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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 2018

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**2,848,016**	2,414,127
Gross Profit Margin	**17.90%**	22.02%
EBITDA	**281,382**	369,939
Total Comprehensive Income for the Year Attributable to the Owners of the Company	**109,358**	182,705
Return on Equity Attributable to the Owners of the Company	**12.24%**	21.87%
Earnings per Share (Basic) – RMB	**22 cents**	37cents
Recommended Final Dividend – HKD per share	**11.57 cents**	13.10 cents

- The Board had resolved to recommend the payment a final dividend of RMB10.00 cents (equivalent to HKD11.57 cents**)** per Share for the Year (2017: a final dividend of RMB10.96 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 2018 (the "**Year**" or "**Year under review**") together with the comparative figures for the corresponding year ended 31 December 2017 (the "**Year 2017**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018** *RMB'000*	2017 *RMB'000*
Revenue	**3**	**2,848,016**	2,414,127
Cost of sales		**(2,338,314)**	(1,882,634)
Gross profit		**509,702**	531,493
Other income	**4**	**9,435**	20,594
Impairment losses, net of reversal	**5**	**(350)**	(2,011)
Other gains and losses	**5**	**(1,842)**	151
Distribution and selling expenses		**(74,472)**	(64,858)
Administrative expenses		**(143,656)**	(139,088)
Finance costs	**6**	**(46,295)**	(44,826)
Other expenses		**(3,269)**	(1,863)
Research and development cost		**(95,239)**	(56,753)
Profit before tax	**7**	**154,014**	242,839
Income tax expense	**8**	**(23,301)**	(29,597)
Profit and total comprehensive income for the year		**130,713**	213,242
Total comprehensive income for the year attributable to:			
Owners of the Company		**109,358**	182,705
Non-controlling interests		**21,355**	30,537
		130,713	213,242
Earnings per share			
Basic *(RMB)*	**10**	**22 cents**	37 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current Assets			
Property, plant and equipment		**891,169**	892,353
Prepaid lease payments		**153,858**	158,578
Other intangible assets		**338**	706
Deferred tax assets		**4,070**	2,354
Deposits for acquisition of property, plant and equipment		**2,771**	20,934
		1,052,206	1,074,925
Current Assets			
Inventories		**161,778**	162,277
Trade and other receivables	**11**	**951,153**	1,015,071
Contract assets		**19,257**	-
Prepaid lease payments		**4,720**	4,720
Tax recoverable		**818**	-
Pledged bank deposits		**108,910**	114,609
Bank balances and cash		**258,981**	190,268
		1,505,617	1,486,945
Current Liabilities			
Trade and other payables	**12**	**473,686**	597,550
Tax liabilities		**7,749**	14,207
Bank borrowings		**904,345**	745,646
Other borrowings		**47,340**	63,493
Obligation under a finance lease		**394**	372
Contract liabilities		**2,644**	-
Amounts due to directors		**2,181**	1,840
		1,438,339	1,423,108
Net Current Assets		**67,278**	63,837
Total Assets Less Current Liabilities		**1,119,484**	1,138,762

Capital and Reserves			
Share capital	**13**	**41,655**	41,655
Share premium and reserves		**852,070**	793,926
Equity attributable to the owners of the Company		**893,725**	835,581
Non-controlling interests		**179,654**	158,299
Total Equity		**1,073,379**	993,880
Non-current Liabilities			
Deferred tax liabilities		**7,525**	8,370
Deferred income		**25,742**	20,532
Bank borrowings		**-**	82,228
Other borrowings		**5,786**	26,306
Obligation under a finance lease		**7,052**	7,446
		46,105	144,882
		1,119,484	1,138,762

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.

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**" and its principal place of business is located in the PRC.

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 new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, in the opinion of the Company's directors, the application of the new and 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.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from manufacture and sale of paper, paperboard and paper-based packaging products which arise from contracts with customers:

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 will be disclosed in the consolidated financial statements of the Group.

