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

(Incorporated in Bermuda with limited liability)

(Stock Code: 3363)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

- The revenue for the Year amounted to RMB1,163,803,000, representing an increase of RMB110,501,000 or 10.49% from revenue for the Year 2010 in the amount of RMB1,053,302,000 which was mainly due to proactive expansion and development of the Group in paper-based packaging business.

- The gross profit margin for the Year was 18.50%, representing a growth of 0.74% compared to 17.76% for the Year 2010, which was mainly due to the Group's proactive and dedicated approach towards product improvement and continuous efforts in the research and development of new products, thus keeping the gross profit to grow.

- The profit for the Year amounted to RMB46,440,000, representing a decrease of RMB34,670,000 or 42.74% from profit for the Year 2010 in amount of RMB81,110,000 which was mainly due to the increase in costs and expenses for the Group's planned business expansion, the investments in research and development to strengthen the Group's research and development capability, coupled with a significant rise in finance costs, rentals of factories, wages and other operating and administrative expenses as compared to 2010.

- Basic earnings per Share amounted to RMB10 cents for the Year, compared to RMB22 cents for the Year 2010, representing a decrease of 54.55%.

- The Directors have resolved to recommend the payment of a final dividend of RMB2.78 cents per Share and a special dividend of RMB2.78 cents per Share for the Year, which will constitute a total dividend of RMB5.56 cents per Share, compared to nil final dividend payment for Year 2010.

ANNUAL RESULTS

The board of directors (the "**Board**") of Zhengye International Holdings Company Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2011 (the "**Year**") together with the comparative figures for the corresponding year ended 31 December 2010 (the "**Year 2010**") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	**2011** *RMB'000*	2010 *RMB'000*
Revenue	*4*	**1,163,803**	1,053,302
Cost of sales		**(948,474)**	(866,267)
Gross profit		**215,329**	187,035
Other income	*5*	**6,714**	5,275
Other gains and losses	*6*	**1,401**	13,522
Distribution and selling expenses		**(34,321)**	(23,970)
Administrative and other expenses		**(62,719)**	(44,736)
Listing expenses		**(11,926)**	(9,986)
Finance costs	*7*	**(28,259)**	(17,567)
Research and development cost		**(27,343)**	(12,252)
Profit before tax	*8*	**58,876**	97,321
Income tax expenses	*9*	**(12,436)**	(16,211)
Profit and total comprehensive income for the year		**46,440**	81,110
Earnings per share			
Basic and diluted *(RMB)*	*11*	**10 cents**	22 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current Assets			
Property, plant and equipment		**398,052**	284,070
Prepaid lease payments		**56,707**	58,075
Other intangible assets		**6,609**	—
Deposits for acquisition of property, plant and equipment		**18,022**	7,773
Deposit for leasehold land		**6,750**	6,750
		486,140	356,668
Current Assets			
Inventories		**112,933**	103,801
Trade and other receivables	*12*	**625,311**	555,673
Prepaid lease payments		**1,368**	1,368
Pledged bank deposits		**94,255**	98,239
Restricted bank deposits		**2,027**	—
Bank balances and cash		**130,692**	31,472
		966,586	790,553
Current Liabilities			
Trade and other payables	*13*	**418,847**	396,402
Tax liabilities		**2,986**	2,552
Obligations under finance leases		**13,169**	3,528
Amounts due to directors		**3,816**	—
Amounts due to related parties		**66**	1,610
Bank and other borrowings		**499,227**	438,089
		938,111	842,181
Net Current Assets (Liabilities)		**28,475**	(51,628)
Total Assets Less Current Liabilities		**514,615**	305,040
Capital and Reserves			
Share/paid-in capital	*14*	**41,655**	17
Share premium and reserves		**429,132**	289,769
Total Equity		**470,787**	289,786
Non-current Liabilities			
Deferred tax liabilities		**5,932**	1,907
Obligations under finance leases		**37,896**	13,347
		43,828	15,254
		514,615	305,040

Notes:

1. GENERAL INFORMATION

Zhengye International Holdings Company Limited (the "**Company**") was incorporated in Bermuda on 18 August 2010, as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is located in No. 173 South Xinming Road, Huangpu, Zhongshan City, Guangdong Province, the People's Republic of China (the "**PRC**"). The shares (the "**Shares**") of HK$0.10 each in the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 3 June 2011.

