



正業國際控股有限公司

ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED

(incorporated in Bermuda with limited liability)

Stock Code : 3363



Interim Report 2012

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Corporate Information

Board of Directors

Executive Directors

Mr. Hu Zheng (*Chairman*)
Mr. Hu Hanchao
Mr. Hu Hancheng
Mr. Chen Weixin (appointed on 1 Sep 2012)
Mr. Yin Wenxin (appointed on 1 Sep 2012)

Non-executive Director

Mr. Hu Hanxiang

Independent Non-Executive Directors

Mr. Chung Kwok Mo John
Mr. Wu Youjun
Mr. Zhu Hongwei

Company Secretary

Ms. Chan Yin Wah

Board Committees

Audit Committee

Mr. Chung Kwok Mo John (*Chairman*)
Mr. Wu Youjun
Mr. Zhu Hongwei

Remuneration Committee

Mr. Chung Kwok Mo John (*Chairman*)
Mr. Wu Youjun
Mr. Zhu Hongwei
Mr. Hu Zheng

Nomination Committee

Mr. Hu Zheng (*Chairman*)
Mr. Chung Kwok Mo John
Mr. Wu Youjun
Mr. Zhu Hongwei

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Headquarters and Principal Place of Business in China

No. 173, South Xinming Road
Huangpu, Zhongshan, Guangdong
The People's Republic of China

Principal Place of Business in Hong Kong

Suite 1712, 17th Floor
Shui On Centre
6-8 Harbour Road
Wanchai Hong Kong

Compliance Adviser

CMB International Capital Limited
Units 1803-4, 18th Floor
Bank of America Tower
12 Harcourt Road
Central Hong Kong

Authorized Representative

Mr. Hu Zheng
Ms. Chan Yin Wah

Legal Adviser

As to Hong Kong law
Chiu & Partners

As to Bermuda law
Conyers Dill & Pearman

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Share Registrar and Transfer Office in Bermuda

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China
Industrial and Commercial Bank of China
Industrial Bank Company Limited

Share Information

Stock code: 3363

Company's Website Address

<http://www.zhengye-cn.com>



Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the **"Board"**), I am pleased to present the unaudited consolidated interim results of Zhengye International Holdings Company Limited and its subsidiaries (collectively, the **"Company"** or the **"Group"**) for the six months ended 30 June 2012 (the **"period"** or the **"period under review"**).

Interim Results

During the period under review, the Group performed well with a turnover reaching approximately RMB617,900,000, representing an increase of RMB22,320,000 or 3.75% as compared to the same period last year. The gross profit margin increased to 22.22% from 19.51% for the same period last year. The profit of the Group amounted to RMB32,725,000, representing an increase of approximately 3.98% as compared to the same period last year. Basic earnings per Share were approximately RMB0.07.

Business Review

During the period under review, with the adverse impact of factors such as European debt crisis and the sagging global economy, the export trade and economic development of China continued to slow down in the first half of the year. In particular, the decline in the export of electric appliances of China resulted in the reduced market demand on paper-based packaging products. Under such a challenging market environment, the Group leveraged on the concerted efforts of the management team and actively expanded its paper-based packaging business in the emerging markets located in the Central China Region. The Group committed itself to boosting the sales of the newly developed corrugated medium paper with light weight and high intensity and maintained a steady growth in turnover and gross profit during the period under review by stringent production cost control. Gross profit margin also improved as compared to the same period last year. Distribution and selling expenses and administrative expenses for the year, however, increased by a certain extent as compared to the same period last year as the Group implemented its expansion plan of the paper-based packaging business in emerging markets. Profit of the Group for the period under review recorded growth compared with the same period last year. In line with the Group's expansion plan in the Central China Region, four additional factories for the paper-based packaging had all commenced production as at July this year. Following the gradual relaxation of the macro-economic policy of China, we believe that the domestic demand of China will recover and its economy will sustain growth in future. The Group sees huge development potentials in paper-based packaging business in the Central China Region, and our business will constantly develop in the future.



