



**ZHENGYE**  
INTERNATIONAL

**正業國際控股有限公司**  
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED  
Incorporated in Bermuda with limited liability



**INTERIM REPORT 2018**

**Stock Code : 3363**

# CONTENTS

Corporate Information	2
Chairman's Statement	4
Management Discussion and Analysis	6
Other information	13
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	20
Condensed Consolidated Statement of Financial Position	21
Condensed Consolidated Statement of Changes in Equity	23
Condensed Consolidated Statement of Cash Flows	24
Notes to the Condensed Consolidated Financial Statements	26

# 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

20th Floor, Building 2  
Ocean Plaza, 28 Boai No.6 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 2018 (the “**period**” or the “**period under review**”).

## BUSINESS REVIEW

In the first half of 2018, the government of Mainland China continued to carry out supply-side reforms in the paper industry and successively introduced new environmental protection policies, leading to progressive phase-out of backward production capacity in the paper-making industry. At the same time, as the government gradually tightened the waste paper import policy, the available amount of imported waste paper decreased significantly. Coupled with the recovery in demand, inventory of base paper was in short supply from time to time, contributing to a substantial increase in the Group's average selling price.

I am pleased to announce that the Group's overall turnover amounted to approximately RMB1,409,130,000 for the six months ended 30 June 2018, representing a year-on-year increase of 21.64% (for the six months ended 30 June 2017: RMB1,158,424,000). The Group's gross profit was RMB238,559,000 and gross profit margin was approximately 16.93%, representing a year-on-year decrease of 6.59 percentage points, it is mainly due to the cost of domestic waste paper procurement continued to rise during the period, the production cost of corrugated medium paper increased significantly, while the selling price per unit in corrugated medium paper could not increase year-on-year. Profit and total comprehensive income for the period attributable to owners of the Company was RMB50,503,000, representing a year-on-year decrease of approximately 41.69%. Basic earnings per share amounted to approximately RMB10 cents.

## OUTLOOK AND ACKNOWLEDGEMENTS

Zhengye Group has consistently attached great importance to the quality of products, while sincerity to customers and excellent after-sales service have always been our strength. Drawing upon our quality products and services, we have gained trust from our customers and market recognition, establishing long-term relationships with many industry leaders.

By implementing the key development strategy of “Internal optimization and environmental protection governance”, the Group will continue to promote refined management, exercise effective control over costs and improve internal management efficiency, so as to continue to fuel the growth in profitability. Meanwhile, the Group will continue to lead by example to promote the development of green packaging business, in pursuit of environmentally friendly development as its corporate mission.

## CHAIRMAN'S STATEMENT

Looking forward, driven by the structural reform of the Chinese government on the supply side, paper-making businesses with sub-standard production capacity will gradually close down, unleashing development potential for the paper-based packaging industry. Comparably, enterprises which have sound management and are more environmentally aware will enjoy more stable and healthier development space. In addition, Zhengye International will respond to the unpredictable market changes by continuously upholding its corporate philosophy of "good conduct, honesty and innovation", giving play to the spirit of "transformation through innovation" and sticking to the fundamental principles, ready to encounter with both opportunities and risks arising from the market.

Finally, I would like to take this opportunity to express my sincere thanks to my fellow Directors for their guidance and support and to all members of the staff for their loyalty and dedication during the year.

**Hu Hanchao**

*Chairman*

Hong Kong, 24 August 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Zhengye International is a leading supplier of paper-based packaging and corrugated medium paper with extensive industry experience in the Pearl River Delta which provides one-stop packaging solutions services to its customers. We are mainly engaged in manufacture and sale of: (1) paper-based packaging products; and (2) corrugated medium paper products.

During the reporting period, the Chinese government continued to promote economic and environmental development reforms and strictly implemented environmental protection regulations. During the year, the government strengthened control over the reduction in volume of imported waste paper, leading to tightening supply of imported waste paper. As a result, the prices of both domestic and imported waste paper fluctuated significantly during the period. Against the backdrop that supply fell short of demand, the average price of raw paper in the first half of 2018 remained high.

In the face of market restrictions on the import of waste paper from abroad, the Group capitalised on its advantage of integrated production model to strictly control costs and secure stable supply through stable domestic raw material procurement channels.

