ZHENGYE
INTERNATIONAL

2014 中期報告

INTERIM REPORT

正業國際控股有限公司
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
INCORPORATED IN BERMUDA WITH LIMITED LIABILITY
STOCK CODE:3363

ZHENGYE INTERNATIONAL

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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
Prof. Zhu Hongwei

Company Secretary

Ms. Chan Yin Wah

Board Committees

Audit Committee

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

Remuneration Committee

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

Nomination Committee

Mr. Hu Zheng *(Chairman)*
Mr. Chung Kwok Mo John
Mr. Wu Youjun
Prof. 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 Roa
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

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 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 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 interim results of Zhengye International Holdings Company Limited (the "**Company**" or "**Zhengye International**", together with its subsidiaries, our "**Group**" or the "**Group**") for the six months ended 30 June 2014 (the "**period**").

Interim results

Over the past years, the Group has closely followed the pace and requirements of major customers including manufacturers of small home appliances and air conditioners in the PRC, and has strategically distributed its production network and sales network, thereby successfully establishing its sizeable production lines of paper-based packaging products in eight cities, including Zhongshan, Zhuhai, Wuhan, Shijiazhuang, Zhengzhou and Hefei, etc. across such four regions as South China, Central China, North China and East China. The success in this distribution allows the Group to pinpoint and seize development opportunities from rigid demand of the domestic white goods industry and to provide customers with fast services. As newly-added production capacity was freed up during the period, the Group recorded growth in its turnover. The Group's total turnover amounted to approximately RMB788,017,000, representing a significant increase of approximately 12.05% as compared to approximately RMB703,282,000 in the same period last year. The Group's gross profit slightly decreased by 0.38% to RMB135,141,000 from RMB135,659,000 in the same period last year, while its gross profit margin decreased by 2.14 percentage points from 19.29% in the last year to 17.15% this year. The profit and total comprehensive income for the period attributable to owners of the Company amounted to RMB15,369,000, representing decreased of approximately 39.55% as compared to RMB25,425,000 in the same period last year. The basic earnings per share was approximately RMB3.07 cents.

Business review

Amidst overall stable macroeconomic conditions in the PRC, rising per capita income and constant urbanization during the first half of 2014, rigid demands for home appliances maintained solid. The business growth of the Group's main customer base, including manufacturers of small home appliances and air conditioners, has spurred the sales growth of the Group's paper-based packaging product business. Moreover, led by the policy of the Ministry of Industry and Information Technology of the PRC ("**MIIT**"), the paper manufacturing and paper-based packaging industry has devoted more efforts to eliminate obsolete overcapacities of the paper manufacturing industry. As one sizeable enterprise equipped with leading technologies, the Group steadily expanded its market presence during the period. Due to the decrease in the primary raw materials and the price of raw paper during the period, both the gross profits and the gross profit margin of the paper-based packaging product business has significantly improved, with the gross profit margin up by 2.93

CHAIRMAN'S STATEMENT

percentage points to 22.90%. For the corrugated medium paper business, an extremely competitive in paper industry caused a decrease of 3.3% in the selling price per unit in corrugated medium paper compared with the same period last year. On the other hand, the Group has also completed the acquisition of Zhongshan Rengo Hung Hing Paper Manufacturing Company ("**Lian He**") and Zhongshan Ren Hing Paper Manufacturing Company Limited ("**Lian Xing**") (collectively referred to as the "**Lian He and Lian Xing**") in April this year, and it is undergoing the double testing and adjusting under the technical improvement, which unable to generate the profits after the acquisition. Meanwhile, due to the planned expansion in paper-based packaging product and corrugated medium paper businesses in the period, especially in completion of newly acquired subsidiaries, which caused the increase in the Group's borrowings and finance leases; finance costs, factory lease, salary, other operation and administrative expenses were on the large rise compared with the same period last year which resulted the dropped in profits of the Group compared with the same period last year. It is expected that it will further expand the scale of production capacity of the Group's corrugated medium paper after the completion of technical improvement for a newly acquired subsidiaries in the bottom half of year. Meanwhile, it will also consolidate the one-stop business model integrated in both the upstream and downstream of its packaging products, whereby bringing the advantage in costs for its overall business.