The principal activity of the Company is investment holding and its subsidiaries are mainly engaged in manufacture and sale of paper, paperboard and paper-based packaging products. The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**".

The consolidated financial statements are presented in Renminbi ("**RMB**"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the "**functional currency**").

2. BASIS OF PREPARATION

Pursuant to the group reorganisation (the "**Group Reorganisation**") underwent by the Group to rationalise its structure in preparation for the listing of the Shares on the Stock Exchange, the Company became the holding company of TYAZ International Limited and its subsidiaries on 4 March 2011 upon completion of the Group Reorganisation. Details of the Group Reorganisation are more fully explained in the paragraph headed "Further information about our Company and our subsidiaries — 4. Group Reorganisation" in Appendix V to the prospectus (the "**Prospectus**") of the Company issued on 24 May 2011 in connection with the Global Offering (as defined in the Prospectus).

The Group resulting from the Group Reorganisation is considered as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting which are consistent with the principles as stated in Accounting Guideline 5 "Merger Accounting under Common Control Combinations" issued by Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2011 and 2010 have been prepared on the basis as if the current group structure had been in existence throughout the years. The consolidated statements of financial position of the Group as at 31 December 2010 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at that date.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Right Issues
Amendments to HK (IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 7 & HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HKAS (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold, net of discounts and sales related taxes.

The Group is principally engaged in the supply of corrugated medium paper and paper-based packaging products.

The Group's reportable segments under HKFRS 8 are identified as two main operations:

- Paper-based packaging: this segment produces and sells paper-based packaging products.
- Corrugated medium paper: this segment produces and sells corrugated medium paper.

Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operatings by reportable segment.

	Year ended 31 December 2011		
	Paper-based packaging *RMB'000*	**Corrugated medium paper** *RMB'000*	**Total** *RMB'000*
REVENUE			
External sales	**643,911**	**519,892**	**1,163,803**
Inter-segment sales	**—**	**120,596**	**120,596**
Segment revenue	**643,911**	**640,488**	**1,284,399**
Eliminations			**(120,596)**
Group Revenue			**1,163,803**
SEGMENT RESULT	**33,931**	**45,884**	**79,815**
Unallocated corporate expenses, net			**(20,939)**
Profit before tax			**58,876**

	Year ended 31 December 2010		
	Paper-based packaging	Corrugated medium paper	Total
	RMB'000	*RMB'000*	*RMB'000*
REVENUE			
External sales	565,942	487,360	1,053,302
Inter-segment sales	—	113,411	113,411
Segment Revenue	565,942	600,771	1,166,713
Eliminations			(113,411)
Group Revenue			1,053,302
SEGMENT RESULT	39,466	69,917	109,383
Unallocated corporate expenses, net			(12,062)
Profit before tax			97,321

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.

5. OTHER INCOME

	2011	2010
	RMB'000	*RMB'000*
Interest income	**1,652**	1,448
Management fee income	**197**	597
Sales of scrap materials	**14**	779
Government grants	**4,851**	2,211
Sundry income	**—**	240
	6,714	5,275

6. OTHER GAINS AND LOSSES

	2011 *RMB'000*	2010 *RMB'000*
Exchange gain, net	**1,406**	695
Impairment losses recognized on trade and other receivables	**—**	(1,219)
(Loss) gain on disposals of property, plant and equipment	**(5)**	14,046
	1,401	13,522

7. FINANCE COSTS

	2011 *RMB'000*	2010 *RMB'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	**26,926**	15,995
Finance leases	**1,610**	1,572
Total borrowing costs	**28,536**	17,567
Less: Amounts capitalized in the cost of qualifying assets	**277**	—
	28,259	17,567

8. PROFIT BEFORE TAX

	2011 *RMB'000*	2010 *RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment *(note)*	**22,758**	19,374
Amortisation of other intangible assets	**112**	—
Amortisation of prepaid lease payments	**1,368**	1,368
Total depreciation and amortization	**24,238**	20,742
Auditor's remuneration	**1,571**	1,148
Operating lease rental in respect of		
— land and building	**9,795**	5,248
— plant and equipment	**—**	3,175
— vehicles	**198**	198
Staff costs		
— directors' emoluments	**6,469**	1,176
— salaries and other benefits costs	**118,198**	97,941
— retirement benefits scheme contribution	**4,420**	3,473
Total staff costs	**129,087**	102,590
Less: Amount capitalized in construction in progress	**3,726**	—
Amount capitalized in intangible assets	**689**	—
	124,672	102,590

