 as set out below.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
	NOTES	(unaudited)	(unaudited)
Revenue	3	703,282	617,900
Cost of sales		<u>(567,623)</u>	<u>(480,605)</u>
Gross profit		135,659	137,295
Other income	4	10,439	6,189
Other gains and losses	5	546	(648)
Distribution and selling expenses		(27,803)	(23,704)
Administrative expenses		(43,179)	(40,330)
Finance costs	6	(22,707)	(18,260)
Research and development expenses		<u>(16,993)</u>	<u>(15,329)</u>
Profit before tax	7	35,962	45,213
Income tax expense	8	<u>(10,537)</u>	<u>(12,488)</u>
Profit and total comprehensive income for the period attributable to owners of the Company		<u>25,425</u>	<u>32,725</u>
EARNINGS PER SHARE			
Basic (RMB)	10	<u>0.05</u>	<u>0.07</u>
Diluted (RMB)	10	<u>0.05</u>	<u>0.07</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2013

		30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
	NOTES		
Non-current Assets			
Property, plant and equipment	11	587,624	553,146
Prepaid lease payments		94,093	66,315
Other intangible assets	12	4,452	5,171
Deposits paid for acquisition of property, plant and equipment		10,579	13,897
Deposit for leasehold land		-	28,800
		<u>696,748</u>	<u>667,329</u>
Current Assets			
Inventories		119,141	116,487
Trade and other receivables	13	873,308	685,188
Prepaid lease payments		2,178	1,592
Pledged bank deposits	14	156,532	206,338
Restricted bank deposits	14	403	415
Bank balances and cash	14	41,738	122,378
Tax recoverable		3,171	3,789
		<u>1,196,471</u>	<u>1,136,187</u>
Current Liabilities			
Trade and other payables	15	572,494	469,942
Tax liabilities		5,073	1,248
Borrowings	17	717,290	727,771
Obligations under finance leases		23,212	22,322
Amounts due to directors	16	929	2,048
Amount due to a related party	16	-	50
		<u>1,318,998</u>	<u>1,223,381</u>
Net Current Liabilities		<u>(122,527)</u>	<u>(87,194)</u>
Total Assets Less Current Liabilities		<u>574,221</u>	<u>580,135</u>
Capital and Reserves			
Share capital	18	41,655	41,655
Reserves		<u>466,702</u>	<u>456,117</u>
Total Equity		<u>508,357</u>	<u>497,772</u>
Non-current Liabilities			
Deferred tax liabilities	19	3,989	4,073
Deferred income		26,913	28,800
Borrowings	17	3,360	6,720
Obligations under finance leases		31,602	42,770
		<u>65,864</u>	<u>82,363</u>
		<u>574,221</u>	<u>580,135</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	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 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)	<u>41,655</u>	<u>92,968</u>	<u>76,369</u>	<u>2,231</u>	<u>(23,389)</u>	<u>288,004</u>	<u>477,838</u>
At 1 January 2013 (audited)	41,655	92,968	82,943	3,473	(23,389)	300,122	497,772
Profit and total comprehensive income for the period	-	-	-	-	-	25,425	25,425
Recognition of equity-settled share-based payments	-	-	-	560	-	-	560
Dividends recognised as distribution	-	-	-	-	-	(15,400)	(15,400)
At 30 June 2013 (unaudited)	<u>41,655</u>	<u>92,968</u>	<u>82,943</u>	<u>4,033</u>	<u>(23,389)</u>	<u>310,147</u>	<u>508,357</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Profit before tax	35,962	45,213
Adjustments for:		
Finance costs	22,707	18,260
Interest income	(1,900)	(1,813)
Government grants released to income	(1,887)	-
Depreciation of property, plant and equipment	18,827	12,757
Amortisation of prepaid lease payments	1,089	684
Amortisation of other intangible assets	719	719
Share-based payment expense	560	2,126
Loss on disposal of property, plant and equipment	23	-
Operating cash flows before movements in working capital	76,100	77,946
Increase in inventories	(2,654)	(10,045)
(Increase) decrease in trade and other receivables	(188,120)	9,085
Increase in trade and other payables	102,552	3,742
Decrease in amounts due to directors	(1,119)	(2,382)
Decrease in amounts due to related parties	(50)	(66)
Withdrawal of restricted bank deposits	12	1,613
Cash (used in) generated from operations	(13,279)	79,893
Income tax paid	(6,178)	(10,741)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(19,457)	69,152
INVESTING ACTIVITIES		
Interest received	1,900	1,813
Proceeds from disposals of property, plant and equipment	29	38
Purchase of property, plant and equipment	(40,113)	(72,582)
Deposits paid for acquisition of property, plant and equipment	(10,579)	(3,243)
Placement of pledged bank deposits	(160,489)	(199,740)
Withdrawal of pledged bank deposits	210,295	139,600
NET CASH FROM (USED IN) INVESTING ACTIVITIES	1,043	(134,114)

