# 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 2017

**FINANCIAL HIGHLIGHT:**

- Revenue recorded a growth of 21.43% to RMB1,158,424,000;
- Gross profit climbed up 33.75% to RMB272,461,000;
- Gross profit margin increased from 21.35% to 23.52%;
- Profit and total comprehensive income recorded RMB101,714,000 during the period. The profit and total comprehensive income for the period attributable to owners of the Company was RMB86,611,000, represented an increase of 161.69% in the same period last year.
- Basic earnings per share was RMB0.17 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 2017 (the "**period**" or the "**period under review**") together with the comparative figures for the corresponding period in 2016 as set out below.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **RMB'000** | RMB'000 |
| | NOTES | **(unaudited)** | (unaudited) |
| Revenue | **3** | **1,158,424** | 953,989 |
| Cost of sales | | **(885,963)** | (750,275) |
| Gross profit | | **272,461** | 203,714 |
| Other income | **4** | **6,766** | 5,576 |
| Other gains and losses | **5** | **(3,540)** | (17,884) |
| Distribution and selling expenses | | **(40,052)** | (32,893) |
| Administrative and other expenses | | **(70,362)** | (66,547) |
| Finance costs | **6** | **(22,167)** | (20,595) |
| Research and development expenses | | **(29,221)** | (24,071) |
| Profit before tax | **7** | **113,885** | 47,300 |
| Income tax expense | **8** | **(12,171)** | (8,796) |
| Profit and total comprehensive income for the period | | **101,714** | 38,504 |
| PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO: | | | |
| Owners of the Company | | **86,611** | 33,097 |
| Non-controlling interests | | **15,103** | 5,407 |
| | | **101,714** | 38,504 |
| EARNINGS PER SHARE | | | |
| Basic (RMB) | **10** | **0.17** | 0.06 |
| Diluted (RMB) | | **N/A** | N/A |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
AT 30 JUNE 2017

| | NOTES | **30 June 2017 RMB'000 (unaudited)** | 31 December 2016 RMB'000 (audited) |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **900,047** | 920,248 |
| Prepaid lease payments | | **161,176** | 163,298 |
| Investment property | | **13,683** | 13,773 |
| Other intangible assets | | **932** | 1,074 |
| Deferred tax assets | | **2,370** | 2,235 |
| Deposits paid for acquisition of property, plant and equipment | | **13,955** | 12,696 |
| | | **1,092,163** | 1,113,324 |
| **Current Assets** | | | |
| Inventories | | **131,865** | 130,663 |
| Trade and other receivables | **11** | **918,162** | 894,373 |
| Prepaid lease payments | | **4,720** | 4,720 |
| Pledged bank deposits | | **122,581** | 123,367 |
| Bank balances and cash | | **154,541** | 159,518 |
| | | **1,331,869** | 1,312,641 |
| **Current Liabilities** | | | |
| Trade and other payables | **12** | **682,654** | 739,835 |
| Tax liabilities | | **11,236** | 11,856 |
| Bank borrowings | | **622,399** | 636,873 |
| Other borrowings | | **61,498** | 65,234 |
| Obligations under finance leases | | **371** | 350 |
| Amounts due to directors | | **1,400** | 2,389 |
| | | **1,379,558** | 1,456,537 |
| **Net Current Liabilities** | | **(47,689)** | (143,896) |
| **Total Assets Less Current Liabilities** | | **1,044,474** | 969,428 |