### Turnover

Thanks to the rising price of paper products and recovery of demand during the reporting period, the Group's revenue posted a considerable growth for the second half of the year. For the six months ended 30 June 2018, the Group recorded an overall turnover of RMB1,409,130,000, representing a substantial increase of 21.64% year-on-year. Specifically, the turnover of paper-based packaging products and corrugated medium paper products accounted for 37.36% and 62.64% of the total turnover, respectively. The Group recorded a gross profit of RMB238,559,000 during the year, down by 12.44% year-on-year, and a gross margin of 16.93%. Profit and total comprehensive income attributable to owners of the Company for the year amounted to RMB50,503,000, representing a decrease of 41.69% over last year. The drop of gross profit is mainly due to the cost of domestic waste paper procurement continued to rise during the period, the production cost of corrugated medium paper increased significantly, while the selling price per unit in corrugated medium paper could not increase year-on-year.

### Paper-based packaging products

We are the largest supplier of paper-based packaging products for household air-conditioners in the PRC, and we sell paper-based packaging products to consumer product manufacturers in various industries. Our major customers are leading industry players, including small home appliance and air-conditioner makers, electronics manufacturers and food seasonings manufacturers.

## MANAGEMENT DISCUSSION AND ANALYSIS

As the enforcement of environmental protection policies were strengthened, paper-making companies with backward capacity and sub-standard environmental compliance were propelled to exit from the market. Coupled with the promulgation of environmental protection tax, new regulations on import of waste paper and rigorous capacity approval, the production capacity in the industry was further reduced and the industrial consolidation was accelerated, which helped the Group to secure and meet more orders from its existing customers. In addition, the increase in base paper price led to higher price of paper-based products. During the period, the overall turnover of the Group's paper-based packaging products substantially increased to RMB 526,389,000, up by 20.85% year-on-year (for the six months ended 30 June 2017: RMB435,569,000). Specifically, corrugated cartons and honeycomb paper-based products accounted for 77.89% and 22.11% of the total turnover of paper-based packaging products, respectively (for the six months ended 30 June 2017: 76.82% and 23.18%).

### **Corrugated medium paper**

During the period, the increased cost of waste paper resulted in multiple upward adjustments to the selling price of corrugated medium paper. During the period, the turnover of corrugated medium paper increased by 22.12% year-on-year to RMB882,741,000 (for the six months ended 30 June 2017: RMB 722,855,000).

## PROSPECT

Driven by structural reforms on the supply side, the effects of tightening environmental protection policies have gradually emerged. As a result, small and medium-sized enterprises with backward technology and severe pollution have become the key targets whose production capacity should be eliminated, and small and medium-sized enterprises will therefore be phased out from the changing and highly competitive industry. Faced with increasingly stringent environmental requirements, the Group has no fear of fickle market conditions and industrial consolidation. Instead, the Group believes that this is an opportunity for the industry which allows the Group to give full play to its advantages as one of the leading companies and to further strengthen its position in the industry.

The Group has always put in place stringent requirements in environmental protection equipment and management. As a model enterprise in environmental protection in the industry, the Group has employed leading technologies in energy saving, water conservation and sewage treatment. Looking forward, the Group will continue to adhere to the green management concept, keep abreast of the market environmental protection policy, proactively improve environmental protection measures and improve emission reduction and treatment technology, striving to create sustainable development space.



## MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group will continuously improve its production technology and closely communicate with the R&D and design departments to diversify its product portfolio and enhance its sales channels and market competitiveness. The Group will also continue to optimize its internal resources and adopt indexed and refined production management systems to increase production efficiency and maintain profitability.

In the second half of 2018, although various challenges and uncertainties are expected to linger in the industry, the Group will continue to strive for excellent internal governance, rigorously monitor costs, maintain sound operating conditions and capture market share in the best means in due course, so as to deliver greater returns for shareholders.

### Cost of sales

The Group's cost of sales increased from RMB885,963,000 for the six months ended 30 June 2017 to RMB1,170,571,000 for the period under review, representing an increase of 32.12%.

### Paper-based packaging products

As for the paper-based packaging products, the cost of sales increased by RMB73,022,000 or 21.46% from RMB340,312,000 for the six months ended 30 June 2017 to RMB413,334,000 for the period under review.

### Corrugated medium paper

As for the corrugated medium paper, the cost of sales increased by RMB211,586,000 or 38.78% from RMB545,651,000 for the six months ended 30 June 2017 to RMB757,237,000 for the period under review. During the period, the price in waste paper increased by 70% sharply with the same period last year.