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Interest paid	(22,707)	(18,421)
Dividends paid	(15,400)	(27,800)
Repayments of obligations under finance leases	(10,278)	(10,749)
New bank and other borrowings raised	589,888	516,489
Repayment of bank and other borrowings	<u>(603,729)</u>	<u>(452,292)</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(62,226)</u>	<u>7,227</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(80,640)	(57,735)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>122,378</u>	<u>130,692</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u>41,738</u>	<u>72,957</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

1. BASIS OF PREPARATION

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 RMB122,527,000 as at 30 June 2013. On the basis that the Group has secured credit facilities of approximately RMB352,738,000 which remains unutilised at the date of the condensed consolidated financial statements ended 30 June 2013, 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

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.

HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangement and Disclosure of Interests in Other Entities: Transition Guidance
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Venture
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvement to HKFRSs 2009-2011 Cycle
HKAS (IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as describe below, the application of the above new or revised 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.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income”. The amendments to HKAS 1 also require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

3. SEGMENT INFORMATION

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

Six months ended 30 June 2013 (unaudited)

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
Segment Revenue			
External sales	452,990	250,292	703,282
Inter-segment sales	-	51,933	51,933
	<u>452,990</u>	<u>302,225</u>	<u>755,215</u>
Segment profit	<u>16,075</u>	<u>23,988</u>	40,063
Unallocated corporate expenses, net			<u>(4,101)</u>
Group's profit before tax			<u>35,962</u>

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	<u>-</u>	<u>47,351</u>	<u>47,351</u>
	<u>355,915</u>	<u>309,336</u>	<u>665,251</u>
Segment profit	<u>20,954</u>	<u>31,246</u>	52,200
Unallocated corporate expenses, net			<u>(6,987)</u>
Group's profit before tax			<u>45,213</u>

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	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Interest income	1,900	1,813
Government grant	8,419	3,800
Sundry income	<u>120</u>	<u>576</u>
	<u>10,439</u>	<u>6,189</u>

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Exchange (loss) gain, net	569	(648)
Loss on disposals of property, plant and equipment	<u>(23)</u>	<u>-</u>
	<u>546</u>	<u>(648)</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank and other borrowings wholly repayable within five years	20,648	17,783
Finance lease	2,059	477
	<u>22,707</u>	<u>18,260</u>

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	18,827	12,757
Amortisation of prepaid lease payments	1,089	684
Amortisation of other intangible assets (included in cost of sales)	719	719
Share-based payment expenses (included in administrative expenses)	560	2,126
	<u>18,827</u>	<u>12,757</u>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	10,621	10,539
Withholding Tax	-	3,200
Deferred tax (note 19)		
Current period	(84)	(1,251)
Income tax expense	<u>10,537</u>	<u>12,488</u>

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 (**“Zhongshan Yong Fa Paper”**) obtained the Certificate of High-Technology in 2009 for 3 years and the applicable income tax rate was 15% based on Certain Conditions 2. In 2012, Zheng Ye Packaging (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2015.

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 Company Limited (**“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. In 2013, the applicable income tax rate of Zheng Ye Alliance Packaging is 25%.

