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

(Incorporated in Bermuda with limited liability)
(Stock Code: 3363)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHT:

- Revenue recorded a growth of 8.09% to RMB953,989,000;
- Gross profit climbed up 13.80% to RMB203,714,000;
- Gross profit margin increased from 20.28% to 21.35%;
- Profit and total comprehensive income recorded RMB38,504,000 during the period. The profit and total comprehensive income for the period attributable to owners of the Company was RMB33,097,000, represented an increase of 2.28% in the same period last year.
- Basic and diluted earnings per share were RMB0.06 during the period.

The board of directors (the "**Board**") of Zhengye International Holdings Company Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2016 (the "**period**" or the "**period under review**") together with the comparative figures for the corresponding period in 2015 as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	NOTES	Six months ended 30 June **2016** **RMB'000** **(unaudited)**	 2015 RMB'000 (unaudited)
Revenue	**3**	**953,989**	882,577
Cost of sales		**(750,275)**	(703,565)
Gross profit		**203,714**	179,012
Other income	**4**	**5,576**	10,607
Other gains and losses	**5**	**(17,884)**	2,952
Distribution and selling expenses		**(32,893)**	(33,617)
Administrative and other expenses		**(66,547)**	(53,463)
Finance costs	**6**	**(20,595)**	(32,933)
Research and development expenses		**(24,071)**	(23,745)
Profit before tax	**7**	**47,300**	48,813
Income tax expense	**8**	**(8,796)**	(10,469)
Profit and total comprehensive income for the period		**38,504**	38,344
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**33,097**	32,359
Non-controlling interests		**5,407**	5,985
		38,504	38,344
EARNINGS PER SHARE			
Basic (RMB)	**10**	**0.06**	0.06
Diluted (RMB)	**10**	**0.06**	0.06

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016

	NOTES	**30 June 2016 RMB'000 (unaudited)**	31 December 2015 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment		**967,820**	981,150
Prepaid lease payments		**177,034**	206,349
Other intangible assets		**3,705**	2,331
Deferred tax assets		**1,484**	868
Deposits paid for acquisition of property, plant and equipment		**9,272**	9,172
		1,159,315	1,199,870
Current Assets			
Inventories		**128,718**	139,843
Trade and other receivables	**11**	**885,847**	938,470
Prepaid lease payments		**4,870**	5,530
Pledged bank deposits		**138,632**	145,855
Short-term investment		**-**	10,000
Bank balances and cash		**69,916**	59,442
		1,227,983	1,299,140
Current Liabilities			
Trade and other payables	**12**	**722,769**	698,447
Tax liabilities		**8,058**	7,372
Bank borrowings		**673,150**	779,723
Other borrowings		**17,646**	43,982
Obligations under finance leases		**340**	330
Amounts due to directors		**1,201**	2,620
Loans from a non-controlling equity owner of subsidiaries		**6,500**	25,138
		1,429,664	1,557,612
Net Current Liabilities		**(201,681)**	(258,472)
Total Assets Less Current Liabilities		**957,634**	941,398

	NOTES	**30 June 2016 RMB'000 (unaudited)**	31 December 2015 RMB'000 (audited)
Capital and Reserves			
Share capital	**13**	**41,655**	41,655
Reserves		**580,169**	547,072
Equity attributable to owners of the Company		**612,824**	588,727
Non-controlling interests		**115,820**	110,413
Total Equity		**737,644**	699,140
Non-current Liabilities			
Deferred tax liabilities		**3,528**	2,074
Deferred income		**13,299**	34,276
Bank borrowings		**131,920**	38,500
Other borrowings		**19,750**	22,748
Obligations under finance leases		**7,993**	8,168
Loans from a non-controlling equity owner of subsidiaries		**43,500**	136,492
		219,990	242,258
		957,634	941,398

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 RMB201,681,000 as at 30 June 2016. On the basis that the Group has secured credit facilities of approximately RMB321,300,000 which remains unutilised as at 30 June 2016. Being in the year 2016, the board anticipate to control the capital expenditure strictly in order to achieve a reasonable level of debt. The Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and method of computations used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendment to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