Summary of effects arising from initial application of HKFRS 15

The following table summarises the impacts of transition to HKFRS 15 on retained profits at 1 January 2018.

	RMB'000
Retained profits	
Made-to-order paper-based packaging products recognised over time	4,306
Tax effects	(720)
Impact at 1 January 2018	3,586

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017	Reclassification	Remeasurement	Carrying amounts under HKFRS 15 at 1 January 2018
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current Assets					
Inventories	**(a)**	162,277	(15,259)	-	147,018
Contract assets	**(a)**	-	15,259	4,306	19,565
		162,277	-	4,306	166,583
Current Liabilities					
Trade and other payables	**(b)**	597,550	(8,766)	-	588,784
Contract liabilities	**(b)**	-	8,766	-	8,766
		597,550	-	-	597,550
Capital and Reserves					
Share premium and reserves	**(a)**	793,926	-	3,586	797,512
Non-current Liabilities					
Deferred tax liabilities	**(a)**	8,370	-	720	9,090

Note

(a) The Group's contracts with customers for manufacture and sale of paper-based packaging products are tailor-made based on customers' specification with no alternative use to the Group. Taking into account the contract terms, the legal and regulatory environment in PRC, some of the contracts provide the Group enforceable right to payment for performance completed to date and hence should be recognised over time upon application of HKFRS 15. RMB15,259,000 and RMB3,586,000 have been adjusted from inventories and opening retained profits respectively with corresponding adjustment of RMB 19,565,000 and RMB 720,000 to contract assets and deferred tax liabilities respectively.

(b) As at 1 January 2018, advances from customers of RMB8,766,000 in respect of contracts for the sales of corrugated medium paper products previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported *RMB'000*	Adjustments *RMB'000*	Amount without application of HKFRS 15 *RMB'000*
Current Assets			
Inventories	161,778	15,164	176,942
Contract assets	19,257	(19,257)	-
	181,035	(4,093)	176,942
Current Liabilities			
Trade and other payables	473,686	2,644	476,330
Contract liabilities	2,644	(2,644)	-
	476,330	-	476,330
Capital and Reserves			
Share premium and reserves	852,070	(3,429)	848,641
Non-current Liabilities			
Deferred tax liabilities	7,525	(664)	6,861

Impact on the consolidated statement of profit and loss and other comprehensive income

	As reported *RMB'000*	Adjustments *RMB'000*	Amount without application of HKFRS 15 *RMB'000*
Continuing Operation			
Revenue	2,848,016	308	2,848,324
Cost of sales	(2,338,314)	(95)	(2,338,409)
Gross profit	509,702	213	509,915
Profit before tax	154,014	213	154,227
Income tax expense	(23,301)	(56)	(23,357)
Profit and total comprehensive Income for the year	130,713	157	130,870

Impact on the consolidated statement of cash flows

	As reported *RMB'000*	Adjustments *RMB'000*	Amount without application of HKFRS 15 *RMB'000*
Operating Activities			
Profit before tax	154,014	213	154,227
Operating cash flows before movements in working capital	278,296	213	278,509
Increase in inventories	(14,760)	95	(14,665)
Decrease in contract assets	308	(308)	-
Increase in contract liabilities	(6,122)	6,122	-
Decrease in trade and other payable	(115,157)	(6,122)	(121,279)

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets and contract assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of HKFRS 9 will be disclosed in the consolidated financial statements of the Group.

The application of HKFRS 9 has no material impact on the Group's performance and financial positions for the current and prior years.