### Gross profit and gross profit margin

Due to above mentioned factors, the gross profit decreased by RMB33,902,000 or 12.44% from RMB272,461,000 for the six months ended 30 June 2017 to RMB238,559,000 for the period under review. The overall gross profit margin of the Group for the period under review was 16.93% compared with 23.52% for the six months ended 30 June 2017.

During the period, the gross profit margin of paper-based packaging products maintained at 21.48% (for the six months ended 30 June 2017: 21.87%), the Group continued to the tactical reduction in orders with relatively low gross profit and profitability, streamlined staff and improved production efficiency that effectively maintained the lucrative orders and an optimal customer structure and laid a solid foundation for long-term business growth and even industry development.

## MANAGEMENT DISCUSSION AND ANALYSIS

Due to the cost of domestic waste paper procurement continued to rise during the period, the production cost of corrugated medium paper increased significantly, while the selling price per unit in corrugated medium paper could not increase year-on-year, it results its gross profit margin of corrugated medium paper dropped year on year by 10.29 percentage points to 14.22% (for the six months ended 30 June 2017: 24.51%).

### Distribution and selling expenses

The Group's distribution and selling expenses decreased by approximately 12.89% from RMB40,052,000 for the six months ended 30 June 2017 to RMB34,490,000 for the period under review, representing about 3.46% and 2.45% of the Group's turnover respectively.

### Administrative and other expenses

The Group's administrative and other expenses slightly decreased by about 1.91% from RMB70,362,000 for the six months ended 30 June 2017 to RMB69,021,000 for the period under review, representing about 6.07% and 4.90% of the Group's turnover respectively. Administrative and other expenses mainly included salaries of management, staff welfare, rent and depreciation.

### Finance costs

Finance costs of the Group rose by about 7.81% from RMB22,167,000 for the six months ended 30 June 2017 to RMB23,898,000 for the period under review.

Interest rates of bank and borrowings were at fixed rates ranging from 3.16% to 5.66% per annum during the period under review, compared with 3.16% to 6.31% per annum in the same period last year; while its variable rates ranging from 3.48% to 7.35% during the period under review, compared with 2.76% to 4.99%.

### Research and development expenses

Research and development expenses of the Group increased by around 61.72% from RMB29,221,000 for the six months ended 30 June 2017 to RMB47,256,000 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. In addition, the company's environmental protection and computer systems were strengthened during the period, which made the company's environmental indicators more advanced than the government's policies and more efficient under the computerised production.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Income tax expense

During the period under review, the Group's income tax expense was RMB12,581,000 (for the six months ended 30 June 2017: RMB12,171,000), accounting for 17.99% of the total profit (for the six months ended 30 June 2018: 10.69%). The effective tax rate was back to normal for the period due to the effect of utilisation of tax losses previously not recognized has fully utilised in last year.

## Profit and total comprehensive income

The Group's profit and total comprehensive income for the period under review was RMB69,955,000, the profit for the period attributable to owners of the Company was RMB50,503,000, represented a decrease of 41.69% compared with RMB86,611,000 for the six months ended 30 June 2017.

## CURRENT ASSETS AND CAPITAL RESOURCES

### Cash flow

As at 30 June 2018, the net amount of the Group's cash flow was RMB195,395,000. The amount arising from operating activity was RMB65,146,000, while the cash outflows of investing and financing activities recorded RMB39,359,000 and RMB20,660,000 during the period under review respectively.

The net amount of the cash outflow used in investing activity was RMB32,359,000 for the purchases of property, plant and equipment.

### Inventories

The inventories increased to about RMB187,308,000 as at 30 June 2018, compared with about RMB162,277,000 as at 31 December 2017. As at 30 June 2018, the inventory turnover days were about 25 days (31 December 2017: 28 days) which was at a normal level.

### Trade receivables

As at 30 June 2018, the trade receivables amounted to RMB573,813,000 (31 December 2017: RMB520,231,000). 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 68 days (31 December 2017: 76 days).

### Bills receivables

As at 30 June 2018, the bills receivables amounted to RMB472,166,000 (31 December 2017: RMB472,463,000).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Trade payables

As at 30 June 2018, the trade payables amounted to RMB307,034,000 (31 December 2017: RMB267,123,000). 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 speed up to 49 days (31 December 2017: 65 days). The decrease of turnover day is mainly due to the suppliers can offer a better price in purchase of raw materials as the Group can settle the payment earlier.