Outlook and appreciation

"Seek steady progress through reform and innovation" is the core task of the national economic work for 2014 as well as the keystone of the Group's development for 2014. With gradual improvement of the production capacity layout of paper-based packaging products, the Group has proactively optimized and adjusted the production capacity of corrugated medium paper. In the first half of 2014, the Group has increased production capacities through acquisitions and conducted upgrades on the existing production capacity of corrugated medium paper. Looking forward to the second half of the year, the Group will focus on integrating the newly-acquired production capacities of corrugated medium paper. Through a series of integrations for the production and management systems, it is expected that the Group will enhance the operating efficiency of all aspects covering procurement of raw materials, production, quality assurance and sales, so as to fundamentally improve the profitability of new production capacities. Save for the improved production capacity, the Group will consider and proactively adopt innovative service models in the interests of customers to enhance its service standards and quality. Moreover, the Group will address customers' future concerns by providing them with one-stop services, including packaging design, packaging and printing, procurement of raw materials, and goods loading and freight. In addition, by collaborating with customers on research and development of e-News platform as well as understanding their production conditions in real time, the Group flexibly

CHAIRMAN'S STATEMENT

provides supported packaging products, and improves its production efficiency. In the meantime, the Group significantly reduces lead time of products, thereby achieving a win-win situation with customers. Following completion of deployment and arrangement of production capacities, the availability of conditions for freeing up production capacities and the improvement of operating efficiency, it is believed that the Group will seek leapfrog progress in the stabilizing and consolidating its overall business.

I, on behalf of the Board of the Group, would like to take this opportunity to express my heartfelt gratitude to all customers, partners, suppliers, banks and shareholders for their support and great kindness. The management and staff at all levels of the Group will continue to create higher returns for the shareholders.

Hu Zheng
Chairman

Hong Kong, 22 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Turnover

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

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

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

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

Paper-based packaging products

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

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

Corrugated medium paper

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

On 31 July 2013, the Group announced that it acquired 58.7% of equity interest in each of Lian He and Lian Xing for a total of RMB141,914,000. Such acquisition was completed in April 2014. Upon such completion, the Group becomes a leading corrugated medium paper manufacturer in Guangdong region. Lian He and Lian Xing, located in Zhongshan City, Guangdong Province, operates a production line for cardboard paper and two production lines for corrugated premium paper, with a designed production capacity of 400,000 tons per annum. The Group plans to modify the production capacity of cardboard paper into a production line of corrugated premium paper.

Prospect

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

about the saleable market to redefine the product mix through technological upgrades. By utilizing self-developed technologies and synergic effects of current customers' orders, the Group aims to maximize the economic benefits of all production lines.

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

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

Cost of sales

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

Paper-based packaging products

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

MANAGEMENT DISCUSSION AND ANALYSIS

Corrugated medium paper

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

Gross profit and gross profit margin

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

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

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

Distribution and selling expenses

The Group's distribution and selling expenses increased by approximately 15.06% from RMB27,803,000 for the six months ended 30 June 2013 to RMB31,991,000 for the period under review, representing about 3.95% and 4.06% of the Group's turnover respectively. The increase was mainly attributable to increase in the transportation cost under the business expansion during the period under review.

Administrative expenses

The Group's administrative expenses increased by about 18.98% from RMB43,179,000 for the six months ended 30 June 2013 to RMB51,375,000 for the period under review, representing about 6.14% and 6.52% of the Group's turnover respectively. The increase was mainly due to our planned business expansion in paper-based packaging segment and completed the shares acquisition of Lian He and Lian Xing during the period under review; it increase in rentals and staff costs compared with the same period last year. The Group is still strictly control various expenditures to the proportion of turnover in order to control the expenditures growth during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs of the Group increased by about 46.00% from RMB22,707,000 for the six months ended 30 June 2013 to RMB33,152,000 for the period under review, which was mainly due to the increase in bank borrowings and finance leases for further expansion in the Group's paper-based packaging product and corrugated medium paper businesses.