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

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

(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 2018		
	Corrugated medium paper	**Paper-based packaging**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
REVENUE			
External sales	**1,842,803**	**1,005,213**	**2,848,016**
Inter-segment sales	**156,366**	**-**	**156,366**
Segment revenue	**1,999,169**	**1,005,213**	**3,004,382**
Eliminations			**(156,366)**
Group Revenue			**2,848,016**
Segment Profit	**92,323**	**62,237**	**154,560**
Eliminations			**1,277**
			155,837
Unallocated corporate expenses, net			**(1,823)**
Profit before tax			**154,014**

Other segment information included in the measurement of segment results:

	Corrugated medium paper *RMB'000*	**Paper-based packaging** *RMB'000*	**Total** *RMB'000*
Depreciation	**52,673**	**23,312**	**75,985**
Amortisation	**4,922**	**166**	**5,088**
Less: Amount capitalised in inventories	**(42,503)**	**-**	**(42,503)**
Less: Amount recognised in cost of sales	**-**	**(17,789)**	**(17,789)**
Total depreciation and amortisation	**15,092**	**5,689**	**20,781**
Impairment losses recognised (reversed) on trade and other receivables	**-**	**350**	**350**

	For the year ended 31 December 2017		
	Corrugated medium paper *RMB'000*	Paper-based packaging *RMB'000*	Total *RMB'000*
REVENUE			
External sales	1,491,257	922,870	2,414,127
Inter-segment sales	152,282	-	152,282
Segment revenue	1,643,539	922,870	2,566,409
Eliminations			(152,282)
Group Revenue			2,414,127
Segment Profit	190,777	54,480	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:

	Corrugated medium paper *RMB'000*	Paper-based packaging *RMB'000*	Total *RMB'000*
Depreciation	51,800	25,386	77,186
Amortisation	4,922	166	5,088
Less: Amount capitalised	(44,286)	(19,362)	(63,648)
Total depreciation and amortisation	12,436	6,190	18,626
Impairment losses recognised (reversed) on trade and other receivables	163	1,848	2,011

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:

	2018 ***RMB'000***	2017 *RMB'000*
Corrugated medium paper AA grade	**1,842,803**	1,490,810
Corrugated medium paper C grade	**-**	447
Watermark Box	**627,663**	461,603
Colour Box	**149,165**	239,386
Honeycomb paper-based products	**228,385**	221,881
	2,848,016	2,414,127

(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:

	2018	2017
	RMB'000	*RMB'000*
Customer A[1]	**376,038**	367,583

[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

	2018	2017
	RMB'000	*RMB'000*
Interest income	**2,388**	2,163
Management fee income	**149**	183
Sales of scrap materials	**548**	675
Government grants related to income *(note)*	**3,962**	15,730
Government grants amortised from deferred income	**2,138**	1,461
Sundry income	**250**	382
Total	**9,435**	20,594

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

	2018	2017
	RMB'000	*RMB'000*
Impairment losses, net of reversal		
Impairment losses recognised on trade and other receivables	**(350)**	(2,011)
Other gains and losses		
Exchange (loss) gain, net	**(1,594)**	1,117
Loss on disposals of property, plant and equipment, net	**(248)**	(495)
Loss on disposal of investment property	**-**	(471)
	(1,842)	151

6. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings	**41,142**	38,533
Other borrowings	**4,675**	5,793
Finance lease	**478**	500
	46,295	44,826

7. PROFIT BEFORE TAX

	2018	2017
	RMB'000	*RMB'000*
Profit before tax for the Year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**75,985**	76,780
Depreciation of investment property	**-**	406
Amortisation of other intangible assets	**368**	368
Amortisation of prepaid lease payments	**4,720**	4,720
Less: Amount capitalised in inventories	**(42,503)**	(63,648)
Less: Amount recognised in cost of sales	**(17,789)**	N/A
Total depreciation and amortisation	**20,781**	18,626
Auditor's remuneration	**1,714**	2,056
Cost of inventories recognised as expense	**2,338,314**	1,882,634
Operating lease rental in respect of		
- rented factory and office premises	**20,011**	18,634
- rented vehicles	**1,812**	604
Less: Amount capitalised in inventories	**(1,515)**	(11,870)
Less: Amount recognised in cost of sales	**(11,380)**	N/A
Total operating lease rental	**8,928**	7,368
Staff costs		
- directors' and chief executive's emoluments	**7,642**	6,403
- salaries and other benefits costs	**233,353**	225,649
- retirement benefits scheme contribution	**20,927**	22,542
Less: Amount capitalised in inventories	**(45,259)**	(130,631)
Less: Amount recognised in cost of sales	**(82,763)**	N/A
Total staff costs	**133,900**	123,963

8. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
PRC Enterprise Income Tax:		
Current tax	**18,126**	25,868
Under (over) provision in prior years	**914**	(289)
	19,040	25,579
Withholding Tax	**7,542**	774
Deferred tax		
Current year	**(3,281)**	3,244
	23,301	29,597

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 ("the "Bill") which introduces the two-tiered profit tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profit tax rates regime, the first Hong Kong dollars ("HK$") 2 million of profits of the qualifying group entity will be taxed at 8.25%, and profit above HK$2 million will be taxed at 16.5%. The profit of the Group entities not qualifying for the two-tiered profit tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, stating from the current year, the Hong Kong profit tax is calculated at 8.25% on the first HK$ 2 million of the estimated assessable profits and at 16.5% on the estimated assessable profit above HK$ 2 million.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for both year.

Under the Law of The People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Certain PRC subsidiaries approved as advanced-technology enterprises by the relevant government authorities are subject to a preferential rate of 15%. During the year, a subsidiary was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2020.

9. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Dividends recognized as distribution during the Year	**54,800**	27,500

The Directors of the Company recommend the payment of a final dividend of RMB10.00 cents (equivalent to HKD11.57 cents) per Share for the year ended 31 December 2018 (2017: a final dividend of RMB10.96 cents per Share). The proposed dividend of approximately RMB50,000,000.00 will be paid on or about 19 June 2019 to those shareholders whose names appear on the Company's register of members on 6 June 2019.

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:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per Share	**109,358**	182,705
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 2018 and 2017 was presented as there was no potential ordinary shares in issue for the years ended 31 December 2018 and 2017.

11. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**504,144**	521,753
Less: allowance for doubtful debts	**(1,872)**	(1,522)
	502,272	520,231
Trade receivables backed by bank bills	**423,006**	472,463
	925,278	992,694
Advanced to suppliers	**5,721**	6,194
Prepayment	**6,271**	3,757
Other receivables	**13,883**	12,426
	25,875	22,377
Total trade and other receivables	**951,153**	1,015,071

As at 31 December 2018 and 1 January 2018, gross amount of trade receivables from contracts with customers amounted to RMB 927,150,000 and RMB 994,216,000 respectively.

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 provide bank bills before the due date of trade receivables. Those bills have maturity ranging from 60 to 180 days guaranteed by bank.

As at 31 December 2018, total bills received amounting to RMB423,006,000 (31 December 2017: RMB472,463,000) are held by the Group for future settlement of trade receivables, of which certain bills were further discounted/endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period and details will be disclosed in the consolidated financial statements of the Group. All bills received by the Group are with a maturity period of less than one year.

The following is an aged analysis of trade receivables not backed by bank bills presented based on dates of delivery of goods at the end of the reporting period:

	2018	2017
	RMB'000	*RMB'000*
0-60 days	**390,587**	428,178
61-90 days	**60,685**	60,776
91-180 days	**47,342**	27,490
Over 180 days	**3,658**	3,787
	502,272	520,231

The aged analysis of trade receivables backed by bank bills based on dates of delivery of goods or recognition date of the gross trade receivables, at the end of the reporting period are analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
0-60 days	**38,190**	79,597
61-90 days	**89,297**	46,481
91-180 days	**202,622**	287,709
Over 180 days	**92,897**	58,676
	423,006	472,463

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB100,410,000 which are past due as at the reporting date. Out of the past due balances, RMB12,754,000 has been past due 90 days or more and is not considered as in default after taking into account the settlements subsequent to the end of reporting period, the repayment histories and financial position of debtors. For trade receivables in which customers have provided bank bills for settlement are not considered as past due nor in default. Other than bills received, the Group does not hold any collateral over these balances.