Chairman's Statement

Sustainable Growth

In 2012, new production lines of paper-based packaging were put into production successively in the new factories of the Group located at Zhengzhou, Hefei, Wuhan and Shijiazhuang. In the first half of the year, 6 new production lines, including 3 corrugated cartons and 3 honeycomb paper-based products production lines, were put into production. In the second half of the year, 2 additional production lines, including 1 new corrugated cartons production line located at Hefei with an annual designed capacity of 104,620,000 s.q.m. and 1 honeycomb paper-based products production line located at Wuhan with an annual designed capacity of 3,350,000 s.q.m.. In addition, the special corrugated medium paper with light weight and high intensity production line of the Group with an annual production capacity of 80,000 tons at 中山永發紙業有限公司 (Zhongshan Yong Fa Paper Industry Company Limited) in Zhongshan was scheduled to be put into production in September 2012. With the paper-based packaging production lines in the new factories located at Zhengzhou, Hefei, Wuhan and Shijiazhuang and the corrugated medium paper with light weight production lines being put into production, both the paper-based packaging business and corrugated medium paper business of the Group will be further promoted. The revenue of both the paper-based packaging business and corrugated medium paper business will be expected to grow continuously and a steadier and more sustainable scale of development of the Group could be achieved.

Innovative Management

Innovative management is a major operating idea in the development of the Group. As regards the aspect of corporate governance and in order to meet the rapid business growth in future, the Group reorganized the composition of the Board to attract more sophisticated professionals, who could effectively uphold and carry out the operational decisions and promote the development of the Group, to join the Board of the Company. Meanwhile, the Group has also collaborated with a leading IT application solution provider in the field in China to build up the information resource planning system of the Group and further standardize its internal management and every business procedure. Hence, sufficient management support is available for expanding the scale of the capacity of the Group so as to achieve the desired scale effect.

Outlook and Appreciation

Despite a difficult market condition, the Group achieved a better performance and this is attributable to the joint efforts of the management team. Looking forward, as both the global economy and economic environment of China are gradually improving, the Directors believe that the development of the business of the Group could reach another level. Meanwhile, I, on behalf of the Board of the Group, would like to thank our customers, suppliers, banks and shareholders which have accompanied the Group's journey of growth for their continual support and all the new shareholders for their trust. The management and staff at all levels of the Group will continue to create higher returns for the shareholders.

Hu Zheng
Chairman

Hong Kong, 24 August 2012



Management Discussion and Analysis

Business Review

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

Paper-based packaging products

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

Corrugated medium paper

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



Management Discussion and Analysis

Prospect

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

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

Cost of Sales

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

Paper-based packaging products

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

Corrugated medium paper

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



Management Discussion and Analysis

Gross Profit and Gross Profit Margin

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

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

The gross profit margin of corrugated medium paper increased by 26.26% from 19.65% for the six months ended 30 June 2011 to 24.81% for the period under review. During the period under review, the increase in sales volume of the higher gross profit from new 65g/m2 corrugated medium paper, it represented an increase from 2.72% of the turnover of corrugated medium paper for the first six months last year increased to 12.87% of the turnover of corrugated medium paper for the period under review. The decrease of cost of production per unit was mainly attributable to technical improvement which had enhanced efficiency of production facilities and resulted in the growth of 9.27% in the production of corrugated medium paper.