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

Research and development expenses

Research and development expenses of the Group decreased by around 6.74% from RMB16,993,000 for the six months ended 30 June 2013 to RMB15,848,000 for the period under review. The research and development expenses during the period was to improve the competitiveness of our products and develop new products in response to the demand from customers and research on new technology and new process aiming to enhance production efficiency and product quality.

Income tax expense

During the period under review, the Group's income tax expense was RMB5,041,000 (for the six months ended 30 June 2013: RMB10,537,000), accounting for 31.23% of the total profit (for the six months ended 30 June 2013: 29.30%).

Profit and total comprehensive income

The Group's profit and total comprehensive income for the period under review was RMB11,100,000, the profit for the period attributable to owners of the Company was RMB15,369,000, represented a decreased of 39.55% compared with RMB25,425,000 for the six months ended 30 June 2013. This is mainly due to the planned expansion in the Group's paper-based packaging product and corrugated medium paper businesses in the period. The increase in borrowings and finance leasing are because the completed of share acquisition of Lian He and Lian Xing within the period. In addition, the depreciated of Renminbi caused the exchange losses which made a huge increment in finance costs. The businesses expansion caused the finance costs, factory lease, salary, other operation and administrative expenses were on the large rise compared with the same period last year. The owing to the strenuous efforts of the Group's management and staff in maintaining the growth in sales volume while work hard in solid management foundation, strengthens its costs of sales under tight control, develop a cost-effective product and provide a better service to customers that it achieves the comprehensive growth in profits and maximizes the rewards to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Current assets and capital resources

Cash flow

As at 30 June 2014, the net amount of the Group's cash flow decreased to RMB65,033,000. The amounts arising from operating and financing activities were RMB33,320,000 and RMB86,730,000 respectively, while the cash outflow of investing activity recorded during the period under review was RMB182,697,000.

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

Inventories

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

Trade receivables

As at 30 June 2014, the trade receivables amounted to RMB505,012,000 (31 December 2013: RMB414,055,000). The Group granted credit period of 30 to 120 days to our paper-based packaging products customers and credit period of 30 to 75 days to our corrugated medium paper customers. The turnover days for trade receivables were extended to 105 days (31 December 2013: 100 days).

Bills receivables

As at 30 June 2014, the bills receivables amounted to RMB535,342,000 (31 December 2013: RMB467,981,000). The increases was mainly attributable to the majority customers of the paper-based packaging products segment from Central China used the bills to settle the payment.

Trade payables

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

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowings

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

Gearing ratio

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

Pledge of assets

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

Capital commitments

As at 30 June 2014, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB50,042,000 (31 December 2013: RMB282,089,000). All the capital commitments were related to purchasing new properties, factories and facilities as well as the leasing land.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 30 June 2014.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources Management

The Group had 4,849 employees as at 30 June 2014 (as at 31 December 2013: 3,883 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.

In 2012, 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. As at 30 June 2014, options to subscribe for a total of 14,090,000 shares in the Company were granted to the Directors and the employees.

OTHER INFORMATION

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

As at 30 June 2014, the interests and short positions of the directors 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 of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed issuers 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%
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 2014.

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 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 required to be kept by the Company under Section 352 of the SFO.

Substantial shareholders’ interests in the securities of the Company

As at 30 June 2014, so far as are known to any directors or chief executive(s) of the Company, the following parties (other than directors 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.

