ZHENGYE
INTERNATIONAL

INTERIM REPORT 2013
中期報告

正業國際控股有限公司
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED

INCORPORATED IN BERMUDA WITH LIMITED LIABILITY
STOCK CODE:3363

Contents

ZHENGYE
INTERNATIONAL

Corporate Information

Board of Directors

Executive Directors
Mr. Hu Zheng *(Chairman)*
Mr. Hu Hancheng *(Vice-chairman and Chief Executive Officer)*
Mr. Hu Hanchao *(Vice-chairman and Chief Operating Officer)*
Mr. Chen Weixin
Mr. Yin Wenxin

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

Authorized Representative

Mr. Hu Zheng
Ms Chan Yin Wah

Legal Adviser

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
26 Burnaby Street
Hamilton HM 11
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 Official Website

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 interim results of Zhengye International Holdings Company Limited (the "**Company**" or "**Zhengye International**") together with its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2013 (the "**period**").

Interim Results

During the period, the Group's sales significantly increase. First, sales was driven by the expansion of the Group's production capacity as a major result of the launch of new production lines, which were incorporated into its two major businesses, namely, paper-based packaging products and corrugated medium paper. Second, sales benefited from the growth of domestic markets for white goods and gradual recovery in exports for the home appliances industry. The Group's total turnover for its businesses amounted to approximately RMB703,282,000, representing an increase of approximately 13.82% as compared to the same period last year. Despite a moderate recovery in the paper manufacturing industry, the market competition still remained intense. During the period, the selling price per unit for the Group's products slightly decreased along with a rise in cost of raw materials. Its gross profit decreased by 1.19% to RMB135,659,000 from RMB137,295,000 in the same period last year. The profit and total comprehensive income for the period attributable to owners of the Company amounted to RMB25,425,000 representing a decrease of approximately 22.31% as compared to the same period last year. The basic earnings per share was RMB0.05.

Business Review

Over the past two years, the market conditions have experienced a downturn. In 2013, the macro economy slowly recovered, and the continuous strengthening of US dollar put the China's export of home appliances back on track. In addition, there has been an ongoing demand by the Group's main customer base for small appliances and air conditioners. Therefore, the Group's expanded production capacity perfectly fell in line with the growth demand by the domestic appliances business, resulting in an improvement in sales of paper-based packaging products and corrugated medium paper. During the period, however, the selling price of corrugated medium paper decreased with limited downward adjustment of the cost of primary waste paper, weighing on the Group's gross profit margin. In addition, some production lines underwent technology renovation during the period, lowering its production efficiency. As a result, both gross profit margin and profit margin of the Group decreased during the period.

As a national leading integrated manufacturer that combines upstream waste paper recycling, corrugated medium paper production, corrugated cartons and honeycomb paper-based product's paper-based packaging products production, the Group has successfully established a strategic deployment of production facilities in Central China and Southern China to support the needs of customers from different provinces and cities. As of 30 June 2013, all expanded production lines have successfully passed trial production, and it is expected that they will contribute significant earnings to the Group in the second half year.

Outlook and Appreciation

In consideration of the recovery in the macro environment, the Group believes that the worst time for the industry has passed. As the government and production enterprises focus on environmental protection, the Group's honeycomb paper-based products will gradually replace the packaging materials that are harmful to the environment, such as foam and plastic materials. Meanwhile, the expanded production lines of the Group's two major core businesses have passed trial production, boosting an increase in orders placed with the Group since May 2013. The Group believes that all of the production lines will take full advantages of their production capacity to capture the upward trend of the market demand, and to improve operating efficiency and earnings even further.

