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 2013

FINANCIAL HIGHLIGHTS

- The revenue for the Year amounted to RMB1,445,749,000, representing an increase of RMB203,378,000 or 16.37% compared to the revenue for the Year 2012 in the amount of RMB1,242,371,000 which was mainly due to the released 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 of the Year was 18.81% representing a decrease of 2.04% compared with 20.85% for Year 2012, which is mainly attributable to the lowered the selling price of corrugated medium paper during the Year because of the limited cost reduction in wasted papers.

- The profit for the Year amounted to RMB34,828,000, representing a decrease of 32.26% compared to profit for the Year 2012 in the amount of RMB51,417,000.

- Basic and diluted earnings per share amounted to RMB7 cents for the Year, and the basic and diluted earnings per share in Year 2012 was RMB10 cents.

- The Board has resolved to recommend the payment of a final dividend of RMB2.09 cents per Share for the Year (Year 2012: a final dividend of RMB3.08 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 2013 (the "**Year**" or "**Year under review**") together with the comparative figures for the corresponding year ended 31 December 2012 (the "**Year 2012**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	**2013** *RMB'000*	2012 *RMB'000*
Revenue	**3**	**1,445,749**	1,242,371
Cost of sales		**(1,173,815)**	(983,276)
Gross profit		**271,934**	259,095
Other income	**4**	**22,833**	11,576
Other gains and losses	**5**	**932**	129
Distribution and selling expenses		**(60,207)**	(50,606)
Administrative expenses		**(100,404)**	(84,278)
Finance costs	**6**	**(49,018)**	(38,466)
Other expenses		**(1,372)**	-
Research and development cost		**(37,433)**	(35,283)
Profit before tax	**7**	**47,265**	62,167
Income tax expense	**8**	**(12,437)**	(10,750)
Profit and total comprehensive income for the year		**34,828**	51,417
Earnings per share			
Basic and diluted *(RMB)*	**10**	**7 cents**	10 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	NOTES	**2013** *RMB'000*	2012 *RMB'000*
Non-current Assets			
Property, plant and equipment		**604,449**	553,146
Prepaid lease payments		**94,123**	66,315
Other intangible assets		**3,733**	5,171
Deferred tax assets		**198**	-
Deposits for acquisition of property, plant and equipment		**7,528**	13,897
Deposit for leasehold land		**-**	28,800
Deposit for acquisition of subsidiaries		**14,191**	-
		724,222	667,329
Current Assets			
Inventories		**127,333**	116,487
Trade and other receivables	**11**	**915,912**	685,188
Prepaid lease payments		**2,178**	1,592
Short-term investment		**10,000**	-
Pledged bank deposits		**154,957**	206,338
Restricted bank deposits		**-**	415
Bank balances and cash		**127,680**	122,378
Tax recoverable		**2,361**	3,789
		1,340,421	1,136,187
Current Liabilities			
Trade and other payables	**12**	**603,111**	469,942
Tax liabilities		**5,722**	1,248
Borrowings		**846,857**	727,771
Obligations under finance leases		**28,279**	22,322
Amounts due to directors		**3,141**	2,048
Amount due to a related party		**-**	50
		1,487,110	1,223,381
Net Current Liabilities		**(146,689)**	(87,194)
Total Assets Less Current Liabilities		**577,533**	580,135
Capital and Reserves			
Share capital	**13**	**41,655**	41,655
Share premium and reserves		**476,545**	456,117
Total Equity		**518,200**	497,772
Non-current Liabilities			
Deferred tax liabilities		**3,044**	4,073
Deferred income		**23,800**	28,800
Borrowings		**-**	6,720
Obligations under finance leases		**32,489**	42,770
		59,333	82,363
		577,533	580,135

Notes:

1. GENERAL INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 the PRC.

The Company acts as an investment holding company. Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, who collectively own 75% of the Company's share in aggregate and act in concert, are regarded as the controlling shareholders of the Company.

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 RMB146,689,000 as at 31 December 2013. On the basis that the Group has secured credit facilities of approximately RMB464,612,000 which remains unutilized at the date of the consolidated financial statements ended 31 December 2013, 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

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

Except as described below, 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.