Distribution and Selling Expenses

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

Administrative Expenses

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



Management Discussion and Analysis

Finance Costs

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

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

Research and Development Expenses

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

Income Tax Expense

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

Profit and Total Comprehensive Income

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



Management Discussion and Analysis

Current Assets and Capital Resources

Cash flow

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

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

Inventories

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

Trade receivables

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

Trade payables

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

Bank borrowings

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

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



Management Discussion and Analysis

Pledge of assets

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

Contingent liabilities

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

Other Information

Directors' and Chief Executives' Interests in the Securities of the Company or its Associated Corporations

As at 30 June 2012, the interests and short positions of the director(s) and chief executive(s) of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register (the "Register") kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Directors	Name of Group member/ associated corporation	Capacity/Nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding (Note 1)
Mr. Hu Zheng	The Company	Interest of controlled corporation (Note 2)	191,250,000 ordinary shares of HK\$0.10 each	38.25%
	Gorgeous Rich Development Limited ("Gorgeous Rich")	Beneficial owner	1 ordinary share of US\$1.00	100%
Mr. Hu Hancheng	The Company	Interest of controlled corporation (Note 3)	93,750,000 ordinary shares of HK\$0.10 each	18.75%
	Golden Century Assets Limited ("Golden Century")	Beneficial owner	1 ordinary share of US\$1.00	100%
Mr. Hu Hanchao	The Company	Interest of controlled corporation (Note 4)	75,000,000 ordinary shares of HK\$0.10 each	15%
	Leading Innovation Worldwide Corporation ("Leading Innovation")	Beneficial owner	1 ordinary share of US\$1.00	100%
Mr. Hu Hanxiang	The Company	Interest of controlled corporation (Note 5)	15,000,000 ordinary shares of HK\$0.10 each	3%
	Fortune View Services Limited ("Fortune View")	Beneficial owner	1 ordinary share of US\$1.00	100%



Other Information

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares the relevant directors or chief executive was interested in expressed as a percentage of the number of issued shares as at 30 June 2012.
2. These shares were held by Gorgeous Rich, which was wholly owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich.
3. These shares were held by Golden Century, which was wholly owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century.
4. These shares were held by Leading Innovation, which was wholly owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation.
5. These shares were held by Fortune View, which was wholly owned by Mr. Hu Hanxiang. By virtue of the SFO, Mr. Hu Hanxiang was deemed to be interested in the shares held by Fortune View.

Share Options to subscribe for the ordinary shares of HK\$0.10 each in the Company were granted to, among others, certain directors of the Company pursuant to the Share Option Scheme adopted by the Company on 3 June 2011. Information in relation to these Share Options was shown in the following section under the heading “Share Option Scheme”.

Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations were recorded in the Register.

Other Information

Substantial shareholders' interests in the securities of the Company

As at 30 June 2012, so far as are known to any director(s) or chief executive(s) of the Company, the following parties (other than director(s) or chief executive(s) of the Company) were recorded in the register (the "Register") kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company.

Name of Shareholder	Capacity/Nature of interest	Number and class of shares held in the Company (Note 1)	Approximate shareholding percentage (Note 1)
Gorgeous Rich Development Limited (" Gorgeous Rich ") (Note 2)	Beneficial owner	191,251,000 ordinary shares of HK\$0.10 each	38.25%
Ms. Li Lifen (Note 2)	Interest of spouse	191,251,000 ordinary shares of HK\$0.10 each	38.25%
Golden Century Assets Limited (" Golden Century ") (Note 3)	Beneficial owner	93,750,000 ordinary shares of HK\$0.10 each	18.75%
Ms. Li Si Yuan (Note 3)	Interest of spouse	93,750,000 ordinary shares of HK\$0.10 each	18.75%
Leading Innovation Worldwide Corporation (" Leading Innovation ") (Note 4)	Beneficial owner	75,000,000 ordinary shares of HK\$0.10 each	15.00%
Ms. He Lijuan (Note 4)	Interest of spouse	75,000,000 ordinary shares of HK\$0.10 each	15.00%

Other Information

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares in the Company that the relevant shareholder was interested in expressed as a percentage of the number of issued shares in the Company as at 30 June 2012.
2. Gorgeous Rich is wholly-owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich. Ms. Li Lifen is the spouse of Mr. Hu Zheng. Under the SFO, Ms. Li Lifen was taken to be interested in the same number of shares in which Mr. Hu Zheng was interested.
3. Golden Century is wholly-owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century. Ms. Li Si Yuan is the spouse of Mr. Hu Hancheng. Under the SFO, Ms. Li Si Yuan was taken to be interested in the same number of shares in which Mr. Hu Hancheng was interested.
4. Leading Innovation is wholly-owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation. Ms. He Lijuan is the spouse of Mr. Hu Hanchao. Under the SFO, Ms. He Lijuan was taken to be interested in the same number of shares in which Mr. Hu Hanchao was interested.

