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 2015

FINANCIAL HIGHLIGHTS

- The revenue for the Year amounted to RMB1,807,765,000, representing an increase of RMB93,575,000 or 5.46% compared to the revenue for the Year 2014 in the amount of RMB1,714,190,000 which was mainly due to the released in production for the corrugated medium paper after the completion of Lian He's acquisitions under paper division of the Group in 2014.

- The gross profit margin of the Year was rebounded the normal level to 19.01% representing an increase of 1.98 percentage point compared with 17.03% for Year 2014, it is mainly due to the completion on technical improvement of Lian He.

- The profit and total comprehensive income recorded RMB42,693,000 during the Year. The comprehensive income for the year attributable to owners of the Company was RMB41,136,000, represented an increase of 4.19% compared to the Year 2014 in the amount of RMB39,480,000.

- Basic and diluted earnings per share maintained at RMB8 cents for the Year, same as the Year 2014.

- 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 2015 (the "**Year**" or "**Year under review**") together with the comparative figures for the corresponding year ended 31 December 2014 (the "**Year 2014**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	NOTES	**2015** *RMB'000*	2014 *RMB'000*
Revenue	**3**	**1,807,765**	1,714,190
Cost of sales		**(1,464,027)**	(1,422,291)
Gross profit		**343,738**	291,899
Other income	**4**	**24, 549**	28,754
Other gains and losses	**5**	**(14,753)**	30,346
Distribution and selling expenses		**(64,823)**	(67,927)
Administrative expenses		**(120,062)**	(112,376)
Finance costs	**6**	**(62,302)**	(66,316)
Other expenses		**(476)**	(1,318)
Research and development cost		**(49,153)**	(43,296)
Profit before tax	**7**	**56,718**	59,766
Income tax expense	**8**	**(14,025)**	(11,277)
Profit and total comprehensive income for the year		**42,693**	48,489
Total comprehensive income for the year attributable to:			
Owners of the Company		**41,136**	39,480
Non-controlling interests		**1,557**	9,009
		42,693	48,489
Earnings per share			
Basic and diluted *(RMB)*	**10**	**8 cents**	8 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	NOTES	**2015** **RMB'000**	2014 RMB'000
Non-current Assets			
Property, plant and equipment		**981,150**	947,301
Prepaid lease payments		**206,349**	211,879
Other intangible assets		**2,331**	4,137
Deferred tax assets		**868**	1,191
Deposits for acquisition of property, plant and equipment		**9,172**	16,422
		1,199,870	1,180,930
Current Assets			
Inventories		**139,843**	147,385
Trade and other receivables	**11**	**938,470**	1,038,878
Prepaid lease payments		**5,530**	5,530
Short-term investment		**10,000**	5,000
Pledged bank deposits		**145,855**	145,932
Bank balances and cash		**59,442**	41,571
Tax recoverable		**-**	1,282
		1,299,140	1,385,578
Current Liabilities			
Trade and other payables	**12**	**698,447**	731,291
Tax liabilities		**7,372**	8,207
Bank borrowings		**779,723**	829,086
Other borrowings		**43,982**	30,288
Obligations under finance leases		**330**	311
Amounts due to directors		**2,620**	2,237
Loans from a non-controlling equity owner of a subsidiary		**25,138**	43,470
		1,557,612	1,644,890
Net Current Liabilities		**(258,472)**	(259,312)
Total Assets Less Current Liabilities		**941,398**	921,618

Capital and Reserves			
Share capital	**13**	**41,655**	41,655
Share premium and reserves		**547,072**	505,936
Equity attributable to Owners of the Company		**588,727**	547,591
Non-controlling interests		**110,413**	108,856
Total Equity		**699,140**	656,447
Non-current Liabilities			
Deferred tax liabilities		**2,074**	2,240
Deferred income		**34,276**	27,037
Bank borrowings		**38,500**	52,500
Other borrowings		**22,748**	20,783
Obligations under finance leases		**8,168**	8,498
Loans from a non-controlling equity owner of a subsidiary		**136,492**	154,113
		242,258	265,171
		941,398	921,618

