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 2012

FINANCIAL HIGHLIGHTS

- The revenue for the Year amounted to RMB1,242,371,000, representing an increase of RMB78,568,000 or 6.75% compared to the revenue for the Year 2011 in the amount of RMB1,163,803,000 which was mainly due to the commencement of operation of the Group's new paper-based packaging production lines for its active expansion of and development into the paper-based packaging products business.

- The gross profit margin for the Year was 20.85%, representing a growth of 2.35% compared to 18.50% for the Year 2011, which was mainly due to the Group's dedicated efforts in energy saving and power consumption reduction to enhance the efficiency of production facilities, as well as the launch of new products with higher gross profit margin in the market which enabled it to maintain gross profit as margins grew.

- The profit for the Year amounted to RMB51,417,000, representing an increase of RMB4,977,000 or 10.72% compared to profit for the Year 2011 in the amount of RMB46,440,000.

- Basic earnings per share amounted to RMB10 cents for the Year, which remained unchanged as compare to RMB10 cents based on the weighted average number of ordinary shares for the Year 2011.

- The Board has resolved to recommend the payment of a final dividend of RMB3.08 cents per Share for the Year (Year 2011: a final dividend of RMB2.78 cents per Share and a special dividend of RMB2.78 cents per Share, totalling RMB5.56 cents per Share).

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 2012 (the "**Year**" or "**Year under review**") together with the comparative figures for the corresponding year ended 31 December 2011 (the "**Year 2011**") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	**2012** *RMB'000*	2011 *RMB'000*
Revenue	**4**	**1,242,371**	1,163,803
Cost of sales		**(983,276)**	(948,474)
Gross profit		**259,095**	215,329
Other income	**5**	**11,576**	6,714
Other gains and losses	**6**	**129**	1,401
Distribution and selling expenses		**(50,606)**	(34,321)
Administrative and other expenses		**(84,278)**	(62,719)
Listing expenses		**-**	(11,926)
Finance costs	**7**	**(38,466)**	(28,259)
Research and development cost		**(35,283)**	(27,343)
Profit before tax	**8**	**62,167**	58,876
Income tax expenses	**9**	**(10,750)**	(12,436)
Profit and total comprehensive income for the year		**51,417**	46,440
Earnings per share			
Basic and diluted *(RMB)*	**11**	**10 cents**	10 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	**2012** **RMB'000**	2011 RMB'000
Non-current Assets			
Property, plant and equipment		**553,146**	398,052
Prepaid lease payments		**66,315**	56,707
Other intangible assets		**5,171**	6,609
Deposits for acquisition of property, plant and equipment		**13,897**	18,022
Deposit for leasehold land		**28,800**	6,750
		667,329	486,140
Current Assets			
Inventories		**116,487**	112,933
Trade and other receivables	**12**	**685,188**	625,311
Prepaid lease payments		**1,592**	1,368
Pledged bank deposits		**206,338**	94,255
Restricted bank deposits		**415**	2,027
Bank balances and cash		**122,378**	130,692
Tax recoverable		**3,789**	-
		1,136,187	966,586
Current Liabilities			
Trade and other payables	**13**	**469,942**	418,847
Tax liabilities		**1,248**	2,986
Borrowings		**727,771**	499,227
Obligations under finance leases		**22,322**	13,169
Amounts due to directors		**2,048**	3,816
Amount due to a related party		**50**	66
		1,223,381	938,111
Net Current (Liabilities) Assets		**(87,194)**	28,475
Total Assets Less Current Liabilities		**580,135**	514,615
Capital and Reserves			
Share/paid-in capital	**14**	**41,655**	41,655
Share premium and reserves		**456,117**	429,132
Total Equity		**497,772**	470,787
Non-current Liabilities			
Deferred tax liabilities		**4,073**	5,932
Deferred income		**28,800**	-
Borrowings		**6,720**	-
Obligations under finance leases		**42,770**	37,896
		82,363	43,828
		580,135	514,615

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**").

The principal activity of the Company is investment holding and its subsidiaries are mainly engaged in manufacturing 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**").