Save as disclosed above, no other interest or short position in the shares or underlying shares in the Company were recorded in the Register.

Share Option Scheme

The Company operates a share option scheme (the “**Share Option Scheme**”), which was adopted on 3 June 2011 (the “**Adoption Date**”). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date. The major terms of the Share Option Scheme are summarized below.

The purpose of the Share Option Scheme is to provide incentives or rewards to selected eligible participants for their contribution to the Group. Under the Share Option Scheme, the directors of the Company may grant options to any directors, employees, suppliers, customers, service providers, shareholder, advisors of any member of the Group or any entity in which any member of the Group holds and equity interest and any other persons who the Directors consider, in their discretion, have contributed to the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the shares in issue as at the date of listing of the Company’s shares on the Stock Exchange, unless approval from the shareholders of the Company has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to or to be granted to each participate under the Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue.

Other Information

The exercise price for the shares under the Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day (the "Offer Date"); the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and the nominal value of the Company's shares.

On 20 January 2012, options to subscribe for a total of 21,350,000 shares in the Company were granted pursuant to the Share Options Scheme. At the same time, the Company cancelled all options granted on 16 September 2011.

Movement of the options granted under the Share Option Scheme during the period ended 30 June 2012 is as follows:

Details of grantees	Date of grant	Exercise price per share (HK\$)	Exercisable Period	Number of share options				
				As at 1 January 2012	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2012
Hu Zheng (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	—	160,000	—	—	160,000
		0.82	1 July 2013 to 30 June 2014	—	170,000	—	—	170,000
		0.82	1 July 2014 to 30 June 2015	—	170,000	—	—	170,000
Hu Hancheng (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	—	160,000	—	—	160,000
		0.82	1 July 2013 to 30 June 2014	—	170,000	—	—	170,000
		0.82	1 July 2014 to 30 June 2015	—	170,000	—	—	170,000
Hu Hanchao (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	—	160,000	—	—	160,000
		0.82	1 July 2013 to 30 June 2014	—	170,000	—	—	170,000
		0.82	1 July 2014 to 30 June 2015	—	170,000	—	—	170,000

Other Information

Details of grantees	Date of grant	Exercise price per share (HK\$)	Exercisable Period	Number of share options				
				As at 1 January 2012	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	Outstanding as at 30 June 2012
Hu Hanxiang (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	—	130,000	—	—	130,000
		0.82	1 July 2013 to 30 June 2014	—	130,000	—	—	130,000
		0.82	1 July 2014 to 30 June 2015	—	140,000	—	—	140,000
Chung Kwok Mo John (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	—	100,000	—	—	100,000
		0.82	1 July 2013 to 30 June 2014	—	100,000	—	—	100,000
		0.82	1 July 2014 to 30 June 2015	—	100,000	—	—	100,000
Wu Youjun (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	—	50,000	—	—	50,000
		0.82	1 July 2013 to 30 June 2014	—	50,000	—	—	50,000
		0.82	1 July 2014 to 30 June 2015	—	50,000	—	—	50,000
Zhu Hongwei (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	—	50,000	—	—	50,000
		0.82	1 July 2013 to 30 June 2014	—	50,000	—	—	50,000
		0.82	1 July 2014 to 30 June 2015	—	50,000	—	—	50,000
Employees	16 September 2011	1.43	16 September 2011 to 31 March 2013	2,750,000	—	—	2,750,000	—
		1.43	1 April 2013 to 31 March 2014	4,800,000	—	—	4,800,000	—
		1.43	1 April 2013 to 31 March 2014	6,550,000	—	—	6,550,000	—
	20 January 2012	0.82	20 January 2012 to 30 June 2013	—	6,450,000	—	—	6,450,000
		0.82	1 July 2013 to 30 June 2014	—	6,170,000	—	—	6,170,000
		0.82	1 July 2014 to 30 June 2015	—	6,230,000	—	—	6,230,000