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 of the Company (the "**Directors**") have given careful consideration of the Group in light of its net current liabilities of RMB258,472,000 and also commitments as at 31 December 2015. On the basis that the Group has secured credit facilities of approximately RMB287,780,000 which remains unutilized at the date of the consolidated financial statements ended 31 December 2015, 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 issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

In the opinion of the Company's Directors, the application of amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
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[3]

1. Effective for annual periods beginning on or after 1 January 2018.
2. Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.
3. Effective for annual periods beginning on or after 1 January 2016..
4. Effective for annual periods beginning on or after a date to be determined.

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 the effect of HKFRS 15 until the Group completes a detailed review.

Except for the impact of HKFRS 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 is organised into business units based on their products, 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 2015		
	Paper-based packaging *RMB'000*	**Corrugated medium paper** *RMB'000*	**Total** *RMB'000*
REVENUE			
External sales	**809,751**	**998,014**	**1,807,765**
Inter-segment sales	**-**	**79,476**	**79,476**
Segment revenue	**809,751**	**1,077,490**	**1,887,241**
Eliminations			**(79,476)**
Group Revenue			**1,807,765**
Segment Profit	**11,461**	**47,401**	**58,862**
Eliminations			**(59)**
			58,803
Unallocated corporate expenses, net			**(2,085)**
Profit before tax			**56,718**

Other segment information included in the measurement of segment results:

	Paper-based packaging *RMB'000*	Corrugated medium paper *RMB'000*	Total *RMB'000*
Depreciation	**23,440**	**50,473**	**73,913**
Amortisation	**399**	**6,360**	**6,759**

	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	21,296	34,099	55,395
Amortisation	600	5,153	5,753

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:

	2015	2014
	RMB'000	*RMB'000*
Brown Box	**511,183**	638,939
Corrugated medium paper AA grade	**810,242**	550,186
Honeycomb paper-based products	**213,987**	236,866
Corrugated medium paper C grade	**187,772**	148,979
Colour Box	**84,581**	99,102
Waste paper raw material	**-**	40,118
	1,807,765	1,714,190

(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:

	2015	2014
	RMB'000	*RMB'000*
Customer A[1]	**344,812**	388,763

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

	2015	2014
	RMB'000	*RMB'000*
Interest income	**3,836**	4,800
Income from short-term investments	**744**	52
Management fee income	**210**	196
Sales of scrap materials	**497**	1,896
Government grants *(note)*	**18,270**	21,519
Sundry income	**992**	291
Total	**24,549**	28,754

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

	2015	2014
	RMB'000	*RMB'000*
Exchange (loss) gain, net	**(14,716)**	30,588
Loss on disposals of property, plant and equipment, net	**(37)**	(242)
	(14,753)	30,346

6. FINANCE COSTS

	2015	2014
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings	**54,900**	57,583
Other borrowings	**4,557**	6,155
Loans from a non-controlling equity owner of a subsidiary	**2,306**	1,837
Finance leases	**539**	741
	62,302	66,316

7. PROFIT BEFORE TAX

	2015	2014
	RMB'000	*RMB'000*
Profit before tax for the Year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**73,913**	55,395
Amortisation of other intangible assets	**1,806**	1,438
Amortisation of prepaid lease payments	**5,530**	4,892
Less: Amount capitalised in construction in progress	**(577)**	(577)
Less: Amount capitalised in inventories	**(52,291)**	(49,488)
Total depreciation and amortisation	**28,381**	11,660
Auditor's remuneration	**2,068**	2,163
Exchange loss (gain), net	**14,716**	(30,588)
Cost of inventories recognised as expense	**1,464,027**	1,422,291
Operating lease rental in respect of		
- rented premises	**19,361**	22,829
- rented vehicles	**178**	167
Staff costs		
- directors' and chief executive's emoluments	**7,723**	9,734
- salaries and other benefits costs	**217,182**	206,625
- retirement benefits scheme contribution	**18,405**	12,568
- share-based payment	**-**	243
Total staff costs	**243,310**	229,170