In preparing the consolidated financial statements, the Directors have given careful consideration of the Company and the Group in light of its net current liabilities of RMB87,194,000 as at 31 December 2012. On the basis that the Group has secured credit facilities of approximately RMB569,405,000 which remains unutilized at the date of the consolidated financial statements ended 31 December 2012, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. BASIS OF PREPARATION

Pursuant to the group reorganization (the "**Group Reorganisation**"), the Company became the holding company of TYAZ International Limited and its subsidiaries on 4 March 2011 upon completion of the Group Reorganisation.

The Group resulting from the Group Reorganisation is considered as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31 December 2011 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**") as if the Group Reorganisation had occurred from the date when the combing entities first came under the control of the ultimate controlling party.

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 HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

Except for the enhanced disclosures on application of Amendments to HKFRS 7 "Disclosure – Transfer of Financial Assets", the application of the amendments to 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.

The Group has applied for the first time the amendments to HKFRS 7 Disclosures - Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

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 HKFRSs	Annual Improvement to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HKAS (IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2014
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 July 2012

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 operating by reportable segment.

	Year ended 31 December 2012		
	Paper-based packaging *RMB'000*	**Corrugated medium paper** *RMB'000*	**Total** *RMB'000*
REVENUE			
External sales	**722,241**	**520,130**	**1,242,371**
Inter-segment sales	**-**	**93,061**	**93,061**
Segment revenue	**722,241**	**613,191**	**1,335,432**
Eliminations			**(93,061)**
Group revenue			**1,242,371**
COST OF SALES			
External cost of sales	**580,510**	**402,766**	**983,276**
Inter-segment cost of sales	**93,061**	**-**	**93,061**
Segment cost of sales	**673,571**	**402,766**	**1,076,337**
Eliminations			**(93,061)**
Group cost			**983,276**
SEGMENT PROFIT	**25,101**	**42,737**	**67,838**
Unallocated corporate expenses, net			**(5,671)**
Profit before tax			**62,167**

	Year ended 31 December 2011		
	Paper-based packaging	Corrugated medium paper	Total
	RMB'000	*RMB'000*	*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
COST OF SALES			
External cost of sales	526,981	421,493	948,474
Inter-segment cost of sales	120,596	-	120,596
Segment cost of sales	647,577	421,493	1,069,070
Eliminations			(120,596)
Group cost of sales			948,474
SEGMENT PROFIT	33,931	45,884	79,815
Unallocated corporate expenses, net			(20,939)
Profit before tax			58,876

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

	2012	2011
	RMB'000	*RMB'000*
Interest income	**4,274**	1,652
Management fee income	**810**	197
Sales of scrap material	**36**	14
Government grants	**6,400**	4,851
Sundry income	**56**	-
	11,576	6,714

6. OTHER GAINS AND LOSSES

	2012	2011
	RMB'000	*RMB'000*
Exchange gain, net	**203**	1,406
Loss on disposal of property, plant and equipment	**(74)**	(5)
	129	1,401

7. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	**36,934**	26,926
Finance leases	**5,603**	1,610
Total borrowing costs	**42,537**	28,536
Less: Amounts capitalized in the cost of qualifying assets	**(4,071)**	(277)
	38,466	28,259

8. PROFIT BEFORE TAX

	2012	2011
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**28,281**	22,758
Amortisation of other intangible assets	**1,438**	112
Amortisation of prepaid lease payments	**1,368**	1,368
Total depreciation and amortization	**31,087**	24,238
Auditor's remuneration	**1,846**	1,571
Operating lease rental in respect of		
- plant and machinery	**9,346**	-
- land and building	**10,134**	9,795
- vehicles	**236**	198
Staff costs		
- directors' emoluments	**10,909**	6,469
- salaries and other benefits costs	**135,607**	118,198
- retirement benefits scheme contribution	**4,996**	4,420
- share-based payment	**1,541**	-
Total staff costs	**153,053**	129,087
Less: Amount capitalized in construction in progress	**(3,010)**	(3,726)
Amount capitalized in intangible assets	**-**	(689)
	150,043	124,672

9. INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax	**9,409**	8,411
Withholding Tax	**3,200**	-
Deferred tax		
Current year	**(1,859)**	4,025
	10,750	12,436

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 Law of The People’s Republic of China on Enterprise Income Tax (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 entitled to enjoy 2-year income tax exemption commencing from their first profit-making year, and 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 on 1 January 2008.

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

Zheng Ye Packaging (Zhongshan) Company Limited* (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 2011 based on Certain Conditions 2. In 2012, Zheng Ye Packaging (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2015.

