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 2014

FINANCIAL HIGHLIGHT:

- Revenue recorded a growth of 12.05% to RMB788,017,000;

- Gross profit slipped 0.38% to RMB135,141,000;

- Gross profit margin decreased from 19.29% to 17.15% due to an extremely competitive in paper-making industry, which caused the Group's corrugated medium paper segment to lower its selling price per unit, and in the stage of integration and technical improvement from a newly acquired subsidiaries caused a low gross profit margin;

- Profit and total comprehensive income recorded RMB11,100,000 during the period. The profit and total comprehensive income for the period attributable to owners of the Company was RMB15,369,000, represented a decreased of 39.55% in the same period last year. It was mainly due to the expansion in the Group's paper-based packaging product and corrugated medium paper businesses. A newly acquire subsidiaries caused the increase in borrowings and finance leasing. In addition, the slightly depreciated of Reminbi caused the exchange losses which made a huge increment in finance costs. The businesses expansion caused the factory lease, salary, other operation and administrative expenses were on the large rise compared with the same period last year;

- Basic and diluted earnings per share were RMB0.03 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 2014 (the "**period**" or the "**period under review**") together with the comparative figures for the corresponding period in 2013 as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	NOTES	Six months ended 30 June **2014** **RMB'000** **(unaudited)**	 2013 RMB'000 (unaudited)
Revenue	**3**	**788,017**	703,282
Cost of sales		**(652,876)**	(567,623)
Gross profit		**135,141**	135,659
Other income	**4**	**15,694**	10,439
Other gains and losses	**5**	**(2,328)**	546
Distribution and selling expenses		**(31,991)**	(27,803)
Administrative expenses		**(51,375)**	(43,179)
Finance costs	**6**	**(33,152)**	(22,707)
Research and development expenses		**(15,848)**	(16,993)
Profit before tax	**7**	**16,141**	35,962
Income tax expense	**8**	**(5,041)**	(10,537)
Profit and total comprehensive income for the period		**11,100**	25,425
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**15,369**	25,425
Non-controlling interests		**(4,269)**	-
		11,100	25,425
EARNINGS PER SHARE			
Basic (RMB)	**10**	**0.03**	0.05
Diluted (RMB)	**10**	**0.03**	0.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	NOTES	**30 June 2014 RMB'000 (unaudited)**	31 December 2013 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment		**963,586**	604,449
Prepaid lease payments		**182,933**	94,123
Other intangible assets		**3,015**	3,733
Deferred tax assets		**287**	198
Deposits paid for acquisition of property, plant and equipment		**16,216**	7,528
Deposit for acquisition of subsidiaries		**-**	14,191
		1,166,037	724,222
Current Assets			
Inventories		**164,596**	127,333
Trade and other receivables	**11**	**1,101,373**	915,912
Prepaid lease payments		**4,679**	2,178
Short-term investment		**-**	10,000
Pledged bank deposits		**191,618**	154,957
Bank balances and cash		**65,033**	127,680
Tax recoverable		**2,843**	2,361
		1,530,142	1,340,421
Current Liabilities			
Trade and other payables	**12**	**737,392**	603,111
Tax liabilities		**7,812**	5,722
Borrowings		**988,169**	846,857
Obligations under finance leases		**31,531**	28,279
Amounts due to directors		**1,514**	3,141
Amounts due to non-controlling interests		**35,637**	-
		1,802,055	1,487,110
Net Current Liabilities		**(271,913)**	(146,689)
Total Assets Less Current Liabilities		**894,124**	577,533

	NOTES	**30 June 2014 RMB'000 (unaudited)**	31 December 2013 RMB'000 (audited)
Capital and Reserves			
Share capital	**13**	**41,655**	41,655
Reserves		**481,628**	476,545
Equity attributable to owners of the Company		**523,283**	518,200
Non-controlling interests		**97,814**	-
Total Equity		**621,097**	518,200
Non-current Liabilities			
Deferred tax liabilities		**2,361**	3,044
Deferred income		**23,800**	23,800
Borrowings		**212,853**	-
Obligations under finance leases		**34,013**	32,489
		273,027	59,333
		894,124	577,533

