**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 2014

## FINANCIAL HIGHLIGHTS

- The revenue for the Year amounted to RMB1,714,190,000, representing an increase of RMB268,441,000 or 18.57% compared to the revenue for the Year 2013 in the amount of RMB1,445,749,000 which was mainly due to the continuation released of operation of the Group's paper-based packaging production lines outside Guangdong Province for its active expansion. Also, the completion of Lian He and Lian Xing's acquisitions generated a contribution in revenue for corrugated medium paper.

- The gross profit margin of the Year was 17.03% representing a decrease of 1.78% compared with 18.81% for Year 2013, it is mainly due to the paper-making industry was in the stage of upgrading the industrial restructuring, which the Group has a pressure in selling price per unit for corrugated medium paper. Also, the integration and technical improvement of Lian He and Lian Xing after acquisition is the other reason for decrease of gross profit margin. Lian He and Lian Xing had completed the fundamental technical improvement at March 2015, it anticipates it will have the contribution of gross profit for the Group starting at the year 2015.

- The profit and total comprehensive income recorded RMB48,489,000 during the Year. The comprehensive income for the year attributable to owners of the Company was RMB39,480,000, represented an increase of 13.36% compared to the Year 2013 in the amount of RMB34,828,000.

- Basic and diluted earnings per share amounted to RMB8 cents for the Year, and the basic and diluted earnings per share in Year 2013 was RMB7 cents.

- The Board had resolved not to recommend the payment a final dividend for the Year.

## 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 2014 (the "**Year**" or "**Year under review**") together with the comparative figures for the corresponding year ended 31 December 2013 (the "**Year 2013**") as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | ***NOTES*** | **2014** ***RMB'000*** | 2013 *RMB'000* |
|---|---|---|---|
| Revenue | **3** | **1,714,190** | 1,445,749 |
| Cost of sales | | **(1,422,291)** | (1,173,815) |
| Gross profit | | **291,899** | 271,934 |
| Other income | **4** | **28,754** | 22,833 |
| Other gains and losses | **5** | **30,346** | 932 |
| Distribution and selling expenses | | **(67,927)** | (60,207) |
| Administrative expenses | | **(112,376)** | (100,404) |
| Finance costs | **6** | **(66,316)** | (49,018) |
| Other expenses | | **(1,318)** | (1,372) |
| Research and development cost | | **(43,296)** | (37,433) |
| Profit before tax | **7** | **59,766** | 47,265 |
| Income tax expense | **8** | **(11,277)** | (12,437) |
| Profit and total comprehensive income for the year | | **48,489** | 34,828 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **39,480** | 34,828 |
| Non-controlling interests | | **9,009** | - |
| | | **48,489** | 34,828 |
| Earnings per share | | | |
| Basic and diluted *(RMB)* | **10** | **8 cents** | 7 cents |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
As at 31 December 2014

| | NOTES | **2014** RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **947,301** | 604,449 |
| Prepaid lease payments | | **211,879** | 94,123 |
| Other intangible assets | | **4,137** | 3,733 |
| Deferred tax assets | | **1,191** | 198 |
| Deposits for acquisition of property, plant and equipment | | **16,422** | 7,528 |
| Deposit for acquisition of subsidiaries | | **-** | 14,191 |
| | | **1,180,930** | 724,222 |
| **Current Assets** | | | |
| Inventories | | **147,385** | 127,333 |
| Trade and other receivables | **11** | **1,038,878** | 915,912 |
| Prepaid lease payments | | **5,530** | 2,178 |
| Short-term investment | | **5,000** | 10,000 |
| Pledged bank deposits | | **145,932** | 154,957 |
| Bank balances and cash | | **41,571** | 127,680 |
| Tax recoverable | | **1,282** | 2,361 |
| | | **1,385,578** | 1,340,421 |
| **Current Liabilities** | | | |
| Trade and other payables | **12** | **731,291** | 603,111 |
| Tax liabilities | | **8,207** | 5,722 |
| Bank borrowings | | **829,086** | 846,857 |
| Other borrowings | | **30,288** | 27,986 |
| Obligations under finance leases | | **311** | 293 |
| Amounts due to directors | | **2,237** | 3,141 |
| Loans from a non-controlling equity owner of subsidiaries | | **43,470** | - |
| | | **1,644,890** | 1,487,110 |
| **Net Current Liabilities** | | **(259,312)** | (146,689) |
| **Total Assets Less Current Liabilities** | | **921,618** | 577,533 |