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

3. SEGMENT INFORMATION

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

Six months ended 30 June 2016 (unaudited)

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

Six months ended 30 June 2015 (unaudited)

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	425,673	456,904	882,577
Inter-segment sales	-	44,520	44,520
Segment revenue	425,673	501,424	927,097
Eliminations			(44,520)
Group Revenue			882,577
Segment profit	13,924	36,950	50,874
Unallocated corporate expenses, net			(2,061)
Group's profit before tax			48,813

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	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	**1,147**	5,092
Government grant	**3,011**	2,551
Sundry income	**1,418**	2,964
	5,576	10,607

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Exchange (loss) gain, net	**(17,906)**	3,036
Gain (loss) on disposals of property, plant and equipment	**22**	(84)
	(17,884)	2,952

6. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank and other borrowings wholly repayable within five years	**17,372**	29,446
Loan from a non-controlling shareholder	**1,187**	1,162
Finance lease	**2,036**	2,325
	20,595	32,933

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	**26,217**	29,476
Amortisation of prepaid lease payments	**1,630**	2,858
Amortisation of other intangible assets (included in cost of sales)	**1,504**	617

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	**7,958**	10,394
Hong Kong Profits Tax	**-**	-
Withholding tax		
Deferred tax	**1,000**	-
Current period	**(162)**	75
Income tax expense	**8,796**	10,469

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

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

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

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

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

* *For identification purpose only*

9. DIVIDENDS

The directors have determined that no interim dividend has been paid for the six months ended 30 June 2016.

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	
	2016	2015
	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	**33,097**	32,359
Number of shares		
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 for the six months ended 30 June 2016 and 30 June 2015 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 2016 and 2015.

11. TRADE AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade receivables	**496,452**	488,076
Less: allowance for doubtful debts	**(1,318)**	(1,318)
	495,134	486,758
Advances to suppliers	**4,435**	2,945
Bills receivables	**367,819**	424,651
Prepayment	**2,903**	4,519
Other receivables	**15,556**	19,597
	386,278	448,767
Total trade and other receivables	**885,847**	938,470

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 invoice date at the end of the reporting period:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
0 to 60 days	**376,228**	334,122
61 to 90 days	**71,532**	87,520
91 to 180 days	**27,119**	63,942
Over 180 days	**20,255**	1,174
	495,134	486,758

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

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
0 to 60 days	**84,035**	42,476
61 to 90 days	**79,475**	98,105
91 to 180 days	**164,355**	183,180
Over 180 days	**39,954**	100,890
	367,819	424,651

12. TRADE AND OTHER PAYABLES

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Trade payables	**356,267**	445,116
Bills payables – secured	**245,348**	148,043
Other taxes payables	**68,088**	42,648
Payroll and welfare payables	**28,958**	27,916
Construction payables	**-**	865
Advanced from customers	**5,045**	11,554
Others	**19,063**	22,305
	722,769	698,447

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

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
0 to 60 days	**212,137**	207,827
61 to 90 days	**45,908**	95,600
91 to 180 days	**80,503**	115,897
Over 180 days	**17,719**	25,792
	356,267	445,116

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

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
0 to 60 days	**101,180**	32,520
61 to 90 days	**42,713**	5,000
91 to 180 days	**101,455**	110,523
	245,348	148,043

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

13. SHARE CAPITAL

	Number of share	**Share Capital** HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	**1,000,000,000**	**100,000,000**
Issued and fully paid:		
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	**500,000,000**	**50,000,000**
		RMB'000
Presented as: (At 31 December 2015 and 30 June 2016)		**41,655**

