ZHENGYE
INTERNATIONAL

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

Incoporated in Bermuda with limited liability
Stock Code : 3363

2016 中期報告
INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Hanchao (Chairman)
Mr. Hu Hancheng
(Vice-Chairman and Joint Chief Executive Officers)
Mr. Hu Zheng
(Vice-Chairman and Joint Chief Executive Officers)

Non-executive Director

Mr. Hu Hanxiang

Independent Non-Executive Directors

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

COMPANY SECRETARY

Mr. Kersen Chan

BOARD COMMITTEES

Audit Committee

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

Risk Management Committee

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

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

27th Floor, North Building
Tower 3, Da Dong Yu International Center
101 Dongyuannan Road
East District, Zhongshan, Guangdong
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1913, 19th Floor
Peninsula Tower
538 Castle Peak Road, Cheung Sha Wan
Kowloon, Hong Kong

AUTHORIZED REPRESENTATIVE

Mr. Hu Zheng
Mr. Kersen Chan

LEGAL ADVISER

As to Bermuda law
Conyers Dill & Pearman

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Hamilton 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 2016 (the "**period**" or the "**period under review**").

BUSINESS REVIEW

To address the imbalance of supply and demand of the paper-based packaging industry arising from the shrinking demand due to the slowing down of macroeconomic growth and the slackening business growth of manufacturers of small household appliances and air conditioners, the government continued to cut overcapacity of the industry through adjustment and consolidation to relieve the pressure on profitability resulting from expanding capacity and sluggish demand, aiming to restore the sound development of the industry. Due to reduce the price of raw material in coal and waste paper in the first half year of 2016, it created the increased in profit in Paper Division. Leveraging the opportunities emerging from the consolidation of production capacity of the paper industry, the Group completed the technology enhancement of Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited* (中山聯合鴻興造紙有限公司) and Zhongshan Ren Hing Paper Manufacturing Company Limited (中山聯興造紙有限公司) (collectively referred to as "**Lian He and Lian Xing**") acquired by the Group the year before last to further expand the production scale of corrugated medium paper, while improving production efficiency to strengthen cost-savings and efficiencies of the business, resulting in steady growth in the Group's business results against the sluggish economic environment during the period. In addition, the Group disposed of Hefei Zheng Ye Packaging Company Limited during the period to move the business base of paper-based packaging products back to Guangdong and Pearl River Delta regions. Meanwhile, the Group terminated the construction of the new plant and facilities in Hubei during the period to reduce additional costs, reinforce local business and enhance business layout, thus laying a solid foundation for long-term development.

I am pleased to announce that the Group's overall turnover amounted to approximately RMB953,989,000 for the six months ended 30 June 2016, representing a year-on-year increase of 8.09% (six months ended 30 June 2015: RMB882,577,000). The Group's gross profit was RMB203,714,000 and gross profit margin was about 21.35%. Profit and total comprehensive income for the period attributable to owners of the Company was RMB33,097,000, essentially even with the previous year. Basic earnings per share amounted to approximately RMB6 cents.

CHAIRMAN'S STATEMENT

OUTLOOK AND ACKNOWLEDGEMENTS

In the context of the launch of the "13th Five-year Plan" and the implementation of the new environmental protection law, the government will resolve overcapacity and environmental issues of the paper industry by consolidating production capacity as well as tightening up and improving environmental monitoring to eliminate and close down enterprises unable to meet environmental standards, posing serious challenges to the management capability and profitability of paper manufacturers. Addressing the changes in the external environment, Zhengye International has been committed to the enhancement of capacity allocation, improvement of production efficiency and diversification of customer base, thus recording steady growth in business results amid a volatile market.

Despite the decelerating growth of the economy and packaging paper consumption in the PRC, the demand for packaging paper will remain strong in the long term, as paper-based packaging industry is closely related to people's daily life. The alleviation of oversupply in the paper industry will enable enterprises with technological and regional advantages to further expand their business, leverage economies of scale and regain bargaining power. As a relatively large-scale supplier of paper-based packaging service within the region, Zhengye International will benefit from the progress of the supply-side reform on the back of its stringent internal control measures, efficient use of machinery and strict cautions of production monitoring in line with changes in environmental protection policy.