Recently, the Ministry of Industry and Information Technology has published an elimination list prescribing the first batch of industrial enterprises with obsolete capacities. This includes eliminating 274 enterprises that are involved in the paper manufacturing industry with a total paper manufacturing capacity of 6.2106 million tons. Elimination of obsolete capacities accelerates the industrial integration, and improves the supply-demand relationship, thereby elevating the market price of general paper manufacturing industry to a more reasonable level in the long run. Thus, we believe that the price of the Group's paper-based products can be improved gradually in the future. In addition, according to the Central Economic Work Conference, the primary task of its economic work in 2013 is to promote urbanization. Moreover, Li Keqiang, Premier of the State Council, continually emphasizes that urbanization is considered the largest potential for expanding domestic demand. This will strongly drive the inelastic demand for household consumables, especially home appliances, which will in turn drive the growth of paper-based packaging products business of the Group. Apart from the focus on the integrated production of corrugated medium paper and paper-based packaging products, the Group is also vigorously expanding its customer base to include food, seasoning and electronics industries, and constructing a real-time resource sharing information platform for customers, while efficiently integrating organization, production and services to maximize the economies of scale for cost reduction and efficiency improvement. Looking forward, the Group will proactively consider corporate mergers and acquisitions. In addition to the accelerated capacity expansion in southern China, the Group will improve its deployment, capture opportunities in the market recovery, and ensure continued business growth. On 31 July 2013, the Group announced the acquisition of 58.7% equity interest in two companies that operate three production lines of corrugated paper and paperboard with a design production capacity of 400,000 tons per annum. This acquisition is expected to be completed by the end of this year.

Chairman's Statement

I, on behalf of the Board of the Group, would like to take this opportunity 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, 23 August 2013

Business review

Turnover

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

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

Paper-based packaging products

The Group's paper-based packaging products include corrugated cartons and honeycomb paper-based product. Turnover derived from its overall business recorded 27.27% growth from RMB355,915,000 in the same period last year to RMB452,990,000 during the period, amongst which turnover of the corrugated cartons accounted for 80.44% (for the six months ended 30 June 2012: 90.92%) and turnover of the honeycomb paper-based products accounted for 19.56% (for the six months ended 30 June 2012: 9.08%). The Group stays focused on providing paper-based packaging products to manufacturers of small home appliances and air conditioners. During the period, the Group provided more honeycomb paper-based product to substitute packaging materials that are harmful to the environment, including foams and plastic materials. A sound customer relationship and continuous delivery of quality products enable the Group to maintain its leading foothold in this industry. Meanwhile, the overseas market recorded a stronger demand as the US dollar continued to strengthen. Inelastic demand in the domestic small home appliances sector, in particular air conditioner-related businesses, once again boosted an industrial recovery. Moreover, during the period the Group commenced its additional production line that was newly established in the first half year. All of these factors spurred the sales growth.

Corrugated medium paper

Turnover of the corrugated medium paper business decreased by 4.46% from RMB261,985,000 in the first six months of 2012 to RMB250,292,000 in the first six months of 2013. Despite the impacts of the four-week technological transformation, an additional paper production line with a capacity of 80,000 tons commenced its operation upon its debugging, which boosted the sales of corrugated medium paper by 8% as compared against that during the same period last year. In the second half of 2012, however, the critical situation gradually stabilized in its due course. During the period, the average sales price of corrugated medium paper dropped by 11% as compared against that during the same period last year, resulting in a decrease in the sales of corrugated medium paper.

Prospect

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

As of 31 July 2013, the Group announced the acquisition of 58.7% of equity interest in each of Zhongshan Rengo Hung Hing Paper Manufacturing Company* (中山聯合鴻興造紙有限公司) ("**Lian He**") and Zhongshan Ren Hing Paper Manufacturing Company Limited* (中山聯興造紙有限公司) ("**Lian Xing**") (collectively referred to as the "**Target Group**") at a total consideration of RMB141,914,000. Upon such an acquisition, the Group will become one of the leading corrugated medium paper manufacturers in Guangdong region. The Target Group's paper mill, located in Zhongshan City, Guangdong Province, operates a production line for cardboard paper and two production lines for corrugated premium paper, with a designed production capacity of 400,000 tons. As of 31 December 2012, the unaudited combined net asset was approximately RMB323,800,000. The major clients are the packaging and printing companies in China. To seize opportunities from the market's increasing demand for high-end corrugated premium paper, the Group believes that such an acquisition will timely provide additional production capacity for the Group to expand its business growth in the southern part of China and the customer base in this region. Meanwhile, owing to the close proximity of the Target Group's paper mill to the paper manufacturing base of the Group located in Zhongshan, the Group will be able to consolidate and integrate these two facilities in a short time. With confidence in self-owned technologies and orders from its existent customers, the Group will create synergic effects to increase the market share of high-end corrugated premium paper.

