# 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 2018

**FINANCIAL HIGHLIGHT:**

- Revenue recorded a growth of 21.64% to RMB1,409,130,000;
- Gross profit declined by 12.44% to RMB238,559,000;
- Gross profit margin decreased from 23.52% to 16.93%, it is mainly due to the cost of domestic waste paper procurement continued to rise during the period, the production cost of corrugated medium paper increased significantly, while the selling price per unit in corrugated medium paper could not increase year-on-year;
- Profit and total comprehensive income recorded RMB57,354,000 during the period. The profit and total comprehensive income for the period attributable to owners of the Company was RMB50,503,000, represented dropped of 41.69% in the same period last year.
- Basic earnings per share was RMB0.10 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 2018 (the "**period**" or the "**period under review**") together with the comparative figures for the corresponding period in 2017 as set out below.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **RMB'000** | RMB'000 |
| | NOTES | **(unaudited)** | (unaudited) |
| Revenue | **3** | **1,409,130** | 1,158,424 |
| Cost of sales | | **(1,170,571)** | (885,963) |
| Gross profit | | **238,559** | 272,461 |
| Other income | **4** | **5,065** | 6,766 |
| Other gains and losses | **5** | **727** | (3,540) |
| Distribution and selling expenses | | **(34,490)** | (40,052) |
| Administrative and other expenses | | **(69,021)** | (70,362) |
| Finance costs | **6** | **(23,898)** | (22,167) |
| Research and development expenses | | **(47,256)** | (29,221) |
| Profit before tax | **7** | **69,935** | 113,885 |
| Income tax expense | **8** | **(12,581)** | (12,171) |
| Profit and total comprehensive income for the period | | **57,354** | 101,714 |
| PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO: | | | |
| Owners of the Company | | **50,503** | 86,611 |
| Non-controlling interests | | **6,851** | 15,103 |
| | | **57,354** | 101,714 |
| EARNINGS PER SHARE | | | |
| Basic (RMB) | **10** | **0.10** | 0.17 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
AT 30 JUNE 2018

| | NOTES | **30 June 2018 RMB'000 (unaudited)** | 31 December 2017 RMB'000 (audited) |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **892,000** | 892,353 |
| Prepaid lease payments | | **157,025** | 158,578 |
| Other intangible assets | | **505** | 706 |
| Deferred tax assets | | **2,334** | 2,354 |
| Deposits paid for acquisition of property, plant and equipment | | **17,357** | 20,934 |
| | | **1,069,221** | 1,074,925 |
| **Current Assets** | | | |
| Contract assets | | **18,471** | - |
| Inventories | | **187,308** | 162,277 |
| Trade and other receivables | **11** | **1,086,975** | 1,015,071 |
| Prepaid lease payments | | **4,720** | 4,720 |
| Pledged bank deposits | | **124,157** | 114,609 |
| Bank balances and cash | | **195,395** | 190,268 |
| | | **1,617,026** | 1,486,945 |
| **Current Liabilities** | | | |
| Trade and other payables | **12** | **670,411** | 597,550 |
| Tax liabilities | | **10,748** | 14,207 |
| Bank borrowings | | **750,110** | 745,646 |
| Other borrowings | | **76,283** | 63,493 |
| Obligations under finance leases | | **394** | 372 |
| Amounts due to directors | | **1,000** | 1,840 |
| | | **1,508,946** | 1,423,108 |
| **Net Current Assets** | | **108,080** | 63,837 |
| **Total Assets Less Current Liabilities** | | **1,177,301** | 1,138,762 |

| | NOTES | **30 June 2018 RMB'000 (unaudited)** | 31 December 2017 RMB'000 (audited) |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | **13** | **41,655** | 41,655 |
| Reserves | | **849,097** | 793,926 |
| Equity attributable to owners of the Company | | **890,752** | 835,581 |
| Non-controlling interests | | **165,150** | 158,299 |
| **Total Equity** | | **1,055,902** | 993,880 |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | **4,351** | 8,370 |
| Deferred income | | **15,106** | 20,532 |
| Bank borrowings | | **79,665** | 82,228 |
| Other borrowings | | **15,225** | 26,306 |
| Obligations under finance leases | | **7,052** | 7,446 |
| | | **121,399** | 144,882 |
| | | **1,177,301** | 1,138,762 |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 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**").