Amendments to HKAS1 Presentation of Items of other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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 improvements to HKFRSs 2010-2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory deferral accounts[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HK (IFRIC) - Int 21	Levies[1]

1. Effective for annual periods beginning on or after 1 January 2014.
2. Effective for annual periods beginning on or after 1 July 2014.
3. Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4. Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5. Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

3. REVENUE AND SEGMENT INFORMATION

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

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the executive directors of the Company) in order to allocate resources to the segment and to assess its performance.

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment performance. The Group's reportable segments under HKFRS 8 are identified as two main operations:

1. Paper-based packaging: this segment produces and sells paper-based packaging products.

2. Corrugated medium paper: this segment produces and sells corrugated medium paper.

(a) Segment revenue and results

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

	For the year ended 31 December 2013		
	Paper-based packaging *RMB'000*	**Corrugated medium paper** *RMB'000*	**Total** *RMB'000*
REVENUE			
External sales	**863,435**	**582,314**	**1,445,749**
Inter-segment sales	**14,721**	**93,440**	**108,161**
Segment revenue	**878,156**	**675,754**	**1,553,910**
Eliminations			**(108,161)**
Group Revenue			**1,445,749**
Segment Profit	**30,113**	**22,450**	**52,563**
Eliminations			**(390)**
			52,173
Unallocated corporate expenses, net			**(4,908)**
Profit before tax			**47,265**

	For the year ended 31 December 2012		
	Paper-based packaging	Corrugated medium paper	Total
	RMB'000	*RMB'000*	*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
Segment Profit	25,101	43,045	68,146
Eliminations			(308)
			67,838
Unallocated corporate expenses, net			(5,671)
Profit before tax			62,167

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.

(b) Information about products

The following is analysis of the Group's revenue from its major products:

	2013	2012
	RMB'000	*RMB'000*
Corrugated medium paper AA grade	**480,345**	357,184
Corrugated medium paper C grade	**52,066**	162,946
Colour Box	**274,362**	114,568
Brown Box	**399,320**	505,004
Honeycomb paper-based products	**189,753**	102,669
Waste paper raw material	**49,903**	-
	1,445,749	1,242,371

(c) Geographic information

The Group's operations are all located in the PRC.

(d) Information about major customers

Revenue from customers of the corresponding years over 10% of the total revenue of the Group is as follows:

	2013	2012
	RMB'000	*RMB'000*
Customer A[1]	**359,790**	330,339

1. Revenue from paper-based packaging

(e) Segment assets and liabilities

Information of the operating segments of the Group reported to the chief operating decision maker for the purposes of resource allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

4. OTHER INCOME

	2013	2012
	RMB'000	*RMB'000*
Interest income	**4,601**	4,274
Management fee income	**223**	810
Sales of scrap materials	**648**	36
Government grants *(note)*	**15,858**	6,400
Commission income	**1,136**	-
Sundry income	**367**	56
Total	**22,833**	11,576

Note: Government grants received by the Group's PRC subsidiaries as financial incentives for local economic and environmental development contributions. No other conditions are attached to the financial incentives.

5. OTHER GAINS AND LOSSES

	2013	2012
	RMB'000	*RMB'000*
Exchange gain, net	**2,270**	203
Loss on disposals of property, plant and equipment	**(20)**	(74)
Impairment losses recognised on trade receivables	**(1,318)**	-
	932	129

6. FINANCE COSTS

	2013	2012
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**43,889**	36,934
Finance leases	**5,427**	5,603
Total borrowing costs	**49,316**	42,537
Less: Amounts capitalised	**(298)**	(4,071)
	49,018	38,466

Note: Borrowing costs capitalised during the year arose on the finance leases and are calculated by applying a capitalisation rate of 10.96% (2012:10.33%) per annum to expenditure on qualifying assests.