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Turnover

The year 2016 is full of challenges. According to the statistics by the National Bureau of Statistics, the second quarter GDP of China only increased 6.70% year-on-year. The proportion of the secondary industry's share in the GDP dropped by 1.1 percentage points compared to that of last year, reflecting the continued economic restructuring. In the "new normal", the development of the household appliance industry is restrained by the slowing economic growth, sluggish demands, lifting of subsidy policies, and adjustments in the property market, etc. The weak demand in white goods, coupled with the overcapacity problem, resulted in the relatively unstable operating environment and the overall conservativeness in the paper-based packaging industry. However, propelled by the policy of eliminating backward production capacity under the "12th Five-year Plan", the paper-making industry consolidated and improved its structure continuously with a number of mid and small-sized companies exiting the market gradually, which is conducive to enhancing industry concentration and alleviating the pressure in industry supply resulting from overcapacity. Taking advantage of the enhancement in industry dynamics, Zhengye International, as a regional leading paper-packaging and corrugated medium paper supplier, started to show more competitiveness in various aspects, such as economy of scale, energy conservation and regional advantages, promoting the steady development of corporate businesses against the market downturn.

In response to the changing market trends, Zhengye International maintained steady business growth with its active taking strategies. Benefiting from the early deployment of the Group in capacity and production efficiency enhancement, Lian He and Lian Xing, which the Group acquired in 2014, completed the technological upgrade project and started operating, greatly improving the production capacity of corrugated medium paper and contributing to the revenue of the Group. As at 30 June 2016, the Group recorded a turnover of RMB953,989,000, up 8.09% year-on-year, among which the sales of paper-based packaging products and corrugated medium paper products accounted for 36.15% and 63.85% of total sales respectively. During the period, raw material (coal and waste paper) price dropped and improved benefiting from production line upgrading in corrugated medium paper, a gross profit of the Group during the period amounted to RMB203,714,000 was recorded, up 13.80% year-on-year. Profit and total comprehensive income attributable to owners of the Company was RMB33,097,000, broadly unchanged from the level of last year. Excluding the deducting the one-off expense for terminating the agreement to build the new plant and facilities in Songzi City, Hubei Province in amount of RMB8,550,000, the profit and total comprehensive income for the period of the Group was RMB46,759,000, a growth of 21.95% compared with the same period last year.

In response to the trend fluctuation of exchange rates, as well as taking into account the current Group's principal business is concentrated in China. In order to minimize the currency risks in the future, the Group had arranged the RMB borrowings in March and May 2016 for the purposes of repayment the principal amounted to JPY2,917,000,000 for the next six years.

Paper-based packaging products

The Group's paper-based packaging products, including corrugated cartons and honeycomb paper-based products, are mainly sold to leading domestic small household appliance and air-conditioner makers. During the period, as a result of the macro-economic environment and multiple factors including the property market downturn, there was a lack of momentum for the growth of the white goods industry and a slowdown in sales growth, thus leading to a sluggish demand for paper-based packaging products, clearly demonstrated by the shrinking of sales in the central China region.

Despite the market slump, the Group actively obtained orders during the period to try to offset the negative effect from the decline in white goods sales. During the period, the Group registered an overall turnover of RMB344,851,000 for paper-based packaging products, a decrease of 18.99% (for the six months ended 30 June 2015: RMB425,673,000), among which corrugated cartons and honeycomb paper-based products accounted for 76.20% and 23.80% respectively (for the six months ended 30 June 2015: 74% and 26%).

The Group actively responded to the fluctuation trends of the market and especially the downstream customers, and strived to expand the customer group in livelihood-related industries with stable development, such as the seasoning and the electronics industries. Meanwhile, the Group also closely followed the transformation of our major customers, such as large household appliance manufacturers, to adjust the specifications and range of our products in time for gaining maximum economic benefits.

Corrugated medium paper

Compared to the level in the first six months of last year, the slowing capacity consolidation of the industry coupled with the fierce industry competition resulted in a lower sales price of the products. Nevertheless, the early deployment of the Group to complete the acquisition of Lian He and Lian Xing in 2014 has started to yield results, successfully improving the capacity and production efficiency of corrugated medium paper and reducing operational costs. During the period, the turnover for corrugated medium paper increased by 33.32% year-on-year to RMB609,138,000. The Group recorded an increase in the gross profit margin of corrugated medium paper to 23.79%, and a gross profit of RMB144,886,000.