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

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 RMB271,913,000 as at 30 June 2014. On the basis that the Group has secured credit facilities of approximately RMB317,950,000 which remains unutilised as at the date of the announcement, 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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HKAS (IFRIC) - Int 21	Levies

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 2014 (unaudited)

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	**467,212**	**320,805**	**788,017**
Inter-segment sales	**-**	**40,819**	**40,819**
Segment revenue	**467,212**	**361,624**	**828,836**
Eliminations			**(40,819)**
Group Revenue			**788,017**
Segment profit	**17,107**	**5**	**17,112**
Unallocated corporate expenses, net			**(4,149)**
			12,963
Goodwill			**3,178**
Profit before tax			**16,141**

Six months ended 30 June 2013 (unaudited)

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

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	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Interest income	**2,764**	1,900
Government grant	**8,772**	8,419
Sundry income	**4,158**	120
	15,694	10,439

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014	2013
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Exchange (loss) gain, net	**(5,554)**	569
Gain (loss) on disposals of property, plant and equipment	**48**	(23)
Gain on bargain purchase	**3,178**	-
	(2,328)	546

6. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Interest on:		
Bank and other borrowings wholly repayable within five years	**29,220**	20,648
Loan from a non-controlling shareholder	**585**	-
Finance lease	**3,347**	2,059
	33,152	22,707

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2014	2013
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	**26,708**	**18,827**
Amortisation of prepaid lease payments	**1,712**	**1,089**
Amortisation of other intangible assets (included in cost of sales)	**718**	**719**
Share-based payment expenses (included in administrative expenses)	**164**	**560**

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	**5,774**	10,621
Hong Kong Profits Tax	**39**	-
Deferred tax		
Current period	**(772)**	(84)
Income tax expense	**5,041**	10,537

Hong Kong Profits Tax is calculated at 16.5% on the estimated profits for the period.

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 on 1 January 2008.

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 three 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. Starting at 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, Zheng Ye Packaging (Zhuhai) was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to 2015.

9. DIVIDENDS

During the current 2014 interim period, a final dividend of RMB2.09 cents per share in respect of the year ended 31 December 2013 (2013: a final dividend of RMB3.08 cents per share) was declared and paid to the owners of the Company. The aggregate amount of the dividend declared and paid in the interim period amounted to RMB10,450,000 (2013: RMB15,400,000).

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	
	2014	2013
	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	**15,369**	25,425
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

The computation of diluted earnings per share for the six months ended 30 June 2014 and 30 June 2013 does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares during the six months ended 2014 and 2013.

11. TRADE AND OTHER RECEIVABLES

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Trade receivables	**506,330**	415,373
Less: allowance for doubtful debts	**(1,318)**	(1,318)
	505,012	414,055
Advances to suppliers	**7,913**	4,462
Bills receivables	**535,342**	467,981
Prepayment	**11,224**	7,156
Other receivables	**41,882**	22,258
	588,448	497,395
Total trade and other receivables	**1,101,373**	915,912

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 goods delivery date at the end of the reporting period:

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
0 to 60 days	**440,486**	331,495
61 to 90 days	**42,213**	47,571
91 to 180 days	**21,226**	34,989
Over 180 days	**1,087**	-
	505,012	414,055

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
0 to 60 days	**171,104**	115,407
61 to 90 days	**228,122**	104,567
91 to 180 days	**123,779**	208,170
Over 180 days	**12,337**	39,837
	535,342	467,981

