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 2017

FINANCIAL HIGHLIGHTS

- The revenue for the Year amounted to RMB2,414,127,000, representing an increase of RMB340,037,000 or 16.39% compared to the revenue for the Year 2016 in the amount of RMB2,074,090,000. It was mainly due to the increment of average selling price per unit in paper division and a significant business growth in packaging division of the Group during the Year.

- The gross profit margin of the Year was 22.02% representing an increase of 2.52 percentage point compared with 19.50% for Year 2016.

- The profit and total comprehensive income recorded RMB213,242,000 during the Year. The comprehensive income for the year attributable to owners of the Company was RMB182,705,000, represented a significant increase of 99.35% compared to the Year 2016 in the amount of RMB91,649,000.

- Basic earnings per share amounted to RMB37 cents for the Year, and the basic earnings per share in the Year 2016 was RMB18 cents.

- The Board had resolved to recommend the payment a final dividend of RMB10.96cents per Share for the Year (2016: a final dividend of RMB5.50 cents per Share).

ANNUAL RESULTS

The board of directors (the "**Board**") of Zhengye International Holdings Company Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2017 (the "**Year**" or "**Year under review**") together with the comparative figures for the corresponding year ended 31 December 2016 (the "**Year 2016**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017** ***RMB'000***	2016 *RMB'000*
Revenue	**3**	**2,414,127**	2,074,090
Cost of sales		**(1,882,634)**	(1,669,542)
Gross profit		**531,493**	404,548
Other income	**4**	**20,594**	34,308
Other gains and losses	**5**	**(1,860)**	(30,601)
Distribution and selling expenses		**(64,858)**	(69,410)
Administrative expenses		**(139,088)**	(116,574)
Finance costs	**6**	**(44,826)**	(43,963)
Other expenses		**(1,863)**	(674)
Research and development cost		**(56,753)**	(52,725)
Profit before tax	**7**	**242,839**	124,909
Income tax expense	**8**	**(29,597)**	(15,911)
Profit and total comprehensive income for the year		**213,242**	108,998
Total comprehensive income for the year attributable to:			
Owners of the Company		**182,705**	91,649
Non-controlling interests		**30,537**	17,349
		213,242	108,998
Earnings per share			
Basic *(RMB)*	**10**	**37 cents**	18 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	NOTES	**2017** **RMB'000**	2016 *RMB'000*
Non-current Assets			
Property, plant and equipment		**892,353**	920,248
Prepaid lease payments		**158,578**	163,298
Investment property		**-**	13,773
Other intangible assets		**706**	1,074
Deferred tax assets		**2,354**	2,235
Deposits for acquisition of property, plant and equipment		**20,934**	12,696
		1,074,925	1,113,324
Current Assets			
Inventories		**162,277**	130,663
Trade and other receivables	**11**	**1,015,071**	894,373
Prepaid lease payments		**4,720**	4,720
Pledged bank deposits		**114,609**	123,367
Bank balances and cash		**190,268**	159,518
		1,486,945	1,312,641
Current Liabilities			
Trade and other payables	**12**	**597,550**	739,835
Tax liabilities		**14,207**	11,856
Bank borrowings		**745,646**	636,873
Other borrowings		**63,493**	65,234
Obligation under finance lease		**372**	350
Amounts due to directors		**1,840**	2,389
		1,423,108	1,456,537
Net Current Assets (Liabilities)		**63,837**	(143,896)
Total Assets Less Current Liabilities		**1,138,762**	969,428

Capital and Reserves			
Share capital	**13**	**41,655**	41,655
Share premium and reserves		**793,926**	638,721
Equity attributable to Owners of the Company		**835,581**	680,376
Non-controlling interests		**158,299**	127,762
Total Equity		**993,880**	808,138
Non-current Liabilities			
Deferred tax liabilities		**8,370**	5,007
Deferred income		**20,532**	12,966
Bank borrowings		**82,228**	115,356
Other borrowings		**26,306**	20,143
Obligation under finance lease		**7,446**	7,818
		144,882	161,290
		1,138,762	969,428

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**").