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) Company Limited (**“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. In 2013, the applicable income tax rate of Zheng Ye Packaging (Zhuhai) is 25%.

9. DIVIDENDS

During the current 2013 interim period, a final dividend of RMB3.08 cents per share in respect of the year ended 31 December 2012 (2012: a final dividend of RMB2.78 cents per share and a special dividend of RMB2.78 cents per share) 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 RMB15,400,000 (2012: RMB27,800,000).

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	
	2013	2012
	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	25,425	32,725
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	500,000,000	500,000,000

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 2012 (audited)	398,052
Additions of plant and equipment	108,159
Disposals of plant and equipment	(38)
Depreciation for the period	<u>(12,757)</u>
As at 30 June 2012 (unaudited)	493,416
As at 1 January 2013 (audited)	553,146
Additions of plant and equipment	53,732
Disposals of plant and equipment	(427)
Depreciation for the period	<u>(18,827)</u>
As at 30 June 2013 (unaudited)	587,624

12. OTHER INTANGIBLE ASSETS

	Development costs RMB'000
As at 1 January 2012 (audited)	6,609
Charge for the period	<u>(719)</u>
As at 30 June 2012 (unaudited)	<u>5,890</u>
As at 1 January 2013 (audited)	5,171
Charge for the period	<u>(719)</u>
As at 30 June 2013 (unaudited)	<u>4,452</u>

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 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Trade receivables	418,954	378,529
Advances to suppliers	4,995	5,348
Bills receivables	422,868	273,988
Prepayment	3,770	7,734
Other receivables	<u>22,721</u>	<u>19,589</u>
Total trade and other receivables	<u>873,308</u>	<u>685,188</u>

The Group allows a credit period of 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 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
0 to 60 days	351,969	307,456
61 to 90 days	36,349	37,936
91 to 180 days	29,110	33,086
Over 180 days	1,526	51
	<u>418,954</u>	<u>378,529</u>

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

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
0 to 60 days	144,654	62,635
61 to 90 days	97,460	36,017
91 to 180 days	180,754	166,521
Over 180 days	-	8,815
	<u>422,868</u>	<u>273,988</u>

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 RMB156,532,000 (31 December 2012: RMB206,338,000) 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 0.35% (31 December 2012: 0.01% to 0.35%) per annum. The pledged deposits carry interest rates which range from 0.35% to 3.30% (31 December 2012: 0.35% to 3.30%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

15. TRADE AND OTHER PAYABLES

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Trade payables	310,803	279,167
Bills payables – secured	158,532	115,354
Other taxes payables	43,788	32,082
Payroll and welfare payables	24,020	23,800
Construction payables	23,164	12,786
Others	12,187	6,753
	572,494	469,942

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 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
0 to 60 days	173,370	128,374
61 to 90 days	56,263	97,583
91 to 180 days	76,530	48,762
Over 180 days	4,640	4,448
	310,803	279,167

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

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
0 to 60 days	59,152	48,701
61 to 90 days	34,998	26,455
91 to 180 days	64,382	40,198
	158,532	115,354

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/A RELATED PARTY

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

17. BORROWINGS

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Bank loans, secured	<u>720,650</u>	<u>734,491</u>
Carrying amount repayable:		
On demand or within one year	717,290	727,771
More than one year, but not exceeding two years	<u>3,360</u>	<u>6,720</u>
	<u>720,650</u>	<u>734,491</u>

During the current period, the Group obtained new bank borrowings amounting to approximately RMB589,888,000 (six months ended 30 June 2012: RMB516,489,000).