12. TRADE AND OTHER PAYABLES

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Trade payables	**544,313**	463,471
Bills payables – secured	**70,106**	50,935
Other taxes payables	**42,586**	43,912
Payroll and welfare payables	**38,271**	24,751
Construction payables	**14,302**	10,647
Advanced from customers	**14,898**	-
Accrued expenses	**7,380**	-
Others	**5,536**	9,395
	737,392	603,111

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
0 to 60 days	**403,563**	206,512
61 to 90 days	**102,746**	135,026
91 to 180 days	**33,345**	100,735
Over 180 days	**4,659**	21,198
	544,313	463,471

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
0 to 60 days	**29,522**	19,478
61 to 90 days	**15,584**	10,913
91 to 180 days	**25,000**	20,544
	70,106	50,935

The credit period on purchase of material is 30 to 150 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

13. SHARE CAPITAL

	Number of share	Share Capital HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	**1,000,000,000**	**100,000,000**
Issued and fully paid:		
At 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	**500,000,000**	**50,000,000**
		RMB'000
Presented as: (At 31 December 2013 and 30 June 2014)		**41,655**

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Turnover

During the six months ended 30 June 2014 (the "**period**" or the "**period under review**"), China's overall economy stabilized and bounced back, boosting the sales volume of major customers of the Group, including manufacturers of small home appliances and air conditioners. Such boost in return spurred the sales growth of the Group's two major core businesses, namely paper-based packaging products and corrugated medium paper. According to the official data from the Ministry of Industry and Information Technology of the PRC ("**MIIT**"), sales volume of home appliances for the first half of the year reported a year-on-year increase of 5.3%, while the overall performance of the white home appliances industry was stable and positive. In particular, the production volume of air conditioners reported a year-on-year increase of 14.4%. Furthermore, MIIT continued to devote more efforts to eliminate the obsolete overcapacities of the paper manufacturing industry so as to accelerate the structural adjustments and transformation and upgrade of the industry. As one of the most capable integrated manufacturers of corrugated medium paper and paper-based packaging products, the Group also benefits from opportunities from the industrial consolidation, whereby gradually increasing its market share.

In the first half of 2014, the Group proactively conducted internal integration and deployment of production capacity to improve production efficiency and optimise the resource allocation with a view to reducing costs in the long run. In respect of the corrugated medium paper business, the Group has upgraded and modified its part of the original production facilities of Zhongshan Yong Fa Paper Industry Company Limited ("**Zhongshan Yong Fa**"). Meanwhile, the Group has also completed the acquisition 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 referred to as "**Lian He and Lian Xing**") as new production capacities. During the period, these production capacities are in the stage of double testing and adjusting. The undergoing integration and technical transformation are planning gradually in second half of the year, which is expected to in general free up all production capacities in the fourth quarter, thus making positive contributions to the Group.

During the six months ended 30 June 2014, turnover of the Group was RMB788,017,000, representing an increase of 12.05% as compared to RMB703,282,000 in the same period last year. All of the Group's turnover was derived from the domestic market, among which turnover of paper-based packaging products and corrugated medium paper accounted for 59.29% and 40.71% of the turnover of the Group, respectively (six months ended 30 June 2013: 64.41% and 35.59%).

Paper-based packaging products

The Group's paper-based packaging products include corrugated cartons and honeycomb paper-based products, and its major customers are domestic manufacturers of small home appliances and air conditioners. During the period under review, turnover derived from its overall business recorded a growth of 3.14% from RMB452,990,000 in the same period last year to RMB467,212,000, amongst which turnover of corrugated cartons and honeycomb paper-based products accounted for 75.00% and 25.00% respectively (for the six months ended 30 June 2013: 80.44% and 19.56%). Corrugated cartons and honeycomb paper-based products both witnessed considerable growth in their production volume, while the downturn selling price of raw paper to lower the selling price of paper-based packaging products. It results a gentle growth in turnover, but the gross profits and gross profit margin recorded slightly growth in this segment.