According to document (Zhongshanguoshuipuzi [2009] 001) issued by Dongsheng District Office of Zhongshan Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zhongshan Zheng Ye Alliance Packaging Company Limited* (中山正業聯合包裝有限公司) was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012.

According to document (Zhudouguoshuihan [2008] 51) issued by Dongmen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zhuhai Zheng Ye Packaging Company Limited* (珠海正業包裝有限公司) was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012.

In 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. The amount represents the withholding income tax provided on the profits arisen during the year ended 31 December 2012 of the PRC subsidiaries of the Company which are available for distribution amounted to RMB15,000,000 (2011: RMB32,000,000).

* *For identification purpose only*

10. DIVIDEND

	2012	2011
	RMB'000	*RMB'000*
Dividends recognized as distribution during the Year	**27,800**	-

The Directors of the Company recommend the payment of a final dividend of RMB3.08 cents per Share for the year ended 31 December 2012 (2011: a final dividend of RMB2.78 cents per Share and a special dividend of RMB2.78 cents per Share). The proposed dividend of approximately RMB15,400,000 will be paid on or about 25 June 2013 to those shareholders whose names appear on the Company's register of members on 6 June 2013.

This proposed final dividend is 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:

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit for the Year attributable to owner of the Company for the purpose of basic and diluted earnings per Share	**51,417**	46,440
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**500,000,000**	447,602,740

The computation of diluted earnings per share for the year ended 31 December 2012 and 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 2012 and 2011.

12. TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**378,529**	302,287
Less: allowance for doubtful debts	**-**	-
	378,529	302,287
Advanced to suppliers	**5,348**	3,443
Bills receivables	**273,988**	300,280
Prepayment	**7,734**	4,676
Other receivables	**19,589**	14,625
	301,311	319,581
Total trade and other receivables	**685,188**	625,311

The Group allows an average 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 maturity period of 60 to 180 days guaranteed by banks.

The following is an aged analysis of trade receivables presented based on the invoice dates which approximated the respective revenue recognition dates at the end of the reporting period is as follows:

	2012	2011
	RMB'000	*RMB'000*
0-60 days	**307,456**	241,120
61-90 days	**37,936**	32,702
91-180 days	**33,086**	28,213
Over 180 days	**51**	252
	378,529	302,287

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 RMB12,256,000 (2011: RMB8,088,000) which are past due for which the Group has not provided for impairment loss because the Group believes that the amounts are still recoverable as there are significant subsequent settlement after year end. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2012	2011
	RMB'000	*RMB'000*
0-30 days	**8,816**	1,678
31-60 days	**3,073**	6,155
61-90 days	**303**	-
Over 90 days	**64**	255
	12,256	8,088

13. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**279,167**	285,678
Bills payables – secured	**115,354**	65,740
Other tax payables *(Note)*	**32,082**	24,564
Payroll and welfare payables	**23,800**	17,380
Construction payables	**12,786**	15,776
Others	**6,753**	9,709
	469,942	418,847

Note: Included in other tax payables with the amounts of RMB30,107,000 (2011: RMB22,433,000) 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.

	2012	2011
	RMB'000	*RMB'000*
0-60 days	**128,374**	173,619
61-90 days	**97,583**	20,352
91-180 days	**48,762**	87,296
Over 180 days	**4,448**	4,411
	279,167	285,678

The aged analysis of bills payables based on invoice dates at the end of the reporting period.

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 CAPITAL/PAID-IN CAPITAL

		Number of shares	Nominal value
Ordinary shares of HK$0.10 each			*HK$*
Authorized:			
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 January 2012 and 31 December 2012		1,000,000,000	100,000,000
Issued and fully paid:			
At 1 January 2011	(i)	1	0
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, 1 January 2012 and 31 December 2012		500,000,000	50,000,000

	RMB'000
Presented as: (At 31 December 2011 and 31 December 2012)	41,655

Notes:

(i) On 18 August 2010, the Company was incorporated in Bermuda under the Companies Act as an exempted company with an authorized share capital of HK$200,000 divided into 2,000,000 Shares of a par value 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 subdued demand in the manufacturing sector due to the slowdown of economy in China in 2012 had posed a challenge for the paper manufacturing business during the Year. With the advantages of capitalizing on the Group's vertically integrated business model, coupled with the positive impact brought by the preferential and other policies to subsidize the consumption of household electrical appliances which had boosted the demand from major household electrical customers in the industry, the Group managed to achieve stable growth for its business with gradual increase in profits.