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

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB56,785,000 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 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. Other than bills received, the Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2017
	RMB'000
Overdue by:	
0-30 days	27,828
31-60 days	12,586
61-90 days	7,452
Over 90 days	8,919
Total	56,785

Movement in the allowance for doubtful debts

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

As at 31 December 2017, 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.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 will be disclosed in the consolidated financial statements of the Group.

12. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**205,383**	267,123
Bills payables – secured	**165,928**	214,278
Other tax payables *(note)*	**47,052**	53,043
Payroll and welfare payables	**34,170**	32,691
Construction payables	**3,951**	3,892
Advance from customers	**-**	8,766
Others	**17,202**	17,757
	473,686	597,550

Note: Included in other tax payables is RMB43,384,000 (2017: RMB49,889,000) 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.

	2018	2017
	RMB'000	*RMB'000*
0-60 days	**140,238**	134,222
61-90 days	**17,670**	23,088
91-180 days	**35,279**	93,648
Over 180 days	**12,196**	16,165
	205,383	267,123

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

	2018	2017
	RMB'000	*RMB'000*
0-60 days	**40,597**	57,442
61-90 days	**20,064**	17,286
91-180 days	**17,167**	41,250
Over 180 days	**88,100**	98,300
	165,928	214,278

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 2017, 31 December 2017 and 31 December 2018	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 31 December 2018	500,000,000	50,000,000
		RMB'000
Presented as: At 31 December 2017 and 2018		41,655

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is principally engaged in the production and sale of paper-based packaging products used in consumer products such as household air conditioners, food seasonings and small household electronic products, as well as the production and sale of corrugated medium paper from recycled waste paper. The Group also provides customer with services for packaging design, printing, logistics, etc. of paper-based packaging, and provides customers with integrated packaging solutions. The Group is committed to become the world's leading paper and packaging enterprise to produce low-quantity, high-strength special packaging paper, and to promote the green packaging for household appliances. The Group's products mainly include corrugated medium paper and paper-based packaging products (i.e. watermark cartons, colour printing cartons and honeycomb paper-based products). The Group's main production bases are located in Zhongshan, Zhuhai in Guangdong Province, and Wuhan, Zhengzhou in Central China, and Shijiazhuang in Northern China. The Group is currently comprised with seven subsidiaries and one holding company in the above regions. The Group's paper-based packaging products are among the best in air-conditioning packaging, condiment packaging and other sub-sectors, and the Group have maintained amicable relationships with many well-known brands domestically and abroad. The low-weight and high-strength corrugated medium paper products produced by the Group have won the favor of customers in the Pearl River Delta market in Guangdong, leading to a steady increase of its market share.

Corrugated medium paper

For paper-making segment in the year, due to restrictions imposed on imported waste and intensified national environmental protection inspections, cost of domestic waste paper has risen sharply, whilst price of raw paper has been under pressure as a result of the weak demand from downstream packaging enterprises. In view of an overall bleak outlook of the paper-making industry, the Group has intensified its innovation capabilities and successfully produced 50g and 65g AA grade low-quantity high-strength corrugated medium papers, striving to expand its customer base, stabilize product quality, strengthen market position, reduce various costs and realise continuous growth. Revenue of this segment has enjoyed an upsurge of RMB351,546,000 or 23.57% to RMB1,842,803,000 in the Year as compared with previous year. Notwithstanding profit has declined in the Year facing a sluggish market as compared to the previous year, the Group still witnessed the profitability and prospects of the industry.

Paper-based packaging products

Looking back at 2018, the Group further upgraded its production facilities for the paper-based packaging segment to reduce staff costs, improve management efficiency and strengthen quality control, and it also established automatic logistics in certain plants and replaced certain core equipment to promote production efficiency. As a result, the packaging segment recorded revenue of of RMB 1,005,213,000 in the Year, an increase by RMB 82,343,000 or 8.92% as compared with the previous year whilst profit also rose by RMB 7,757,000. Amongst others, corrugated boxes and honeycomb paper products accounted for 77.28% and 22.72% of the total revenue of paper-based packaging products respectively (75.96% and 24.04% respectively for Year 2017).