## Borrowings

As at 30 June 2018, the balance of the Group's bank and other borrowings amounted to RMB921,283,000 (31 December 2017: RMB917,673,000).

## Gearing ratio

As at 30 June 2018, total gearing ratio was about 34.30% (31 December 2017: 35.82%), 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 67.55%, 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 2017: 73.34%).

## Pledge of assets

As at 30 June 2018, the Group pledged certain assets with carrying value of RMB849,476,000 as collateral for the Group's borrowing (31 December 2017: RMB793,541,000).

## Capital commitments

As at 30 June 2018, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB43,100,000 (31 December 2017: RMB22,305,000). 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 2018.

## 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 and Hong Kong, the exposures to exchange rate fluctuations is minimal. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

# MANAGEMENT DISCUSSION AND ANALYSIS

## HUMAN RESOURCES MANAGEMENT

The Group had 2,991 employees as at 30 June 2018 (as at 31 December 2017: 3,057 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.

## OTHER INFORMATION

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

As at 30 June 2018, 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 2018.
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.

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 30 June 2018, 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 (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 Lifan (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%
RAYS Capital Partners Limited (Note 5)	Investment manager/ Beneficial owner/ Interest of controlled corporation	49,718,000 ordinary shares of HK\$0.10 each	9.94%
Mr. Ruan David Ching-chi (Note 6)	Interest of controlled corporation	49,718,000 ordinary shares of HK\$0.10 each	9.94%
Asian Equity Special Opportunities Portfolio Master Fund Limited (Note 5)	Beneficial owner	46,516,000 ordinary shares of HK\$0.10 each	9.30%



## OTHER INFORMATION

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 or chief executive was interested in expressed as a percentage of the number of issued shares in the Company as at 30 June 2018.
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.
5. Asian Equity Special Opportunities Portfolio Master Fund Limited ("**Asian Equity**") is wholly-owned by RAYS Capital Partners Limited. Therefore, RAYS Capital Partners Limited is deemed to be interested in all the Shares held by Asian Equity.
6. The shares in RAYS Capital Partners Limited is held by Ruan David Ching-chi. Therefore, he is deemed interested in all the Shares held by RAYS Capital Partners Limited.

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 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, except for the deviation from the CG Code provision A.6.7:

Under Code Provision A.6.7, Independent Non-executive Directors and Non-executive Director should attend general meetings and develop a balanced understanding of the views of shareholders. One member of the Non-executive Director of the Company was unable to attend the annual general meeting of the Company held on 22 June 2018.

### 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.

## OTHER INFORMATION

### REMUNERATION COMMITTEE

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

### NOMINATION COMMITTEE

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

### AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2017 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 2018

	Notes	Six months ended 30 June	
		2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Revenue	3	<b>1,409,130</b>	1,158,424
Cost of sales		<b>(1,170,571)</b>	(885,963)
Gross profit		<b>238,559</b>	272,461
Other income	4	<b>5,314</b>	6,766
Other gains and losses	5	<b>727</b>	(3,540)
Distribution and selling expenses		<b>(34,490)</b>	(40,052)
Administrative and other expenses		<b>(69,021)</b>	(70,362)
Finance costs	6	<b>(23,898)</b>	(22,167)
Research and development expenses		<b>(47,256)</b>	(29,221)
Profit before tax	7	<b>69,935</b>	113,885
Income tax expense	8	<b>(12,581)</b>	(12,171)
Profit and total comprehensive income for the period		<b>57,354</b>	101,714
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		<b>50,503</b>	86,611
Non-controlling interests		<b>6,851</b>	15,103
		<b>57,354</b>	101,714
EARNINGS PER SHARE			
Basic (RMB)	10	<b>0.10</b>	0.17