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 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Lease
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014-2016 Cycle

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

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 2017		
	Paper-based packaging *RMB'000*	**Corrugated medium paper** *RMB'000*	**Total** *RMB'000*
REVENUE			
External sales	**922,870**	**1,491,257**	**2,414,127**
Inter-segment sales	**-**	**152,282**	**152,282**
Segment revenue	**922,870**	**1,643,539**	**2,566,409**
Eliminations			**(152,282)**
Group Revenue			**2,414,127**
Segment Profit	**54,480**	**190,777**	**245,257**
Eliminations			**(1,816)**
			243,441
Unallocated corporate expenses, net			**(602)**
Profit before tax			**242,839**

Other segment information included in the measurement of segment results:

	Paper-based packaging *RMB'000*	**Corrugated medium paper** *RMB'000*	**Total** *RMB'000*
Depreciation	**25,386**	**51,800**	**77,186**
Amortisation	**166**	**4,922**	**5,088**
Impairment of trade receivables	**1,848**	**163**	**2,011**

	For the year ended 31 December 2016		
	Paper-based packaging *RMB'000*	Corrugated medium paper *RMB'000*	Total *RMB'000*
REVENUE			
External sales	723,165	1,350,925	2,074,090
Inter-segment sales	-	85,749	85,749
Segment revenue	723,165	1,436,674	2,159,839
Eliminations			(85,749)
Group Revenue			2,074,090
Segment Profit	5,910	119,280	125,190
Eliminations			59
			125,249
Unallocated corporate expenses, net			(340)
Profit before tax			124,909

Other segment information included in the measurement of segment results:

	Paper-based packaging *RMB'000*	Corrugated medium paper *RMB'000*	Total *RMB'000*
Depreciation	23,477	55,382	78,859
Amortisation	267	4,438	4,705
Impairment of trade receivables	4,552	2,487	7,039

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:

	2017	2016
	RMB'000	*RMB'000*
Brown Box	**461,603**	448,340
Corrugated medium paper AA grade	**1,490,810**	1,329,041
Honeycomb paper-based products	**221,881**	189,330
Corrugated medium paper C grade	**447**	21,884
Colour Box	**239,386**	85,495
	2,414,127	2,074,090

(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:

	2017	2016
	RMB'000	*RMB'000*
Customer A[1]	**367,583**	311,837

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

	2017	2016
	RMB'000	*RMB'000*
Interest income	**2,163**	3,030
Income from short-term investments	**-**	348
Management fee income	**183**	185
Sales of scrap materials	**675**	507
Government grants related to income *(note)*	**15,730**	28,818
Government grants amortised from deferred income	**1,461**	1,310
Sundry income	**382**	110
Total	**20,594**	34,308

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

	2017	2016
	RMB'000	*RMB'000*
Exchange gain (loss), net	**1,117**	(17,635)
(Loss) gain on disposals of property, plant and equipment, net	**(495)**	192
Loss on disposal of investment property	**(471)**	-
Gain on disposal of a subsidiary	**-**	1,930
Loss on termination of an investment project	**-**	(8,049)
Impairment losses recognised on trade and other receivables	**(2,011)**	(7,039)
	(1,860)	(30,601)

6. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings	**38,533**	37,785
Other borrowings	**5,793**	3,662
Loans from a non-controlling equity owner of a subsidiary	**-**	1,996
Finance leases	**500**	520
	44,826	43,963

7. PROFIT BEFORE TAX

	2017	2016
	RMB'000	*RMB'000*
Profit before tax for the Year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**76,780**	78,724
Depreciation of investment property	**406**	135
Amortisation of other intangible assets	**368**	1,257
Amortisation of prepaid lease payments	**4,720**	5,061
Less: Amount capitalised in construction in progress	**-**	(240)
Less: Amount capitalised in inventories	**(63,648)**	(63,138)
Total depreciation and amortisation	**18,626**	21,799
Auditor's remuneration	**2,056**	1,743
Exchange (gain) loss, net	**(1,117)**	17,635
Cost of inventories recognised as expense	**1,882,634**	1,669,542
Operating lease rental in respect of		
- rented factory and office premises	**18,634**	19,611
- rented vehicles	**604**	59
Less: Amount capitalised in inventories	**(11,870)**	(12,806)
Total operating lease rental	**7,368**	6,864
Staff costs		
- directors' and chief executive's emoluments	**6,403**	5,769
- salaries and other benefits costs	**225,649**	221,301
- retirement benefits scheme contribution	**22,542**	17,579
Less: Amount capitalised in inventories	**(130,631)**	(133,987)
Total staff costs	**123,963**	110,662

8. INCOME TAX EXPENSE

	2017	2016
	RMB'000	*RMB'000*
Hong Kong Profits Tax:		
Current tax	**-**	-
PRC Enterprise Income Tax:		
Current tax	**25,868**	15,510
(Over) under-provision in prior years	**(289)**	(1,165)
	25,579	14,345
Withholding Tax	**774**	-
Deferred tax		
Current year	**3,244**	1,566
	29,597	15,911

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the both years. No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for 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. In 2016, Zhuhai Zheng Ye Packaging (Zhuhai)" have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2019.