7. PROFIT BEFORE TAX

	2013	2012
	RMB'000	*RMB'000*
Profit before tax for the Year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**37,543**	28,281
Amortisation of other intangible assets	**1,438**	1,438
Amortisation of prepaid lease payments	**2,045**	1,368
Total depreciation and amortisation	**41,026**	31,087
Auditor's remuneration	**3,933**	1,846
Cost of inventories recognised as expense	**1,174,083**	983,276
Operating lease rental in respect of		
- rented plant and machineries	**6,022**	9,346
- rented premises	**14,948**	10,134
- rented vehicles	**156**	236
Staff costs		
- directors' and chief executive's emoluments	**10,576**	10,909
- salaries and other benefits costs	**127,220**	135,607
- retirement benefits scheme contribution	**5,870**	4,996
- share-based payment	**609**	1,541
Total staff costs	**144,275**	153,053
Less: Amount capitalised in construction in progress	**(1,823)**	(3,010)
	142,452	150,043

8. INCOME TAX EXPENSE

	2013	2012
	RMB'000	*RMB'000*
Hong Kong Profits Tax:		
Current tax	**1,158**	-
PRC Enterprise Income Tax:		
Current tax	**5,755**	9,409
Under-provision in prior years	**4,297**	-
	11,210	9,409
Withholding Tax	**1,500**	3,200
Deferred tax		
Current year	**(273)**	(1,859)
	12,437	10,750

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Year (2012: Nil). The income of the PRC subsidiaries 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 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 2012 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) (“**Zheng Ye Alliance Packaging**”) 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) (“**Zheng Ye Packaging (Zhuhai)**”) 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 2013, Zheng Ye Packaging (Zhuhai) was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2015.

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 2013 of the PRC subsidiaries of the Company, which are available for distribution amounted to RMB6,000,000 (2012: RMB15,000,000).

* *For identification purpose only*

9. DIVIDENDS

	2013 *RMB'000*	2012 *RMB'000*
Dividends recognized as distribution during the Year	**15,400**	27,800

The Directors of the Company recommend the payment of a final dividend of RMB2.09 cents per Share for the year ended 31 December 2013 (2012: a final dividend of RMB3.08 cents per Share). The proposed dividend of approximately RMB10,450,000 will be paid on or about 24 June 2014 to those shareholders whose names appear on the Company's register of members on 5 June 2014.

This proposed final dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE

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

	2013 *RMB'000*	2012 *RMB'000*
Earnings		
Profit for the Year attributable to owners of the Company for the purpose of basic and diluted earnings per Share	**34,828**	51,417
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**500,000,000**	500,000,000

The computation of diluted earnings per share for the year ended 31 December 2013 and 2012 does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares during the years ended for 2013 and 2012.

11. TRADE AND OTHER RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**415,373**	378,529
Less: allowance for doubtful debts	**(1,318)**	-
	414,055	378,529
Advanced to suppliers	**4,462**	5,348
Bills receivables	**467,981**	273,988
Prepayment	**7,156**	7,734
Other receivables	**22,258**	19,589
	497,395	301,311
Total trade and other receivables	**915,912**	685,188

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 term 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:

	2013	2012
	RMB'000	*RMB'000*
0-60 days	**331,495**	307,456
61-90 days	**47,571**	37,936
91-180 days	**34,989**	33,086
Over 180 days	**-**	51
	414,055	378,529

The aged analysis of bills receivables based on the invoice date which approximated the respective revenue recognition dates, at the end of the reporting period are analysed as follows:

	2013	2012
	RMB'000	*RMB'000*
0-60 days	**115,407**	62,635
61-90 days	**104,567**	36,017
91-180 days	**208,170**	166,521
Over 180 days	**39,837**	8,815
	467,981	273,988

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 RMB8,967,000 (2012: RMB12,256,000) 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

	2013	2012
	RMB'000	*RMB'000*
0-30 days	**8,234**	8,816
31-60 days	**725**	3,073
61-90 days	**-**	303
Over 90 days	**8**	64
Total	**8,967**	12,256

Movement in the allowance for doubtful debts

	2013	2012
	RMB'000	*RMB'000*
1 January	**-**	-
Impairment losses recognised on trade receivables	**1,318**	-
31 December	**1,318**	-

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. The customers with balances that are neither past due nor impaired have good repayment histories and no impairment is considered necessary.

12. TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables	**463,471**	279,167
Bills payables – secured	**50,935**	115,354
Other tax payables *(note)*	**43,912**	32,082
Payroll and welfare payables	**24,751**	23,800
Construction payables	**10,647**	12,786
Others	**9,395**	6,753
	603,111	469,942

Note: Included in other tax payables is RMB33,327,000 (2012: RMB30,107,000) 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.