OTHER INFORMATION

Name of Shareholder	Capacity/Nature of interest	Number and class of shares held in the Company percentage (Note 1)	Approximate shareholding percentage
Gorgeous Rich (Note 2)	Beneficial owner	191,250,000 ordinary shares of HK$0.10 each	38.25%
Ms. Li Lifen (Note 2)	Interest of spouse	191,250,000 ordinary shares of HK$0.10 each	38.25%
Golden Century (Note 3)	Beneficial owner	93,750,000 ordinary shares of HK$0.10 each	18.75%
Ms. Li Siyuan (Note 3)	Interest of spouse	93,750,000 ordinary shares of HK$0.10 each	18.75%
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 director of chief executive was interested in expressed as a percentage of the number of issued shares in the Company as at 30 June 2014.

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.

OTHER INFORMATION

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 and equity include 3 June 2011, and any other person who 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 (that is 50,000,000 shares, representing 10% of the issued share capital as at the date of the report), 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 2014 is as follows:

OTHER INFORMATION

Details of grantees	Date of grant	Exercise price per share (HK$)	Exercisable Period	As at 1 January 2014	Granted during the period	Exercised During the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2014
				Number of share options				
Hu Zheng (Director)	20 January 2012	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	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	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 Wexin (Director)	20 January 2012	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
Yin Wenxin (Director)	20 January 2012	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	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	1 July 2013 to 30 June 2014	100,000	–	–	–	100,000
		0.82	1 July 2014 to 30 June 2015	100,000	–	–	–	100,000

OTHER INFORMATION

Details of grantees	Date of grant	Exercise price per share (HK$)	Exercisable Period	Number of share options: As at 1 January 2014	Granted during the period	Exercised During the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2014
Wu Youjun (Director)	20 January 2012	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	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	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.

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 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 2014 the Net Proceeds had been utilized in the following manner:

	Use and allocate of the net proceeds as original planned HK$'000	Amount of the net proceeds utilized in the period ended 30 June 2014 HK$'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	21,723	11,977
Setting up the manufacturing factory in new product base in Zhengzhou of the Henan Province, the PRC	26,800	26,800	–
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	2,355	345
General working capital	13,300	13,300	–
	134,400	122,078	12,322

OTHER INFORMATION

Model Code for Securities Transactions by Directors

The Company has adopted the code of conduct regarding securities transactions by directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules. All the Directors of the Company have confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

Purchase, Sale or Redemption of Securities

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

Corporate Governance

The Company had adopted and complied with the code provisions (the "**Code Provisions**") of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules and certain recommended best practices set out in the CG Code throughout the period under review.

Audit Committee

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 Prof. 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, Prof. 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, Prof. 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 2014 have not been audited but have been reviewed by the audit committee of the Company (comprised all the independent non-executive directors of the Company).

Events After the Reporting Period

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Revenue	3	**788,017**	703,282
Cost of sales		**(652,876)**	(567,623)
Gross profit		**135,141**	135,659
Other income	4	**15,694**	10,439
Other gains and losses	5	**(2,328)**	546
Distribution and selling expenses		**(31,991)**	(27,803)
Administrative expenses		**(51,375)**	(43,179)
Finance costs	6	**(33,152)**	(22,707)
Research and development expenses		**(15,848)**	(16,992)
Profit before tax	7	**16,141**	35,962
Income tax expense	8	**(5,041)**	(10,537)
Profit and total comprehensive income for the period		**11,100**	25,425
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**15,369**	25,425
Non-controlling interests		**(4,269)**	–
		11,100	25,425
EARNINGS PER SHARE			
Basic (RMB)	10	**0.03**	0.05
Diluted (RMB)	10	**0.03**	0.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	12	**963,586**	604,449
Prepaid lease payments		**182,933**	94,123
Other intangible assets	13	**3,015**	3,733
Deferred tax assets	19	**287**	198
Deposits paid for acquisition of property, plant and equipment		**16,216**	7,528
Deposit for acquisition of subsidiaries		**–**	14,191
		1,166,037	724,222
Current Assets			
Inventories		**164,596**	127,333
Trade and other receivables	14	**1,101,373**	915,912
Prepaid lease payments		**4,679**	2,178
Short-term investment		**–**	10,000
Pledged bank deposits	15	**191,618**	154,957
Bank balances and cash	15	**65,033**	127,680
Tax recoverable		**2,843**	2,361
		1,530,142	1,340,421
Current Liabilities			
Trade and other payables	16	**737,392**	603,111
Tax liabilities		**7,812**	5,722
Borrowings	18	**988,169**	846,857
Obligations under finance leases		**31,531**	28,279
Amounts due to directors	17	**1,514**	3,141
Amounts due to non-controlling interests	17	**35,637**	–
		1,802,055	1,487,110
Net Current Liabilities		**(271,913)**	(146,689)
Total Assets Less Current Liabilities		**894,124**	577,533