| | NOTES | **30 June 2017 RMB'000 (unaudited)** | 31 December 2016 RMB'000 (audited) |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | **13** | **41,655** | 41,655 |
| Reserves | | **725,557** | 638,721 |
| Equity attributable to owners of the Company | | **767,212** | 680,376 |
| Non-controlling interests | | **142,865** | 127,762 |
| **Total Equity** | | **910,077** | 808,138 |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | **5,007** | 5,007 |
| Deferred income | | **12,709** | 12,966 |
| Bank borrowings | | **98,792** | 115,356 |
| Other borrowings | | **10,442** | 20,143 |
| Obligations under finance leases | | **7,447** | 7,818 |
| | | **134,397** | 161,290 |
| | | **1,044,474** | 969,428 |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 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 RMB47,689,000 as at 30 June 2017. On the basis that the Group has secured credit facilities of approximately RMB418,280,000 which remains unutilised as at 30 June 2017. Being in the year 2017, the board anticipate to control the capital expenditure strictly in order to achieve a reasonable level of debt continuously. 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 as described below, the accounting policies and method of computations used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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 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 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| Amendment to HKAS 7 | Disclosure Initiative |
| Amendment to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014 – 2016 Cycle |

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 2017 (unaudited)**

| | Paper-based packaging **RMB'000** | Corrugated medium paper **RMB'000** | Total **RMB'000** |
|---|---|---|---|
| **REVENUE** | | | |
| External sales | **435,569** | **722,855** | **1,158,424** |
| Inter-segment sales | **-** | **60,169** | **60,169** |
| Segment revenue | **435,569** | **783,024** | **1,218,593** |
| Eliminations | | | **(60,169)** |
| Group Revenue | | | **1,158,424** |
| Segment profit | **26,711** | **87,120** | **113,831** |
| Unallocated corporate income, net | | | **54** |
| Profit before tax | | | **113,885** |

Six months ended 30 June 2016 (unaudited)

| | Paper-based packaging RMB'000 | Corrugated medium paper RMB'000 | Total RMB'000 |
|---|---|---|---|
| **REVENUE** | | | |
| External sales | 344,851 | 609,138 | 953,989 |
| Inter-segment sales | - | 36,245 | 36,245 |
| Segment revenue | 344,851 | 645,383 | 990,234 |
| Eliminations | | | (36,245) |
| Group Revenue | | | 953,989 |
| Segment profit | 6,154 | 42,611 | 48,765 |
| Unallocated corporate expenses, net | | | (1,465) |
| Group's profit before tax | | | 47,300 |

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 | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Interest income | **989** | 1,147 |
| Government grant | **5,769** | 3,011 |
| Sundry income | **8** | 1,418 |
| | **6,766** | 5,576 |

## 5. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Exchange loss, net | **(555)** | (17,906) |
| (Loss) gain on disposals of property, plant and equipment | **(2,985)** | 22 |
| | **(3,540)** | (17,884) |

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Interest on: | | |
| Bank and other borrowings wholly repayable within five years | **21,250** | 17,372 |
| Loan from a non-controlling shareholder | **657** | 1,187 |
| Finance lease | **260** | 2,036 |
| | **22,167** | 20,595 |

## 7. PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Profit before tax has been arrived at after charging the following items: | | |
| Depreciation of property, plant and equipment | **33,531** | 26,217 |
| Amortisation of prepaid lease payments | **2,122** | 1,630 |
| Amortisation of other intangible assets (included in cost of sales) | **142** | 1,504 |

## 8. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Current tax: | | |
| PRC Enterprise Income Tax | **12,306** | 7,958 |
| Hong Kong Profits Tax | **-** | - |
| Withholding tax | **-** | 1,000 |
| Deferred tax | | |
| Current period | **(135)** | (162) |
| Income tax expense | **12,171** | 8,796 |

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 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%.

Zheng Ye Packaging (Zhongshan) Company Limited* (正業包裝(中山)有限公司) ("**Zheng Ye Packaging (Zhongshan)**") and Zhongshan Yong Fa Paper Industry Company Limited* (中山永發紙業有限公司) ("**Zhongshan Yong Fa Paper**") obtained the Certificate of High-Technology in 2009 for three years and the applicable income tax rate was 15% in 2012 based on certain condition. In 2012 and 2015, 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 2018.

In 2013, Zhuhai Zheng Ye Packaging Company Limited* (正業包裝(珠海)有限公司) ("**Zheng Ye Packaging (Zhuhai)**") was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2016. In 2016, Zheng Ye Packaging (Zhuhai) has renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2019.