9. INCOME TAX EXPENSE

	2011	2010
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax	**8,411**	15,682
Deferred tax		
Current year	**4,025**	529
	12,436	16,211

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

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

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

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

正業包裝(中山)有限公司 (Zheng Ye Packaging (Zhongshan) Company Limited*) and 中山永發紙業有限公司 (Zhongshan Yong Fa Paper Industry Company Limited*) obtained the Certificate of High-Technology in 2009 and the applicable income tax rate was 15% in 2010 and 2011 based on Certain Conditions 2.

According to document (Zhongshanguoshuipuzi [2009] 001) issued by Huangpu District Office of Zhongshan Municipal Office, State Administration of Taxation, and Certain Conditions 1, 中山正業聯合包裝有限公司 (Zhongshan Zheng Ye Alliance Packaging Company Limited*) was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010 and 2011.

According to document (Zhudouguoshuihan [2008] 51) issued by Dongmen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Certain Conditions 1, 珠海正業包裝有限公司 (Zhuhai Zheng Ye Packaging Company Limited*) was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010 and 2011.

In accordance with PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to "non-resident" investors who do not have an establishment or place of business in the PRC. RMB3,200,000 withholding income tax imposed on the profits arisen during the year ended 31 December 2011 of the PRC subsidiaries of the Company, which are available for distribution amounted to RMB32,000,000.

* *For identification purpose only*

No withholding tax on profits arisen for the year ended 31 December 2010 have been recognized because the Group is in a position to control the distribution of profits and the directors considered no dividend will be declared on the profits arisen during the year of 2010 to "non-resident" investors in the foreseeable future.

10. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Dividends recognized as distribution during the Year	**—**	84,526

The directors of the Company recommend the payment of a final dividend of RMB2.78 cents per Share and a special dividend of RMB2.78 cents per Share for the year ended 31 December 2011. The proposed dividend of approximately RMB27,800,000 will be paid on or about 19 June 2012 to those shareholders whose names appear on the Company's register of members on 6 June 2012.

This proposed final and special dividends are subject to approval by the shareholders at the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per Share of the Company for the Year is based on the following data:

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Profit for the Year attributable to owners of the Company for the purpose of basic and diluted earnings per Share	**46,440**	81,110
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per Share	**447,602,740**	375,000,000

The computation of diluted earnings per Share for the year ended 31 December 2011 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 for 2011.

12. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**302,287**	289,559
Less: allowance for doubtful debts	**—**	—
	302,287	289,559
Advances to suppliers	**3,443**	2,758
Less: allowance for doubtful debts	**—**	1,219
	3,443	1,539
Bills receivables	**300,280**	240,134
Prepayment	**4,676**	4,727
Other receivables	**14,625**	19,714
	319,581	264,575
Total trade and other receivables	**625,311**	555,673

The Group allows a credit period of 30 to 120 days to its trade customers except for customers newly accepted which payment is made when goods are delivered. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2011	2010
	RMB'000	*RMB'000*
0–60 days	**241,120**	245,631
61–90 days	**32,702**	26,785
91–180 days	**28,213**	16,969
Over 180 days	**252**	174
	302,287	289,559

The carrying amounts of the Group's bills receivables are aged within 180 days.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB8,088,000 (2010: RMB19,024,000) which are past due for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2011 *RMB'000*	2010 *RMB'000*
0–30 days	**1,678**	11,802
31–60 days	**6,155**	6,796
61–90 days	**—**	252
Over 90 days	**255**	174
	8,088	19,024

Movement in the allowance for doubtful debts

	2011 *RMB'000*	2010 *RMB'000*
1 January	**1,219**	1,020
Impairment losses recognized on receivables	**—**	1,219
Amounts written off as uncollectible	**(1,219)**	(1,020)
	—	1,219

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of Nil (2010: RMB1,219,000), which have either been placed under liquidation or in severe financial difficulties in repaying the outstanding balances. The Group does not hold any collateral over these balances.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