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 2013	31 December 2012
Effective interest rate:		
Fixed rate borrowings	1.74% to 6.98% per annum	3.97% to 6.56% per annum
Variable rate borrowings	<u>Benchmark rate per annum</u>	<u>Benchmark rate per annum</u>

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 2012, 30 June 2012, 1 January 2013 and 30 June 2013	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
At 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013	<u>500,000,000</u>	<u>50,000,000</u>
		RMB'000
Presented as: (At 31 December 2012 and 30 June 2013)		<u>41,655</u>

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 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 2012 (unaudited)	<u>3,181</u>	<u>1,500</u>	<u>4,681</u>
At 1 January 2013 (audited)	2,573	1,500	4,073
Credit for the period	(84)	-	(84)
At 30 June 2013 (unaudited)	<u>2,489</u>	<u>1,500</u>	<u>3,989</u>

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 RMB260,737,000 (31 December 2012: RMB231,926,000).

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 “**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**”).

Pursuant to a resolution passed on 20 January 2012, the Company offered to grant the 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 the 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 2013	21,350,000
Granted during the period	<u>-</u>
Outstanding as at 30 June 2013	<u>21,350,000</u>

During the period, the Group recognised the expense of RMB560,000 in relation to the grant of the options by the Company (for the six months ended 30 June 2012: RMB2,126,000) .

21. MAJOR NON-CASH TRANSACTIONS

During the period, the Group did not record the non-cash transactions (for the six months ended 30 June 2012: RMB26,882,000).

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 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Buildings and construction in progress	25,975	43,555
Plant and machinery	161,536	101,267
Land use right	51,716	56,707
Trade receivables	21,963	93,280
Bills receivables	70,468	56,012
Pledge bank deposits	156,532	206,338
Inventories	<u>41,032</u>	<u>80,000</u>
	<u>529,222</u>	<u>637,159</u>

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 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Within one year	17,517	16,626
On the second to fifth year inclusive	28,291	34,845
After five years	16,351	20,118
	62,159	71,589

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 2013 RMB'000 (unaudited)	31 December 2012 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	19,161	62,216

25. RELATED PARTIES TRANSACTIONS AND BALANCES

(a) Name and relationship

<u>Name</u>	<u>Relationship</u>
Zhongshan City Zheng Ye (Group) Company Limited (“ Zheng Ye Group ”)	Controlled by the controlling shareholders of the Company
Zhongshan City Zhong Fa Equipment Rental Company Limited (“ Zhong Fa Equipment ”)	Controlled by the controlling shareholders of the Company

(b) Related parties transactions

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Rental expenses of property		
- Zheng Ye Group (Note)	<u>2,172</u>	<u>2,172</u>
Rental expenses of vehicles		
- Zhong Fa Equipment	<u>99</u>	<u>99</u>

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 2013.

(c) Operating lease commitments to related parties as lessee

	30 June	31 December
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(audited)
Within one year		
- Zheng Ye Group	1,947	4,344
- Zhong Fa Equipment	<u>99</u>	<u>198</u>
	<u>2,046</u>	<u>4,542</u>

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	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other benefits	7,414	6,593
Share-based payment	560	560
Retirement benefits scheme contributions	<u>121</u>	<u>34</u>
	<u>8,095</u>	<u>6,759</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Turnover

In the first half of 2013, amidst a complicated and uncertain international environment as well as a domestic economy that was seeking new balance, the paper manufacturing and paper-based packaging businesses continued to face challenges. Over the last year, however, there has been an ongoing demand by the Group's main customer base for small appliances and air conditioners, which in turn spurred the growth of the Group's two major core business, namely paper-based packaging products and corrugated medium paper. Leveraged on the operation of new production lines, the Group's expanded capacity boosted an increase in its sales and achieved continued turnover growth.

For the six months ended 30 June 2013, the Group's turnover amounted to RMB703,282,000. This represented a 13.82% growth from RMB617,900,000 for the same period last year. Zhengye International is one of China's most powerful integration manufacturers of corrugated medium paper and paper-based packaging products. All the sales from the Group were generated from the PRC market, amongst which turnover from paper-based packaging products and corrugated medium paper accounted for about 64.41% and 35.59% respectively (for the six months ended 30 June 2012: 57.60% and 42.40% respectively).