The transformation of consumption and logistic models resulting from the booming of e-commerce has brought about more market opportunities for paper-based packaging enterprises. By actively exploring the possibility of cooperation with e-commerce platforms and increasing its customer base in electronics, food and condiments, the Group expands its marketing channels and diversifies its customer portfolio to mitigate the impact of fluctuations of a single industry on the profitability of the Group and improve its risk resilience and competitiveness, thus maintaining steady business development.

Facing a volatile external environment, the Group believes that its sound internal management, effective control on new capacity through business layout enhancement and focus on the quality of development have laid a solid foundation for addressing future market challenges as well as long-term business development for the best interest of our shareholders.

On behalf of the Board, I would like to extend my heartfelt gratitude to all customers, partners, suppliers, banks and shareholders for their support and great kindness to the Group.

Hu Hanchao
Chairman

Hong Kong, 26 August 2016

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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%.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB494,627,000 (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.

HUMAN RESOURCES MANAGEMENT

The Group had 3,701 employees as at 30 June 2016 (as at 31 December 2015: 3,862 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.

* *For identification purpose only*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 30 June 2016, 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 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 2016.

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 2016, 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.

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%

Note:

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 2016.

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, unless shareholders approved has been obtained, and which 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.

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.

RISK MANAGEMENT COMMITTEE

The Company established the Risk Management Committee with written terms of reference. The primary duties of the Risk Management Committee are to assist the Board on deciding the risk level and risk appetite of the Group and considering the Group's risk management strategies. The Risk Management 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 Risk Management 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.

OTHER INFORMATION

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.

AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2015 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 2016

		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
	NOTES	**(unaudited)**	(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	11	**967,820**	981,150
Prepaid lease payments		**177,034**	206,349
Other intangible assets	12	**3,705**	2,331
Deferred tax assets	18	**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	13	**885,847**	938,470
Prepaid lease payments		**4,870**	5,530
Pledged bank deposits		**138,632**	145,855
Short-term investment	14	**–**	10,000
Bank balances and cash	14	**69,916**	59,442
		1,227,983	1,299,140
Current Liabilities			
Trade and other payables	15	**722,769**	698,447
Tax liabilities		**8,058**	7,372
Bank borrowings	17	**673,150**	779,723
Other borrowings	17	**17,646**	43,982
Obligations under finance leases		**340**	330
Amounts due to directors	16	**1,201**	2,620
Loans from a non-controlling equity owners of subsidiaries	16	**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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	**30 June 2016 RMB'000 (unaudited)**	31 December 2015 RMB'000 (audited)
Capital and Reserves			
Share capital	*19*	**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	*18*	**3,528**	2,074
Deferred income		**13,299**	34,276
Bank borrowings	*17*	**131,920**	38,500
Other borrowings	*17*	**19,750**	22,748
Obligations under finance leases		**7,993**	8,168
Loans from a non-controlling equity owners of subsidiaries		**43,500**	136,492
	16	**219,990**	242,258
		957,634	941,398