13. TRADE AND OTHER PAYABLES

	2011 *RMB'000*	2010 *RMB'000*
Trade payables	**285,678**	260,905
Bills payables — secured	**65,740**	76,628
Other tax payables *(Note)*	**24,564**	23,706
Payroll and welfare payables	**17,380**	16,249
Listing expenses	**—**	5,054
Construction payables	**15,776**	6,838
Others	**9,709**	7,022
	418,847	396,402

Note: Included in other tax payables with the amounts of RMB22,433,000 (2010: RMB22,868,000) are in respect of provision of Value-added Tax.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2011	2010
	RMB'000	*RMB'000*
0–60 days	**173,619**	220,127
61–90 days	**20,352**	17,733
91–180 days	**87,296**	21,687
Over 180 days	**4,411**	1,358
	285,678	260,905

The carrying amounts of the Group's bills payables are repayable within 180 days.

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.

14. SHARE/PAID-IN CAPITAL

		Number of shares	**Nominal value**
			HK$
Ordinary shares of HK$0.10 each			
Authorized:			
At date of incorporation and at 1 January 2011	*(i)*	2,000,000	200,000
Increase in authorized capital on 4 March 2011	*(ii)*	998,000,000	99,800,000
At 31 December 2011		1,000,000,000	100,000,000
Issued and fully paid:			
At date of incorporation and at 1 January 2011	*(i)*	1	0.1
Issue of shares on 4 March 2011	*(iii)*	1,999,999	200,000
Shares capitalization	*(iv)*	373,000,000	37,300,000
New issue of shares by way of public offering	*(v)*	125,000,000	12,500,000
At 31 December 2011		500,000,000	50,000,000

	RMB'000
Presented as	41,655

Notes:

(i) On 18 August 2010, the Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended or supplemented) as an exempted company with an authorized share capital of HK$200,000 divided into 2,000,000 Shares of a par value of HK$0.10 each. On 1 September 2010, one Share was allotted and issued, nil paid, to Mr. Hu Zheng.

(ii) On 4 March 2011, the authorized share capital of the Company was increased from HK$200,000 divided into 2,000,000 Shares of a par value of HK$0.10 each to HK$100,000,000 divided into 1,000,000,000 Shares with a par value of HK$0.10 each, by the creation of 998,000,000 ordinary shares with a par value of HK$0.10 each.

(iii) On 4 March 2011, the Company issued 1,999,999 ordinary shares of HK$0.10 each pursuant to the Group Reorganisation in exchange for the entire issued share capital of TYAZ International Limited and became the ultimate holding company of the Group.

(iv) Pursuant to written resolutions on 19 May 2011, the Directors resolved to capitalize HK$37,300,000 (equivalent to RMB31,074,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 373,000,000 Shares as a result of Global Offering (as defined in the "Prospectus").

(v) In connection with the Company's initial public offering, 125,000,000 Shares of HK$0.10 each were issued at a price of HK$1.43 for a total cash consideration, before expenses, of approximately HK$178,750,000 (equivalent to RMB148,917,000). Dealings in the Shares on the Main Board of the Stock Exchange commenced on 3 June 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is a manufacturer of paper-based packaging products and corrugated medium paper in the PRC. The total turnover of the Group for the Year was RMB1,163,803,000, representing a growth of 10.49% compared to the Year 2010. The gross profit margin improved from 17.76% to 18.50%. During the Year, the costs of raw materials and wages had risen, and the market was very competitive. With the collaborative efforts from the management and all employees and under the leadership, guidance of the visionary Board, the Group still managed to obtain a revenue growth under the difficult operating environment during the Year. Due to active business expansion and new products developments on the demand of customers, the Group's selling expenses, administrative expenses and research and development cost increased significantly, which in turn reduced the profit of the Group. The competitiveness of our products in the future will, however, be increased and this allows the Group to maintain a sustainable growth in its business and a steady growth in its revenue. We have full confidence in the Group's future.

Paper-based packaging products

The turnover of our paper-based packaging products recorded 13.78% growth from RMB565,942,000 in 2010 to RMB643,911,000, which was mainly due to active expansion in packaging business during the Year, among which the turnover of our honeycomb products achieved an increase of RMB43,630,000 from RMB7,892,000 in 2010 to RMB51,522,000. The gross profit margin of paper-based packaging products presented an increase of 18.25% from 18.3% in 2010 to 21.64% in 2011. The increase was mainly due to the Group's efforts in product improvement so as to increase the sales of high margin products such as paper-based package of household air conditioner.