| | | | |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | **13** | **41,655** | 41,655 |
| Share premium and reserves | | **505,936** | 476,545 |
| Equity attributable to Owners of the Company | | **547,591** | 518,200 |
| Non-controlling interests | | **108,856** | - |
| **Total Equity** | | **656,447** | 518,200 |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | **2,240** | 3,044 |
| Deferred income | | **27,037** | 23,800 |
| Bank borrowings | | **52,500** | - |
| Other borrowings | | **20,783** | 23,864 |
| Obligations under finance leases | | **8,498** | 8,625 |
| Loans from a non-controlling equity owner of subsidiaries | | **154,113** | - |
| | | **265,171** | 59,333 |
| | | **921,618** | 577,533 |

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 activities of 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 RMB259,312,000 and commitments as at 31 December 2014. On the basis that the Group has secured credit facilities of approximately RMB395,397,000 which remains unutilized at the date of the consolidated financial statements ended 31 December 2014, 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 amendments to HKFRSs and a new interpretation issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| HK (IFRIC*) - Int 21 | Levies |

* IFRIC represents the International Financial Reporting Standards Interpretations Committee.

In the opinion of the Company's Directors, the application of amendments to HKFRSs and a new interpretation 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:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[4] |
| Amendments to HKAS 1 | Disclosure Initiative[4] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[4] |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions[3] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010-2012 Cycle[5] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011-2013 Cycle[3] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle[4] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[4] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[4] |
| Amendments to HKAS 10 and HKAS 28 | Sale of Contribution of Assets Between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[4] |

1. Effective for annual periods beginning on or after 1 January 2018.
2. Effective for annual periods beginning on or after 1 January 2017.
3. Effective for annual periods beginning on or after 1 July 2014.
4. Effective for annual periods beginning on or after 1 January 2016.
5. Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

Except for the potential early and additional recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the directors of the Company anticipate that the application of HKFRS 9 in the future may not have the material impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's finance instruments at 31 December 2014.

The directors of the Company are still in the progress of assessing the impact of HKFRS 15 on the amounts reported and disclosures made in the Group’s consolidated financial statements at the moment. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Except for the impact of HKFRSs 9 and 15, the directors of the Company anticipate the application of other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

## 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 by reportable and operating segment.

| | For the year ended 31 December 2014 | | |
|---|---|---|---|
| | **Paper-based packaging** *RMB'000* | **Corrugated medium paper** *RMB'000* | **Total** *RMB'000* |
| **REVENUE** | | | |
| External sales | **974,907** | **739,283** | **1,714,190** |
| Inter-segment sales | **526** | **82,205** | **82,731** |
| Segment revenue | **975,433** | **821,488** | **1,796,921** |
| Eliminations | | | **(82,731)** |
| Group Revenue | | | **1,714,190** |
| Segment Profit | **29,150** | **36,610** | **65,760** |
| Eliminations | | | **36** |
| | | | **65,796** |
| Unallocated corporate expenses, net | | | **(6,030)** |
| Profit before tax | | | **59,766** |

Other segment information included in the measurement of segment results:

| | **Paper-based packaging** *RMB'000* | **Corrugated medium paper** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| Depreciation | **21,986** | **34,099** | **55,395** |
| Amortisation | **600** | **5,153** | **5,753** |

| | 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 |

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Other segment information included in the measurement of segment results:

| | Paper-based packaging *RMB'000* | Corrugated medium paper *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| Depreciation | 18,816 | 18,727 | 37,543 |
| Amortisation | 315 | 3,168 | 3,483 |
| Impairment losses on trade receivables | - | 1,318 | 1,318 |

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:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Brown Box | **638,939** | 399,320 |
| Corrugated medium paper AA grade | **550,186** | 480,345 |
| Honeycomb paper-based products | **236,866** | 189,753 |
| Corrugated medium paper C grade | **148,979** | 52,066 |
| Colour Box | **99,102** | 274,362 |
| Waste paper raw material | **40,118** | 49,903 |
| | **1,714,190** | 1,445,749 |