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	<b>30 June 2018</b>	31 December 2017
<i>Notes</i>	<b>RMB'000 (unaudited)</b>	RMB'000 (audited)
<b>Non-current Assets</b>		
Property, plant and equipment	11 <b>892,000</b>	892,353
Prepaid lease payments	<b>157,025</b>	158,578
Other intangible assets	12 <b>505</b>	706
Deferred tax assets	18 <b>2,334</b>	2,354
Deposits paid for acquisition of property, plant and equipment	<b>17,357</b>	20,934
	<b>1,069,221</b>	1,074,925
<b>Current Assets</b>		
Contract assets	<b>18,471</b>	–
Inventories	<b>187,308</b>	162,277
Trade and other receivables	13 <b>1,086,975</b>	1,015,071
Prepaid lease payments	<b>4,720</b>	4,720
Pledged bank deposits	14 <b>124,157</b>	114,609
Bank balances and cash	14 <b>195,395</b>	190,268
	<b>1,617,026</b>	1,486,945
<b>Current Liabilities</b>		
Trade and other payables	15 <b>670,411</b>	597,550
Tax liabilities	<b>10,748</b>	14,207
Bank borrowings	17 <b>750,110</b>	745,646
Other borrowings	17 <b>76,283</b>	63,493
Obligations under finance leases	<b>394</b>	372
Amounts due to directors	16 <b>1,000</b>	1,840
	<b>1,508,946</b>	1,423,108
<b>Net Current Assets</b>	<b>108,080</b>	63,837
<b>Total Assets Less Current Liabilities</b>	<b>1,177,301</b>	1,138,762

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	<i>Notes</i>	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
<b>Capital and Reserves</b>			
Share capital	19	<b>41,655</b>	41,655
Reserves		<b>849,097</b>	793,926
<b>Equity attributable to owners of the Company</b>			
		<b>890,752</b>	835,581
<b>Non-controlling interests</b>		<b>165,150</b>	158,299
<b>Total Equity</b>			
		<b>1,055,902</b>	993,880
<b>Non-current Liabilities</b>			
Deferred tax liabilities	18	<b>4,351</b>	8,370
Deferred income		<b>15,106</b>	20,532
Bank borrowings	17	<b>79,665</b>	82,228
Other borrowings	17	<b>15,225</b>	26,306
Obligations under finance leases		<b>7,052</b>	7,446
		<b>121,399</b>	144,882
		<b>1,177,301</b>	1,138,762

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable of owners of the Company						Non-controlling	
	Share capital	Share premium	Statutory reserves	Other reserves	Retained earnings	Total	interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (audited)	41,655	92,968	115,843	(23,389)	453,299	680,376	127,762	808,138
Disposal of subsidiaries	-	-	(583)	808	-	225	-	225
Profit and total comprehensive income for the period	-	-	-	-	33,097	33,097	5,407	38,504
Transfer to statutory reserve	-	-	219	-	(219)	-	-	-
At 30 June 2017 (unaudited)	41,655	92,968	115,479	(22,581)	539,691	767,212	142,865	910,077
At 1 January 2018 (audited)	<b>41,655</b>	<b>92,968</b>	<b>121,111</b>	<b>(23,389)</b>	<b>603,236</b>	<b>835,581</b>	<b>158,299</b>	<b>993,880</b>
Opening adjustment under HKFRS 15	-	-	-	-	4,668	4,668	-	4,668
At 1 January 2018 (as restated)	<b>41,655</b>	<b>92,968</b>	<b>121,111</b>	<b>(23,389)</b>	<b>607,904</b>	<b>840,249</b>	<b>158,299</b>	<b>998,548</b>
Profit and total comprehensive income for the period	-	-	-	-	50,503	50,503	6,851	57,354
At 30 June 2018 (unaudited)	<b>41,655</b>	<b>92,968</b>	<b>121,111</b>	<b>(23,389)</b>	<b>658,407</b>	<b>890,752</b>	<b>165,150</b>	<b>1,055,902</b>



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
<b>OPERATING ACTIVITIES</b>		
Profit before tax	<b>69,935</b>	113,885
Adjustments for:		
Finance costs	<b>23,898</b>	22,167
Interest income	<b>(1,417)</b>	(985)
Depreciation of property, plant and equipment	<b>35,092</b>	33,531
Depreciation of investment property	–	90
Allowance for trade receivables	<b>1,159</b>	2,323
Amortisation of prepaid lease payments	<b>1,553</b>	2,122
Amortisation of other intangible assets	<b>201</b>	142
Loss on disposal of property, plant and equipment	<b>66</b>	668
Amortisation of government grant relating to non-current assets	<b>(5,426)</b>	–
Operating cash flows before movements in working capital	<b>125,061</b>	173,943
Increase in inventories	<b>(43,502)</b>	(1,870)
Increase in trade and other receivables	<b>(71,904)</b>	(26,112)
Increase (Decrease) in trade and other payables	<b>71,702</b>	(57,181)
Decrease in amounts due to directors	<b>(840)</b>	(989)
Cash generated from operations	<b>80,517</b>	87,791
Income tax paid	<b>(15,371)</b>	(12,958)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>65,146</b>	74,833
<b>INVESTING ACTIVITIES</b>		
Interest received	<b>1,417</b>	985
Proceeds from disposals of property, plant and equipment	<b>1,131</b>	–
Purchase of property, plant and equipment	<b>(32,359)</b>	(13,330)
Deposits paid for acquisition of property, plant and equipment	–	(1,259)
Placement of pledged bank deposits	<b>(119,440)</b>	(34,660)
Withdrawal of pledged bank deposits	<b>109,892</b>	35,446
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(39,359)</b>	(12,818)