* *For identification purpose only*

The increase in the turnover of the Group's paper-based packaging products was mainly attributable to the Group's organized strategic allocation of production and sales network as well as from the constant development demands for small home appliances during these two years. The Group has established its production plants in Zhongshan, Zhuhai, Shijiazhuang, Zhengzhou, Wuhan, Hefei and other cities as its main bases for production of home appliances, which can provide customers with comprehensive supporting services. With the gradual release of new production capacities, the production volume has ramped up, and the proactive distribution has presented results. In addition to maintaining customer resources from domestic manufacturers of small home appliances and air conditioners, the Group will also proactively expand its customer base to such leading enterprises in the foods and condiments industries and particularly in the electronic products industry. Therefore, the Group expanded its customer base to more and more industries, resulting in less dependence upon customers in one single industry. The Group has also innovated and launched an information platform to share resources with customers in real time, which can allow us to effectively realize organization, production and service rendering on a centralized basis so as to reduce costs while improving efficiency.

Corrugated medium paper

During the period under review, turnover of the corrugated medium paper business increased by 28.17% from RMB250,292,000 in the same period last year to RMB320,805,000. The increase in turnover was mainly due to the contribution from the newly-added production capacities of the newly-acquired Lian He and Lian Xing. Lian He and Lian Xing also made contribution to the production volume for the Group following the acquisition in April this year. The Group is planning in conducting modification on Lian He and Lian Xing to enhance their production efficiency, all of which are expected to be completed in the fourth quarter. By then all production capacities will be released.

Acquisition of 58.7% of equity interest in Lian He and Lian Xing

On 31 July 2013, the Group announced that it acquired 58.7% of equity interest in each of Lian He and Lian Xing for a total of RMB141,914,000. Such acquisition was completed in April 2014. Upon such completion, the Group becomes a leading corrugated medium paper manufacturer in Guangdong region. Lian He and Lian Xing, 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 per annum. The Group plans to modify the production capacity of cardboard paper into a production line of corrugated premium paper.

PROSPECT

According to the Medium-term and Long-term Reforms for the PRC Economic Development and 2014 Macroeconomic Control proposed at the Third Plenary Session of the 18th CPC Central Committee and the Central Economic Work Conference, "Seek steady progress through reform and innovation" serves the core task in the economic work for 2014, which also falls in line with the development strategy of the Group in 2014. With policies in place to navigate stable economic growth across the country, improve living standards of the people, constantly advance urbanization, and drive domestic consumption, the rigid demand for home appliances will be further stimulated, providing momentum for the Group to grow. In addition, in light of new requirements for addressing conflicts arising from industrial overcapacities as well as preventing and treating air pollution issues, the MIIT continues increasing efforts to eliminate obsolete overcapacities in the paper manufacturing industry, and plans on early completion of the task to eliminate obsolete overcapacities as defined in the Twelfth-five Year Plan in 2014. It is believed that such round of reforms will gradually alleviate pressure from the industrial overcapacities and vicious pricing competition, while improving the supply-demand relationship. Therefore, the Group will embrace broader landscape for its development.

Benefiting from external opportunities arising from structural integration, transformation, and upgrades for the industry, the Group will also consider internal integration and capacity allocation as important work of the Group for the year. As previously mentioned, the Group successfully completed the acquisition of Lian He and Lian Xing this April. As a result, such acquisition enables the Group to adopt strategies suitable for the centralized procurement system and common resources, strengthen its bargaining power for the purchase of raw materials, and lower purchasing costs. In terms of sales, as Chinese companies engaged in the packaging and printing sectors are major clients of Lian He and Lian Xing, the Group fully plays such client network to its advantage for further development of products oriented by the market, therefore diversifying its income sources. On the other hand, given the proximity of Lian He and Lian Xing to our Zhongshan paper manufacturing base, the Group will achieve integration and consolidation processes in short time, and confidently utilize its knowledge about the saleable market to redefine the product mix through technological upgrades. By utilizing self-developed technologies and synergic effects of current customers' orders, the Group aims to maximize the economic benefits of all production lines.