8. INCOME TAX EXPENSE

	2015	2014
	RMB'000	*RMB'000*
Hong Kong Profits Tax:		
Current tax	**-**	142
PRC Enterprise Income Tax:		
Current tax	**10,125**	8,452
Under-provision in prior years	**3,743**	3,880
	13,868	12,474
Withholding Tax	**-**	600
Deferred tax		
Current year	**157**	(1,797)
	14,025	11,277

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 Advanced-technology Enterprise Certificate in 2009 for three years and the applicable income tax rate was 15% in 2012 based on certain conditions. In 2012 and 2015, Zheng Ye Packaging (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2018.

In 2013, Zhuhai Zheng Ye Packaging Company Limited* (正業包裝(珠海)有限公司) ("**Zheng Ye Packaging (Zhuhai)**") was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2016.

* *For identification purpose only*

9. DIVIDENDS

	2015	2014
	RMB'000	*RMB'000*
Dividends recognized as distribution during the Year	**-**	10,450

The Directors have determined that no dividend will be paid in respect of the year ended 31 December 2015.

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:

	2015	2014
	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	**41,136**	39,480
Number of shares		
Number of ordinary shares for the purposes 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 2015 and 2014 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 2015 and 2014.

11. TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables	**488,076**	509,703
Less: allowance for doubtful debts	**(1,318)**	(1,318)
	486,758	508,385
Advanced to suppliers	**2,945**	2,198
Bills receivables	**424,651**	488,842
Prepayment	**4,519**	8,435
Other receivables	**19,597**	31,018
	448,767	528,295
Total trade and other receivables	**938,470**	1,038,878

The Group allows an average credit period of 30 to 120 days from the invoice date to its trade customers except for the customers newly accepted which payment is made when goods are delivered. For customers with good credit quality, the Group also allows them to settle the payments by bills with term of 60 to 180 days guaranteed by bank before the due date of trade receivables.

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

	2015	2014
	RMB'000	*RMB'000*
0-60 days	**334,122**	334,924
61-90 days	**87,520**	91,270
91-180 days	**63,942**	80,485
Over 180 days	**1,174**	1,706
	486,758	508,385

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

	2015	2014
	RMB'000	*RMB'000*
0-60 days	**42,476**	41,009
61-90 days	**98,105**	92,145
91-180 days	**183,180**	212,601
Over 180 days	**100,890**	143,087
	424,651	488,842

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB13,681,000 (2014: RMB15,245,000) 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. Trade receivables in which customers have provided bills for settlement are not considered as past due.

Aging of trade receivables which are past due but not impaired

	2015	2014
	RMB'000	*RMB'000*
Overdue by:		
0-30 days	**7,507**	13,486
31-60 days	**4,602**	1,225
61-90 days	**801**	534
Over 90 days	**771**	-
Total	**13,681**	15,425

Movement in the allowance for doubtful debts

	2015	2014
	RMB'000	*RMB'000*
Balance at beginning of the year	**1,318**	1,318
Impairment losses recognised on trade receivables	**-**	-
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

	2015	2014
	RMB'000	*RMB'000*
Trade payables	**445,116**	521,501
Bills payables – secured	**148,043**	89,308
Other tax payables *(note)*	**42,648**	52,161
Payroll and welfare payables	**27,916**	30,055
Construction payables	**865**	2,017
Advance from customers	**11,554**	13,610
Others	**22,305**	22,639
	698,447	731,291

Note: Included in other tax payables is RMB37,268,000 (2014: RMB45,590,000) provision of value-added tax.