**(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:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Customer A[1] | **388,763** | 350,790 |

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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income | **4,800** | 4,601 |
| Income from short-term investments | **52** | - |
| Management fee income | **196** | 223 |
| Sales of scrap materials | **1,896** | 648 |
| Government grants *(note)* | **21,519** | 15,858 |
| Commission income | **-** | 1,136 |
| Sundry income | **291** | 367 |
| Total | **28,754** | 22,833 |

*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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Exchange gain, net | **30,588** | 2,270 |
| Loss on disposals of property, plant and equipment | **(242)** | (20) |
| Impairment losses recognised on trade receivables | **-** | (1,318) |
| | **30,346** | 932 |

## 6. FINANCE COSTS

| | 2014 | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **57,583** | 43,889 |
| Other borrowings wholly repayable within five years | **6,155** | 3,217 |
| Loans from a non-controlling equity owner of subsidiaries | | |
| - wholly repayable within five years | **265** | - |
| - wholly repayable over five years | **1,572** | - |
| Finance leases | **741** | 2,210 |
| Total borrowing costs | **66,316** | 49,316 |
| Less: Amounts capitalised *(note)* | **-** | (298) |
| | **66,316** | 49,018 |

*Note*: Borrowing costs capitalised in the Year 2013 arose on the other borrowings and were calculated by applying a capitalisation rate of 10.96% per annum to expenditure on qualifying Assets.

## 7. PROFIT BEFORE TAX

| | 2014 | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax for the Year has been arrived at after charging (crediting): | | |
| Depreciation of property, plant and equipment | **55,395** | 37,543 |
| Amortisation of other intangible assets | **1,438** | 1,438 |
| Amortisation of prepaid lease payments | **4,892** | 2,045 |
| Less: Amount capitalised in construction in progress | **(577)** | - |
| Less: Amount capitalised in inventories | **(49,488)** | (32,067) |
| Total depreciation and amortisation | **11,660** | 8,959 |
| Auditor's remuneration | **2,163** | 3,933 |
| Exchange gain net | **30,588** | 2,270 |
| Cost of inventories recognised as expense | **1,422,291** | 1,173,815 |
| Operating lease rental in respect of | | |
| - rented premises | **17,793** | 14,948 |
| - rented vehicles | **344** | 156 |
| Staff costs | | |
| - directors' and chief executive's emoluments | **4,734** | 10,576 |
| - salaries and other benefits costs | **181,740** | 127,220 |
| - retirement benefits scheme contribution | **12,568** | 5,870 |
| - share-based payment | **243** | 609 |
| Total staff costs | **204,285** | 144,275 |

## 8. INCOME TAX EXPENSE

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Hong Kong Profits Tax: | | |
| Current tax | **142** | 1,158 |
| PRC Enterprise Income Tax: | | |
| Current tax | **8,452** | 6,709 |
| Under-provision in prior years | **3,880** | 4,297 |
| | **12,474** | 12,164 |
| Withholding Tax | **600** | 1,500 |
| Deferred tax | | |
| Current year | **(1,797)** | (1,227) |
| | **11,277** | 12,437 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the both years.

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 the approval documents issued by the Ministry of Finance, the Ministry of Technology and the State Administration of Taxation, high-technology enterprises should be eligible for a preferential income tax rate at 15%.

Zheng Ye Packaging (Zhongshan) Company Limited* (正業包裝(中山)有限公司) ("**Zheng Ye Packaging (Zhongshan)**") and Zhongshan Yong Fa Paper Industry Company Limited* (中山永發紙業有限公司) ("**Zhongshan Yong Fa Paper**") obtained the Certificate of High-Technology in 2009 for three years and the applicable income tax rate was 15% in 2012 based on certain condition. In 2013, 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.

In 2013, Zhuhai Zheng Ye Packaging Company Limited* (正業包裝(珠海)有限公司) ("**Zheng Ye Packaging (Zhuhai)**") was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2015.

* *For identification purpose only*

## 9. DIVIDENDS

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends recognized as distribution during the Year | **10,450** | 15,400 |

The Directors have determined that no dividend will be paid in respect of the year ended 31 December 2014.

The final dividend of RMB2.09 cents per share for the year ended 31 December 2013, was approved by shareholders in the annual general meeting on 30 May 2014 and paid to the owners of the Company in 2014.