* *For identification purpose only*

9. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Dividends recognized as distribution during the Year	**27,500**	-

The Directors of the Company recommend the payment of a final dividend of RMB10.96 cents per Share for the year ended 31 December 2017 (2016: a final dividend of RMB5.50 cents per Share). The proposed dividend of approximately RMB54,800,000 will be paid on or about 1 August 2018 to those shareholders whose names appear on the Company's register of members on 28 June 2018.

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

10. EARNINGS PER SHARE

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit for the Year attributable to owners of the Company for the purpose of basic earnings per Share	**182,705**	91,649
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	**500,000,000**	500,000,000

No diluted earnings per share for the years ended 31 December 2017 and 2016 was presented as there was no potential ordinary shares in issue for the years ended 31 December 2017 and 2016.

11. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**521,753**	495,670
Less: allowance for doubtful debts	**(1,522)**	(8,357)
	520,231	487,313
Advanced to suppliers	**6,194**	3,213
Bills receivables	**472,463**	384,355
Prepayment	**3,757**	2,895
Other receivables	**12,426**	16,597
	488,646	403,847
Total trade and other receivables	**1,015,071**	894,373

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:

	2017	2016
	RMB'000	*RMB'000*
0-60 days	**428,178**	337,209
61-90 days	**60,776**	70,438
91-180 days	**27,490**	57,450
Over 180 days	**3,787**	22,216
	520,231	487,313

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

	2017	2016
	RMB'000	*RMB'000*
0-60 days	**79,597**	34,724
61-90 days	**46,481**	115,994
91-180 days	**287,709**	189,342
Over 180 days	**58,676**	44,295
	472,463	384,355

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 RMB56,785,000 (2016: RMB39,107,000) which are past due for which the Group has not provided for impairment loss because the Group believes that the amounts are still recoverable after taking into account the significant settlements subsequent to the end of reporting period, legal advice on disputed cases, the repayment histories and financial position of debtors. 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

	2017	2016
	RMB'000	*RMB'000*
Overdue by:		
0-30 days	**27,828**	17,925
31-60 days	**12,586**	2,736
61-90 days	**7,452**	2,911
Over 90 days	**8,919**	15,535
Total	**56,785**	39,107

Movement in the allowance for doubtful debts

	2017	2016
	RMB'000	*RMB'000*
Balance at beginning of the year	**8,357**	1,318
Impairment losses recognised on trade receivables	**2,011**	7,039
Amounts written off as uncollectible	**(8,846)**	-
Balance at end of the year	**1,522**	8,357

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

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**267,123**	399,690
Bills payables – secured	**214,278**	218,971
Other tax payables *(note)*	**53,043**	62,347
Payroll and welfare payables	**32,691**	25,430
Construction payables	**3,892**	4,450
Advance from customers	**8,766**	9,572
Others	**17,757**	19, 375
	597,550	739,835

Note: Included in other tax payables is RMB49,889,000 (2016: RMB56,487,000) 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.

	2017	2016
	RMB'000	*RMB'000*
0-60 days	**134,222**	255,885
61-90 days	**23,088**	50,686
91-180 days	**93,648**	82,316
Over 180 days	**16,165**	10,803
	267,123	399,690

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

	2017	2016
	RMB'000	*RMB'000*
0-60 days	**57,442**	65,130
61-90 days	**17,286**	8,950
91-180 days	**41,250**	89,341
Over 180 days	**98,300**	55,550
	214,278	218,971

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 2016, 31 December 2016 and 31 December 2017	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 31 December 2017	500,000,000	50,000,000
		RMB'000
Presented as: At 31 December 2016 and 2017		41,655

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Looking back to 2017, the prosperity in paper-making industry has clearly rebounded benefited from the stable performance of China's macro-economy with a good growth momentum. The National Bureau of Statistics of China announced that profits of the industrial enterprises above designated size in the PRC increased by 21% year-on-year to RMB7.52 trillion in 2017, representing an acceleration of 12.5 percentage points year-on-year. Of which, the total profits of the principle business of the paper-making and paper-based products industry reached RMB102.86 billion, representing an increase of 36.2% year-on-year.