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

* *For identification purposes only*

Costs of sales

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

Paper-based packaging products

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

Corrugated medium paper

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

Gross profit and gross profit margin

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

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

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

Distribution and selling expenses

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

Administrative expenses

The Group's administrative expenses increased by about 7.06% from RMB40,330,000 for the six months ended 30 June 2012 to RMB43,179,000 for the period under review, representing about 6.53% and 6.14% of the Group's turnover respectively. The increase was mainly due to our planned business expansion during the period under review and the increase in rentals and staff costs compared with the same period last year. The Group is still strictly control various expenditures to the proportion of turnover in order to control the expenditures growth during the period under review.

Finance costs

Finance costs of the Group increased by about 24.35% from RMB18,260,000 for the six months ended 30 June 2012 to RMB22,707,000 for the period under review, which was mainly due to the increase in bank borrowings and finance leases for funding a new production line as a result of the Group's business expansion.

Interest rates of bank borrowings were at fixed rates ranging from 1.74% to 6.98% per annum during the period under review, compared with 2.65% to 8.50% per annum in the same period last year.

Research and development expenses

Research and development expenses of the Group increased by around 10.86% from RMB15,329,000 for the six months ended 30 June 2012 to RMB16,993,000 for the period under review. The increase was mainly due to our goal to improve the competitiveness of our products and develop new products in response to the demand from customers and research on new technology and new process aiming to enhance production efficiency and product quality.

Income tax expense

During the period under review, the Group's income tax expense was RMB10,537,000 (for the six months ended 30 June 2012: RMB12,488,000), accounting for 29.30% of the total profit (for the six months ended 30 June 2012: 27.62%). The Group paid RMB4,297,000 as the supplementary enterprise income tax for the year 2008, 2009 and 2010.

Profit and total comprehensive income

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

Current assets and capital resources

Cash flow

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

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

Inventories

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

Trade receivables

As at 30 June 2013, the trade receivables amounted to RMB418,954,000 (31 December 2012: RMB378,529,000). The Group granted credit period of 30 to 120 days to our paper-based packaging products customers and credit period of 30 to 75 days to our corrugated medium paper customers. The turnover days for trade receivables were extended to 116 days (31 December 2012: 100 days).

Bills receivables

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

Trade payables
As at 30 June 2013, the trade payables amounted to RMB310,803,000 (31 December 2012: RMB279,167,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of our suppliers. The turnover days for trade payables were 110 days (31 December 2012: 105 days).

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

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

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

Capital commitments
As at 30 June 2013, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB83,753,000 (31 December 2012: RMB62,216,000). All the capital commitments were related to purchasing new properties, factories and facilities as well as the leasing land.

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

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 currency of United States and the currency of 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.

HUMAN RESOURCE MANAGEMENT

The Group had 3,904 employees as at 30 June 2013 (as at 31 December 2012: 3,730 employees). Our remuneration is determined by reference to the employees' experience, qualification and overall market situation, while the bonus is related to the financial performance of the Group and the individual performance. The Group also undertakes to provide proper trainings and sustainable professional development opportunities for the employees if needed.

The Company has also adopted a share option scheme (the "**Share Option Scheme**") with a primary purpose of motivating our employees and other eligible persons entitled under the Share Option Scheme to optimize their contributions to the Group and to reward them for their contribution to the Group.

As at 30 June 2013, options to subscribe for a total of 21,350,000 shares in the Company were granted to the Directors and the employees under the Share Option Scheme.

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

As at 30 June 2013, 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 kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in 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
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%

Name of Directors	Name of Group member/ associated corporation	Capacity/ Nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
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%

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 2013.

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 and in the paragraph headed "Share Option Scheme" below, 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.

Substantial shareholders' interests in the securities of the Company

As at 30 June 2013, 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 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 percentage (Note 1)	Approximate shareholding percentage
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%

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(s) was/were interested in expressed as a percentage of the number of issued shares in the Company as at 30 June 2013.

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 as follows:

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 is 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 an equity interest and any other person whom the Directors considers, in its discretion, have contributed to the Group.

The total number of share 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 share in issue as at the date of listing, unless shareholders' approved has been obtained, and in any event must not in aggregate exceed 30% of the share of the company in issue from time to time. The total number of share issued and to be issued upon the 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 share of the Company in issue.