* *For identification purpose only*

## 9. DIVIDENDS

The directors have determined that no interim dividend has been paid for the six months ended 30 June 2017.

## 10. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| **Earnings** | | |
| Profit for the period attributable to owners of the Company for the purpose of basic earnings per share | **86,611** | 33,097 |
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic earnings per share | **500,000,000** | 500,000,000 |

## 11. TRADE AND OTHER RECEIVABLES

| | **30 June 2017** | 31 December 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (audited) |
| Trade receivables | **491,142** | 495,670 |
| Less: allowance for doubtful debts | **(10,680)** | (8,357) |
| | **480,462** | 487,313 |
| Advances to suppliers | **3,507** | 3,213 |
| Bills receivables | **397,538** | 384,355 |
| Prepayment | **9,252** | 2,895 |
| Other receivables | **27,403** | 16,597 |
| | **434,193** | 403,847 |
| Total trade and other receivables | **918,162** | 894,373 |

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 dates of delivery of goods, at the end of the reporting period:

| | **30 June 2017 RMB'000 (unaudited)** | 31 December 2016 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **376,104** | 337,209 |
| 61 to 90 days | **51,084** | 70,438 |
| 91 to 180 days | **44,256** | 57,450 |
| Over 180 days | **9,018** | 22,216 |
| | **480,462** | 487,313 |

The aged analysis of bills receivables, presented based on dates of delivery of goods, at the end of the reporting period are analysed as follows:

| | **30 June 2017 RMB'000 (unaudited)** | 31 December 2016 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **100,336** | 34,724 |
| 61 to 90 days | **77,242** | 115,994 |
| 91 to 180 days | **170,267** | 189,342 |
| Over 180 days | **49,693** | 44,295 |
| | **397,538** | 384,355 |

## 12. TRADE AND OTHER PAYABLES

| | **30 June 2017 RMB'000 (unaudited)** | 31 December 2016 RMB'000 (audited) |
|---|---|---|
| Trade payables | **327,642** | 399,690 |
| Bills payables – secured | **239,796** | 218,971 |
| Other taxes payables | **83,539** | 62,347 |
| Payroll and welfare payables | **21,123** | 25,430 |
| Construction payables | **-** | 4,450 |
| Advanced from customers | **10,085** | 9,572 |
| Others | **469** | 19,375 |
| | **682,654** | 739,835 |

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

| | **30 June 2017 RMB'000 (unaudited)** | 31 December 2016 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **158,026** | 255,885 |
| 61 to 90 days | **41,879** | 50,686 |
| 91 to 180 days | **112,084** | 82,316 |
| Over 180 days | **15,653** | 10,803 |
| | **327,642** | 399,690 |

The aged analysis of the Group's bills payables presented based on dates of receipt of goods at the end of the reporting period are analysed as follows:

| | **30 June 2017 RMB'000 (unaudited)** | 31 December 2016 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **29,748** | 65,130 |
| 61 to 90 days | **35,887** | 8,950 |
| 91 to 180 days | **75,861** | 89,341 |
| Over 180 days | **98,300** | 55,550 |
| | **239,796** | 218,971 |

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.

## 13. SHARE CAPITAL

| | **Number of share** | **Share Capital** HK$ |
|---|---|---|
| Ordinary shares of HK$0.10 each | | |
| Authorised: | | |
| At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017 | **1,000,000,000** | **100,000,000** |
| Issued and fully paid: | | |
| At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017 | **500,000,000** | **50,000,000** |
| | | RMB'000 |
| Presented as: (At 31 December 2016 and 30 June 2017) | | **41,655** |

## MANAGEMENT DISCUSSION AND ANALYSIS

### <u>Business review</u>

China is energetically promoting supply-side structural reform to adjust industrial structure with a focus on quality development. Against the backdrop of the national campaign for energy conservation and environmental protection, the environmental requirements on the paper-making industry become increasingly higher as there are a growing amount of policies setting targets to quicken the pace of eliminating excess and backward production capacity in the industry. With tightening regulations of the environmental protection authority, it makes the paper industry continues to accelerate the elimination of backward production capacity. Moreover, with the rapid development in online shopping and logistics industries, the demand of packaging paper increased significantly; it can improved the demand and supply relationship in paper industry, and resulted the substantial growth in base paper prices, which unfolded a "new normal" of the paper-making industry.