Corrugated medium paper

The turnover of corrugated medium paper recorded 6.68% growth from RMB487,360,000 to RMB519,892,000, which was mainly due to the increase in the average selling price. The gross profit margin of corrugated medium paper decreased 2.52% from 17.13% in 2010 to 14.61% in 2011. During the Year, the price of raw materials continued to raise and dropped slightly by the end of the Year. However, the raise of the sale price could not offset the higher costs. While facing such difficult operating environment, the Group could still manage to maintain our sales, production, technological and management efficiency, and commit ourselves in the research and development of corrugated medium paper with lightweight and high intensity. We obtained seven patents in corrugated medium paper in 2011, and successfully researched and developed the corrugated medium paper with more lightweight and higher intensity. As the sales for the aforesaid products increase, the corrugated medium paper business would contribute more profits to the Group.

Prospects

With the slowdown in the PRC economy, all kinds of costs would possibly increase. The Group is readily prepared for the challenges. 4 newly built plants of the Group (in Zhengzhou, Hefei, Wuhan and Shijiazhuang) will be put into production successively, which the Board believes would contribute greatly to the revenues and gross profits of the Group. We also expected to continuously increase the production capacity of corrugated medium paper under the existing debt levels, and fully leverage the Group's papermaking technology improvement, and promote the growth of the Group's corrugated medium paper business.

As the business grows, the Group should also strictly control the production costs and expenditures, and strengthen the Group's capital structure. The measure of investment costs control would provide the Group with sufficient operating cash flow to cope with every eventuality in this gloomy economy environment. The Group would continue our efforts to develop new products, enhance the competiveness of the Company so as to maximize the returns to shareholders.

Distribution and selling expenses

Our distribution and selling expenses increased by approximately 43.18% from RMB23,970,000 for the Year 2010 to RMB34,321,000 for the Year, representing approximately 2.28% and 2.94% of the Group's turnover, respectively. The increases were mainly attributable to our business expansion and the increase in our transportation cost during the Year.

Administrative and other expenses

The Group's administrative expenses increased by approximately 40.20% from RMB44,736,000 for the Year 2010 to RMB62,719,000 for the Year, representing approximately 4.25% and 5.39% of the Group's turnover, respectively. The increase was primarily due to our planned business expansion during the Year and the increase in rentals and insurance fees from RMB2,315,000 in 2010 to RMB5,102,000 in 2011. In addition, the increase was aggregated by the increase of staff costs from RMB27,729,000 in 2010 to RMB33,230,000 in 2011.

Finance costs

Finance costs of the Group increased by approximately 60.86% from RMB17,567,000 for the Year 2010 to RMB28,259,000 for the Year primarily due to an increase in borrowing rates during the Year and the increase in bank and other borrowings and finance leases due to the Group's business expansion.

Interest rates of bank borrowings were at variable rates ranging from 6.06% to 7.87% for the Year, compared with 3.41% to 6.12% for the Year 2010.

The amounts of bank and other borrowings and finance leases were RMB550,292,000 as at 31 December 2011, compared with RMB454,964,000 as at 31 December 2010.

Research and development costs

Research and development costs of the Group increased by approximately 123.17% from RMB12,252,000 for the Year 2010 to RMB27,343,000 in the Year. The increase was primarily due to achieving the objective of increasing the competiveness of the products of the Group and develop new products on the demand of customers and research into new technology and new process so as to enhance production efficiency and product quality. In the Year, the Group successfully obtained 14 patents in corrugated medium paper and paper-based packaging.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

Net cash increased by RMB99,220,000 for the Year. The increase in cash was primarily due to the net proceeds derived from the successful listing of the Company's shares on the Stock Exchange by way of global offering in June 2011.

Inventories

The inventories slightly increased to approximately RMB112,933,000 as at 31 December 2011, compared to approximately RMB103,801,000 as at 31 December 2010. It was primarily due to an increase in waste paper. During the Year, the inventory turnover day was approximately 41 days (2010: 40 days) which was at a normal level.