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	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 2015 (audited)	41,655	92,968	96,309	1,364	(23,389)	338,684	547,591	108,856	656,447
Profit and total comprehensive income for the period	–	–	–	–	–	32,359	32,359	5,985	38,344
At 30 June 2015 (unaudited)	41,655	92,968	96,309	1,364	(23,389)	371,043	579,950	114,841	694,791
At 1 January 2016 (audited)	**41,655**	**92,968**	**105,633**	**–**	**(23,389)**	**371,860**	**588,727**	**110,413**	**699,140**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**33,097**	**33,097**	**5,407**	**38,504**
At 30 June 2016 (unaudited)	**41,655**	**92,968**	**105,633**	**–**	**(23,389)**	**404,957**	**621,824**	**115,820**	**737,644**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Profit before tax	**47,300**	48,813
Adjustments for:		
Finance costs	**20,595**	32,933
Interest income	**(1,147)**	(5,092)
Government grants released to income	**–**	(733)
Reversal of government grants	**(20,914)**	–
Depreciation of property, plant and equipment	**26,217**	29,476
Impairment losses recognized on trade receivables	**–**	(75)
Amortisation of prepaid lease payments	**1,630**	984
Amortisation of other intangible assets	**1,504**	617
Loss (gain) on disposal of property, plant and equipment	**(22)**	(84)
Operating cash flows before movements in working capital	**75,163**	106,839
Decrease (increase) in inventories	**11,125**	(19,977)
Decrease (increase) in trade and other receivables	**52,623**	(13,954)
Increase in trade and other payables	**24,322**	13,893
(Decrease) increase in amounts due to directors	**(1,419)**	232
Increase in amount due to a non-controlling shareholder	**–**	6,376
Cash generated from operations	**161,814**	93,409
Income tax paid	**(7,272)**	(10,961)
NET CASH FROM OPERATING ACTIVITIES	**154,542**	82,448

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
INVESTING ACTIVITIES		
Interest received	**1,147**	5,092
Proceeds from disposals of property, plant and equipment	**1,955**	4,759
Purchase of property, plant and equipment	**(8,589)**	(54,065)
Purchase of prepaid lease payment	**–**	(1,968)
Proceed from disposal of prepaid lease payment	**28,345**	–
Redemption of short-term investment	**10,000**	5,000
Deposits paid for acquisition of property, plant and equipment	**(9,272)**	(5,482)
Placement of pledged bank deposits	**(205,569)**	(138,203)
Withdrawal of pledged bank deposits	**212,792**	136,279
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**30,809**	(48,588)
FINANCING ACTIVITIES		
Interest paid	**(20,595)**	(32,933)
Addition in obligations under finance leases	**–**	515
Repayments of obligations under finance leases	**(165)**	(425)
New bank borrowings raised	**634,530**	207,326
Repayment of bank borrowings	**(677,017)**	(150,000)
Repayment of loans obtained from a non-controlling equity owner of subsidiaries	**(111,630)**	(20,000)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(174,877)**	4,483
NET INCREASE IN CASH AND CASH EQUIVALENTS	**10,474**	38,343
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**59,442**	41,571
CASH AND CASH EQUIVALENTS AT 30 JUNE	**69,916**	79,914

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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**

3. SEGMENT INFORMATION (continued)

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)
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	**1,000**	–
Deferred tax (note 18)		
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.

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 shares 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. PROPERTY, PLANT AND EQUIPMENT

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

	RMB'000
As at 1 January 2015 (audited)	947,301
Additions of plant and equipment	70,487
Disposals of plant and equipment	(4,675)
Depreciation for the period	(29,476)
As at 30 June 2015 (unaudited)	983,637
As at 1 January 2016 (audited)	**981,150**
Additions of plant and equipment	**14,842**
Disposals of plant and equipment	**(1,955)**
Depreciation for the period	**(26,217)**
As at 30 June 2016 (unaudited)	**967,820**

12. OTHER INTANGIBLE ASSETS

	Development costs RMB'000
As at 1 January 2015 (audited)	4,137
Charge for the period	(617)
As at 30 June 2015 (unaudited)	3,520
As at 1 January 2016 (audited)	**2,331**
Additions	**2,878**
Charge for the period	**(1,504)**
As at 30 June 2016 (unaudited)	**3,705**

Development costs are internally generated.

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

13. TRADE AND OTHER RECEIVABLES

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (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.

13. TRADE AND OTHER RECEIVABLES (continued)

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

14. 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 RMB138,632,000 (31 December 2015: RMB145,855,000) 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 0.30% (31 December 2015: 0.01% to 0.30%) per annum. The pledged deposits carry interest rates which range from 0.30% to 1.75% (31 December 2015: 0.30% to 2.75%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

15. 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

15. TRADE AND OTHER PAYABLES (continued)

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.