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 ("**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. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

Movement of the options granted under the Share Option Scheme during the period ended 30 June 2013 is as follows:

				Number of share options				
Details of grantees	Date of grant	Exercise price per share (HK$)	Exercisable Period	As at 1 January 2013	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2013
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
Chen Weixin (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	830,000	–	–	–	830,000
		0.82	1 July 2013 to 30 June 2014	830,000	–	–	–	830,000
		0.82	1 July 2014 to 30 June 2015	840,000	–	–	–	840,000

Details of grantees	Date of grant	Exercise price per share (HK$)	Exercisable Period	Number of share options: As at 1 January 2013	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2013
Yin Wenxin (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	830,000	–	–	–	830,000
		0.82	1 July 2013 to 30 June 2014	830,000	–	–	–	830,000
		0.82	1 July 2014 to 30 June 2015	840,000	–	–	–	840,000
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	20 January 2012	0.82	20 January 2012 to 30 June 2013	4,790,000	–	–	–	4,790,000
		0.82	1 July 2013 to 30 June 2014	4,510,000	–	–	–	4,510,000
		0.82	1 July 2014 to 30 June 2015	4,550,000	–	–	–	4,550,000

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

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

The company was listed on the Main Board of the Stock Exchange 3 June 2011. The proceeds from the global offering of the shares of the Company as disclosed in the prospection of the Company dated 24 May 2011, net of listing expenses (the "**Net Processed**") amounted to HK$134,400,000.

As at 30 June 2013 the Net Proceeds had been utilized in the following manner:

	Use and allocate of the Net Proceeds as original planned HK$'000	**Amount of the Net Proceeds utilized in the period ended 30 June 2013** HK$'000	**Amount of the Net Proceeds remains** HK$'000
Setting up the manufacturing factory in new product base in Hefei of the Anhui Province, the PRC	33,700	18,484	15,216
Setting up the manufacturing factory in new product base in Zhengzhou of the Henan Province, the PRC	26,800	23,615	3,185
Setting up the manufacturing factory in new product base in Wuhan of the Hubei Province, the PRC	13,500	13,500	–
Setting up the manufacturing factory in new product base in Shijiazhuang of the Hebei Province, the PRC	13,500	13,500	–
Upgrading our productive facility	24,200	24,200	–
Research and development	6,700	6,700	–
Upgrading our ERP system	2,700	1,163	1,537
General working capital	13,300	13,300	–
	134,400	114,462	19,938

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, 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 adopted the principles of the Corporate Governance Code (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 our 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 duty of 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 2013 have not been audited but have been reviewed by the audit committee of the Company (comprised all the independent non-executive directors of the Company).

Events After the Reporting Period

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

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

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013

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

Condensed Consolidated Statement of Financial Position

At 30 June 2013

	Notes	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	11	**587,624**	553,146
Prepaid lease payments		**94,093**	66,315
Other intangible assets	12	**4,452**	5,171
Deposits paid for acquisition of property, plant and equipment		**10,579**	13,897
Deposit for leasehold land		–	28,800
		696,748	667,329
Current Assets			
Inventories		**119,141**	116,487
Trade and other receivables	13	**873,308**	685,188
Prepaid lease payments		**2,178**	1,592
Pledged bank deposits	14	**156,532**	206,338
Restricted bank deposits	14	**403**	415
Bank balances and cash	14	**41,738**	122,378
Tax recoverable		**3,171**	3,789
		1,196,471	1,136,187
Current Liabilities			
Trade and other payables	15	**572,494**	469,942
Tax liabilities		**5,073**	1,248
Borrowings	17	**717,290**	727,771
Obligations under finance leases		**23,212**	22,322
Amounts due to directors	16	**929**	2,048
Amount due to a related party	16	–	50
		1,318,998	1,223,381
Net Current Liabilities		**(122,527)**	(87,194)
Total Assets Less Current Liabilities		**574,221**	580,135

Condensed Consolidated Statement of Financial Position

At 30 June 2013

	Notes	**30 June 2013 RMB'000 (unaudited)**	31 December 2012 RMB'000 (audited)
Capital and Reserves			
Share capital	18	**41,655**	41,655
Reserves		**466,702**	456,117
Total Equity		**508,357**	497,772
Non-current Liabilities			
Deferred tax liabilities	19	**3,989**	4,073
Deferred income		**26,913**	28,800
Borrowings	17	**3,360**	6,720
Obligations under finance leases		**31,602**	42,770
		65,864	82,363
		574,221	580,135