## 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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

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:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the Related Amendments |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRS 2014-2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

**Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"**

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of corrugated medium papers
- Sales of paper-based packaging products

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

*Key changes in accounting policies resulting from application of HKFRS 15*

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The revenue of the Group arising from sales of paper-based packaging products is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from these sales is recognised when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

*Summary of effects arising from initial application of HKFRS 15*

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Note | Carrying amounts previously reported as 31 December 2017 RMB'000 | Opening adjustment RMB'000 | Carrying amount Carrying amount under HKFRS 15 at 1 January 2018 RMB'000 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Inventories | (a) | 162,277 | (14,950) | 147,327 |
| Contract assets | (a) | - | 19,618 | 19,618 |
| **Capital and reserves** | | | | |
| Reserves | (a) | 793,926 | 4,668 | 798,594 |

Note:

(a) As at 1 January 2018, contract assets of RMB19,618,000 in respect of sales contracts signed with customers is adjusted from inventories of RMB14,950,000 and the opening balance of retained earnings of RMB4,668,000 respectively. The impact on the Group's condensed consolidated statement of financial position at 30 June 2018, without application of HKFRS 15, would be an adjustments from contract assets of RMB18,471,000, costs of sales of RMB234,000 and revenue of RMB1,147,000 to inventories of RMB15,184,000 and retained earnings of RMB4,668,000.

**HKFRS 9 Financial Instruments**

The Group has performed an assessment on the impact of the adoption of HKFRS 9 and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

## 3. SEGMENT INFORMATION

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

**Six months ended 30 June 2018 (unaudited)**

| | Paper-based packaging **RMB'000** | Corrugated medium paper **RMB'000** | Total **RMB'000** |
|---|---|---|---|
| **REVENUE** | | | |
| External sales | **526,389** | **882,741** | **1,409,130** |
| Inter-segment sales | **-** | **92,690** | **92,690** |
| Segment revenue | **526,389** | **975,431** | **1,501,820** |
| Eliminations | | | **(92,690)** |
| Group Revenue | | | **1,409,130** |
| Segment profit | **40,164** | **32,543** | **72,707** |
| Unallocated corporate income, net | | | **(2,772)** |
| Profit before tax | | | **69,935** |

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 expenses, net | | | 54 |
| Group's profit before tax | | | 113,885 |

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 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Interest income | **1,417** | 989 |
| Government grant | **2,958** | 5,769 |
| Sundry income | **939** | 8 |
| | **5,314** | 6,766 |

## 5. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Exchange gain (loss), net | **793** | (555) |
| Loss on disposals of property, plant and equipment | **(66)** | (2,985) |
| | **727** | (17,884) |

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Interest on: | | |
| Bank and other borrowings wholly repayable within five years | **21,180** | 21,250 |
| Loan from a non-controlling shareholder | **2,479** | 657 |
| Finance lease | **239** | 260 |
| | **23,898** | 22,167 |

## 7. PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Profit before tax has been arrived at after charging the following items: | | |
| Depreciation of property, plant and equipment | **35,092** | 33,531 |
| Amortisation of prepaid lease payments | **1,553** | 2,122 |
| Amortisation of other intangible assets (included in cost of sales) | **201** | 142 |

## 8. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Current tax: | | |
| PRC Enterprise Income Tax | **16,580** | 12,306 |
| Hong Kong Profits Tax | **-** | - |
| Deferred tax | | |
| Current period | **(3,999)** | (135) |
| Income tax expense | **12,581** | 12,171 |

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.

In 2017, Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited* (中山聯合鴻興造紙有限公司) ("**Hung Hing**") was awarded the Certificate of High-Technology and is eligible for tax concession of 15% up to year 2019.

## 9. DIVIDENDS

The directors have determined that no interim dividend has been paid for the six months ended 30 June 2018.