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

	2015	2014
	RMB'000	*RMB'000*
0-60 days	**207,827**	206,496
61-90 days	**95,600**	81,484
91-180 days	**115,897**	165,851
Over 180 days	**25,792**	67,670
	445,116	521,501

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

	2015	2014
	RMB'000	*RMB'000*
0-60 days	**32,520**	32,564
61-90 days	**5,000**	12,300
91-180 days	**110,523**	44,444
	148,043	89,308

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 2014, 31 December 2014 and 31 December 2015	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2014, 31 December 2014 and 31 December 2015	500,000,000	50,000,000
		RMB'000
Presented as: At 31 December 2014 and 2015		41,655

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

China's economic development has entered a new normal phase which centres on improving the quality and efficiency of economic development. In 2015, the GDP per annual capita growth slowed to 6.9%, lower than market expectations, while the average of China Manufacturing Purchasing Managers' Index was 49.9, also worse than the average of the past five years, indicating that the Chinese economy has already entered a new phase. Moreover, sales by domestic "white goods" enterprises fell as well along with the withdrawal of the national policy for home appliance subsidies. Together with the impact of various factors such as fluctuations in the real estate market, the weak economic environment and market sentiment continued to cloud the business environment in the paper-making industry. However, significant progress was made during the year following the issue of the "Twelfth Five-Year Plan for the Development of the Paper-making Industry" jointly by the National Development and Reform Commission, Ministry of Industry and Information Technology and the State Forestry Administration. Under the plan, the stringent environmental policy and the upgrade action for closing down outdated production facilities had mitigated the overcapacity problem in the paper-making and paper products industries. This improvement was particularly obvious in Southern China. For Zhengye International, the leading paper-making, packaging and corrugated medium paper service provider in the industry, the policy for closing down non-compliant enterprises had created a space for development for the Group. Moreover, market share was further increased after the Group completed capacity allocation and took in more new customers during the year. In the volatile market environment, the Group still managed to maintain steady business growth.

In the face of opportunity arising from the industry's structural consolidation, the Group was the first ahead of others to optimize its business layout during the year by carrying out a technological transformation project to Lian He acquired last year. Upon resumption of production and debugging, the efficiency of production facilities was increased successfully to release the capacity for corrugating medium paper which contributed income to the Group. For the year ended 31 December 2015, overall revenue was RMB1,807,765,000, representing an increase of 5.46% compared with RMB1,714,190,000 for the year ended 31 December 2014. In particular, revenue from paper-based packaging products and the corrugated medium paper business represented 44.79% and 55.21%, respectively (2014: 56.87% and 43.13%, respectively) of the total revenue of the Group. Due to the completion of technical improvement of Lian He paper mill during the Year, it made the Group's gross profit margin was back to the industry level from 17.03% last year to 19.01% of the Year, slightly rose by 1.98 percentage point. Profit and total comprehensive income for the period attributable to owners of the Company was RMB41,136,000 which was slightly growth 4.19% as the corresponding period last year. Basic earnings per share were approximately RMB8 cents.

Paper-based packaging products

The paper-based packaging products offered by the Group were mainly corrugated cartons and honeycomb paper-based products. Major customers were the leading domestic manufacturers of small home appliances and air conditioners. During the year, the overall environment in the "white goods" industry remained sluggish, with a decelerated demand for paper-based packaging products. Given that the supply and demand situation tended to become saturated, it caused the decline in the sales volume of paper-based packaging products. Also, the average selling price of paper-based packaging products was more than the decrease in the prices of raw materials, which had an impact on the revenue for the year. In 2015, the overall revenue from paper-based packaging products was RMB809,751,000, down by 16.94% (2014: RMB974,907,000). In particular, corrugated cartons and honeycomb paper-based products accounted for 73.57% and 26.43% (2014: 75.70% and 24.30%) of the overall revenue from paper-based packaging products. Despite the declined business performance of paper-based packaging products during the year, the Group managed to retain a leading market position in terms of output and sales volume, thanks to its state-of-the-art core technology and improved production deployment.