Other Information

Use of Net Proceeds from the Company's Initial Public Offering

The Company was listed on the Main Board of the Stock Exchange on 3 June 2011 by way of global offering as disclosed in the prospectus of the Company dated 24 May 2011 with net proceeds of approximately HK\$134,400,000 (the **"Net Proceeds"**) raised therefrom.

As at 30 June 2012 the Net Proceeds had been utilized in the following manner:

	Use and allocation of the net proceeds as originally planned HK\$'000	Amount of the net proceeds utilized as at 30 June 2012 HK\$'000	Amount of the net proceeds unutilised as at 30 June 2012 HK\$'000
Setting up the manufacturing facilities in new production base in Hefei of the Anhui Province, the PRC	33,700	14,752	18,948
Setting up the manufacturing facilities in new production base in Zhengzhou of the Henan Province, the PRC	26,800	19,361	7,439
Setting up the manufacturing facilities in new production base in Wuhan of the Hubei Province, the PRC	13,500	11,949	1,551
Setting up the manufacturing facilities in new production base in Shijiazhuang of the Hebei Province, the PRC	13,500	13,079	421
Upgrading our production facilities	24,200	24,200	—
Research and development	6,700	6,700	—
Upgrading our ERP system	2,700	423	2,277
General working capital	13,300	13,300	—
	134,400	103,764	30,636

As at 30 June 2012, the unutilised Net Proceeds were placed in bank deposit in the PRC.

Other Information

Model Code for Securities Transactions by Directors

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

Purchase, Sale or Redemption of Securities

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

Corporate Governance

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

Audit Committee

The Company established the Audit Committee with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to make recommendation to the Board on the appointment of the external auditors, review and supervise the financial reporting process and the internal control procedures of the Group. The Audit Committee consists of three independent non-executive Directors, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Mr. Zhu Hongwei. Mr. Chung Kwok Mo John is the chairman of the Audit Committee.

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference. The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration of our Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for the Directors and senior management. The Remuneration Committee has four members, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun, Mr. Zhu Hongwei and Mr. Hu Zheng. Mr. Chung Kwok Mo John is the chairman of the Remuneration Committee.

Nomination Committee

The Company established the Nomination Committee with written terms of reference. The primary duties of the Nomination Committee is to make recommendation to the Board regarding candidates to fill vacancies on the Board and senior management. The Nomination Committee consists of four members, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun, Mr. Zhu Hongwei and Mr. Hu Zheng. Mr. Hu Zheng is the chairman of the Nomination Committee.



Other Information

Audit Committee Review

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

Events After the Reporting Period

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



Report on Review of Interim Financial Information

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Zhengye International Holdings Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 22 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“**HKSRE 2410**”) issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Report on Review of Interim Financial Information

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
24 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

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

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	NOTES	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	493,416	398,052
Prepaid lease payments		56,023	56,707
Other intangible assets	12	5,890	6,609
Deposits paid for acquisition of property, plant and equipment		21,265	18,022
Deposit for leasehold land		6,750	6,750
		583,344	486,140
CURRENT ASSETS			
Inventories		122,978	112,933
Trade and other receivables	13	616,226	625,311
Prepaid lease payments		1,368	1,368
Pledged bank deposits	14	154,395	94,255
Restricted bank deposits	14	414	2,027
Bank balances and cash	14	72,957	130,692
		968,338	966,586
CURRENT LIABILITIES			
Trade and other payables	15	431,123	418,847
Tax liabilities		5,984	2,986
Obligations under finance leases		20,242	13,169
Amounts due to directors	16	1,434	3,816
Amounts due to related parties	16	—	66
Bank borrowings	17	553,344	499,227
		1,012,127	938,111
NET CURRENT (LIABILITIES) ASSETS		(43,789)	28,475
TOTAL ASSETS LESS CURRENT LIABILITIES		539,555	514,615