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Share options reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2012 (audited)	41,655	92,968	76,369	105	(23,389)	283,079	470,787
Profit and total comprehensive income for the period	–	–	–	–	–	32,725	32,725
Recognition of equity-settled share-based payments	–	–	–	2,126	–	–	2,126
Dividends recognised as distribution	–	–	–	–	–	(27,800)	(27,800)
At 30 June 2012 (unaudited)	41,655	92,968	76,369	2,231	(23,389)	288,004	477,838
At 1 January 2013 (audited)	**41,655**	**92,968**	**82,943**	**3,473**	**(23,389)**	**300,122**	**497,772**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**25,425**	**25,425**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**560**	**–**	**–**	**560**
Dividends recognised as distribution	**–**	**–**	**–**	**–**	**–**	**(15,400)**	**(15,400)**
At 30 June 2013 (unaudited)	**41,655**	**92,968**	**82,943**	**4,033**	**(23,389)**	**310,147**	**508,357**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

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

1. Basis of Preparation

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

In preparing the condensed consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration of the Company and the Group in light of its net current liabilities of RMB122,527,000 as at 30 June 2013. On the basis that the Group has secured credit facilities of approximately RMB352,738,000 which remains unutilised at the date of the condensed consolidated financial statements ended 30 June 2013, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

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

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

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

2. Principal Accounting Policies (continued)

Except as describe below, the application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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

3. Segment Information

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

Six months ended 30 June 2013 (unaudited)

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

3. Segment Information (continued)

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
Eliminations			(47,351)
Group revenue			617,900
SEGMENT PROFIT	20,954	31,246	52,200
Eliminations			–
			52,200
Unallocated corporate expenses, net			(6,987)
Group's profit before tax			45,213

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

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

4. Other Income

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	**1,900**	1,813
Government grant	**8,419**	3,800
Sundry income	**120**	576
	10,439	6,189

5. Other Gains and Losses

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

6. Finance Costs

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

7. Profit before Tax for the Period

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

8. Income Tax Expense

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

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.

8. Income Tax Expense (continued)

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

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

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

Zheng Ye Packaging (Zhongshan) Company Limited ("**Zheng Ye Packaging (Zhongshan)**") and Zhongshan Yong Fa Paper Industry Company Limited ("**Zhongshan Yong Fa Paper**") obtained the renewal Certificate of High-Technology in 2012 and the applicable income tax rate was 15% based on Certain Conditions 2. In 2012, Zheng Ye Packaging (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2015.

According to document (Zhongshanguoshuipuzi [2009] 001) issued by Dongsheng District Office of Zhongshan Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zheng Ye Alliance Packaging Company Limited ("**Zheng Ye Alliance Packaging**") was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012. In 2013, the applicable income tax rate of Zheng Ye Alliance Packaging is 25%.

According to document (Zhudouguoshuihan [2008] 51) issued by Doumen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zheng Ye Packaging (Zhuhai) Company Limited ("**Zheng Ye Packaging (Zhuhai)**") was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012. In 2013, the applicable income tax rate of Zheng Ye Packaging (Zhuhai) is 25%.

9. Dividends

During the 2013 interim period, a final dividend of RMB3.08 cents per share in respect of the year ended 31 December 2012 (2012: a final dividend of RMB2.78 cents per share and a special dividend of RMB2.78 cents per share) were declared and paid to the owners of the Company. The aggregate amount of the final dividend and special dividend declared and paid in the interim period amounted to RMB15,400,000 (2012: RMB27,800,000).

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

10. Earnings per Share

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**25,425**	32,725
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**500,000,000**	500,000,000

The computation of diluted earnings per share does not assume the exercise of certain of the Company's options because the exercise prices of those Company's options are higher than the average market price per share during the period ended 30 June 2012 and 2013, respectively.