Gross profit and gross profit margin

The gross profit recorded for the Year is RMB509,702,000, representing a decrease of 4.10% as compared with RMB531,493,000 in Year 2017. The gross profit margin also decreased from 22.02% in Year 2017 to 17.90% for the Year, which is mainly due to the sharp increase in the cost of waste paper during the year and the fact that the sales price of corrugated medium paper products could not rise simultaneously.

Prospects

The year of 2019 is a crucial year for China to implement the "Thirteenth Five-Year Plan" and to maintain stable economic growth. Although there is downward pressure on China's economic operation in 2018, the government has recently released a very positive policy signal. The macro policy in 2019 focuses on the loose fiscal and monetary policies to stabilize aggregate demand and to deal with Sino-US trade friction. Such complex international issues will be moderate and more flexible. In 2019, the domestic economy is expected to achieve steady growth and bring good confidence to the growth of the industry. The Group also decided to seize the opportunity to pay more attention to the growth and development in the medium and long term and actively expand. New opportunities in the market based on domestic and overseas, in order to achieve greater business growth, to better meet market demand for products, more comprehensive quality services, enhance the Group's overall profitability, and provide higher returns for shareholders.

Financial review

Distribution and selling expenses

The distribution and selling expenses of the Group increased by approximately 14.82% from RMB64,858,000 for the Year 2017 to RMB74,472,000 for the Year. The distribution and selling expenses during the Year mainly included during the Year are salaries of salesmen, transportation costs and business promotion expenses. The increase of distribution and selling expenses is mainly due to the increase in transportation costs because of the sales growth.

Administrative expenses

The Group's administrative expenses increased by approximately 3.28% from RMB139,088,000 for the Year 2017 to RMB143,656,000 for the Year. The administrative and other expenses during the Year mainly included salaries of management, staff welfare, rent and depreciation. The increase of administrative expenses is mainly due to the growth in salaries in relation to payment of performance bonus to certain management personnel for the Year.

Finance costs

Finance costs of the Group increased by approximately 3.28% from RMB44,826,000 for the Year 2017 to RMB46,295,000 for the Year, which was mainly due to the increase in sales, which increase in the liquidity of cash loans and the slight increase in bank borrowing rates during the Year.

Interest rates of bank borrowings were at variable rates ranging from 4.35% to 6.18% for the Year, as compared with 2.76% to 4.99% for the previous year. The weighted average interest rates under bank borrowings in fixed rate, bank borrowings in variable rate, obligations under a finance lease in fixed rate and other borrowings in variable rate during the Year were 4.90%, 5.27%, 6.12% and 9.28% respectively (2017: 4.28%, 4.44%, 6.12% and 9.55% respectively).

The aggregate amount of bank borrowings, other borrowings and obligations under a finance lease was to RMB964,917,000 as at 31 December 2018, as compared to RMB925,491,000 as at 31 December 2017.

Research and development expenses

Research and development expenses of the Group increased significantly by 67.81% from RMB56,753,000 in the Year 2017 to RMB95,239,000 for the Year. The increase was mainly due to our goal to improve the competitiveness of the Group's products and to develop new products in response to demand from customers, for which the Group conducted research on new technology and new process to enhance production efficiency and product quality. Research and developing centres were established in the Group's major production bases. Zhongshan Yongfa paper-making base was awarded the "Guangdong Eco-Environmental Green Paper Engineering Technology R&D Centre" during the Year. In the fiercely competitive industry environment, the Group has increased research and development investment in producing lower quantitative and higher strength corrugated medium paper to adapt to the future development direction of downstream enterprises that demand low-gram and high-strength paper-based packaging. The paper-making segment of the Group successfully developed 50 grams of low-quantity high-strength corrugated medium paper for mass production and sales, which has established extensive market recognition.

Income tax expense

During the Year, the Group's income tax expense was RMB23,301,000 (2017: RMB29,597,000), with effective tax rate of 15.13% (2017: 12.19%).