With more backward production capacity withdrew from the market, a premium paper packaging enterprises with large-scale in industry will become an advantages in attracting market orders or adjusting prices. The Group has taken the initiative in seizing opportunities in recent years and pursuing internal improvements in various aspects amidst industry integration. Thanks to such efforts, it saw gradual improvements in efficiency and cost control during the year.

### Turnover

Driven the ongoing industry integration, paper prices and demand picked up, bringing considerable income to the Group. For the six months ended 30 June 2017, the Group recorded a turnover of RMB1,158,424,000, up 21.43% year-on-year. The sales of paper-based packaging products and corrugated medium paper products accounted for 37.60% and 62.40% of the total sales, respectively. In addition, the Group's gross profit for the period amounted to RMB272,461,000, up 33.75% year-on-year. As the Group's one-stop production chain effectively withstood the volatility of raw material prices, coupled with its flexible business strategy, its gross profit margin increased by 2.17 percentage points to 23.52% as compared with the same period of last year. Profit and total comprehensive income attributable to owners of the Company for the period was RMB86,611,000, up by 161.69% year on year.

As the leading provider of paper packaging and corrugated medium paper services in the Pearl River Delta, the Group has no fear of the fickle external environment and achieved shining performance during the period by virtue of its integrated production mode and excellent customer service system.

*Paper-based packaging products*

The Group's paper-based packaging products, mostly corrugated cartons and honeycomb paper-based products, are mainly sold to leading industry players such as small home appliance and air-conditioner makers, electronics manufacturers and food seasonings manufacturers.

During the period, driven by the improving macroeconomic environment and growing domestic consumption needs, the demands for paper-based packaging products from small home appliance and air-conditioner makers were on the rise. In addition, the Group made R&D investment to design more diversified packaging products, thereby boosting orders for electronics packaging products and enhancing the Group's overall sales performance during the period. Moreover, the rising price in base paper also pushed up product prices. As a result, during the period, the Group's overall turnover of paper-based packaging products increased considerably by 26.31% year on year to RMB435,569,000 (for the six months ended 30 June 2016: RMB344,851,000). Corrugated cartons and honeycomb paper-based products accounted for 76.82% and 23.18% of the overall turnover (for the six months ended 30 June 2016: 76.20% and 23.80%), respectively.

*Corrugated medium paper*

In recent years, the supply and demand in base paper has improved after eliminating backward production capacity by the government. In the case of reduced production capacity and increasing the market demand, it made the paper prices rose sharply; the raised paper prices by many paper-making enterprises which recorded a substantial increase of turnover in corrugated medium paper at the first half of the year. The turnover of corrugated medium paper jumped by 18.67% year on year to RMB722,855,000 (for the six months ended 30 June 2016: RMB609,138,000).

## PROSPECT

As the actual amount of outdated production capacity phased out every year was greater than the target amount set by the Ministry of Industry and Information Technology, overcapacity in the industry has been greatly mitigated and quality capacity is expected to gradually replace backward capacity in the coming years. Under the supply-demand restructuring in the industry, paper prices experienced a wave of growth.

In 2017, the Chinese government maintained its grip on environmental protection and supervision and issued an array of new environmental regulations and notices, such as the Implementation Plan for the Permit System of Pollutants Discharge Control issued by the General Office of the State Council in November 2016 which requires local governments to build a system for approving and issuing emission permits to paper-making enterprises and to carry out environmental supervision and law enforcement duties. To adapt to the increasingly stringent policy control and environmental requirements, the Group always follows the state's environmental guidelines closely to develop green industry by adopting targeted management measures for its plants in recent years and constantly improving the specifications of its environmental protection equipment. The Group has put in place in its plants environmental protection equipment that meets national standards, including sewage stations, thermoelectric sub-plants and automatic boiler emissions monitoring devices, and regularly monitors the emissions of waste gas, sewage and waste and reviews the effectiveness of its environmental protection work. The Group will continue to improve its environmental protection equipment as planned to uphold its long-lived green business philosophy and consolidate its advantages in the industry.