The Group is also proactively adjusting its product mix by focusing on the manufacture of more valuable products to boost the profitability. Following the upgrade and transformation of new production capacities, normal production capacities will be freed up. In the second half of this year, the production capacity is expected to reach its estimation, making positive contributions to the overall revenue of the Group.

In the first half of 2014, following its assessment over the current situations, the Group implemented a series of internal consolidation measures to launch technological upgrades and transformation for its production lines, while adjusting its product mix to boost its production efficiency. In doing so, the Group fully made early preparation for the industrial recovery. Following completion of its fast-growing investment period, the Group currently enters the period of business returns. As the Group successfully deployed sizeable strategic marketing network and production arrangement across the country, eight major home appliance manufacturing bases, located in Zhongshan, Zhuhai, Wuhan, Shijiazhuang, Zhengzhou, Hefei in the South, Central, North, and East China regions, have laid solid foundation for the Group's future business growth. The Group's vertical integrated business model involving its upstream, midstream, and downstream businesses, namely, waste paper recycling, paper-based packaging products and high-strength corrugated medium paper production, and seamlessly linked packaging services, will significantly demonstrate its economies of scale and advantages of costs along with its overall competitive strength. Therefore, clients will be provided with ancillary services on a highly-efficient, thorough, and premium basis. In the second half of this year, the Group will prepare itself well to seize opportunities arising from the macroeconomic recovery, capture more market share, and generate larger returns to its shareholders.

Cost of sales

The Group's cost of sales increased from RMB567,623,000 for the six months ended 30 June 2013 to RMB652,876,000 for the period under review, representing an increase of 15.02%.

Paper-based packaging products

As for the paper-based packaging products, the cost of sales decreased by RMB2,321,000 or 0.64% from RMB362,549,000 for the six months ended 30 June 2013 to RMB360,228,000 for the period under review.

Corrugated medium paper

As for the corrugated medium paper, the cost of sales increased by RMB87,574,000 or 42.70% from RMB205,074,000 for the six months ended 30 June 2013 to RMB292,648,000 for the period under review.

Gross profit and gross profit margin

Due to above mentioned factors, the gross profit slightly decreased by RMB518,000 or 0.38% from RMB135,659,000 for the six months ended 30 June 2013 to RMB135,141,000 for the period under review. The overall gross profit margin of the Group for the period under review was 17.15% compared with 19.29% for the six months ended 30 June 2013.

The gross profit margin of paper-based packaging products increased from 19.97% for the six months ended 30 June 2013 to 22.90% for the period under review, an increase of 14.67%.

The gross profit margin of corrugated medium paper decreased by 51.41% from 18.07% for the six months ended 30 June 2013 to 8.78% for the period under review. During the period under review, an extremely competitive in paper industry caused a decrease of 3.3% in the selling price per unit in corrugated medium paper compared with the same period last year. Also, two production lines from Lian He and Lian Xing are undergoing the double testing and adjusting under the technical improvement, which unable to generate the profits. Despite of a huge improvement in negative gross profit after the acquisition, a gross profit margin is still between -1.10% and 0.14%. As sum up the above various factors, it caused the decreased in gross profit and gross profit margin of the corrugated medium paper segment during the period.

Distribution and selling expenses

The Group’s distribution and selling expenses increased by approximately 15.06% from RMB27,803,000 for the six months ended 30 June 2013 to RMB31,991,000 for the period under review, representing about 3.95% and 4.06% 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 18.98% from RMB43,179,000 for the six months ended 30 June 2013 to RMB51,375,000 for the period under review, representing about 6.14% and 6.52% of the Group’s turnover respectively. The increase was mainly due to our planned business expansion in paper-based packaging segment and completed the shares acquisition of Lian He and Lian Xing during the period under review; it 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 46.00% from RMB22,707,000 for the six months ended 30 June 2013 to RMB33,152,000 for the period under review, which was mainly due to the increase in bank borrowings and finance leases for further expansion in the Group’s paper-based packaging product and corrugated medium paper businesses.