Trade receivables

As at 31 December 2011, the trade receivables amounted to RMB302,287,000 (2010: RMB289,559,000). We granted to our paper-based packaging products customers credit period of 30 to 120 days and to our corrugated medium paper customers credit period of 30 to 75 days. The turnover day for trade receivables was lengthened to 94 days (2010: 85 days) primarily due to the business expansion in our paper-based packaging business.

Trade payables

As at 31 December 2011, the trade payables amounted to RMB285,678,000 (2010: RMB260,905,000). Our Group managed to obtain a credit period of 30 to 120 days from the majority of our suppliers. The turnover day for trade payables was lengthened to 105 days (2010: 88 days).

Gearing ratio

As at 31 December 2011, the Group's bank and other borrowing balance amounted to RMB499,227,000 (2010: RMB438,089,000).

As at 31 December 2011, the gross gearing ratio was approximately 34.36% (2010: 38.19%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances as a percentage of the shareholders' equity was 78.28% (2010: 140.32%).

Pledge of assets

As at 31 December 2011, the Group pledged certain assets with carrying value of RMB605,995,000 as collateral for the Group's borrowing (2010: RMB493,585,000).

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2011.

DIVIDENDS

The Board recommends the payment of a final dividend of RMB2.78 cents per Share and a special dividend of RMB2.78 cents per Share for the Year to shareholders whose names appear on the register of members of the Company on 6 June 2012 subject to the approval of the shareholders at the forthcoming annual general meeting ("**AGM**") of the Company.

The Board has reviewed the latest financial position of the Group and considered the cash position and the capital requirement of the Group. The Board considers that the Group had actively but prudently pursued its business expansion plan and built up paper-based packaging product manufacturing facilities during the Year. In order to reduce the capital requirements, we tactically adapt our business strategies. We leased properties, arranged for the Group's new manufacturing facilities and acquired the major machineries in the manufacturing facilities by way of finance lease arrangement, instead of building our own manufacturing facilities, which enable the Group to have sufficient working capital and equip itself with better capital strength and financial flexibility to cope with the capital and financial requirements for its business operations. The Board further considers that it is in the interests of the Company and its shareholders as a whole to declare, subject to the approval of its shareholders at the forthcoming AGM, the payment of a special dividend as a shareholders' return and a token of appreciation of the shareholders' continued support to the Group.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 29 May 2012 to Friday, 1 June 2012 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in

Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 28 May 2012.

For determining the entitlement of the recommended final and special dividends, the register of members of the Company will be closed from Thursday, 7 June 2012 to Friday, 8 June 2012, both days inclusive. During the period, no transfer of shares will be registered. In order to qualify for the recommended final and special dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 6 June 2012. The final and special dividends will be paid to shareholders on or around 19 June 2012.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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**") under Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). All Directors, after specific enquiries by the Company, confirmed that they had complied with the required standards set out in the Model Code from the date on which the shares were officially listed on the Stock Exchange (that is, 3 June 2011) (the "**Listing Date**") up to 31 December 2011.

CORPORATE GOVERNANCE

The Company had applied the principles and complied with the code provisions and certain recommended best practices set out in the Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the Listing Rules from the Listing Date up to 31 December 2011 except for the deviation as set out below:

Code Provision A.2.1

Mr. Hu Zheng is the Chairman of the Board. The Company has no such title as the chief executive officer and the daily operation and management of the business of the Group is monitored by the executive directors of the Company as well as the senior management of the Group.

The Board is of the view that although there is no chief executive officer, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals who meet from time to time to discuss issues affecting the operation and other major aspects of the Group.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report contained in the Company's annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities from the Listing Date up to 31 December 2011.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this announcement, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December, 2011 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

AUDIT COMMITTEE

The audit committee (the "**Audit Committee**") established by the Board has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters (including the review of the audited consolidated financial statements of the Company for the Year) in conjunction with the Company's external auditors. The Audit Committee was satisfied that the audited consolidated financial statements of the Company were prepared in accordance with applicable accounting standards and present fairly the financial position and results of the Group for the Year.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 1 June 2012. A notice convening the AGM will be published and dispatched to shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

APPRECIATION

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

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

Hong Kong, 23 March 2012

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

This announcement is prepared in both English and Chinese. In the event of inconsistency, the English text of the announcement shall prevail over the Chinese text.