The recovery of the paper-making industry was mainly benefited from the gradual appearance of the effectiveness of the supply-side reform. During the Year, the PRC government continued to intensify the environmental protection regulatory policies, and a companies that did not meet the environmental protection requirements were discontinued or even closed down, which allowed the paper-making industry to step into a quick elimination of production capacity. In addition, the PRC government announced that it restricted the import of waste paper from abroad in July 2017, resulting in a decrease in both the supply and inventory of waste paper in the industry. In the circumstance that supply fell short of demand in raw material, the average price of base paper increased significantly in 2017 compared to the average price in 2016.

The integrated production model of the Group covering from recycling of waste paper, manufacturing of corrugated medium paper, production of packaging carton to the provision of packaging solutions services, all embodying the advantages of our vertically integrated industrial chain and its economies of scale. In the face of market restrictions on the import of waste paper from abroad, the Group has a stable domestic raw material procurement channels have effectively controlled the costs and achieved a stable supply.

Under the circumstances of the intensified environmental protection inspections and the acceleration of elimination of the backward production capacity in 2017, well-positioned enterprises in the paper-making industry are facing better development opportunities. As one of the leading provider of paper-based packaging and corrugated medium paper services in the Pearl River Delta, Zhengye International is still developing steadily in the market leveraging on its advantages in channels, technology and experience. In addition, the leading companies in the white goods industry, as the major customers of the Group, have benefited from the economic recovery in recent years, resulting in maintaining growth in their domestic demand and exports. Due to the effect of a boost in both the volume and price of sales, the Group achieved remarkable achievements in 2017, creating a better benefit for our shareholders.

For the year ended 31 December 2017, the Group recorded an overall turnover of RMB2,414,127,000, representing an increase of 16.39% year-on-year, among which the sales of paper-based packaging products and corrugated medium paper products accounted for 38.23% and 61.77% of total sales respectively. The Group recorded a gross profit of RMB531,493,000 during the Year, up 31.38% year-on-year, and a gross margin of 22.02%. Profit and total comprehensive income attributable to owners of the Company for the year was RMB182,705,000, representing a significant increase of 99.35% over last year. Basic earnings per share amounted to approximately RMB37 cents.

Paper-based packaging products

The Group's paper-based packaging products, mostly corrugated cartons and honeycomb paper-based products, are mainly sold to leading industry players such as small home appliance and air-conditioner makers, electronics manufacturers and food seasonings manufacturers.

During the Year, benefited from the recovery of the global economy, the stable performance of trade with a good growth momentum and the recovery in domestic demand, the demand for corrugated paper-based packaging from Chinese household electrical appliance companies increased, and coordinated with the peak season of consumption in the second half of the year as well, resulting in the Group's paper-based packaging business continuing to maintain a good growth momentum in the first half of the year. The Group has maintained a good relationship of cooperation with its major customers and has kept pace with its customers. Even in the face of a shortage of raw materials in the market, the Group can still quickly respond to customers' various needs while maintaining quality of products. During the Year, the Group recorded an overall turnover of RMB922,870,000 for paper-based packaging products, representing an increase of 27.62% year-on-year (for the year ended 31 December 2016: RMB723,165,000), among which corrugated cartons and honeycomb paper-based products accounted for 75.96% and 24.04% of the overall turnover of the paper-based packaging products respectively (for the year ended 31 December 2016: 73.82% and 26.18%).

Corrugated medium paper

During the Year, industry consolidation, environmental protection policies and restriction on the import of waste paper from abroad led to a tight stock of base paper. Under the circumstances of tightened production and increased market demand, the situation that supply falls short of demand has aggravated the increase in the price of paper. This has led to a slack season for a number of paper companies in the industry in the first half of the year, however, these paper companies have still capability to increase the price of paper several times. The frequency of price mark-up has even far exceeded compared with previous years. As the Group mainly purchases raw materials from domestic, it has greater ability to resist pressure on the fluctuations in raw material supply and RMB exchange rate. In addition, the Group has begun to increase its efforts to optimize the production capacity allocation since the previous year to cater to the trend of continuous integration in the market. During the Year, the Group recorded a considerable turnover increase of 10.39% year-on-year to RMB1,491,257,000 (for the year ended 31 December 2016: RMB1,350,925,000) for its corrugated medium paper.