Profit and total comprehensive income

The Group's profit and total comprehensive income for the Year was RMB130,713,000. The profit and total comprehensive income for the year attributable to owners of the Company was RMB109,358,000, representing a drop of 40.15% as compared to RMB182,705,000 for the Year 2017. The decrease was mainly due to the significant increase in cost of waste paper during the Year, whilst the unit price of the corrugated medium paper products could not rise simultaneously.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2018, the Group had a net cash inflow of RMB68,713,000.

The net amount of the cash used in investing activities was mainly attributable to the purchase of property, plant and equipment of RMB54,991,000 and the deposit paid for acquisition of property, plant and equipment of RMB2,771,000.

Inventories

The inventories decreased by 0.31% to RMB161,778,000 as at 31 December 2018 as compared to the inventories balance of RMB162,277,000 as at 31 December 2017. During the Year, the inventory turnover day was speed up to 25 days (2017: 28 days), remaining at a normal level.

Trade receivables

As at 31 December 2018, the trade receivables amounted to RMB502,272,000 (as at 31 December 2017: RMB520,231,000). We generally granted credit period of 30 to 120 days to our paper-based packaging products customers and credit period of 30 to 75 days to our corrugated medium paper customers. The trade receivables turnover days let down to 66 days (2017: 76 days), which was mainly because during the Year, the Group further efforts to strengthen its credit rating management to reduce trade receivables turnover days.

Trade receivables backed by bank bills receivables

As at 31 December 2018, the trade receivables backed by bank bills receivables amounted to RMB423,006,000 (31 December 2017: RMB472,463,000).

Trade payables

As at 31 December 2018, the trade payables amounted to RMB205,383,000 (as at 31 December 2017: RMB267,123,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of its suppliers. The trade payables turnover days was shortened to 37 days (2017: 65 days), which was mainly due to the fact that the Group has converted settlements to its suppliers from using bank acceptance bills to cash settlement to reduce the purchase of cost of raw materials from said suppliers.

Borrowings

As at 31 December 2018, the Group's bank borrowings and other borrowings balance amounted to RMB957,471,000 (as at 31 December 2017: RMB917,673,000).

Gearing ratio

As at 31 December 2018, the gross gearing ratio was approximately 37.43% (as at 31 December 2017: 35.82%), 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 65.97%, 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 2017: 73.34%).

Pledge of assets

As at 31 December 2018, the Group pledged certain assets with carrying value of RMB936,377,000 as collaterals of the Group's borrowings (as at 31 December 2017: RMB793,541,000). As the Group used cash settlements more often than using bank acceptance bills during the year, the discount on bank acceptance bills increased, resulting in a significant increase in the amount of collaterals borrowed by the Group during the year.

Capital commitments

As at 31 December 2018, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB12,855,000 (as at 31 December 2017: RMB22,305,000). All the capital commitments were related to purchase of properties, plants and equipment.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2018.

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 RMB10.00 cents (equivalent to HKD11.57 cents) per Share for the Year (2017: a final dividend of RMB10.96 cents per Share) to those Shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2019. The recommended final dividend, if approved at the AGM on Friday, 31 May 2019. The recommended final dividend will be paid in Hong Kong dollars. The RMB to Hong Kong dollar exchange rate for the final dividend calculated using the opening indicative counter buying telegraphic transfer rate for off-shore RMB of The Hong Kong Association of Banks announced on 22 March 2019. The final dividend is expected to be paid on or around Wednesday, 19 June 2019.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019 (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, 27 May 2019.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Monday, 10 June 2019 to Tuesday, 11 June 2019 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to 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, 6 June 2019. The final dividend will be paid to shareholders on or around Wednesday, 19 June 2019.

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 2018 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 under review.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 31 May 2019. A notice convening the AGM will be published and despatched to shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.zhengye-cn.com). The annual report for the Year will be despatched to the shareholders and will be available on the aforesaid websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our appreciation to the management team and staff of the Group for their contribution during the Year and give our sincere gratitude to all our shareholders and business partners for their continuous support.

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

Hong Kong, 22 March 2019

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.