In terms of internal resource integration, the Group began to invest heavily in integrating resources of its regional plants several years ago with a focus on refining internal systems to manage productivity with an indicator system and optimize the cost structure. In the previous year, the Group managed to reduce over 10% of workers without undermining productivity. Looking forward, the Group will continue to invest in upgrading production flow to save energy and improve efficiency, and proactively plan for smart factories with automated production to realize Industry 4.0 and maximize the overall production efficiency.

By virtue of the design and quality of its packaging products, the Group enjoys a good reputation in the industry and maintains premium brand status. In the second half of the year, the Group will continue to improve the R&D capability of its design department and reasonably allocate resources worth a certain proportion of revenue to maintain R&D investment, in a hope to adjust product specifications and enrich product categories for customers in due time through the Group's integrated packaging product solutions. Meanwhile, the Group will maintain sound and stable partnership with industry-leading enterprise customers. In addition, the Group will ride the boom of the e-commerce industry to grasp the opportunities in the e-commerce packaging market by seeking cooperation with logistics companies or e-commerce enterprises through negotiation and developing personalized, high-quality and cost-effective products to broaden its customer mix and income sources.

In the second half of 2017, the Group will continue to improve its internal operations and governance by vigorously optimizing the distribution of production capacity, improving production efficiency and controlling supervisory costs, and seize the market opportunities arising from industry integration and environmental policies to maintain its leading position in the paper-based packaging and corrugated medium paper sector with strong R&D capacity, excellent product quality, efficient management system and valuable customer services, so as to enhance market competitiveness and expand market share. The Group believes that its experienced management team will be able to bring about greater profitability and maximize benefits and returns for the Company and its shareholders.

**Cost of sales**

The Group’s cost of sales increased from RMB750,275,000 for the six months ended 30 June 2016 to RMB885,963,000 for the period under review, representing an increase of 18.09%.

*Paper-based packaging products*

As for the paper-based packaging products, the cost of sales increased by RMB54,289,000 or 18.98% from RMB286,023,000 for the six months ended 30 June 2016 to RMB340,312,000 for the period under review.

*Corrugated medium paper*

As for the corrugated medium paper, the cost of sales increased by RMB81,399,000 or 17.53% from RMB464,252,000 for the six months ended 30 June 2016 to RMB545,651,000 for the period under review.

**Gross profit and gross profit margin**

Due to above mentioned factors, the gross profit increased by RMB68,747,000 or 33.75% from RMB203,714,000 for the six months ended 30 June 2016 to RMB272,461,000 for the period under review. The overall gross profit margin of the Group for the period under review was 23.52% compared with 21.35% for the six months ended 30 June 2016.

During the period, the gross profit margin of paper-based packaging products rose back to 21.87% (for the six months ended 30 June 2016: 17.06%), mainly due to the Group's tactical reduction in orders with relatively low gross profit and profitability, streamlined staff and improved production efficiency that effectively maintained the lucrative orders and an optimal customer structure and laid a solid foundation for long-term business growth and even industry development.

During the period, thanks to the increase selling price of corrugated medium paper within the Group, its gross profit margin of corrugated medium paper rose year on year by 0.72 percentage points to 24.51% (for the six months ended 30 June 2016: 23.79%).

**Distribution and selling expenses**

The Group's distribution and selling expenses increased by approximately 21.76% from RMB32,893,000 for the six months ended 30 June 2016 to RMB40,052,000 for the period under review, representing about 3.45% and 3.46% of the Group's turnover respectively.

**Administrative and other expenses**

The Group's administrative and other expenses slightly increased by about 5.73% from RMB66,547,000 for the six months ended 30 June 2016 to RMB70,362,000 for the period under review, representing about 6.98% and 6.07% of the Group's turnover respectively. Administrative and other expenses mainly included salaries of management, staff welfare, rent and depreciation.