	2013	2012
	RMB'000	*RMB'000*
0-60 days	**206,512**	128,374
61-90 days	**135,026**	97,583
91-180 days	**100,735**	48,762
Over 180 days	**21,198**	4,448
	463,471	279,167

The aged analysis of bills payables based on the invoice date at the end of the reporting period are analysed as follows:

	2013	2012
	RMB'000	*RMB'000*
0-60 days	**19,478**	48,701
61-90 days	**10,913**	26,455
91-180 days	**20,544**	40,198
	50,935	115,354

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

13. SHARE CAPITAL

	Number of shares	Nominal value
Ordinary shares of HK$0.10 each		*HK$*
Authorised:		
At 1 January 2012, 31 December 2012 and 31 December 2013	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2012, 31 December 2012 and 31 December 2013	500,000,000	50,000,000
		RMB'000
Presented as: At 31 December 2012 and 2013		41,655

14. EVENT AFTER REPORTING PERIOD

Subsequent to the end of the reporting period, the Company entered into the subscription agreement with Rengo Company Limited ("**Rengo**") pursuant to which the Company agreed to issue, and Rengo agreed to subscribe for, the Commercial Note in the principal amount of JPY346,200,000 (equivalent to RMB20,000,000). The net proceeds arising from the issue of the Commercial Note will be used in part financing the Consideration payable by the Purchaser (Zhongshan Yong Fa Paper) under the acquisition of the Lian He Agreement and the Lian Xing Agreement. Relevant details were set out in the announcement of the Company dated 17 January 2014 published on the website of the Company and the Hong Kong Exchanges and Clearing Limited.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

In 2013, the domestic paper manufacturing industry was facing similar excessive production capacity. Although the government has accelerated the elimination of the small-scale and low-efficient paper manufacturing factories, the competition within the industry remains keen, resulted in a pressure on the selling price of paper products. Furthermore, there has been an ongoing demand from the Group's main customer base for small appliances and air conditioners, and sales volume raised as some major customers successfully increased their market share, both of which have in turn spurred the growth of the Group's two major core businesses, namely paper-based packaging products and corrugated medium paper. Besides, leveraged on the four new production lines located in Zhengzhou, Hefei, Wuhan and Shijiazhuang, which have been successively put into operation with production capacity being released, the Group is capable of meeting the growing customer demands, thus achieving a satisfactory turnover growth.

The revenue for the year ended 31 December 2013 (the "Year") was RMB1,445,749,000, representing a growth of 16.37% compared with RMB1,242,371,000 for the year ended 31 December 2012 (the "Year 2012"). Revenue from paper-based packaging products and corrugated medium paper represented 59.72% and 40.28%, respectively (2012: 58.13% and 41.87%, respectively) of the total revenue of the Group.

Paper-based packaging products

The Group provides paper-based packaging products mainly to the domestic household air conditioners and small home appliances, which include corrugated cartons and honeycomb paper-based products. As the newly added production capacity of the factories located in Shijiazhuang, Zhengzhou, Hefei and Wuhan timely met the increasing orders from major customers, the revenue of paper-based packaging products increased by 19.55% to RMB863,435,000 in 2013 (2012: RMB722,241,000). The revenue of corrugated cartons and honeycomb paper-based products represented 78.02% and 21.98%, respectively (2012: 85.78% and 14.22%) of the turnover of paper-based packaging products. Wherein, The revenue of the corrugated cartons business was RMB673,682,000 (2012: RMB619,572,000), representing an stable increase of 8.73%; the revenue of honeycomb paper-based products was RMB189,753,000 (2012: RMB102,669,000), representing an increase of 84.82%.

Corrugated medium paper

During the year, the average selling price of corrugated medium paper declined by 13.42% to RMB2,349 (2012: RMB2,713) due to the impact of the drop in the price of waste paper, being raw material. However, as the production efficiency raised as a result of the commencement of operation of new production lines and technical transformation, the sales volume of corrugated medium paper increased by 29.16% to 247,647 tons (2012: 191,740 tons), which has offset the adverse impact of declined selling price, therefore the revenue of corrugated medium paper slightly increased by 11.96% to RMB582,314,000 (2012: RMB520,130,000).