The revenue for the Year was RMB1,242,371,000, representing a growth of 6.75% compared with RMB1,163,803,000 for Year 2011, this is mainly due to a substantial increase in the Group's sales volume of the Group. The Group is one of China's most powerful integration manufacturers of corrugated medium paper and paper-based packaging products. All the sales of the Group were generated from the PRC, revenue from paper-based packaging products and corrugated medium paper represented about 58.13% and 41.87% respectively (2011: 55.33% and 44.67% respectively) of the total revenue of the Group.

Paper-based packaging products

The revenue of the Group's paper-based packaging products recorded 12.16% growth from RMB643,911,000 in Year 2011 to RMB722,241,000 of the Year, which was mainly due to the commencement of operation of new paper-based packaging production lines located in Shijiazhuang, Zhengzhou, Wuhan and Hefei during the Year which enhanced production capacity, and the Group's active development of, and expansion into, the paper-based packaging products business. The revenue of honeycomb paper products increased RMB51,147,000 from 51,522,000 in Year 2011 to RMB102,669,000 in the Year.

Corrugated medium paper

The revenue of corrugated medium paper recorded a slight growth of 0.05% from RMB519,892,000 in Year 2011 to RMB520,130,000 in the Year. The Group's dedicated efforts in the research and development of new products and technological improvement had brought positive returns to the Group during the Year. These included the launch of the new products 65g/m^2 and 70g/m^2 corrugated medium paper to the market, which contributed considerable revenue to the Group.

Gross profit and gross profit margin

The gross profit recorded for the Year is RMB259,095,000, representing an increase of 20.33% as compared with RMB215,329,000 in Year 2011. The gross profit margin increased from 18.50% in Year 2011 to 20.85% during the Year. The increase in gross profit margin is mainly attributable to the sales of new products in the market, an enhancement of production capacity and efficiency of production facilities and the strengthening internal cost control.

Prospects

The PRC economy is marching towards recovery in 2013, the development of urbanization in China will bring new opportunities in household appliance industry, and have a beneficial impact on the paper-based packaging products market. We believe that, when the four new plants of the Group located in Central China and Northern China are fully operational at full capacity and come to fruition, they are expected to bring greater contribution in revenue and profits to the Group. In solidifying the foundation of our business, the Group is actively promoting the diversification of its customer base. The Group will continue to develop new products, explore new technique and technology to increase the competitiveness of its products. It is the Group's expectation to compete for a larger market share when the economy has improved and consumption demand recovered. Meanwhile, the Group has also collaborated with a leading IT application solution provider in the field in China to build up an information resource planning system for the Group and further regularize and standardize its internal management system and the business procedures for the Group's businesses in order to support the Group's business expansion plan, enhance economies of scale, tighten control in production costs and expenditures, so as to bring greater return to the shareholders as the profitability of the Group increases.

Distribution and selling expenses

The distribution and selling expenses of the Group increased by approximately 47.45% from RMB34,321,000 for the Year 2011 to RMB50,606,000 for the Year, representing approximately 2.95% and 4.07% of the Group's revenue, respectively. The increases were mainly attributable to the increase in promotion expenses and costs of transportation due to business expansion when the production lines established in Shijiazhuang, Hefei, Wuhan and Zhengzhou of the Group have gradually become operational during the Year.

Administrative and other expenses

The Group's administrative expenses increased by approximately 34.37% from RMB62,719,000 for the Year 2011 to RMB84,278,000 for the Year, representing approximately 5.39% and 6.78% of the Group's revenue, respectively. The increase was primarily due to the planned business expansion, its staff costs increased from RMB33,230,000 for the Year 2011 to RMB53,447,000 in the Year.

Finance costs

Finance costs of the Group increased by approximately 36.12% from RMB28,259,000 for the Year 2011 to RMB38,466,000 for the Year primarily due to the need to obtain funds for the construction of new production lines and the acquisition of the land use rights to a piece of land in Songzi City, Hubei Province, the PRC for the Group's business expansion, causing an increase in borrowings and obligations under finance leases throughout the Year.

Interest rates of bank borrowings were at variable rates ranging from 1.0425% to 6.9825% for the Year, compared with 6.06% to 7.87% for the same period of last year.