**Finance costs**

Finance costs of the Group rose by about 7.63% from RMB20,595,000 for the six months ended 30 June 2016 to RMB22,167,000 for the period under review.

Interest rates of bank borrowings were at fixed rates ranging from 1.95% to 7.22% per annum during the period under review, compared with 1.95% to 7.22% per annum in the same period last year.

**Research and development expenses**

Research and development expenses of the Group increased by around 21.40% from RMB24,071,000 for the six months ended 30 June 2016 to RMB29,221,000 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 RMB12,171,000 (for the six months ended 30 June 2016: RMB8,796,000), accounting for 10.69% of the total profit (for the six months ended 30 June 2016: 18.60%). The lower effective tax rate for the period was mainly due to the effect of utilisation of tax losses previously not recognized.

**Profit and total comprehensive income**

The Group's profit and total comprehensive income for the period under review was RMB113,885,000, the profit for the period attributable to owners of the Company was RMB86,611,000, represented an increase of 161.69% compared with RMB33,097,000 for the six months ended 30 June 2016.

**Current assets and capital resources**

**Cash flow**

As at 30 June 2017, the net amount of the Group's cash flow was RMB154,541,000. The amount arising from operating activity was RMB74,833,000, while the cash outflows of investing and financing activities recorded RMB12,818,000 and RMB66,992,000 during the period under review respectively.

The net amount of the cash outflow used in financing activity was RMB279,725,000 for the repayment of bank and other borrowings.

**Inventories**

The inventories increased to about RMB131,865,000 as at 30 June 2017, compared with about RMB130,663,000 as at 31 December 2016. As at 30 June 2017, the inventory turnover days were about 27 days (31 December 2016: 30 days) which was at a normal level.

**Trade receivables**

As at 30 June 2017, the trade receivables amounted to RMB480,462,000 (31 December 2016: RMB487,313,000). 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 shortened to 77 days (31 December 2016: 86 days).

**Bills receivables**

As at 30 June 2017, the bills receivables amounted to RMB397,538,000 (31 December 2016: RMB384,355,000).

**Trade payables**

As at 30 June 2017, the trade payables amounted to RMB327,642,000 (31 December 2016: RMB399,690,000). 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 speed up to 70 days (31 December 2016: 92 days).

**Borrowings**

As at 30 June 2017, the balance of the Group's bank and other borrowings amounted to RMB793,131,000 (31 December 2016: RMB837,606,000).

**Gearing ratio**

As at 30 June 2017, total gearing ratio was about 32.65% (31 December 2016: 34.53%), which was calculated on the basis of the total amount of bank and other borrowings as a percentage of the total assets. The net gearing ratio was 67.26%, which was calculated on the basis of the amount of bank and other borrowings less cash and bank balances as a percentage of the shareholders' interest (31 December 2016: 81.53%).

**Pledge of assets**

As at 30 June 2017, the Group pledged certain assets with carrying value of RMB651,437,000 as collateral for the Group's borrowing (31 December 2016: RMB737,006,000).

**Capital commitments**

As at 30 June 2017, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB52,237,000 (31 December 2016: RMB48,275,000). 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 2017.

### Foreign currency exposure

The Group collects most of its revenue and incurs most of the expenditures in RMB. Although the Group undertakes certain transactions denominated in foreign currencies, mainly the currencies of United States and Hong Kong, the exposures to exchange rate fluctuations is minimal. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

## 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.

## AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2017 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.

## 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 2017 will be dispatched to the shareholders and will be available on the aforesaid websites in due course.

**APPRECIATION**

On behalf of the Board, I would like to take this opportunity to express our appreciation to the management team and staff of the Group for their contribution during the period and give our sincere gratitude to all our shareholders and business partners for their continuous support.

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

Hong Kong, 25 August 2017

*As at the date of this announcement, the Board comprised Mr. Hu Hanchao, Mr. Hu Hancheng and Mr. Hu Zheng 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.*