Disposal of all equity interest in Hefei Zhengye Packaging Limited

The Group announced on 21 June 2016 that it had entered into an agreement to dispose of 100% of the equity interest (equivalent to all issued share capital) in Hefei Zhengye Packaging Limited ("Hefei Zhengye") for a cash consideration of RMB34,000,000, and anticipated the completion the transaction in the second half of 2016. Hefei Zhengye is mainly involved in manufacturing and selling paper-based packaging products, as well as printing packaging and decoration materials. The main assets of Hefei Zhengda are land with an area of 66,700 sq.m. and plant under construction with an area of 29,376 sq.m. in Feixi County of Hefei City. The disposal is in the interest of the Group as a whole. The Group expected the disposal of the Hefei Zhengye will bring an unaudited gains of RMB2,436,596 at the second half of 2016. The Board does not expect Hefei Zhengye to show a turnaround in a short time, and considers that the disposal can be expected to enhance the cash position and the operating capital of the Company, allowing the Group to relocate its paper-based packaging products business back to the Pearl River Delta region and bringing positive financial and operational impacts, which is conducive to the future development of the Company. The Directors expect the net proceeds from the disposal to be approximately RMB33,500,000, which will be used to repay bank borrowings.

Agreement for Termination of Hubei Project Investment

On 30 June 2016, the Group entered into an agreement for termination of Hubei project investment, which entered into force on the same date. The Group will not build the new paper-making plant and facilities in Songzi City, Hubei Province. On 28 July 2012, Hubei Yong Fa Paper Industry Company Limited ("**Hubei Yong Fa Paper**"), an indirectly wholly-owned subsidiary of the Group, successfully won the bid through auction of the land use rights of a plot of construction land with a total site area of 200,000 sq.m. located at Songzi City Industrial Park at a total consideration of RMB28,800,000. On 26 December 2012, the municipal government of Songzi City (the "**Municipal Government**") and the Songzi City Lingang Industrial Park (the "**Industrial Park**") respectively appropriated RMB23,800,000 and RMB5,000,000, or an amount of RMB28,800,000 in total, to Hubei Yong Fa Paper as financial incentives to encourage the Group to develop the paper-making project in Songzi City. The Group originally intended to construct a paper-making plant with an annual production capacity of 600,000 tonnes. However, in view of the fact that the Group completed the acquisition of Lian He and Lian Xing in Guangdong Province in April 2014, the Directors consider that it will be uneconomical for the Group to continue to construct a new plant, because it will involve additional investment and operational costs, and therefore terminate the construction of the new plant. This will enable the Group to reduce its additional capital expenditures and operational expenses arising from the construction of the paper-making plant, which is in line with the interest of the Group. Due to the termination of the investment agreement, the total expenses related to the construction of the plant of approximately RMB8,255,000 paid by the Group under the investment agreement (stated as prepayments and construction in progress of the Group) have been treated as one-off expenses of the Group for the year (mainly non-cash expense). The Directors consider that the termination of the agreement will not have any material adverse impact on the working capital of the Group.

PROSPECT

The Chinese government proposed the "Made in China 2025" strategy to improve the domestic industries, and in March 2016, the government passed the "13th Five-year Plan", which clearly set out that this strategy will be followed through in the coming five years. "Made in China 2025" focuses on innovation and quality, and aims to eliminate low-efficiency and backward production capacity, help companies develop independent designs and self-owned brands, and achieve industry upgrading. The paper-making industry is undergoing a transformation period of "eliminating backward and environment-unfriendly production capacity and adjusting industry structure", and will continue to face another round of reform. Against this backdrop, companies with first-mover advantages may take up more market shares by leveraging regional, capital, technological and scale advantages to achieve the change of growth mode.

In response to the demand and development trend for industry upgrading, the Group, as a leading paper-making company in the Pearl River Delta region, will continue to accelerate the production line automation process and improve the mechanisation and automation in final assembly and storage in addition to promoting automation for main procedures in paper-making to further optimization of pulp process and enhance its efficiency that to increase paper-making capacity.

With increasingly strict environmental protection and energy conservation requirements, the Group will follow the changes in the environment protection policies, continue to implement and abide by the most updated energy-conservation and emissions reduction requirements of the government, use the most advanced environmental protection facilities and technologies, and strict monitor all procedures of production to fulfil the environmental standards.