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2012

	NOTES	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital	18	41,655	41,655
Reserves		436,183	429,132
TOTAL EQUITY		477,838	470,787
NON-CURRENT LIABILITIES			
Bank borrowings	17	10,080	—
Deferred tax liabilities	19	4,681	5,932
Obligations under finance leases		46,956	37,896
		61,717	43,828
		539,555	514,615

The condensed consolidated financial statements on pages 22 to 48 were approved and authorised for issue by the Board of Directors on 24 August 2012 and are signed on its behalf by:

Hu Zheng
DIRECTOR

Hu Hancheng
DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

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

Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2012

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



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

1. Basis of Preparation

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

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 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011. In addition, the Group applies the following accounting policy in relation to share-based payment cancelled during the interim period.

Cancellation of share-based payment

When a grant of share options is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Group accounts for the cancellation or settlement as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

3. Segment Information

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

Six months ended 30 June 2012 (unaudited)

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

Six months ended 30 June 2011 (unaudited)

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

3. Segment Information (continued)

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

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

4. Other Income

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

5. Other Gains and Losses

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

6. Finance Costs

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

7. Profit before Tax for the Period

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

8. Income Tax Expense

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	10,539	7,168
Withholding Tax	3,200	—
Deferred tax (note 19)		
Current period	(1,251)	343
Income tax expense	12,488	7,511

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

8. Income Tax Expense (continued)

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

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

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 Packing Company Limited was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012.

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

9. Dividends

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

10. Earnings per Share

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

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

The calculation of the basic earnings per share for the six months ended 30 June 2011 is based on the profit attributable to owners of the Company for the period and the weighted average number of ordinary shares assuming the capitalisation issue as disclosed in notes 18 (iii) and (iv) occurred on the first day of the period, and the Group Reorganisation had been effective on 1 January 2011.

The computation of diluted earnings per share for the six months ended 30 June 2012 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 for the current period. For the period ended as 30 June 2011, no diluted earnings per share was presented as the Company had no potential ordinary shares outstanding during the period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

11. Property, Plant and Equipment

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

12. Other Intangible Assets

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

Development costs are internally generated.

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

13. Trade and Other Receivables

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

13. Trade and Other Receivables (continued)

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

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

Included in bills receivables amounting to RMB136,419,000 (31 December 2011: RMB227,255,000) endorsed to the Group's creditors for settlement of the payables at the same amount. These bills have not yet been matured at 30 June 2012. All bills receivables are within a maturity period of 180 days from the date of receipt.

14. Pledged Bank Deposits, Restricted Bank Deposits and Bank Balances and Cash

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

15. Trade and Other Payables

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

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

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

Certain suppliers allow the Group to make the payments by bills payables within the credit period. All bills payables are repayable within a maturity period of 180 days from date of issuance.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

16. Amounts due to Directors/Related Parties

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

17. Bank Borrowings

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

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

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

18. Share Capital

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

Notes:

- (i) On 18 August 2010, the Company was incorporated in Bermuda under the Companies Act as an exempted company with an authorised share capital of HK\$200,000 divided into 2,000,000 Shares. On 1 September 2010, one Share was allotted and issued, nil paid, to Mr. Hu Zheng.
- (ii) On 4 March 2011, the authorised share capital of the Company was increased from HK\$200,000 divided into 2,000,000 shares of a par value of HK\$0.10 each to HK\$100,000,000 divided into 1,000,000,000 shares with a par value of HK\$0.10 each, by the creation of 998,000,000 ordinary shares with a par value of HK\$0.10 each.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