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
<b>FINANCING ACTIVITIES</b>		
Interest paid	<b>(23,898)</b>	(22,167)
Repayments of obligations under finance leases	<b>(372)</b>	(350)
New bank and other borrowings raised	<b>251,014</b>	235,250
Repayment of bank and other borrowings	<b>(247,404)</b>	(279,725)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(20,660)</b>	(66,992)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,127</b>	(4,977)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>190,268</b>	159,518
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>195,395</b>	154,541

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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**”).

## 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 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

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:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRS 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

### Impacts and changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of corrugated medium papers
- Sales of paper-based packaging products

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Impacts and changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers” (continued)

#### Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Impacts and changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers” (continued)

#### Key changes in accounting policies resulting from application of HKFRS 15

(continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The revenue of the Group arising from sales of paper-based packaging products is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from these sales is recognised when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Impacts and changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers” (continued)

#### Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

		Carrying amounts previously reported as 31 December 2017	Opening adjustment	Carrying amount under HKFRS 15 at 1 January 2018
	<i>Note</i>	RMB'000	RMB'000	RMB'000
<b>Current assets</b>				
Inventories	<i>(a)</i>	162,277	(14,950)	147,327
Contract assets	<i>(a)</i>	–	19,618	19,618
<b>Capital and reserves</b>				
Reserves	<i>(a)</i>	793,926	4,668	798,594

Note:

- (a) As at 1 January 2018, contract assets of RMB19,618,000 in respect of sales contracts signed with customers is adjusted from inventories of RMB14,950,000 and the opening balance of retained earnings of RMB4,668,000 respectively. The impact on the Group's condensed consolidated statement of financial position at 30 June 2018, without application of HKFRS 15, would be an adjustments from contract assets of RMB18,471,000, costs of sales of RMB234,000 and revenue of RMB1,147,000 to inventories of RMB15,184,000 and retained earnings of RMB4,668,000.

### HKFRS 9 Financial Instruments

The Group has performed an assessment on the impact of the adoption of HKFRS 9 and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. SEGMENT INFORMATION

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

### Six months ended 30 June 2018 (unaudited)

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
<b>REVENUE</b>			
External sales	526,389	882,741	1,409,130
Inter-segment sales	–	92,690	92,690
Segment revenue	526,389	975,431	1,501,820
Eliminations			(92,690)
Group Revenue			1,409,130
Segment Profit	40,164	32,543	72,707
Unallocated corporate income, net			(2,772)
Profit before tax			69,935



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. SEGMENT INFORMATION (continued) Six months ended 30 June 2017 (unaudited)

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
<b>REVENUE</b>			
External sales	435,569	722,855	1,158,424
Inter-segment sales	–	60,169	60,169
Segment revenue	435,569	783,024	1,218,593
Eliminations			(60,169)
Group Revenue			1,158,424
Segment Profit	26,711	87,120	113,831
Unallocated corporate income, net			54
Profit before tax			113,885

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 4. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	1,417	989
Government grant	2,958	5,769
Sundry income	939	8
	<b>5,314</b>	6,766

## 5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Exchange loss, net	793	(555)
Gain on disposals of property, plant and equipment	(66)	(2,985)
	<b>727</b>	(3,540)

## 6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank and other borrowings wholly repayable within five years	21,180	21,250
Loan from a non-controlling shareholder	2,479	657
Finance lease	239	260
	<b>23,898</b>	22,167

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	<b>35,092</b>	33,531
Amortisation of prepaid lease payments	<b>1,553</b>	2,122
Amortisation of other intangible assets (included in cost of sales)	<b>201</b>	142

## 8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	<b>16,580</b>	12,306
Hong Kong Profits Tax	–	–
Deferred tax (note 18)		
Current period	<b>(3,999)</b>	(135)
Income tax expense	<b>12,581</b>	12,171

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%.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 8. INCOME TAX EXPENSE (continued)

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. In 2016, Zheng Ye Packaging (Zhuhai) has renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2019.