* *For identification purpose only*

## 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 | |
|---|---|---|
| | **2018** | 2017 |
| | **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 | **50,503** | 86,611 |
| **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 2018** | 31 December 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (audited) |
| Trade receivables | **576,494** | 521,753 |
| Less: allowance for doubtful debts | **(2,681)** | (1,522) |
| | **573,813** | 520,231 |
| Advances to suppliers | **4,503** | 6,194 |
| Bills receivables | **472,166** | 472,463 |
| Prepayment | **2,907** | 3,757 |
| Other receivables | **33,586** | 12,426 |
| | **508,659** | 488,646 |
| Total trade and other receivables | **1,086,975** | 1,015,071 |

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 2018 RMB'000 (unaudited)** | 31 December 2017 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **498,101** | 428,178 |
| 61 to 90 days | **62,542** | 60,776 |
| 91 to 180 days | **7,797** | 27,490 |
| Over 180 days | **5,373** | 3,787 |
| | **573,813** | 520,231 |

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 2018 RMB'000 (unaudited)** | 31 December 2017 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **152,426** | 79,597 |
| 61 to 90 days | **147,372** | 46,481 |
| 91 to 180 days | **172,368** | 287,709 |
| Over 180 days | **-** | 58,676 |
| | **472,166** | 472,463 |

## 12. TRADE AND OTHER PAYABLES

| | **30 June 2018 RMB'000 (unaudited)** | 31 December 2017 RMB'000 (audited) |
|---|---|---|
| Trade payables | **307,034** | 267,123 |
| Bills payables – secured | **253,816** | 214,278 |
| Other taxes payables | **79,457** | 53,043 |
| Payroll and welfare payables | **22,579** | 32,691 |
| Construction payables | **-** | 3,892 |
| Advanced from customers | **-** | 8,766 |
| Others | **7,525** | 17,757 |
| | **670,411** | 597,550 |

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 2018 RMB'000 (unaudited)** | 31 December 2017 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **209,959** | 134,222 |
| 61 to 90 days | **57,210** | 23,088 |
| 91 to 180 days | **31,073** | 93,648 |
| Over 180 days | **8,792** | 16,165 |
| | **307,034** | 267,123 |

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 2018 RMB'000 (unaudited)** | 31 December 2017 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **47,198** | 57,442 |
| 61 to 90 days | **20,553** | 17,286 |
| 91 to 180 days | **97,965** | 41,250 |
| Over 180 days | **88,100** | 98,300 |
| | **253,816** | 214,278 |

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 2017, 30 June 2017, 1 January 2018 and 30 June 2018 | **1,000,000,000** | **100,000,000** |
| Issued and fully paid: | | |
| At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018 | **500,000,000** | **50,000,000** |
| | | RMB'000 |
| Presented as: (At 31 December 2017 and 30 June 2018) | | **41,655** |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

Zhengye International is a leading supplier of paper-based packaging and corrugated medium paper with extensive industry experience in the Pearl River Delta which provides one-stop packaging solutions services to it customers. We are mainly engaged in manufacture and sale of: (1) paper-based packaging products; and (2) corrugated medium paper products.

During the reporting period, the Chinese government continued to promote economic and environmental development reforms and strictly implemented environmental protection regulations. During the year, the government strengthened control over the reduction in volume of imported waste paper, leading to tightening supply of imported waste paper. As a result, the prices of both domestic and imported waste paper fluctuated significantly during the period. Against the backdrop that supply fell short of demand, the average price of raw paper in the first half of 2018 remained high.

In the face of market restrictions on the import of waste paper from abroad, the Group capitalised on its advantage of integrated production model to strictly control costs and secure stable supply through stable domestic raw material procurement channels.

### Turnover

Thanks to the rising price of paper products and recovery of demand during the reporting period, the Group's revenue posted a considerable growth for the second half of the year. For the six months ended 30 June 2018, the Group recorded an overall turnover of RMB1,409,130,000, representing a substantial increase of 21.64% year-on-year. Specifically, the turnover of paper-based packaging products and corrugated medium paper products accounted for 37.36% and 62.64% of the total turnover, respectively. The Group recorded a gross profit of RMB238,559,000 during the year, down by 12.44% year-on-year, and a gross margin of 16.93%. Profit and total comprehensive income attributable to owners of the Company for the year amounted to RMB50,503,000, representing a decrease of 41.69% over last year. The drop of gross profit is mainly due to the cost of domestic waste paper procurement continued to rise during the period, the production cost of corrugated medium paper increased significantly, while the selling price per unit in corrugated medium paper could not increase year-on-year.