Interest rates of bank borrowings were at fixed rates ranging from 1.95 % to 7.80% per annum during the period under review, compared with 1.74% to 6.98% per annum in the same period last year.

Research and development expenses

Research and development expenses of the Group decreased by around 6.74% from RMB16,993,000 for the six months ended 30 June 2013 to RMB15,848,000 for the period under review. The research and development expenses during the period was 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 RMB5,041,000 (for the six months ended 30 June 2013: RMB10,537,000), accounting for 31.23% of the total profit (for the six months ended 30 June 2013: 29.30%).

Profit and total comprehensive income

The Group's profit and total comprehensive income for the period under review was RMB11,100,000, the profit for the period attributable to owners of the Company was RMB15,369,000, represented a decreased of 39.55% compared with RMB25,425,000 for the six months ended 30 June 2013. This is mainly due to the planned expansion in the Group's paper-based packaging product and corrugated medium paper businesses in the period. The increase in borrowings and finance leasing are because the completed of share acquisition of Lian He and Lian Xing within the period. In addition, the depreciated of Reminbi caused the exchange losses which made a huge increment in finance costs. The businesses expansion caused the finance costs, factory lease, salary, other operation and administrative expenses were on the large 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 2014, the net amount of the Group's cash flow decreased to RMB65,033,000. The amounts arising from operating and financing activities were RMB33,320,000 and RMB86,730,000 respectively, while the cash outflow of investing activity recorded during the period under review was RMB182,697,000.

The net amount of the cash outflow arising from investing activities were RMB124,545,000 for the net cash outflow on acquisition of subsidiaries and RMB60,635,000 for the purchase of property, plant and equipment.

Inventories

The inventories increased to about RMB164,596,000 as at 30 June 2014, compared with about RMB127,333,000 as at 31 December 2013. It was mainly due to an increase in waste paper inventory and finished goods for a newly acquired of Lian He and Lian Xing. As at 30 June 2014, the inventory turnover days were about 40 days (31 December 2013: 38 days) which was at a normal level.

Trade receivables

As at 30 June 2014, the trade receivables amounted to RMB505,012,000 (31 December 2013: RMB414,055,000). 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 105 days (31 December 2013: 100 days).

Bills receivables

As at 30 June 2014, the bills receivables amounted to RMB535,342,000 (31 December 2013: RMB467,981,000). 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 2014, the trade payables amounted to RMB544,313,000 (31 December 2013: RMB463,471,000). The Group managed to obtain a credit period of 30 to 150 days from the majority of our suppliers. The turnover days for trade payables were 139 days (31 December 2013: 115 days).

Borrowings

As at 30 June 2014, the balance of the Group's borrowings amounted to RMB1,201,022,000 (31 December 2013: RMB846,857,000). The increases in borrowings are mainly due to the additional businesses expansion of paper-based packaging products and a completion on acquired of Lian He and Lian Xing. Also, the Group bear a long-term borrowings of RMB212,853,000 borrowed by Lian He and Lian Xing before the acquisition, which this borrowings will be repayable within 10 years.

Gearing ratio

As at 30 June 2014, total gearing ratio was about 44.55% (31 December 2013: 41.02%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio was 152.05%, 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 2013: 108.88%).

Pledge of assets

As at 30 June 2014, the Group pledged certain assets with carrying value of RMB642,360,000 as collateral for the Group's borrowing (31 December 2013: RMB662,345,000).

Capital commitments

As at 30 June 2014, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB50,042,000 (31 December 2013: RMB282,089,000). 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 2014.

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 2014 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 2014 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

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, 22 August 2014

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 Prof. Zhu Hongwei as independent non-executive directors.