18. Share Capital (continued)

Notes: (continued)

- (iii) On 4 March 2011, the Company issued 1,999,999 ordinary shares of HK\$0.1 each pursuant to the Group Reorganisation in exchange for the entire issued share capital of TYAZ International Limited and became the ultimate holding company of the Group.
- (iv) Pursuant to written resolutions on 19 May 2011, the Directors resolved to capitalise HK\$37,300,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 373,000,000 Shares as a result of Global Offering (as defined in the "Prospectus").
- (v) In connection with the Company's initial public offering, 125,000,000 Shares of HK\$0.10 each were issued at a price of HK\$1.43 for a total cash consideration, before expenses, of approximately HK\$178,750,000 (equivalent to RMB148,917,000). Dealings in the Shares on the Main Board of the Stock Exchange commenced on 3 June 2011.

19. Deferred Taxation

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

19. Deferred Taxation (continued)

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

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

20. Share-based Payment

The Company has granted certain Share Options (the “**Old Options**”) to subscribe for shares of HK\$0.10 each in the capital of the Company (the “**Shares**”) to certain eligible employees of the Company and the Group under the Share Option Scheme of the Company adopted on 3 June 2011. Due to the significant drop in the price of Shares resulting from the downturn of the global market, the Old Options no longer served as effective incentives for such employees as the exercise price of these Share Options were much higher than the market price of the Shares. Therefore, on 20 January 2012 the Company cancelled the outstanding Old Options previously granted to the employees to subscribe for a total of 14,100,000 Shares at an exercise price of HK\$1.43 per Share with vesting period from 16 September 2011 to 31 March 2015 (both days inclusive) subject to respective acceptance and the approval by the Board. In consideration of the employees irrevocably and unconditionally agreed to the cancellation of the Old Options, the Company paid HK\$1.00 each to the relevant holders of the Old Options. Furthermore, no compensation or any consequential loss had been payable to the relevant holders of the Old Options as a result of such cancellation and there was not any adverse finance effect on the Company as a result of the cancellation of the Old Options.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

20. Share-based Payment (continued)

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

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

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

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

The Old Options were granted to five senior management only whilst the New Options were granted to sixteen senior management and seven directors. The number of New Options granted to the grantees of the Old options varied significantly and disproportionately. Accordingly, the directors of the Company considered the Old Options as cancellation and accounted for as an acceleration of vesting. The amount that would otherwise have been recognised for service received over the remainder of the vesting period is therefore recognised in the profit or loss upon cancellation.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

20. Share-based Payment (continued)

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

The following assumptions were used to calculate the fair values of the New Options:

Grant date share price	HK\$0.77
Exercise price	HK\$0.82
Expected life	3.44 years
Expected volatility	52.90% to 68.40%
Dividend yield	4.4%
Risk-free interest rate	0.27% to 0.46%
Expected multiple	2.2

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the New Options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

21. Major Non-cash Transactions

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

22. Pledge of Assets

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

23. Operating Leases

The Group as lessee

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

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

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

24. Capital Commitments

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

25. Related Parties Transactions and Balances

(a) Name and relationship

Name	Relationship
Zhongsan City Zheng Ye (Group) Company Limited (“ Zheng Ye Group ”)	Controlled by the controlling shareholders of the Company
Zhongsan City Zhong Fa Equipment Rental Company Limited (“ Zhong Fa Equipment ”)	Controlled by the controlling shareholders of the Company

(b) Related parties transactions

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

Note:

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

25. Related Parties Transactions And Balances (continued)

(c) Operating lease commitments to related parties as lessee

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

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

(d) Related parties balances

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

(e) Compensation of key management

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

	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Salaries and other benefits	6,593	3,916
Share-based payment	132	—
Retirement benefits scheme contributions	34	47
	6,759	3,963