11. Property, Plant and Equipment

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

	RMB'000
As at 1 January 2012 (audited)	398,052
Additions of plant and equipment	108,159
Disposals of plant and equipment	(38)
Depreciation for the period	(12,757)
As at 30 June 2012 (unaudited)	493,416
As at 1 January 2013 (audited)	**553,146**
Additions of plant and equipment	**53,732**
Disposals of plant and equipment	**(427)**
Depreciation for the period	**(18,827)**
As at 30 June 2013 (unaudited)	**587,624**

12. Other Intangible Assets

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

Development costs are internally generated.

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

13. Trade and Other Receivables

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

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

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

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
0 to 60 days	**351,969**	307,456
61 to 90 days	**36,349**	37,936
91 to 180 days	**29,110**	33,086
Over 180 days	**1,526**	51
	418,954	378,529

13. Trade and Other Receivables (continued)

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

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

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

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB156,532,000 (31 December 2012: RMB206,338,000) have been pledged to bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets.

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

Bank balances carry interest at market rates within range from 0.01% to 0.35% (31 December 2012: 0.01% to 0.35%) per annum. The pledged deposits carry interest rates which range from 0.35% to 3.30% (31 December 2012: 0.35% to 3.30%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

15. Trade and Other Payables

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

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

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

15. Trade and Other Payables (continued)

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

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

The credit period on purchase of material is 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

16. Amounts due to Directors/Related Parties

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

17. Borrowings

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

17. Borrowings (continued)

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

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

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

18. Share Capital

	Number of share	**Share Capital** HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013	**1,000,000,000**	**100,000,000**
Issued and fully paid:		
At 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013	**500,000,000**	**50,000,000**

	RMB'000
Presented as: (At 31 December 2012 and 30 June 2013)	**41,655**

19. Deferred Taxation

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

	Depreciation differences RMB'000	Undistributable profit of subsidiaries RMB'000	Total RMB'000
At 1 January 2012 (audited)	2,732	3,200	5,932
Reversal of deferred tax liability upon distribution of profits	–	(3,200)	(3,200)
Charge for the period	449	1,500	1,949
At 30 June 2012 (unaudited)	3,181	1,500	4,681
At 1 January 2013 (audited)	**2,573**	**1,500**	**4,073**
Credit for the period	**(84)**	–	**(84)**
At 30 June 2013 (unaudited)	**2,489**	**1,500**	**3,989**

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at the end of the current interim period, the aggregate amount of taxable temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised amounted to RMB260,737,000 (31 December 2012: RMB231,926,000).

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

20. Share-Based Payments

The Company has granted certain share options (the "**Options**") to subscribe for shares of HK$0.10 each in the capital of the Company (the "**Shares**") to certain directors and eligible employees (the "**Employees**") of the Company and the Group under the share option scheme of the Company adopted on 3 June 2011 (the "**Scheme**").

20. Share-Based Payments (continued)

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

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

	Number of share options
Outstanding as at 1 January 2013	**21,350,000**
Granted during the period	–
Outstanding as at 30 June 2013	**21,350,000**

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

The following assumptions were used to calculate the fair values of the 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	4.40%
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 did not record the non-cash transactions (for the six months ended 30 June 2012: RMB26,882,000).

22. Pledge of Assets

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

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

23. Operating Leases

The Group as lessee

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

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

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

24. Capital Commitments

	30 June 2013 RMB'000 (unaudited)	31 December 2012 RMB'000 (audited)
Capital expenditure in respect of acquisition of new property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	**19,161**	62,216

25. Related Parties Transactions and Balances

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye (Group) Company Limited ("**Zheng Ye Group**")	Controlled by the controlling shareholders of the Company
Zhongshan City Zhong Fa Equipment Rental Company Limited ("**Zhong Fa Equipment**")	Controlled by the controlling shareholders of the Company

(b) Related parties transactions

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Rental expenses of property — Zheng Ye Group (Note)	**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 2013.

25. Related Parties Transactions and Balances (continued)

(c) Operating lease commitments to related parties as lessee

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

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

(d) Related parties balances

Amount due from a related party, amounts due to directors and amounts due to related parties are separately disclosed on the Condensed Consolidated Statement of Financial Position.

(e) Compensation of key management

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

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Salaries and other benefits	**7,414**	6,593
Share-based payment	**560**	132
Retirement benefits scheme contributions	**121**	34
	8,095	6,759