*Paper-based packaging products*

We are the largest supplier of paper-based packaging products for household air-conditioners in the PRC, and we sell paper-based packaging products to consumer product manufacturers in various industries. Our major customers are leading industry players, including small home appliance and air-conditioner makers, electronics manufacturers and food seasonings manufacturers.

As the enforcement of environmental protection policies were strengthened, paper-making companies with backward capacity and sub-standard environmental compliance were propelled to exit from the market. Coupled with the promulgation of environmental protection tax, new regulations on import of waste paper and rigorous capacity approval, the production capacity in the industry was further reduced and the industrial consolidation was accelerated, which helped the Group to secure and meet more orders from its existing customers. In addition, the increase in base paper price led to higher price of paper-based products. During the period, the overall turnover of the Group's paper-based packaging products substantially increased to RMB 526,389,000, up by 20.85% year-on-year (for the six months ended 30 June 2017: RMB435,569,000). Specifically, corrugated cartons and honeycomb paper-based products accounted for 77.89% and 22.11% of the total turnover of paper-based packaging products, respectively (for the six months ended 30 June 2017: 76.82% and 23.18%).

*Corrugated medium paper*

During the period, the increased cost of waste paper resulted in multiple upward adjustments to the selling price of corrugated medium paper. During the period, the turnover of corrugated medium paper increased by 22.12% year-on-year to RMB882,741,000 (for the six months ended 30 June 2017: RMB 722,855,000).

**PROSPECT**

Driven by structural reforms on the supply side, the effects of tightening environmental protection policies have gradually emerged. As a result, small and medium-sized enterprises with backward technology and severe pollution have become the key targets whose production capacity should be eliminated, and small and medium-sized enterprises will therefore be phased out from the changing and highly competitive industry. Faced with increasingly stringent environmental requirements, the Group has no fear of fickle market conditions and industrial consolidation. Instead, the Group believes that this is an opportunity for the industry which allows the Group to give full play to its advantages as one of the leading companies and to further strengthen its position in the industry.

The Group has always put in place stringent requirements in environmental protection equipment and management. As a model enterprise in environmental protection in the industry, the Group has employed leading technologies in energy saving, water conservation and sewage treatment. Looking forward, the Group will continue to adhere to the green management concept, keep abreast of the market environmental protection policy, proactively improve environmental protection measures and improve emission reduction and treatment technology, striving to create sustainable development space.

In addition, the Group will continuously improve its production technology and closely communicate with the R&D and design departments to diversify its product portfolio and enhance its sales channels and market competitiveness. The Group will also continue to optimize its internal resources and adopt indexed and refined production management systems to increase production efficiency and maintain profitability.

In the second half of 2018, although various challenges and uncertainties are expected to linger in the industry, the Group will continue to strive for excellent internal governance, rigorously monitor costs, maintain sound operating conditions and capture market share in the best means in due course, so as to deliver greater returns for shareholders.

**Cost of sales**

The Group's cost of sales increased from RMB885,963,000 for the six months ended 30 June 2017 to RMB1,170,232,000 for the period under review, representing an increase of 32.09%.

*Paper-based packaging products*

As for the paper-based packaging products, the cost of sales increased by RMB73,022,000 or 21.46% from RMB340,312,000 for the six months ended 30 June 2017 to RMB413,334,000 for the period under review.

*Corrugated medium paper*

As for the corrugated medium paper, the cost of sales increased by RMB211,586,000 or 38.78% from RMB545,651,000 for the six months ended 30 June 2017 to RMB757,237,000 for the period under review. During the period, the price in waste paper increased by 70% sharply with the same period last year.

**Gross profit and gross profit margin**

Due to above mentioned factors, the gross profit decreased by RMB33,902,000 or 12.44% from RMB272,461,000 for the six months ended 30 June 2017 to RMB238,559,000 for the period under review. The overall gross profit margin of the Group for the period under review was 16.93% compared with 23.52% for the six months ended 30 June 2017.

During the period, the gross profit margin of paper-based packaging products maintained at 21.48% (for the six months ended 30 June 2017: 21.87%), the Group continued to the 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.

Due to the cost of domestic waste paper procurement continued to rise during the period, the production cost of corrugated medium paper increased significantly, while the selling price per unit in corrugated medium paper could not increase year-on-year, it results its gross profit margin of corrugated medium paper dropped year on year by 10.29 percentage points to 14.22% (for the six months ended 30 June 2017: 24.51%).