Paper-based packaging products

The Group's paper-based packaging products include corrugated cartons and honeycomb paper-based product. Turnover derived from its overall business recorded 27.27% growth from RMB 355,915,000 in the same period last year to RMB 452,990,000 during the period, amongst which turnover of the corrugated cartons accounted for 80.44% (for the six months ended 30 June 2012: 90.92%) and turnover of the honeycomb paper-based products accounted for 19.56% (for the six months ended 30 June 2012: 9.08%). The Group stays focused on providing paper-based packaging products to manufacturers of small home appliances and air conditioners. During the period, the Group provided more honeycomb paper-based product to substitute packaging materials that are harmful to the environment, including foams and plastic materials. A sound customer relationship and continuous delivery of quality products enable the Group to maintain its leading foothold in this industry. Meanwhile, the overseas market recorded a stronger demand as the US dollar continued to strengthen. Inelastic demand in the domestic small home appliances sector, in particular air conditioner-related businesses, once again boosted an industrial recovery. Moreover, during the period the Group commenced its additional production line that was newly established in the first half year. All of these factors spurred the sales growth.

Corrugated medium paper

Turnover of the corrugated medium paper business decreased by 4.46% from RMB 261,985,000 in the first six months of 2012 to RMB 250,292,000 in the first six months of 2013. Despite the impacts of the four-week technological transformation, an additional paper production line with a capacity of 80,000 tons commenced its operation upon its debugging, which boosted the sales of corrugated medium paper by 8% as compared against that during the same period last year. In the second half of 2012, however, the critical situation gradually stabilized in its due course. During the period, the average sales price of corrugated medium paper dropped by 11% as compared against that during the same period last year, resulting in a decrease in the sales of corrugated medium paper.

PROSPECT

In 2013, the macroeconomic recovery brings about positive reactions in the market. The continuous strengthening of US dollar also helps to restore China's export of home appliances. National policies steering the domestic demand will further promote the inelastic demand in the home appliance sector, thus fueling the growth momentum of the Group. As to the paper-based packaging products segment, in line with the recovery of China's overseas market for white goods, the Group's order volume continued to increase. The Ministry of Industry and Information Technology promulgated policies to phase out 274 paper manufacturers with a total production capacity of 6.2106 million tons of paper manufacturing capacity. The Group expects the upstream corrugated medium paper business will benefit from such policies. Thanks to such policies, the integration of the corrugated medium paper market is accelerated, adjustment is made to the supply-demand relationship, and the market price for the overall paper manufacturing industry in the long term will return to a more reasonable level. As a result, it is advantageous for the Group to adjust its product sales price in the future. In the future, the Group will proactively elevate the automation level for its equipment, streamline the employee structure, and reduce its energy consumption. As a result, the cost's downward adjustment will improve the Group's gross profit margin.

As of 31 July 2013, the Group announced the acquisition of 58.7% of equity interest in each of Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited* (中山聯合鴻興造紙有限公司) (“**Lian He**”) and Zhongshan Ren Hing Paper Manufacturing Company Limited* (中山聯興造紙有限公司) (“**Lian Xing**”) (collectively, the “**Target Group**”) at a total consideration of RMB 141,914,000. Upon such an acquisition, the Group will become one of the leading corrugated medium paper manufacturers in Guangdong region. The Target Group's paper mill, located in Zhongshan City, Guangdong Province, operates a production line for cardboard paper and two production lines for corrugated premium paper, with a designed production capacity of 400,000 tons. As of 31 December 2012, the unaudited combined net asset was approximately RMB 323,800,000. The major clients are the packaging and printing companies in China. To seize opportunities from the market's increasing demand for high-end corrugated premium paper, the Group believes that such an acquisition will timely provide additional production capacity for the Group to expand its business growth in the southern part of China and the customer base in this region. Meanwhile, owing to the close proximity of the Target Group's paper mill to the paper manufacturing base of the Group located in Zhongshan, the Group will be able to consolidate and integrate these two facilities in a short time. With confidence in self-owned technologies and orders from its existent customers, the Group will create synergic effects to increase the market share of high-end corrugated premium paper.