Corrugated medium paper

Upon completion of the Group's acquisition of Lian He located in Zhongshan City, Guangdong Province last year, the technological transformation project for its production line was carried out and completed within the year, having expanded the designed annual capacity for corrugated medium paper. With the Group's rich operational experience, the plant successfully turned loss to profit in the first half of 2015, making significant revenue contribution to the Group. In 2015, turnover from the corrugated medium paper business was RMB998,014,000, a year-on-year increase of 35.00% (2014: RMB739,283,000). During the year, the average selling price of corrugated medium paper was roughly the same, but the corrugated medium papers had a huge increment in quantity and quality under the modification in equipment. At the same time, in the stringent cost control measurement, the gross profit margin of corrugated medium paper division increased from 14.57% last year to 18.86% for the year, it made the contribution in the growth of turnover for the Group.

Gross profit and gross profit margin

The gross profit recorded for the Year is RMB343,738,000, representing an increase of 17.76% as compared with RMB291,899,000 in Year 2014. The gross profit margin rose from 17.03% in Year 2014 to 19.01% during the Year. The increase in gross profit margin is mainly attributable to the completion on technical improvement of Lian He during the Year, it resulted the back on track for the Group's gross profit margin.

Prospects

In 2015, the paper-making industry was in a phase of transformation and adjustment. Driven by government policy, the industry's overcapacity problem was improved, while the pace of introducing additional capacity to the industry slowed down significantly over the previous year. In 2016, many enterprises will continue to face the crisis of being forced out from the industry, whereas the Group, as the leading paper-making enterprise across the country, will not be scared away by the impact of the market, and will take advantage of the opportunity arising from the restructuring of the industry by further expanding the business scale to capture a market share. In the coming year, the Group will continue to optimize and integrate the internal architecture and resources to maintain a sound and stable business foundation that supports long-term development.

The Group will strengthen control over cost expenditure and enhance internal governance standard. During the year, the Group successfully optimized the internal structure of Lian He and Lian Xing by adopting a performance indicators evaluation method which helped the plant turn loss into profit quickly. The Group will continue to use performance indicators for stringently monitoring the actual financial and operating performance of each work unit and optimize the allocation of internal resources for enhancing the management and operational efficiency. Moreover, hit by the devaluation of Renminbi, the cost of imported raw materials such as waste paper for the paper-making industry had risen. In order to maintain its profitability, the Group will reduce purchases of waste paper from abroad, and replace imported raw materials with waste paper from its paper recycling networks in China to avoid the impact of price volatility. In addition, the Group will take steps to reduce foreign currency loans gradually, to lower financing costs and foreign exchange losses.

The Group believes that the quality of production technology is an impetus for business development. In future, we will continue to commit a reasonable proportion of revenue as expenditure for research and development in order to maintain the Group's core competitiveness. Through an experienced technical team, the Group will carry out research and improvement on production process technology and equipment on a regular basis, such as the enhancement of technology for the production of pulp and other production procedures as well as research and development of new varieties of domestic paper to expand internal production efficiency and boost long-term business development.

Under the pressure from the industry's transformation and upgrade, the market calls for increasingly high environmental requirements for paper manufacturers. The Group has sound energy-saving and emission reduction facilities. Whether it is wastewater discharge, carbon emissions or chemical gas emissions, we stick close to government's Grade 1 environmental standards. The Group will continue its routine maintenance work and keep an eye on government policies and regulations so that it can carry out upgrade projects for environmental protection equipment in a timely manner as a contribution to protecting the environment.

In the weak market atmosphere, the Group seized opportunity to improve the capacity allocation during the year, while next year's focus will be to optimize the internal quality by optimizing and integrating internal resources aggressively to consolidate business foundation. Looking to the future economic recovery, the Group can collaborate with internal and external parties as market demand begins to pick up in order to seize business opportunities with the best gesture. The Group will deal with industry's challenges cautiously and optimistically in future, expand its own strengths and take advantage of the position as an industrial leader to maintain stable business growth for generating a steady investment return for our shareholders.

Distribution and selling expenses

The distribution and selling expenses of the Group decreased by approximately 4.57% from RMB67,927,000 for the Year 2014 to RMB64,823,000 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.

Administrative expenses

The Group's administrative expenses increased by approximately 6.84% from RMB112,376,000 for the Year 2014 to RMB120,062,000 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.