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	**30 June 2014 RMB'000 (unaudited)**	31 December 2013 RMB'000 (audited)
Capital and Reserves			
Share capital	20	**41,655**	41,655
Reserves		**481,628**	476,545
Equity attributable to owners of the Company		**523,283**	518,200
Non-controlling interests		**97,814**	–
Total Equity		**621,097**	518,200
Non-current Liabilities			
Deferred tax liabilities	19	**2,361**	3,044
Deferred income		**23,800**	23,800
Borrowings	18	**212,853**	–
Obligations under finance leases		**34,013**	32,489
		273,027	59,333
		894,124	577,533

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 30 June 2014

	Attributable of owners of the Company								
	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	Non-controlling interest RMB'000	Total RMB'000
At 1 January 2013 (audited)	41,655	92,968	82,943	3,473	(23,389)	300,122	497,772	–	497,772
Profit and total comprehensive income for the period	–	–	–	–	–	25,425	25,425	–	25,425
Recognition of equity-settled share-based payments	–	–	–	560	–	–	560	–	560
Dividends recognised as distribution	–	–	–	–	–	(15,400)	(15,400)	–	(15,400
At 30 June 2013 (unaudited)	41,655	92,968	82,943	4,033	(23,389)	310,147	508,357	–	508,357
At 1 January 2014 (audited)	**41,655**	**92,968**	**90,740**	**4,473**	**(23,389)**	**311,753**	**518,200**	**–**	**518,200**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**102,083**	**102,083**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**15,369**	**15,369**	**(4,269)**	**11,100**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**164**	**–**	**–**	**164**	**–**	**164**
Dividends recognised as distribution	**–**	**–**	**–**	**–**	**–**	**(10,450)**	**(10,450)**	**–**	**(10,450**
At 30 June 2014 (unaudited)	**41,655**	**92,968**	**90,740**	**4,637**	**(23,389)**	**316,672**	**523,283**	**97,814**	**621,097**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June 2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
OPERATING ACTIVITIES		
Profit before tax	**16,141**	35,962
Adjustments for:		
Finance costs	**33,152**	22,707
Interest income	**(2,764)**	(1,900)
Government grants released to income	**–**	(1,887)
Depreciation of property, plant and equipment	**26,708**	18,827
Amortisation of prepaid lease payments	**1,712**	1,089
Amortisation of other intangible assets	**718**	719
Share-based payment expense	**164**	560
(Gain) loss on disposal of property, plant and equipment	**(48)**	23
Gain on bargain purchase	**(3,178)**	–
Operating cash flows before movements in working capital	**72,605**	76,100
Decrease (increase) in inventories	**20,042**	(2,654)
Increase in trade and other receivables	**(23,829)**	(188,120)
Increase in trade and other payables	**12,006**	102,552
Decrease in amounts due to directors	**(1,627)**	(1,119)
Decrease in amounts due to related parties	**–**	(50)
Decrease in amounts due to non-controlling shareholder	**(4,205)**	–
Withdrawal of restricted bank deposits	**–**	12
Cash generated from (used in) operations	**37,525**	(13,279)
Income tax paid	**(4,205)**	(6,178)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**33,320**	(19,457)
INVESTING ACTIVITIES		
Net cash outflow on acquisition of subsidiaries	**(124,545)**	–
Interest received	**2,764**	1,900
Proceeds from disposals of property, plant and equipment	**872**	29
Purchase of property, plant and equipment	**(60,635)**	(40,113)
Purchase of prepaid lease payment	**36,977**	–
Redemption of short-term investment	**10,000**	–
Deposits paid for acquisition of property, plant and equipment	**(14,126)**	(10,579)
Placement of pledged bank deposits	**(272,754)**	(160,489)
Withdrawal of pledged bank deposits	**238,750**	210,295
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(182,697)**	1,043