## 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:

| | **2014** | 2013 |
|---|---|---|
| | ***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 | **39,480** | 34,828 |
| **Number of shares** | | |
| 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 2014 and 2013 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 2014 and 2013.

## 11. TRADE AND OTHER RECEIVABLES

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **509,703** | 415,373 |
| Less: allowance for doubtful debts | **(1,318)** | (1,318) |
| | **508,385** | 414,055 |
| Advanced to suppliers | **2,198** | 4,462 |
| Bills receivables | **488,842** | 467,981 |
| Prepayment | **8,435** | 7,156 |
| Other receivables | **31,018** | 22,258 |
| | **528,295** | 497,395 |
| Total trade and other receivables | **1,038,878** | 915,912 |

The Group allows an average credit period of 30 to 120 days from the invoice date to its trade customers except for the new customers newly accepted which payment is made when goods are delivered. For 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 before the due date of trade receivables.

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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0-60 days | **401,712** | 331,495 |
| 61-90 days | **84,187** | 47,571 |
| 91-180 days | **21,951** | 34,989 |
| Over 180 days | **535** | - |
| | **508,385** | 414,055 |

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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0-60 days | **103,365** | 115,407 |
| 61-90 days | **96,907** | 104,567 |
| 91-180 days | **198,823** | 208,170 |
| Over 180 days | **89,747** | 39,837 |
| | **488,842** | 467,981 |

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 RMB15,245,000 (2013: RMB8,967,000) 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. For situations where the customers settled their trade receivables by bills, the Group would not consider the bills receivable as past due.

**Aging of trade receivables which are past due but not impaired**

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0-30 days | **13,486** | 8,234 |
| 31-60 days | **1,225** | 725 |
| 61-90 days | **534** | - |
| Over 90 days | **-** | 8 |
| Total | **15,425** | 8,967 |

**Movement in the allowance for doubtful debts**

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Balance at beginning of the year | **1,318** | - |
| Impairment losses recognised on trade receivables | **-** | 1,318 |
| Balance at end of the year | **1,318** | 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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **521,501** | 463,471 |
| Bills payables – secured | **89,308** | 50,935 |
| Other tax payables *(note)* | **52,161** | 43,912 |
| Payroll and welfare payables | **30,055** | 24,751 |
| Construction payables | **2,017** | 2,618 |
| Advance from customers | **13,610** | 1,034 |
| Others | **22,639** | 16,390 |
| | **731,291** | 603,111 |

*Note*: Included in other tax payables is RMB45,590,000 (2013: RMB33,327,000) 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.

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0-60 days | **229,136** | 206,512 |
| 61-90 days | **166,924** | 135,026 |
| 91-180 days | **95,489** | 100,735 |
| Over 180 days | **29,952** | 21,198 |
| | **521,501** | 463,471 |

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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0-60 days | **32,564** | 19,478 |
| 61-90 days | **12,300** | 10,913 |
| 91-180 days | **44,444** | 20,544 |
| | **89,308** | 50,935 |

The credit period on purchase of material is 30 to 120 days. The Group has financial risk management policies in place to monitor the settlement.

## 13. SHARE CAPITAL

| | Number of shares | Nominal value |
|---|---|---|
| Ordinary shares of HK$0.10 each | | ***HK$*** |
| Authorised: | | |
| At 1 January 2013, 31 December 2013 and 31 December 2014 | 1,000,000,000 | 100,000,000 |
| Issued and fully paid: | | |
| At 1 January 2013, 31 December 2013 and 31 December 2014 | 500,000,000 | 50,000,000 |
| | | ***RMB'000*** |
| Presented as: At 31 December 2013 and 2014 | | 41,655 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

In 2014, although remarkable progress was made in the elimination of backward production capacity after the release of the Twelfth Five-Year Plan for Development of the Paper Manufacturing Industry, the paper manufacturing and paper products industries were still facing the issue of excessive production capacity. In addition, fierce competition within the industry resulted in a decline in prices of products, constantly narrowing profit margins of several peer enterprises. Meanwhile, as China's overall economic growth slowed down, domestic spending power abated, and structural adjustment was effected in the real estate market, the supply and demand situation of major customers of the Group in the domestic white goods industry was suppressed. However, under such a fragile market environment, the growth of the overall business of the Group remained robust, highlighting the leading position of the Group in the industry.