At the beginning of the year, it was proposed at the Central Economic Work Conference that more effort to promote urbanization should be taken. Moreover, Mr. Li Keqiang, Premier of the State Council, emphasized the vital role of urbanization in the expansion of domestic consumption, which delivered a positive signal to the consumer market, especially the domestic home appliances sector. Over the last year, the Group has secured a foothold before the industrial recovery, and has completed its high-speed capital investment period. As a result, the Group has successfully developed a broad sales network and production layout across the country, laying a solid foundation for its business growth in future. It is expected that the Group's sales revenue will increase due to the increasing production capacity in the factories of the Group's paper-packaging clients in Central China as well as more production capacity contributed by an additional production line in South China in the second half year. Upon entering into the investment return period, the Group will exercise strict control over all costs and expenses, and intensify effort to improve the gross profit. In the future, the Group's vertically-integrated operation model will demonstrate its advantageous economies of scale in all directions. In addition to the recovery in the household consumable market, the Group will continue to diversify its business portfolio, and intensify its effort to research and develop new products related to special corrugated medium paper with light weight and high intensity, while improving its techniques and technologies for better production efficiency and product quality. All of these aims seek a maximal investment return for the shareholders.

* For identification purposes only

Cost of sales

The Group's cost of sales increased from RMB480,605,000 for the six months ended 30 June 2012 to RMB567,623,000 for the period under review, representing an increase of 18.11%.

Paper-based packaging products

As for the paper-based packaging products, the cost of sales increased by RMB78,935,000 or 27.83% from RMB283,614,000 for the six months ended 30 June 2012 to RMB362,549,000 for the period under review.

Corrugated medium paper

As for the corrugated medium paper, the cost of sales increased by RMB8,083,000 or 4.10% from RMB196,991,000 for the six months ended 30 June 2012 to RMB205,074,000 for the period under review.

Gross profit and gross profit margin

Due to above mentioned factors, the gross profit decreased by RMB1,636,000 or 1.19% from RMB137,295,000 for the six months ended 30 June 2012 to RMB135,659,000 for the period under review. The overall gross profit margin of the Group for the period under review was 19.29% compared with 22.22% for the six months ended 30 June 2012.

The gross profit margin of paper-based packaging products slightly decreased from 20.31% for the six months ended 30 June 2012 to 19.97% for the period under review, a decrease of 1.67%.

The gross profit margin of corrugated medium paper decreased by 27.17% from 24.81% for the six months ended 30 June 2012 to 18.07% for the period under review. During the period under review, the corrugated medium paper segment shutdown production under the technical improvement for four weeks, it affected the gross profit margin indirectly. The testing of new production line with annual design capacity of 80,000 tonne caused the increment in cost of production. The drop of gross profit margin in corrugated medium paper was mainly due to the decline of selling price is higher than the decline from the raw materials price. With the technical aspects of the Group's strengths in paper making, the gross profit margin in the corrugated medium paper, the Group is still an industry leader.

Distribution and selling expenses

The Group's distribution and selling expenses increased by approximately 17.29% from RMB23,704,000 for the six months ended 30 June 2012 to RMB27,803,000 for the period under review, representing about 3.84% and 3.95% of the Group's turnover respectively. The increase was mainly attributable to increase in the transportation cost under the business expansion during the period under review.

Administrative expenses

The Group's administrative expenses increased by about 7.06% from RMB40,330,000 for the six months ended 30 June 2012 to RMB43,179,000 for the period under review, representing about 6.53% and 6.14% 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. The Group is still strictly control various expenditures to the proportion of turnover in order to control the expenditures growth during the period under review.

Finance costs

Finance costs of the Group increased by about 24.35% from RMB18,260,000 for the six months ended 30 June 2012 to RMB22,707,000 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 1.74 % to 6.98% per annum during the period under review, compared with 2.65% to 8.50% per annum in the same period last year.

Research and development expenses

Research and development expenses of the Group increased by around 10.86% from RMB15,329,000 for the six months ended 30 June 2012 to RMB16,993,000 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 RMB10,537,000 (for the six months ended 30 June 2012: RMB12,488,000), accounting for 29.30% of the total profit (for the six months ended 30 June 2012: 27.62%). The Group paid RMB4,297,000 as the supplementary enterprise income tax for the year 2008, 2009 and 2010.