Gross profit and gross profit margin

The gross profit recorded for the Year is RMB271,934,000, representing an increase of 4.96% as compared with RMB259,095,000 in Year 2012. The gross profit margin declined from 20.85% in Year 2012 to 18.81% during the Year. The decrease in gross profit margin is mainly attributable to the lowered the selling price of corrugated medium paper during the Year because of the limited cost reduction in wasted papers.

Prospects

In 2014, the central government will, by adhering to the principle of seeking progress prudently as the keystone of this year's macroeconomic growth, continue to stabilize the economic growth and the national living standards and to advance urbanization and domestic demand. These steps will favor boosting the rigid demand of the household appliance industry. Furthermore, as the Ministry of Industry and Information Technology will continue to implement the policy of eliminating backward production capacities, the problem of excessive production capacity plaguing the paper manufacturing industry will be solved gradually, and this industry will develop in a more healthy way, bring broader development room for the Group.

In 2014, the Group has completed its strategic layout with a certain scale, covering the production bases of main household appliance producers in South China, Central China and North China. The new production lines located in Shijiangzhuang, Zhengzhou, Wuhan and Hefei will continue to advance their natural growth and operational effectiveness by enhancing the utilization rate and releasing production capacity by effective order allocation within the Group.

With the completion of the acquisition of Lian He and Lian Xing's paper manufacturing factories, the important missions of the Group for this year is to conduct internal integration and deployment of production capacity. The Group plans to use its own advantages in the production technology of low-weight and high-strength corrugated medium paper to arrange Lian He and Lian Xing's paper manufacturing factories to focus on producing such low-weight and high-strength corrugated medium paper. Since we can thoroughly use every single idle production line of Lian He and Lian Xing's paper manufacturing factories to meet orders from customers on the one hand while modifying their corrugated paper production lines to increase the annual production of their high-strength corrugated medium paper from the exiting 170,000 tons to 270,000 tons, thus raising the overall annul production of corrugated medium paper of the Group to 270,000 tons. In addition, the Group will also carry out the technical modification for Lian He and Lian Xing's paper manufacturing factories, for example, to improve the pulping technology and other key production processes, to reduce its production cost and to improve production efficiency. The Group will also focus on strengthening internal management at the same time, adopt the strategy of centralized procurement and resource sharing, and expand the post-acquisition benefits and synergic effects, with an aim to maximize the economic benefit of all production lines and to cement the solidest base for the future development of the Group.

As in the past, in addition to continuingly intensifying the research and development of the special low-weight and high-strength corrugated medium paper and other new paper products, the Group will proactively invest in research and development. In the future, the Group will also further enrich the product portfolio according to the market trend and customers' needs. Meanwhile, the Group will identify more other consumption types of customer base to facilitate the diversification of business development.

In the coming year, the Group will continue to substantially reduce administrative expenses and financing cost to maintain an ideal capital structure. In addition, the Group will continue integrate and effectively utilize the resources of the Group, lower production costs and enhance the operational and producing efficiency to raise the profitability. Meanwhile, the Group will also keep providing high-quality products and a number of value-added services and further improve supporting facilities to satisfy and surpass the demands of customers and markets, so as to allow the Group to keep expanding its market share and to maintain its capacity in the corrugated medium paper and paper-based packaging product markets.

Distribution and selling expenses

The distribution and selling expenses of the Group increased by approximately 18.97% from RMB50,606,000 for the Year 2012 to RMB60,207,000 for the Year, representing approximately 4.07% and 4.16% of the Group's revenue, respectively. The increase was mainly attributable to the increase of RMB15,537,000 in transportation costs due to the growth of the revenue of the Group during the Year.

Administrative and other expenses

The Group's administrative and other expenses increased by approximately 20.76% from RMB84,278,000 for the Year 2012 to RMB101,776,000 for the Year, representing approximately 6.78% and 7.04% of the Group's revenue, respectively. The increase was primarily due to the planned business expansion, its staff costs (welfare and social insurance), office leasing, depreciation, office related expenses and travelling expenses, etc, it increased RMB8,743,000 in total as compared to the Year 2012. During the Year, the Group had paid around RMB5,000,000 to the relevant expenses (including legal and professional fees) in relation to the acquisition of Lian He and Lian Xing's paper manufacturing factories.