Leveraging upon its rich industry-related experience and well-established enterprise scale, the Group has been able to maintain long-term and close cooperative relationship with leading customers of manufacturers of small home appliances and air conditioners in the industry. Thanks to customer loyalty established over years, the Group can still achieve steady growth in the adverse market situation. We strive to provide our customers with one-stop services in an all-round manner by developing our strategic layout and building our impeccable production and sales network in the aspects of packaging, design, production and delivery, so as to capture their needs for our paper-based packaging products. In April 2014, we completed the acquisition of Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited* (中山聯合鴻興造紙有限公司) ("**Lian He**") and Zhongshan Ren Hing Paper Manufacturing Company Limited* (中山聯興造紙有限公司) ("**Lian Xing**") paper manufacturing plants in Zhongshan, successfully integrated the original broad customer base, and further expanded the income streams of the Group. The production lines of Lian He and Lian Xing paper manufacturing factories have also substantially completed the double testing and adjusting under the technical improvement and have been gradually put into production in the top of 2015. Our precise acquisition plan has rapidly contributed additional income to the Company. In addition, all of the production lines previously invested by the Group in Wuhan, Shijiazhuang and Zhengzhou have also comprehensively released production capacity in the year. The enlargement in the scale of overall production capacity has further satisfied the needs of existing and new customers. The advantages from the configuration of production have gradually taken shape and entered a stable period of investment return.

The revenue for the year ended 31 December 2014 (the "**Year**") was RMB1,714,190,000, representing a growth of 18.57% compared with RMB1,445,749,000 for the year ended 31 December 2013. Revenue from paper-based packaging products and corrugated medium paper businesses represented 56.87% and 43.13%, respectively (2013: 59.72% and 40.28%, respectively) of the total revenue of the Group.

*Paper-based packaging products*

The paper-based packaging products offered by the Group mainly included corrugated cartons and honeycomb paper-based products. After the release of production capacity of the plants in Shijiazhuang and Zhengzhou in 2013, our production lines in Wuhan has been largely put into production in the year, which has helped further satisfy the growing customer needs. In 2014, turnover derived from our overall business recorded a growth of 12.91% from RMB863,435,000 in Year 2013 to RMB974,907,000, amongst which turnover from corrugated cartons and honeycomb paper-based products accounted for 75.70% and 24.30% respectively (2013: 78.02% and 21.98%). During the Year, with its core technology and established scale of paper-based packaging products, the Group was still maintained a steady growth at paper-based packaging business under the fierce market competition environment.

* *For identification purpose only*

*Corrugated medium paper*

The two production lines of the newly acquired Lian He and Lian Xing paper manufacturing plants have substantially completed the double testing and adjusting under the technical improvement and have been gradually put into production in the second half of 2014. The new paper manufacturing plants have practically facilitated the transverse development of our corrugated medium paper business and consolidated the foundation for the downstream industrial chain of the paper-based packaging products of the Group, which in turn has made contribution to the core business and income of the Group. During the Year, turnover from the corrugated medium paper business was RMB739,283,000 (2013: RMB582,314,000), representing a year-on-year increase of RMB156,969,000 or 26.96%.

*Gross profit and gross profit margin*

The gross profit recorded for the Year is RMB291,899,000, representing an increase of 7.34% as compared with RMB271,934,000 in Year 2013. The gross profit margin declined from 18.81% in Year 2013 to 17.03% during the Year. The decrease in gross profit margin is mainly attributable to the paper-making industry was in the stage of upgrading the industrial restructuring, which the Group has a pressure in selling price per unit for corrugated medium paper compared with last year. Also, two production lines from Lian He and Lian Xing paper manufacturing factories underwent the double testing and adjusting under the technical improvement after completion on acquisition, which unable to generate the profits until March 2015.

**Prospects**

As structural adjustments and reform have intensified in China, China's macro-economy will perform along the track of new normality and the prospect of the manufacturing industry will have uncertainties. It is expected that the demand of the paper manufacturing industry will continue to slow down and the issue of excessive production capacity remains to be solved. Therefore, the Group will be still faced with an intense competition in the industry in the coming year. However, as the implementation of the increasingly stringent environmental protection policies and the "Twelfth Five-Year Plan" for the elimination of backward production capacity has been redoubled, an increasing number of small- and medium-sized paper manufacturing enterprises will be forced out the market during the Year and the supply and demand in the industry will be gradually improved. Meanwhile, the Group will take advantage of its own scale, solid customer base and strategic configuration of production to better meet opportunities from the structural adjustments of the industry, so as to further garner larger market share.