In 2017, Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited\* (中山聯合鴻興造紙有限公司) (“**Hung Hing**”) was awarded the Certificate of High-Technology and is eligible for tax concession of 15% up to year 2019.

## 9. DIVIDENDS

The directors have determined that no interim dividend has been paid for the six months ended 30 June 2018.

\* For identification purpose only

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<b>Earnings</b>		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	50,503	86,611
<b>Number of shares</b>		
Number of ordinary shares for the purpose of basic earnings per shares per share	500,000,000	500,000,000

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 11. PROPERTY, PLANT AND EQUIPMENT

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

	<b>RMB'000</b>
As at 1 January 2017 (audited)	920,248
Additions of plant and equipment	13,330
Depreciation for the period	(33,531)
As at 30 June 2017 (unaudited)	900,047
As at 1 January 2018 (audited)	<b>892,353</b>
Additions of plant and equipment	<b>35,936</b>
Disposals of plant and equipment	<b>(1,197)</b>
Depreciation for the period	<b>(35,092)</b>
As at 30 June 2018 (unaudited)	<b>892,000</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 12. OTHER INTANGIBLE ASSETS

	<b>Development costs</b> RMB'000
As at 1 January 2017 (audited)	1,074
Charge for the period	(142)
As at 30 June 2017 (unaudited)	932
As at 1 January 2018 (audited)	<b>706</b>
Charge for the period	<b>(201)</b>
As at 30 June 2018 (unaudited)	<b>505</b>

Development costs are internally generated.

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 13. TRADE AND OTHER RECEIVABLES

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
Trade receivables	<b>576,494</b>	521,753
Less: allowance for doubtful debts	<b>(2,681)</b>	(1,522)
	<b>573,813</b>	520,231
Advances to suppliers	<b>4,503</b>	6,194
Bills receivables	<b>472,166</b>	472,463
Prepayment	<b>2,907</b>	3,757
Other receivables	<b>33,586</b>	12,426
	<b>508,659</b>	488,646
Total trade and other receivables	<b>1,086,975</b>	1,015,071

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.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 13. TRADE AND OTHER RECEIVABLES (continued)

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

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
0 to 60 days	<b>498,101</b>	428,178
61 to 90 days	<b>62,542</b>	60,776
91 to 180 days	<b>7,797</b>	27,490
Over 180 days	<b>5,373</b>	3,787
	<b>573,813</b>	520,231

The aged analysis of bills receivables, presented based on dates of delivery of goods, at the end of the reporting period are analysed as follows:

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
0 to 60 days	<b>152,426</b>	79,597
61 to 90 days	<b>147,372</b>	46,481
91 to 180 days	<b>172,368</b>	287,709
Over 180 days	–	58,676
	<b>472,166</b>	472,463

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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 RMB124,157,000 (31 December 2017: RMB114,609,000) have been pledged to bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets.

Bank balances carry interest at market rates within range from 0.01% to 0.35% (31 December 2017: 0.01% to 0.35%) per annum. The pledged deposits carry interest rates which range from 0.35% to 2.75% (31 December 2017: 0.35% to 2.75%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

## 15. TRADE AND OTHER PAYABLES

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
Trade payables	<b>307,034</b>	267,123
Bills payables — secured	<b>253,816</b>	214,278
Other taxes payables	<b>79,457</b>	53,043
Payroll and welfare payables	<b>22,579</b>	32,691
Construction payables	—	3,892
Advanced from customers	—	8,766
Others	<b>7,525</b>	17,757
	<b>670,411</b>	597,550

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 15. TRADE AND OTHER PAYABLES (continued)

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

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
0 to 60 days	<b>209,959</b>	134,222
61 to 90 days	<b>57,210</b>	23,088
91 to 180 days	<b>31,073</b>	93,648
Over 180 days	<b>8,792</b>	16,165
	<b>307,034</b>	267,123

The aged analysis of the Group's bills payables presented based on dates of receipt of goods at the end of the reporting period are analysed as follows:

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
0 to 60 days	<b>47,198</b>	57,442
61 to 90 days	<b>20,553</b>	17,286
91 to 180 days	<b>97,965</b>	41,250
Over 180 days	<b>88,100</b>	98,300
	<b>253,816</b>	214,278