Finance costs

Finance costs of the Group slipped by approximately 6.05% from RMB66,316,000 for the Year 2014 to RMB62,302,000 for the Year.

Interest rates of bank borrowings were at variable rates ranging from 2.40% to 6.69% for the Year, compared with 5.60% to 7.80% for the same period of last year. The weighted average interest rates under bank borrowings in fixed rate, bank borrowings in variable rate, obligations under finance leases in fixed rate and other borrowings in variable rate during the Year were 4.81%, 4.57%, 6.12% and 10.62% respectively (2014: 5.56%, 6.18%, 6.12% and 11.51% respectively).

The bank borrowings, other borrowings and obligations under finance leases amounted to RMB893,451,000 as at 31 December 2015, compared with RMB941,466,000 as at 31 December 2014.

Research and development expenses

Research and development expenses of the Group increased by 13.53% from RMB43,296,000 in the Year 2014 to RMB49,153,000 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 RMB14,025,000 (2014: RMB11,277,000), accounting for 24.73% of the total profit (2014: 18.87%).

Profit and total comprehensive income

The Group's profit and total comprehensive income for the Year was RMB42,693,000, the total comprehensive income for the Year attributable to owners of the Company was RMB41,136,000, represented an increase of 4.19% compared with RMB39,480,000 for the Year 2014.

Exclusion the impact of net exchange gains or losses, the operating profit after tax during the Year had increased significantly over the last year, it was in line with the growth of gross profit during the Year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2015, the Group had a net cash inflow of RMB17,871,000.

The net amount of the cash outflow arising from investing activities for the payment of purchasing properties, plant and equipment in amount of RMB97,886,000, and the deposits paid for acquisition of property, plant and equipment in amount of RMB9,172,000 .

Inventories

The inventories decreased 5.12% to approximately RMB139,843,000 as at 31 December 2015, compared to approximately RMB147,385,000 as at 31 December 2014. During the Year, the inventory turnover day was approximately 36 days (2014: 35 days) which was at a normal level.

Trade receivables

As at 31 December 2015, the trade receivables amounted to RMB486,758,000 (as at 31 December 2014: RMB508,385,000). 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 approximately to 100 days (2014: 98 days).

Bills receivables

As at 31 December 2015, the bills receivables amounted to RMB424,651,000 (31 December 2014: RMB488,842,000).

Trade payables

As at 31 December 2015, the trade payables amounted to RMB445,116,000 (as at 31 December 2014: RMB521,501,000). 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 shortened to 120 days (2014: 126 days).

Borrowings

As at 31 December 2015, the Group's bank borrowings and other borrowings balance amounted to RMB884,953,000 (as at 31 December 2014: RMB932,657,000).

Gearing ratio

As at 31 December 2015, the gross gearing ratio was approximately 35.41% (as at 31 December 2014: 36.34%), 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 115.45%, 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 2014: 136.08%).

Pledge of assets

As at 31 December 2015, the Group pledged certain assets with carrying value of RMB861,308,000 as collateral for the Group's borrowing (as at 31 December 2014: RMB901,697,000).

Capital commitments

As at 31 December 2015, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB32,267,000 (as at 31 December 2014: RMB70,199,000). All the capital commitments were related to purchasing new properties, factories and facilities and the leasing of land.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2015.

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, Hong Kong and United Kingdom. The Group has reduced the transactions using in such currencies during the Year due to the fluctuations in currencies from RMB to United States Dollars and other foreign currencies. The Group acquired Lian He and Lian Xing paper manufacturing factories in 2014. 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. As at 31 December 2015, the outstanding balance of that borrowings amounted to JPY3,000,100,000. In order to minimize the currency risk in JPY, the Group had made RMB borrowings in March 2016 for the purposes of repayment the principal amounted to JPY938,000,000 for the next six years. The Group also takes steps to reduce the loans using foreign currencies gradually to minimize the foreign currency risk. 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.

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, 14 June 2016 to Friday, 17 June 2016 (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, 13 June 2016.

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.

* *For identification purpose only*

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 2015 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, 17 June 2016. 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, 29 March 2016

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