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Interest paid	**(30,253)**	(22,707)
Dividends paid	**(10,450)**	(15,400)
Addition in obligations under finance leases	**23,764**	–
Repayments of obligations under finance leases	**(22,335)**	(10,278)
New bank borrowings raised	**840,930**	589,888
Repayment of bank borrowings	**(714,926)**	(603,729)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**86,730**	(62,226)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(62,647)**	(80,640)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**127,680**	122,378
CASH AND CASH EQUIVALENTS AT 30 JUNE	**65,033**	41,738

1. Basis of Preparation

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

In preparing the condensed consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration of the Company and the Group in light of its net current liabilities of RMB271,913,000 as at 30 June 2014. On the basis that the Group has secured credit facilities of approximately RMB317,950,000 which remains unutilised as at the published of this reporting date, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. Principal Accounting Policies

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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

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

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 2014 (unaudited)

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

3. Segment Information (continued)

Six months ended 30 June 2013 (unaudited)

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

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

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

4. Other Income

	Six months ended 30 June 2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Interest income	**2,764**	1,900
Government grant	**8,772**	8,419
Sundry income	**4,158**	120
	15,694	10,439

5. Other Gains and Losses

	Six months ended 30 June 2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Exchange gain (loss), net	**(5,554)**	569
Gain (loss) on disposals of property, plant and equipment	**48**	(23)
Gain on bargain purchase (note 11)	**3,178**	–
	(2,328)	546

6. Finance Costs

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

7. Profit for the Period

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

8. Income Tax Expense

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	**5,774**	10,621
Hong Kong Profits Tax	**39**	–
Deferred tax (note 19)		
Current period	**(772)**	(84)
Income tax expense	**5,041**	10,537

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

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

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

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

Zheng Ye Packaging (Zhongshan) Company Limited ("**Zheng Ye Packaging (Zhongshan)**") and Zhongshan Yong Fa Paper Industry Company Limited ("**Zhongshan Yong Fa Paper**") obtained the Certificate of High-Technology in 2009 for three years and the applicable income tax rate was 15% based on Certain Conditions 2. In 2012, Zheng Ye Packaging (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2015.

8. Income Tax Expense (continued)

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

According to document (Zhudouguoshuihan [2008] 51) issued by Doumen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zheng Ye Packaging (Zhuhai) Company Limited ("**Zheng Ye Packaging (Zhuhai)**") was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012. In 2013, Zheng Ye Packaging (Zhuhai) was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up 2015.

9. Dividends

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

The directors have determined that no dividend will be paid in respect of the interim period.

10. Earnings per Share

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**15,369**	25,425
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**500,000,000**	394,337,017

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

11. Business Combination

On 1 April 2014, the Group acquired the 58.7% equity interests of Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited* (中山聯合鴻興造紙有限公司) ("**Lian He**") and Zhongshan Ren Hing Paper Manufacturing Company Limited* (中山聯興造紙有限公司) ("**Lian Xing**") for a total cash consideration of RMB141,914,000. Lian He and Lian Xing are engaged in the manufacture and sale of corrugated papers and paperboards in the PRC. The acquisition perfectly complements the corrugated medium papers business of the Group. Lian He and Lian Xing can leverage on one another and expand the business scope of the Group. Their operating results have been included in the corrugated medium paper segment.