**Distribution and selling expenses**

The Group’s distribution and selling expenses decreased by approximately 12.89% from RMB40,052,000 for the six months ended 30 June 2017 to RMB34,490,000 for the period under review, representing about 3.46% and 2.45% of the Group’s turnover respectively.

**Administrative and other expenses**

The Group’s administrative and other expenses slightly decreased by about 1.91% from RMB70,362,000 for the six months ended 30 June 2017 to RMB69,021,000 for the period under review, representing about 6.07% and 4.90% 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 7.81% from RMB22,167,000 for the six months ended 30 June 2017 to RMB23,898,000 for the period under review.

Interest rates of bank and borrowings were at fixed rates ranging from 3.16% to 5.66% per annum during the period under review, compared with 3.16% to 6.31% per annum in the same period last year; while its variable rates ranging from 3.48% to 7.35% during the period under review, compared with 2.76% to 4.99%.

**Research and development expenses**

Research and development expenses of the Group increased by around 61.72% from RMB29,221,000 for the six months ended 30 June 2017 to RMB47,256,000 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. In addition, the company's environmental protection and computer systems were strengthened during the period, which made the company's environmental indicators more advanced than the government's policies and more efficient under the computerised production.

**Income tax expense**

During the period under review, the Group's income tax expense was RMB12,581,000 (for the six months ended 30 June 2017: RMB12,171,000), accounting for 17.99% of the total profit (for the six months ended 30 June 2018: 10.69%). The effective tax rate was back to normal for the period due to the effect of utilisation of tax losses previously not recognized has fully utilised in last year.

**Profit and total comprehensive income**

The Group's profit and total comprehensive income for the period under review was RMB69,955,000, the profit for the period attributable to owners of the Company was RMB50,503,000, represented a decrease of 41.69% compared with RMB86,611,000 for the six months ended 30 June 2017.

**Current assets and capital resources**

**Cash flow**

As at 30 June 2018, the net amount of the Group's cash flow was RMB195,395,000. The amount arising from operating activity was RMB65,146,000, while the cash outflows of investing and financing activities recorded RMB39,359,000 and RMB20,660,000 during the period under review respectively.

The net amount of the cash outflow used in investing activity was RMB32,359,000 for the purchases of property, plant and equipment.

**Inventories**

The inventories increased to about RMB187,308,000 as at 30 June 2018, compared with about RMB162,277,000 as at 31 December 2017. As at 30 June 2018, the inventory turnover days were about 25 days (31 December 2017: 28 days) which was at a normal level.

**Trade receivables**

As at 30 June 2018, the trade receivables amounted to RMB573,813,000 (31 December 2017: RMB520,231,000). 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 68 days (31 December 2017: 76 days).

**Bills receivables**

As at 30 June 2018, the bills receivables amounted to RMB472,166,000 (31 December 2017: RMB472,463,000).

**Trade payables**

As at 30 June 2018, the trade payables amounted to RMB307,034,000 (31 December 2017: RMB267,123,000). 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 49 days (31 December 2017: 65 days). The decrease of turnover day is mainly due to the suppliers can offer a better price in purchase of raw materials as the Group can settle the payment earlier.

**Borrowings**

As at 30 June 2018, the balance of the Group's bank and other borrowings amounted to RMB921,283,000 (31 December 2017: RMB917,673,000).

**Gearing ratio**

As at 30 June 2018, total gearing ratio was about 34.30% (31 December 2017: 35.82%), 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 67.55%, 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 2017: 73.34%).

**Pledge of assets**

As at 30 June 2018, the Group pledged certain assets with carrying value of RMB849,476,000 as collateral for the Group's borrowing (31 December 2017: RMB793,541,000).

**Capital commitments**

As at 30 June 2018, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB43,100,000 (31 December 2017: RMB22,305,000). 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 2018.

**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, except for the deviation from the CG Code provision A.6.7:

Under Code Provision A.6.7, Independent Non-executive Directors and Non-executive Director should attend general meetings and develop a balanced understanding of the views of shareholders. One member of the Non-executive Director of the Company was unable to attend the annual general meeting of the Company held on 22 June 2018.

## AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2018 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 2018 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, 24 August 2018

*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.*