During the Year, the Group has directly integrated the original broad customer base of the new paper manufacturing plants through the acquisition of Lian He and Lian Xing paper manufacturing plants, and has rapidly generated additional income. In order to maintain good relationship with new and old customers in the future, sales personnel of the Group will strengthen communication with customers, the electronic information platform jointly researched and developed with them will be employed, and new dynamics on the production of customers as well as the information on customers' desired types and varieties of products will be closely monitored, with an aim of reinforcing the dependence of customers and maintaining the solid income base of the Group. More importantly, as Lian He and Lian Xing paper manufacturing plants are in close proximity to major and some original customer base of the Group due to their geographical locations in Zhongshan and Jiangmen, it will be helpful for the Group to significantly expedite the lead time of products and to cut transportation cost. In addition, the Group will continue to better use rich experience of technicians to enhance the operational efficiency at lowest cost and reduce energy consumption. Meanwhile, the Group will also endeavour to improve its production process, such as pulping technique, and the product research and development capability of the special low-weight and high-strength corrugated medium paper. Moreover, the Group will further improve its own operational efficiency and cost advantages while strengthening the competitiveness of its core technology. As for the environmental protection and emission reduction, the Group will continue to keep track of the latest environmental protection standards promulgated by the Government, timely keep abreast of such policies and regulations issued by the Government, technologically upgrade the environmental protection facilities of the Group when necessary, such as wastewater treatment and carbon emission facilities, and continue to maintain its persistent adherence to the environmental protection and capability.

In addition, the Group will conscientiously better its internal cost control and management optimisation in the coming year. After the completion of investment in developing its business in the previous year, the Group will focus on controlling administrative expenses and financing costs in the next year to maintain an ideal capital and finance structure. Furthermore, the Group will strictly monitor the control over the costs of raw materials and production and strive to maintain the profitability of the Group in the intensely competitive environment. The Group will also take efforts to streamline staffing structure, comprehensively regulate and understand staff's working behaviour and the Group's key operations using key performance index, and proactively recruit versatile talents, so as to improve the overall performance of the Group and to promote the long-term development of the Group.

Faced with challenges in the industry, the Group will keep prudent to watch the development of the market and target at consolidate the internal structure and capability of the Group by adhering to the tenet of "sophistication, elaboration". With the configuration of production in Zhongshan, Zhuhai, Wuhan, Shijiazhuang and Zhengzhou being increasingly established and the sales network being stably developed, the customer base will continue to expand. As the production capacity of Lian He and Lian Xing paper manufacturing plants will be comprehensively released in March 2015, the Group's industry position in the Pearl River Delta will be further enhanced. To ensure a long-term development in the future, the Group will capture the opportunity from the reshuffle of the industry, enlarge its market share, increase its market penetration and maintain its competitiveness.

### Distribution and selling expenses

The distribution and selling expenses of the Group increased by approximately 12.82% from RMB60,207,000 for the Year 2013 to RMB67,927,000 for the Year. The distribution and selling expenses during the Year mainly included during the Year are salaries of salesmen, transportation costs and business advertisement and promotion. The increase of the expenses is due to a business expansion of the Group.

### Administrative and other expenses

The Group's administrative and other expenses increased by approximately 11.71% from RMB101,776,000 for the Year 2013 to RMB113,694,000 for the Year. The administrative and other expenses during the Year mainly included during the Year are salaries of management, staff welfare, rent and depreciation. The increase of the expenses is due to a business expansion of the Group.

### Finance costs

Finance costs of the Group increased by approximately 35.29% from RMB49,018,000 for the Year 2013 to RMB66,316,000 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 and long-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. Furthermore, the Group has to bear the interests paid to the loans from a non-controlling equity owner of subsidiaries after acquisitions of Lian He and Lian Xing in the Year.