* *For identification purpose only*

11. Business Combination (continued)

The following summaries the consideration paid for Lian He and Lian Xing, the fair value of assets acquired and liabilities assumed at the acquisition date (determined on a provisional basis):

	RMB'000
Property, plant and equipment	**321,166**
Prepaid lease payment	**92,988**
Deposits for acquisition of property, plant and equipment	**2,090**
Inventories	**57,305**
Trade and other receivables	**132,789**
Amounts due from intra-group companies, net	**4,713**
Bank balances and cash equivalents	**21,377**
Trade and other payables	**(107,103)**
Amounts due to non-controlling interests	**(49,989)**
Borrowings	**(228,161)**
Net assets	**247,175**
Non-controlling interests	**(102,083)**
Gain on bargain purchase (note 5)	**(3,178)**
Total consideration satisfied by cash	**141,914**
Net cash outflow arising on acquisition:	
Cash consideration paid	**141,914**
Bank balances and cash equivalents acquired	**(17,369)**
	124,545

The Group recognised a gain on bargain purchase of about RMB$3,178,000 in the business combination. The gain was included in other gains. The gain on bargain purchase was arising from the excess of share of the fair values of identifiable assets acquired and liabilities assumed over the consideration paid for the equity interest. It was mainly attributable to depressed market value of the acquired business because of years of losses due to challenging economic environment and the recession of domestic economic environment during the period of negotiation of the acquisition.

11. Business Combination (continued)

The total revenue included in the consolidated statement of comprehensive income from its date of acquisition (i.e., 1 April 2014) to 30 June 2014 contributed by Lian He and Lian Xing was approximately RMB91,420,000. Lian He and Lian Xing reported net loss of approximately RMB10,338,000 over the same period.

Had Lian He and Lian Xing been consolidated from 1 January 2014, there was no change for revenue and profit attributable to owners of the Company.

12. Property, Plant and Equipment

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

	RMB'000
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
As at 1 January 2014 (audited)	**604,449**
Acquisition of subsidiaries	**327,166**
Additions of plant and equipment	**59,503**
Disposals of plant and equipment	**(824)**
Depreciation for the period	**(26,708)**
As at 30 June 2014 (unaudited)	**963,586**

13. Other Intangible Assets

	Development costs RMB'000
As at 1 January 2013 (audited)	5,171
Charge for the period	(719)
As at 30 June 2013 (unaudited)	4,452
As at 1 January 2014 (audited)	**3,733**
Charge for the period	**(718)**
As at 30 June 2014 (unaudited)	**3,015**

Development costs are internally generated.

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

14. Trade and Other Receivables

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Trade receivables	**506,330**	415,373
Less: allowance for doubtful debts	**(1,318)**	(1,318)
	505,012	414,055
Advances to suppliers	**7,913**	4,462
Bills receivables	**535,342**	467,981
Prepayment	**11,224**	7,156
Other receivables	**41,882**	22,258
	588,448	497,395
Total trade and other receivables	**1,101,373**	915,192

14. Trade and Other Receivables (continued)

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

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

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

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

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

15. Pledged 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 RMB191,618,000 (31 December 2013: RMB154,957,000) have been pledged to bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets.

Bank balances carry interest at market rates within range from 0.01% to 0.35% (31 December 2013: 0.01% to 0.35%) per annum. The pledged deposits carry interest rates which range from 0.35% to 3.25% (31 December 2013: 0.35% to 3.25%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

16. Trade and Other Payables

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

16. Trade and Other Payables (continued)

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

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

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

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

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

17. Amounts Due to Directors/Non-Controlling Interests

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

18. Borrowings

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Bank loans, secured	**957,590**	837,423
Bank loans, unsecured	**9,525**	9,434
Loan from a non-controlling shareholder, unsecured	**233,907**	–
	1,201,022	846,857
Carrying amount repayable:		
On demand or within one year	**984,809**	828,277
More than one year, but not exceeding two years	**–**	–
	984,809	828,277
Carrying amount of bank loans that are repayable within one year from the end of the reporting period and contain repayable on demand clause (shown under current liabilities)	**3,360**	18,580
	988,169	846,857
Carrying amount of loan from a non-controlling shareholder loans that are repayable after one year from the end of the reporting period (shown under current liabilities)	**212,853**	–
	1,201,022	846,857

During the current period, the Group obtained new bank borrowings amounting to approximately RMB482,173,000 (six months ended 30 June 2013: RMB589,888,000).