The Group believes that a good internal control serves as the basis for sound corporate development. In the second half of the year, the Group will continue to improve its internal governance, continue to implement effective cost control measures, put each item of the budgets to good use of each functional department, and enhance overseeing. The Group will continue to adopt the strategy of using domestic waste paper instead of importing waste paper as its main production raw material to reduce exchange losses. While reducing costs, the Group will also try to promote the recycle economy featuring sustainable development and adopt sustainable modes of production.

The paper-making industry is closely related to national economic development and is of vital importance. The Group firmly believes that it remains in an important strategic period with various opportunities for its future development. By seeking external expansion step by step and maintaining a stable and diversified customer base, the comprehensive competence of the Group will be further enhanced. The Group will continue to take roots in the Pearl River Delta region and focus on local businesses, while at the same time paying close attention to industry changes and trends for integration, developing new products and businesses with good timing, enriching the product portfolio and expanding our customer base. Currently, "Internet+" has become increasingly popular in people's daily life, and the mobile shopping market is experiencing sky-rocketing development. The Group will actively look for appropriate channels and marketing strategies to market its paper-based packaging products with the wide and in-depth coverage of the Internet and proactively look for opportunities to attract e-commerce customers.

Looking into the second half of 2016, the Group will continue to consolidate its internal operations, improve resource allocation effectiveness, and enhance its competitiveness. Meanwhile, by taking advantage of industry integration and supportive policies, the Group will actively promote "automated and intelligent" production, grasp good opportunities to continue to introduce technologies and facilities with high efficiency and maintain its leading position in the region to give back to its shareholders and investors with steady and sound growth.

Cost of sales

The Group's cost of sales increased from RMB703,565,000 for the six months ended 30 June 2015 to RMB750,275,000 for the period under review, representing an increase of 6.23%.

Paper-based packaging products

As for the paper-based packaging products, the cost of sales decreased by RMB63,270,000 or 18.11% from RMB349,293,000 for the six months ended 30 June 2015 to RMB286,023,000 for the period under review.

Corrugated medium paper

As for the corrugated medium paper, the cost of sales increased by RMB109,980,000 or 31.04% from RMB354,272,000 for the six months ended 30 June 2015 to RMB464,252,000 for the period under review.

Gross profit and gross profit margin

Due to above mentioned factors, the gross profit increased by RMB24,702,000 or 13.80% from RMB179,012,000 for the six months ended 30 June 2015 to RMB203,714,000 for the period under review. The overall gross profit margin of the Group for the period under review was 21.35% compared with 20.28% for the six months ended 30 June 2015.

The gross profit margin of paper-based packaging products decreased from 19.35% for the six months ended 30 June 2015 to 17.06% for the period under review, a decrease of 11.83%.

The gross profit margin of corrugated medium paper increased by 5.92% from 22.46% for the six months ended 30 June 2015 to 23.79% for the period under review.

Distribution and selling expenses

The Group's distribution and selling expenses decreased by approximately 2.15% from RMB33,617,000 for the six months ended 30 June 2015 to RMB33,617,000 for the period under review, representing about 3.81% and 3.45% of the Group's turnover respectively.

Administrative and other expenses

The Group's administrative and other expenses slightly increased by about 9.03% from RMB53,463,000 for the six months ended 30 June 2015 to RMB66,547,000 for the period under review, representing about 6.06% and 6.98% of the Group's turnover respectively. Administrative and other expenses mainly included salaries of management, staff welfare, rent and depreciation; also the one-off expenses amounted to RMB8,255,000 in relation to the termination of investment project at Songzi City.

Finance costs

Finance costs of the Group slipped by about 37.46% from RMB32,933,000 for the six months ended 30 June 2015 to RMB20,595,000 for the period under review.

Interest rates of bank borrowings were at fixed rates ranging from 1.95% to 7.22% per annum during the period under review, compared with 1.95% to 6.83% per annum in the same period last year.