Profit and total comprehensive income

Due to the above factors, the Group's net profit for the period under review was RMB25,425,000, with a decrease of about 22.31% compared with RMB32,725,000 for the six months ended 30 June 2012. This is mainly due to the decrease of the gross profit margin, and the continuous expansion of the businesses from the paper-based packaging segment in the Group. However, the paper-based packaging segment in Central China is still in capacity release stage. The finance costs, factory lease, salary, other operation and administrative expenses were on the huge rise compared with the same period last year. The owing to the strenuous efforts of the Group's management and staff in maintaining the growth in sales volume while work hard in solid management foundation, strengthens its costs of sales under tight control, develop a cost-effective product and provide a better service to customers that it achieves the comprehensive growth in profits and maximizes the rewards to shareholders.

Current assets and capital resources

Cash flow

As at 30 June 2013, the net amount of the Group's cash flow decreased to RMB41,738,000. The amounts arising from investing activities was RMB1,043,000, while the cash outflow of operating and financing activities recorded during the period under review were RMB19,457,000 and RMB62,226,000 respectively.

The net amount of the cash outflow arising from financing activities were RMB22,707,000 for the interest payment, RMB15,400,000 for the dividends paid and RMB10,278,000 for the repayments of obligations under finance leases.

Inventories

The inventories slightly increased to about RMB119,141,000 as at 30 June 2013, compared with about RMB116,487,000 as at 31 December 2012. It was mainly due to an increase in waste paper inventory. As at 30 June 2013, the inventory turnover days were about 44 days (31 December 2012: 43 days) which was at a normal level.

Trade receivables

As at 30 June 2013, the trade receivables amounted to RMB418,954,000 (31 December 2012: RMB378,529,000). The Group granted credit period of 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 116 days (31 December 2012: 100 days).

Bills receivables

As at 30 June 2013, the bills receivables amounted to RMB422,868,000 (31 December 2012: RMB273,988,000). The increases was mainly attributable to the majority customers of the paper-based packaging products segment from Central China used the bills to settle the payment.

Trade payables

As at 30 June 2013, the trade payables amounted to RMB310,803,000 (31 December 2012: RMB279,167,000). 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 110 days (31 December 2012: 105 days).

Borrowings

As at 30 June 2013, the balance of the Group's borrowings amounted to RMB720,650,000 (31 December 2012: RMB734,491,000).

As at 30 June 2013, total gearing ratio was about 38.06% (31 December 2012: 40.73%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio was 102.68%, 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 2012: 81.43%).

Pledge of assets

As at 30 June 2013, the Group pledged certain assets with carrying value of RMB529,222,000 as collateral for the Group's borrowing (31 December 2012: RMB637,159,000).

Capital commitments

As at 30 June 2013, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB19,161,000 (31 December 2012: RMB62,216,000). All the capital commitments were related to purchasing new properties, factories and facilities as well as the leasing land.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 30 June 2013.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding securities transactions by directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix 10 to the Listing Rules. All the Directors of the Company have confirmed that they have 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 adopted and complied with the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules 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 2013 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 2013 have not been audited but have been reviewed by the audit committee of the Company (comprised all the independent non-executive directors of the Company).

EVENTS AFTER THE REPORTING PERIOD

On 31 July 2013, the Group entered into the Lian He and Lian Xing Agreements to acquire 58.7% equity interest in each of Lian He and Lian Xing for an aggregate consideration of RMB141,914,000. Please refer to the Company’s announcement dated 31 July 2013 for details.

Up to the date of this announcement, the acquisition has not yet been completed.

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

Hong Kong, 23 August 2013

As at the date of this announcement, the Board comprised Mr Hu Zheng, Mr Hu Hancheng, Mr Hu Hanchao, Mr Chen Weixin and Mr Yin Wenxin 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.