Gross profit and gross profit margin

The gross profit recorded for the Year is RMB531,493,000, representing an increase of 31.38% as compared with RMB404,548,000 in Year 2016. The average gross profit margin rose from 19.50% in Year 2016 to 22.02% for the Year.

Prospects

Since 2017, the PRC government has intensively implemented various environmental protection policies to govern polluting enterprises such as those in paper-making industry. At the beginning of the year, the Ministry of Environmental Protection of China issued the "Notice on Implementing the Management of Pollutant Discharge Permit for Elevated Sources Distributed in Thermal Power, Papermaking Industry and Beijing-Tianjin-Hebei Pilot Cities", requiring the companies in the paper-making industry to complete the application and issuance of pollutant discharge permits in the middle of the year, and establish a self-monitoring system. In the middle of the year, the Ministry of Environmental Protection of China further proposed to implement the "Water Ten Plan" which requires companies to improve the control indicators and discharge standards for waste water and air pollutants from industrial companies. With the full implementation of the pollutant permit system in the paper-making industry and the reform of the management system in the environmental protection system, the raise of the access threshold for the paper-making industry has also accelerated the elimination of disadvantaged paper-making companies.

From middle to end of 2017, the Ministry of Environmental Protection of China issued a reform plan for the waste import management system, and accordingly increased the standard for the import of waste paper. In addition, the quotas for the import of waste paper in 2018 were announced at the end of 2017, resulting in a significant decrease in the number of the paper-based packaging companies that have been approved to grant quotas. It is expected that small companies that rely on the import of waste paper will be eliminated due to rising cost of raw material and tight supply of waste paper. The production capacity of such small companies will be shifted to the companies with good financial strength and market conditions, which will provide a room for the development of large-scale papermaking companies, and will also be beneficial to the development of the Group.

In response to increasingly stringent policy control and environmental protection requirements, the Group has set up targeted management measures in various plants in the early years, and continued to improve the relevant specifications of environmental protection equipment, aiming to develop in the direction of green industries. With the Group's existing leading technologies, it has now capability to effectively save energy and water, and reduce waste water and pollutant emissions. In the future, the Group will continue to coordinate with policy requirements, timely improve production processes and improve energy and efficiency, and will use the most appropriate measures to reduce the adverse impact on the environment. We look forward to setting a good example and becoming a model among responsible and ethical companies.

In terms of the design and quality of packaging products, the Group has always been committed to abiding by the principle of customer-oriented and providing customers with the most suitable and most intimate services. From making a design according to customer specifications, submitting the most cost-effective solutions for customers to providing high-quality after-sales services, the Company is always committed to upholding the principle of customer first. Therefore, the Group has established a profound relationship of cooperation with many leading industry players over the years. In the future, the Group will also be committed to maintaining good communication channels with existing customers. In addition, with maintaining a rapid development of e-commerce and online shopping platforms, it is believed that the domestic demand for packaging paper will maintain a steady growth, coupled with a wide range of demand for packaging products, and the downstream industry involves several industries such as electrical appliance, food and drug, fast-moving consumer goods, clothing and home. There is still a huge room for the development of packaging paper. The Group will closely pay attention to market opportunities, actively identify cooperation opportunities that are beneficial to the Company, and further expand its business scale.

Looking forward to 2018, the supply-side reform and the environmental protection governance will remain the main tone of the papermaking industry. The implementation of industry-related policies will promote the elimination of backward production capacity, further increase industry concentration, and promote the healthy and orderly development of the industry. Therefore, the Group is optimistic about the outlook of the industry. In the future, the Group will continue to deepen its internal operations and governance, strictly control costs and enhance the good operation of capital, strengthen the profitability of the Group, and maintain the Group's position in the Pearl River Delta and in the paper-based packaging and corrugated medium paper industry.

Distribution and selling expenses

The distribution and selling expenses of the Group decreased by approximately 6.56% from RMB69,410,000 for the Year 2016 to RMB64,858,000 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 decrease of distribution and selling expenses is mainly due to the fall of transportation costs during the Year.

Administrative expenses

The Group's administrative expenses increased by approximately 19.31% from RMB116,574,000 for the Year 2016 to RMB139,088,000 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 administrative expenses is mainly due to the growth in salaries and staff welfare in relation to the performance bonus for the Year.

Finance costs

Finance costs of the Group was up by approximately 1.96% from RMB43,963,000 for the Year 2016 to RMB44,826,000 for the Year.