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

18. Borrowings (continued)

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

	30 June 2014	31 December 2013
Effective interest rate:		
Fixed rate borrowings	**1.95% to 7.80% per annum**	1.59% to 8.00% per annum
Variable rate borrowings	**Benchmark rate per annum**	Benchmark rate per annum

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

19. Deferred Taxation

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Deferred tax assets	**(287)**	(198)
Deferred tax liabilities	**2,361**	3,044
	2,074	2,846

19. Deferred Taxation (continued)

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

	Impairment of receivables RMB'000	Depreciation differences RMB'000	Tax losses RMB'000	Undistributable profit of subsidiaries RMB'000	Total RMB'000
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
At 1 January 2014 (audited)	**(198)**	**2,444**	**–**	**600**	**2,846**
Reversal of deferred tax liabilities upon distribution of profits	**–**	**–**	**–**	**(600)**	**(600)**
Credit for the period	**–**	**(83)**	**(89)**	**–**	**(172)**
At 30 June 2014 (unaudited)	**(198)**	**2,361**	**(89)**	**–**	**2,074**

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 RMB300,778,000 (31 December 2013: RMB299,556,000).

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 Capital

	Number of share	Share Capital HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	**1,000,000,000**	**100,000,000**
Issued and fully paid:		
At 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	**500,000,000**	**50,000,000**

	RMB'000
Presented as: (At 31 December 2013 and 30 June 2014)	**41,655**

21. Share-Based Payments Transactions

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**").

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.

21. Share-Based Payments Transactions (continued)

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/(cancelled) during the period	–
Outstanding as at 30 June 2013	21,350,000
Outstanding as at 1 January 2014	**14,090,000**
Granted/(cancelled) during the period	**–**
Outstanding as at 30 June 2014	**14,090,000**

During the period, the Group recognised the expense of RMB164,000 in relation to the grant of the options by the Company (for the six months ended 30 June 2013: RMB560,000) .

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 Options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

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 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Buildings and construction in progress	**65,778**	65,743
Plant and machinery	**173,109**	157,115
Land use right	**77,459**	55,339
Trade receivables	**101,167**	109,359
Bills receivables	**1**	27,625
Pledge bank deposits	**191,619**	154,957
Inventories	**33,227**	92,207
	642,360	662,345

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 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Within one year	**15,724**	13,946
On the second to fifth year inclusive	**28,031**	19,964
After five years	**11,628**	16,161
	55,383	50,071

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 2014 RMB'000 (unaudited)	31 December 2013 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	**50,042**	154,366
Capital expenditure in respect of acquisition of new subsidiaries contracted for but not provided in the consolidated financial statements	–	127,723
	50,042	282,089

25. Related Parties Transactions and Balances

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye Leasing Company Limited ("**Zheng Ye Leasing**")	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

25. Related Parties Transactions and Balances (continued)

(b) Related parties transactions

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Rental expenses of property — Zheng Ye Leasing (Note)	**2,216**	2,172
Rental expenses of vehicles — Zhong Fa Equipment	**103**	99

Note:

Rental deposit of RMB450,000 (31 December 2013: RMB450,000) paid to Zheng Ye Leasing has been included in trade and other receivables on the Condensed Consolidated Statement of Financial Position at 30 June 2014.

(c) 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.

(d) 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	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other benefits	**7,518**	7,414
Share-based payment	**164**	560
Retirement benefits scheme contributions	**82**	121
	7,764	8,095