The borrowings and obligations under finance leases amounted to RMB799,583,000 as at 31 December 2012, compared with RMB550,292,000 as at 31 December 2011.

Research and development expenses

Research and development expenses of the Group increased by 29.04% from RMB27,343,000 in the Year 2011 to RMB35,283,000 during the Year. The increase was mainly due to our goal to improve the competitiveness of the Group's products and develop new products in response to the demand from customers to conduct research on new technology and new process to enhance production efficiency and product quality. In addition, the Group has placed great emphasis on environmental quality values as the Chinese government has been raising the environmental standard in the process of paper production. The Group has been upgrading its product quality on the one hand while raising its own environmental standard during the process of production of its products on the other hand so as to be consistent with, and fulfill the standard set by the government.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2012, the Group had a net cash outflow of RMB8,314,000. The amounts arising from operating activities and financing activities were RMB104,638,000 and RMB149,062,000 respectively, while the cash outflow of investment activities recorded during the Year was RMB262,014,000.

The net amount of the cash outflow arising from investment activities for the payment of purchasing properties, plant and equipment, deposit paid for leasehold land and deposits paid for acquisition of property, plant and equipment were RMB136,473,000, RMB28,800,000 and RMB13,897,000 respectively.

Inventories

The inventories slightly increased 3.15% to approximately RMB116,487,000 as at 31 December 2012, compared to approximately RMB112,933,000 as at 31 December 2011. During the Year, the inventory turnover day was approximately 43 days (2011: 41 days) which was at a normal level.

Trade receivables

As at 31 December 2012, the trade receivables amounted to RMB378,529,000 (as at 31 December 2011: RMB302,287,000). 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 100 days (2011: 94 days) primarily due to the business expansion in our packaging business.

Trade payables

As at 31 December 2012, the trade payables amounted to RMB279,167,000 (as at 31 December 2011: RMB285,678,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of its suppliers. The turnover day for trade payables was maintained at 105 days (2011: 105 days).

Gearing ratio

As at 31 December 2012, the Group's borrowings balance amounted to RMB734,491,000 (as at 31 December 2011: RMB499,227,000).

As at 31 December 2012, the gross gearing ratio was approximately 40.73% (as at 31 December 2011: 34.36%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio was 81.43%, which was calculated on the basis of the amount of borrowings less cash and bank balances as a percentage of the shareholders' equity (as at 31 December 2011: 57.83%).

Pledge of assets

As at 31 December 2012, the Group pledged certain assets with carrying value of RMB637,159,000 as collateral for the Group's borrowing (as at 31 December 2011: RMB605,995,000).

Capital commitments

As at 31 December 2012, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB62,216,000 (as at 31 December 2011: RMB64,460,000). All the capital commitments were related to purchasing new properties, factories and facilities as well as the leasing of land.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2012.

DIVIDEND

The Board recommends the payment of a final dividend of RMB3.08 cents per Share for the Year to shareholders whose names appear on the register of members of the Company on 6 June 2013 subject to the approval of the shareholders at the forthcoming annual general meeting (the "**AGM**") of the Company.

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, 28 May 2013 to Friday, 31 May 2013 (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, 27 May 2013.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Thursday, 6 June 2013 to Friday, 7 June 2013 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to for the recommended final dividend, 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, 5 June 2013. The final dividend will be paid to shareholders on or around Tuesday, 25 June 2013.

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**") contained in Appendix 10 to the Listing Rules. All the Directors, after specific enquires by the Company, confirmed that they had complied with the required standards as set out in the Model Code throughout the Year.

CORPORATE GOVERNANCE

The Company had applied the principles in the code provisions (the "**Code Provisions**") and certain recommended best practices set out in the Code on Corporate Governance Practices (during the period from 1 January 2012 to 31 March 2012) and the Corporate Governance Code (during the period from 1 April 2012 to 31 December 2012) (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. The Company had complied with the Code Provisions throughout the Year.

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

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 during the Year.

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, 2012 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, 31 May 2013. A notice convening the AGM will be published and despatched 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 despatched 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 Year and give our sincere gratitude to all our shareholders and business partners for their continuous support.

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

Hong Kong, 22 March 2013

As at the date of this announcement, the Board comprised Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao, Mr. Chen Weixin and Mr. Yin Wenxin 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.