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 17. BORROWINGS

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
Bank borrowings, secured	<b>797,264</b>	659,979
Bank borrowings, unsecured	<b>25,064</b>	167,895
Other borrowings, secured	<b>63,795</b>	54,639
Other borrowings, unsecured	<b>35,160</b>	35,160
	<b>921,283</b>	917,673
Carrying amount repayable:		
Within one year	<b>819,340</b>	809,139
More than one year but not more than two years	<b>53,312</b>	102,748
More than two year but not more than five years	<b>48,631</b>	5,786
	<b>921,283</b>	917,673
Less: Amounts due within one year shown under current liabilities	<b>(819,340)</b>	(809,139)
Amounts shown under non-current liabilities	<b>101,943</b>	108,534

Bank borrowings and other borrowings as at period end were secured by the pledged of assets set out in note 20.

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

	<b>30 June 2018</b>	31 December 2017
Effective interest rate:		
Fixed rate borrowings	<b>3.16% to 5.66% per annum</b>	3.16% to 6.31% per annum
Variable rate borrowings	<b>3.48% to 7.35% per annum</b>	2.76% to 4.99% per annum

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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:

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
Deferred tax assets	<b>(2,334)</b>	(2,354)
Deferred tax liabilities	<b>4,351</b>	8,370
	<b>2,017</b>	6,016

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

	<b>Deferred income RMB'000</b>	<b>Impairment of receivables RMB'000</b>	<b>Depreciation differences RMB'000</b>	<b>Tax losses RMB'000</b>	<b>Undistributable profit of subsidiaries RMB'000</b>	<b>Total RMB'000</b>
At 1 January 2017 (audited)	(1,255)	(981)	1,908	-	3,100	2,772
Charge (credit) for the period	-	-	-	(135)	-	(135)
At 30 June 2017 (unaudited)	(1,255)	(981)	1,908	(135)	3,100	2,637
At 1 January 2018 (audited)	<b>(3,853)</b>	<b>(198)</b>	<b>1,741</b>	-	<b>8,326</b>	<b>6,016</b>
Reversal of deferred tax liabilities upon distribution of profits	-	-	-	-	<b>(4,019)</b>	<b>(4,019)</b>
Charge (credit) for the period	<b>20</b>	-	-	-	-	<b>20</b>
At 30 June 2018 (unaudited)	<b>(3,833)</b>	<b>(198)</b>	<b>1,741</b>	-	<b>4,307</b>	<b>2,017</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 18. DEFERRED TAXATION (continued)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at the end of the current interim period, the aggregate amount of taxable temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised amounted to RMB560,033,000 (31 December 2017: RMB593,541,000).

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 2017, 30 June 2017, 1 January 2018 and 30 June 2018	<b>1,000,000,000</b>	<b>100,000,000</b>
Issued and fully paid:		
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	<b>500,000,000</b>	<b>50,000,000</b>
		<b>RMB'000</b>
Presented as:		
(At 31 December 2017 and 30 June 2018)		<b>41,655</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 20. 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:

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
Buildings and construction in progress	<b>56,111</b>	75,982
Plant and machinery	<b>140,083</b>	146,933
Land use right	<b>110,056</b>	158,203
Trade receivables	<b>80,000</b>	80,000
Bills receivables	<b>320,506</b>	179,994
Pledge bank deposits	<b>122,720</b>	114,609
Inventories	<b>20,000</b>	37,820
	<b>849,476</b>	793,541

## 21. 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:

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 RMB'000 (audited)
Within one year	<b>9,191</b>	17,195
On the second to fifth year inclusive	<b>24,054</b>	29,228
After five years	<b>4,641</b>	5,870
	<b>37,887</b>	52,293

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 22. CAPITAL COMMITMENTS

	<b>30 June 2018 RMB'000 (unaudited)</b>	31 December 2017 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	<b>43,100</b>	22,305

## 23. 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

### (b) Related parties transactions

	<b>Six months ended 30 June 2018 RMB'000 (unaudited)</b>	2017 RMB'000 (unaudited)
Rental expenses of property — Zheng Ye Leasing (VAT inclusive) (Note)	<b>3,402</b>	3,402

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 2018.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 23. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

### (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	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other benefits	7,412	5,497
Retirement benefits scheme contributions	107	117
	7,519	5,614