Finance costs

Finance costs of the Group increased by approximately 27.43% from RMB38,466,000 for the Year 2012 to RMB49,018,000 for the Year primarily due to the need to obtain funds for the Group's business expansion in paper-based packaging division and corrugated medium paper division, causing an increase in short-term borrowings throughout the Year. In addition, the interests expenses and bills discounted costs increased due to the constrained of funding in PRC during the Year.

Interest rates of bank borrowings were at variable rates ranging from 1.95% to 7.50% for the Year, compared with 1.0425% to 6.9825% for the same period of last year. The weighted average interest rates under bank borrowings in fixed rate, bank borrowings in variable rate and obligations under finance leases during the Year are 4.55%, 4.47% and 9.49% respectively (2012: 5.71%, 5.41% and 9.18% respectively).

The borrowings and obligations under finance leases amounted to RMB907,625,000 as at 31 December 2013, compared with RMB799,583,000 as at 31 December 2012.

Research and development expenses

Research and development expenses of the Group increased by 6.09% from RMB35,283,000 in the Year 2012 to RMB37,433,000 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.

Income tax expense

During the Year, the Group's income tax expense was RMB12,437,000 (2012: RMB10,750,000), accounting for 26.31% of the total profit (2012: 17.29%). The Group paid RMB4,297,000 as the supplementary enterprise income tax for the year 2008, 2009 and 2010.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2013, the Group had a net cash inflow of RMB5,302,000.

The net amount of the cash outflow arising from investment activities for the payment of purchasing properties, plant and equipment, the deposit paid for acquisition of subsidiaries, purchasing the short-term investments product and the deposits paid for acquisition of property, plant and equipment were RMB72,806,000, RMB14,191,000, RMB10,000,000 and RMB7,528,000 respectively.

Inventories

The inventories increased 9.31% to approximately RMB127,333,000 as at 31 December 2013, compared to approximately RMB116,487,000 as at 31 December 2012. During the Year, the inventory turnover day was improved to approximately 38 days (2012: 43 days) which was at a normal level.

Trade receivables

As at 31 December 2013, the trade receivables amounted to RMB414,055,000 (as at 31 December 2012: RMB378,529,000). 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 maintained at 100 days (2012: 100 days).

Bills receivables

As at 31 December 2013, the bills receivables amounted to RMB467,981,000 (31 December 2012: RMB273,988,000). The increases was mainly attributable to the majority customers of the paper-based packaging products segment from Central China used the bills to settle the payment.

Trade payables

As at 31 December 2013, the trade payables amounted to RMB463,471,000 (as at 31 December 2012: RMB279,167,000). 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 lengthened to 115 days (2012: 105 days).

Gearing ratio

As at 31 December 2013, the Group’s borrowings balance amounted to RMB846,857,000 (as at 31 December 2012: RMB734,491,000).

As at 31 December 2013, the gross gearing ratio was approximately 41.02% (as at 31 December 2012: 40.73%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio was 108.88%, 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 2012: 81.43%).

Pledge of assets

As at 31 December 2013, the Group pledged certain assets with carrying value of RMB662,345,000 as collateral for the Group’s borrowing (as at 31 December 2012: RMB637,159,000).

Capital commitments

As at 31 December 2013, the Group’s capital commitments (including the engaged and authorized capital commitments) were RMB282,089,000 (as at 31 December 2012: RMB62,216,000). All the capital commitments were related to purchasing new properties, factories and facilities, the leasing of land as well as the acquisition of new subsidiaries.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2013.

DIVIDEND

The Board recommends the payment of a final dividend of RMB2.09 cents per Share for the Year to shareholders whose names appear on the register of members of the Company on 5 June 2014 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, 27 May 2014 to Friday, 30 May 2014 (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 Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 26 May 2014.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Friday, 6 June 2014 to Monday, 9 June 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 5 June 2014. The final dividend will be paid to shareholders on or around Tuesday, 24 June 2014.

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, 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 Corporate Governance Code (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 profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2013 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, 30 May 2014. 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, 21 March 2014

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 Prof. 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.