Interest rates of bank borrowings were at variable rates ranging from 2.76% to 4.99% for the Year, compared with 3.63% to 6.69% 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 4.28%, 4.44%, 6.12% and 9.55% respectively (2016: 5.78%, 4.83%, 6.12% and 10.91% respectively).

The bank borrowings, other borrowings and obligations under finance leases amounted to RMB925,491,000 as at 31 December 2017, compared with RMB845,774,000 as at 31 December 2016.

Research and development expenses

Research and development expenses of the Group increased by 7.64% from RMB52,725,000 in the Year 2016 to RMB56,753,000 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 RMB29,597,000 (2016: RMB15,911,000), with effective tax rate of 12.19% (2016: 12.74%). The lower effective tax rate for the year was mainly due to the effect of utilisation of tax losses previously not recognized. For details of the reconciliation of tax charge for the year to the profit before tax, please refer to income tax expense section of the annual report, which will be published at the end of April 2018.

Profit and total comprehensive income

The Group's profit and total comprehensive income for the Year was RMB213,242,000, the profit and total comprehensive income for the Year attributable to owners of the Company was RMB182,705,000, represented a significant increase of 99.35% compared with RMB91,649,000 for the Year 2016.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2017, the Group had a net cash inflow of RMB30,750,000.

The net amount of the cash used in investing activities relating to the purchase of property, plant and equipment amounted to RMB41,994,000, and the deposit paid for acquisition of property, plant and equipment amounted to RMB20,934,000.

Inventories

The inventories increased by 24.20% to RMB162,277,000 as at 31 December 2017, as compared to the inventories balance of RMB130,663,000 as at 31 December 2016. During the Year, the inventory turnover day was speed up to 28 days (2016: 30 days) which was at a normal level.

Trade receivables

As at 31 December 2017, the trade receivables amounted to RMB520,231,000 (as at 31 December 2016: RMB487,313,000). 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 let down to 76 days (2016: 86 days).

Bills receivables

As at 31 December 2017, the bills receivables amounted to RMB472,463,000 (31 December 2016: RMB384,355,000).

Trade payables

As at 31 December 2017, the trade payables amounted to RMB267,123,000 (as at 31 December 2016: RMB399,690,000). 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 65 days (2016: 92 days). The decrease of turnover day is mainly due to the suppliers can offer a better price in purchase of raw materials as the Group can settle the payment earlier.

Borrowings

As at 31 December 2017, the Group's bank borrowings and other borrowings balance amounted to RMB917,673,000 (as at 31 December 2016: RMB837,606,000).

Gearing ratio

As at 31 December 2017, the gross gearing ratio was approximately 35.82% (as at 31 December 2016: 34.53%), 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 73.34%, 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 2016: 81.53%).

Pledge of assets

As at 31 December 2017, the Group pledged certain assets with carrying value of RMB793,541,000 as collateral for the Group's borrowing (as at 31 December 2016: RMB737,006,000).

Capital commitments

As at 31 December 2017, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB22,305,000 (as at 31 December 2016: RMB48,275,000). All the capital commitments were related to purchasing properties, plants and equipment.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2017.

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 currency of United States and the currency of Hong Kong, the exposures to exchange rate fluctuations is minimal. 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.

DIVIDENDS

The Board has recommended, subject to the approval of the Shareholders at the Annual General Meeting (the "**AGM**"), the payment of a final dividend of RMB10.96 cents per Share for the Year (2016: a final dividend of RMB5.50 cents per Share) to those Shareholders whose names appear on the register of members of the Company on Thursday, 28 June 2018. The recommended final dividend, if approved at the AGM, will be paid in Hong Kong dollars. The RMB to Hong Kong dollar exchange rate for the final dividend will be set on the date of the AGM and calculated using the opening indicative counter buying telegraphic transfer rate for RMB of The Hong Kong Association of Banks, which will be published on the websites of the Stock Exchange and the Company together with the poll results of the AGM on Friday, 22 June 2018. The final dividend is expected to be paid on or around Wednesday, 1 August 2018.

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, 19 June 2018 to Friday, 22 June 2018 (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, 15 June 2018.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Friday, 29 June 2018 to Tuesday, 3 July 2018 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to for the recommended final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 28 June 2018. The final dividend will be paid to shareholders on or around Wednesday, 1 August 2018.

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 2017 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 presented fairly the financial position and results of the Group for the Year.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 22 June 2018. 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 Hanchao
Chairman

Hong Kong, 23 March 2018

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