Interest rates of bank borrowings were at variable rates ranging from 5.60% to 7.80% for the Year, compared with 1.95% to 7.50% 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 in fixed rate and other borrowings in variable rate during the Year were 5.56%, 6.18%, 6.12% and 11.51% respectively (2013: 4.55%, 4.47%, 6.12% and 10.46% respectively).

The bank borrowings, other borrowings and obligations under finance leases amounted to RMB941,466,000 as at 31 December 2014, compared with RMB907,625,000 as at 31 December 2013.

### Research and development expenses

Research and development expenses of the Group increased by 15.66% from RMB37,433,000 in the Year 2013 to RMB43,296,000 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 RMB11,277,000 (2013: RMB12,437,000), accounting for 18.87% of the total profit (2013: 26.31%).

**Profit and total comprehensive income**

The Group's profit and total comprehensive income for the Year was RMB48,489,000, the total comprehensive income for the Year attributable to owners of the Company was RMB39,480,000, represented an increase of 13.36% compared with RMB34,828,000 for the Year 2013.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

**Cash flow**

As at 31 December 2014, the Group had a net cash outflow of RMB86,109,000.

The net amount of the cash outflow arising from investing activities for the payment of purchasing properties, plant and equipment, the acquisition of subsidiaries, net amount of purchasing the short-term investments product and the deposits paid for acquisition of property, plant and equipment were RMB109,749,000, RMB109,003,000, RMB5,000,000 and RMB16,422,000 respectively.

**Inventories**

The inventories increased 15.75% to approximately RMB147,385,000 as at 31 December 2014, compared to approximately RMB127,333,000 as at 31 December 2013. During the Year, the inventory turnover day was improved to approximately 35 days (2013: 38 days) which was at a normal level.

**Trade receivables**

As at 31 December 2014, the trade receivables amounted to RMB508,385,000 (as at 31 December 2013: RMB414,055,000). 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 shortened to 98 days (2013: 100 days).

**Bills receivables**

As at 31 December 2014, the bills receivables amounted to RMB488,842,000 (31 December 2013: RMB467,981,000). 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 2014, the trade payables amounted to RMB521,501,000 (as at 31 December 2013: RMB463,471,000). 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 126 days (2013: 115 days).

**Borrowings**

As at 31 December 2014, the Group's bank borrowings and other borrowings balance amounted to RMB932,657,000 (as at 31 December 2013: RMB898,707,000).

**Gearing ratio**

As at 31 December 2014, the gross gearing ratio was approximately 36.34% (as at 31 December 2013: 43.53%), which was calculated on the basis of the total amount of bank borrowings and other borrowings as a percentage of the total assets. The net gearing ratio was 136.08%, which was calculated on the basis of the amount of bank borrowings and other borrowings less pledged bank deposits and cash and bank balances as a percentage of the shareholders' equity (as at 31 December 2013: 118.89%).

**Pledge of assets**

As at 31 December 2014, the Group pledged certain assets with carrying value of RMB901,697,000 as collateral for the Group's borrowing (as at 31 December 2013: RMB776,228,000).

**Capital commitments**

As at 31 December 2014, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB70,199,000 (as at 31 December 2013: RMB282,089,000). All the capital commitments as at 31 December 2014 were related to purchasing new properties, factories and facilities and the leasing of land while the capital commitments as at 31 December 2013 also included the commitment to acquire the new subsidiaries.

**Contingent liabilities**

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2014.

**Foreign currency exposure**

The Group collects most of its revenue and incurs most of the expenditures in RMB. Although the Group undertakes certain transactions denominated in foreign currencies, mainly the currencies of United States and Hong Kong, the exposures to exchange rate fluctuations is minimal. The Group acquired Lian He and Lian Xing paper manufacturing factories during the Year. Before the acquisition, Lian He and Lian Xing borrowed a ten years borrowings with amount of JPY3,500,000,000 from Rengo Company Limited* (レンゴー株式会社), one of shareholder of Lian He and Lian Xing. The Group also has to face the currency risk at the currency of Japan. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

* *For identification purpose only*

## 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, 26 May 2015 to Friday, 29 May 2015 (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 Friday, 22 May 2015.

## 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 2014 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, 29 May 2015. 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, 20 March 2015

*As at the date of this announcement, the Board comprised Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao, Mr. Hong Guanghua and Mr. Zhang Xiaoming 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.*