Research and development expenses

Research and development expenses of the Group increased by around 1.37% from RMB23,745,000 for the six months ended 30 June 2015 to RMB24,071,000 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 RMB8,796,000 (for the six months ended 30 June 2015: RMB10,469,000), accounting for 18.60% of the total profit (for the six months ended 30 June 2015: 21.45%).

Profit and total comprehensive income

The Group's profit and total comprehensive income for the period under review was RMB38,504,000, the profit for the period attributable to owners of the Company was RMB33,097,000, represented an increase of 2.28% compared with RMB32,359,000 for the six months ended 30 June 2015.

Current assets and capital resources

Cash flow

As at 30 June 2016, the net amount of the Group's cash flow was RMB69,916,000. The amounts arising from operating and investing activities were RMB154,542,000 and RMB30,809,000 respectively, while the cash outflow of financing activity recorded RMB174,877,000 during the period under review.

The net amount of the cash outflow arising from financing activity was RMB111,630,000 for the repayment of loans obtained from a non-controlling equity owner of subsidiaries.

Inventories

The inventories increased to about RMB128,718,000 as at 30 June 2016, compared with about RMB139,843,000 as at 31 December 2015. As at 30 June 2016, the inventory turnover days were about 36 days (31 December 2015: 36 days) which was at a normal level.

Trade receivables

As at 30 June 2016, the trade receivables amounted to RMB495,134,000 (31 December 2015: RMB486,758,000). The Group granted credit period of 30 to 120 days to our paper-based packaging products customers and credit period of 30 to 75 days to our corrugated medium paper customers. The turnover days for trade receivables were shortened to 94 days (31 December 2015: 100 days).

Bills receivables

As at 30 June 2016, the bills receivables amounted to RMB367,819,000 (31 December 2015: RMB424,651,000).

Trade payables

As at 30 June 2016, the trade payables amounted to RMB356,267,000 (31 December 2015: RMB445,116,000). 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 102 days (31 December 2015: 120 days).

Borrowings

As at 30 June 2015, the balance of the Group's bank and other borrowings amounted to RMB842,466,000 (31 December 2015: RMB884,953,000).

Gearing ratio

As at 30 June 2016, total gearing ratio was about 35.29% (31 December 2015: 35.41%), which was calculated on the basis of the total amount of bank and other borrowings as a percentage of the total assets. The net gearing ratio was 103.44%, which was calculated on the basis of the amount of bank and other borrowings less cash and bank balances as a percentage of the shareholders' interest (31 December 2015: 115.45%).

Pledge of assets

As at 30 June 2016, the Group pledged certain assets with carrying value of RMB1,077,143,000 as collateral for the Group's borrowing (31 December 2015: RMB861,308,000).

Capital commitments

As at 30 June 2016, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB19,227,000 (31 December 2015: RMB32,267,000). 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 2016.

Foreign currency exposure

The Group collects most of its revenue and incurs most of the expenditures in RMB. Although the Group undertakes certain transactions denominated in foreign currencies, mainly the currencies of United States, Hong Kong and United Kingdom. The Group has reduced the transactions using in such currencies during the Year due to the fluctuations in currencies from RMB to United States Dollars and other foreign currencies. The Group acquired Lian He and Lian Xing paper manufacturing factories in 2014. Before the acquisition, Lian He and Lian Xing borrowed a ten years borrowings with amount of JPY3,500,000,000 from Rengo Company Limited* (レンゴー株式会社), one of shareholder of Lian He and Lian Xing. In order to minimize the currency risk in JPY, the Group had arranged RMB borrowings in March and May 2016 for the purposes of repayment the principal amounted to JPY2,917,000,000 for the next six years. The Group also takes steps to reduce the loans using foreign currencies gradually to minimize the foreign currency risk. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2016 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.

* *For identification purpose only*

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.zhengye-cn.com). The interim report for the six months ended 30 June 2015 will be dispatched to the shareholders and will be available on the aforesaid websites in due course.

APPRECIATION

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

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

Hong Kong, 26 August 2016

As at the date of this announcement, the Board comprised Mr. Hu Hanchao, Mr. Hu Hancheng and Mr. Hu Zheng as executive directors, Mr. Hu Hanxiang as non-executive director and Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei as independent non-executive directors.