16. AMOUNTS DUE TO DIRECTORS AND LOAN FROM A NON-CONTROLLING EQUITY OWNER OF SUBSIDIARIES

The amounts due to directors are unsecured, interest free and repayable on demand.

Loans from a non-controlling equity owner of subsidiaries are unsecured and carrying fixed interest rates from 0.99% to 1.37% per annum.

17. BORROWINGS

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Bank borrowings, secured	**805,070**	818,223
Other borrowings, secured	**37,396**	56,730
Other borrowings, unsecured	**–**	10,000
	842,466	884,953
Carrying amount repayable:		
Within one year	**690,796**	823,705
More than one year but not more than two years	**19,750**	29,480
More than two year but not more than five years	**131,920**	31,768
	842,466	884,953
Less: Amounts due within one year shown under current liabilities	**(690,796)**	(823,705)
Amounts shown under non-current liabilities	**151,670**	61,248

Bank borrowings and other borrowings as at period end were secured by the pledged of assets set out in note 21.

17. 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 2016	31 December 2015
Effective interest rate:		
Fixed rate borrowings	**1.95% to 7.22% per annum**	2.58% to 7.22% per annum
Variable rate borrowings	**Benchmark rate per annum**	Benchmark rate per annum

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

18. 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 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Deferred tax assets	**(1,030)**	(868)
Deferred tax liabilities	**3,074**	2,074
	2,044	1,206

18. DEFERRED TAXATION (continued)

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

	Deferred income RMB'000	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 2015 (audited)	(394)	(198)	2,240	(599)	–	1,049
Charge (credit) for the period	102	–	(27)	–	–	75
At 30 June 2015 (unaudited)	(198)	(198)	2,213	(599)	–	1,124
At 1 January 2016 (audited)	**(670)**	**(198)**	**2,074**	**–**	**–**	**1,206**
Reversal of deferred tax liabilities upon distribution of profits	**–**	**–**	**–**	**–**	**1,000**	**1,000**
Charge (credit) for the period	**–**	**–**	**–**	**(162)**	**–**	**(162)**
At 30 June 2016 (unaudited)	**(670)**	**(198)**	**2,074**	**(162)**	**1,000**	**2,044**

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 RMB404,050,000 (31 December 2015: RMB404,050,000).

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.

19. 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**

20. 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.

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 2015	6,240,000
Granted/(cancelled) during the period	–
Outstanding as at 30 June 2015	6,240,000
Outstanding as at 1 January 2016 and 30 June 2016	**–**

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21. 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 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Buildings and construction in progress	**76,074**	85,507
Plant and machinery	**538,142**	242,344
Land use right	**139,366**	178,010
Trade receivables	**–**	80,000
Bills receivables	**144,160**	58,011
Pledge bank deposits	**179,400**	145,855
Short-term investment	**–**	10,000
Inventories	**–**	62,031
	1,077,143	861,308

22. 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 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Within one year	**7,576**	15,964
On the second to fifth year inclusive	**842**	30,340
After five years	**4,852**	18,716
	13,270	65,020

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.

23. CAPITAL COMMITMENTS

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Capital expenditure in respect of acquisition of new property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	**19,227**	32,267

24. RELATED PARTIES TRANSACTIONS AND BALANCES

(a) Name and relationship

Name	**Relationship**
Zhongshan City Zheng Ye Leasing Company Limited ("**Zheng Ye Leasing**")	With the common controlling shareholders
Zhongshan City Zhong Fa Equipment Rental Company Limited ("**Zhong Fa Equipment**")	With the common controlling shareholders

(b) Related parties transactions

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Rental expenses of property — Zheng Ye Leasing (Note)	**2,216**	2,216
Rental expenses of vehicles — Zhong Fa Equipment	**–**	83

24. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

(b) Related parties transactions (continued)

Note:

Rental deposit of 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 2016.

(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	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other benefits	**9,625**	9,419
Retirement benefits scheme contributions	**235**	106
	9,860	9,525