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 UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Revenue	**2,367,151**	2,848,016
Gross Profit Margin	**18.96%**	17.90%
EBITDA	**266,523**	281,382
Total Comprehensive Income for the Year Attributable to the Owners of the Company	**82,184**	109,358
Return on Equity Attributable to the Owners of the Company	**8.88%**	12.24%
Earnings per Share (Basic) – RMB	**16 cents**	22 cents
Recommended Final Dividend – HKD per share	**3.246 cents**	11.57 cents

- The Board had resolved to recommend the payment a final dividend of RMB3.00 cents (equivalent to HKD3.246 cents**)** per Share for the Year (2018: a final dividend of RMB10.00 cents per Share).

UNAUDITED ANNUAL RESULTS

The board of directors (the "**Board**") of Zhengye International Holdings Company Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2019 (the "**Year**" or "**Year under review**") together with the comparative figures for the corresponding year ended 31 December 2018 (the "**Year 2018**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - UNAUDITED

For the year ended 31 December 2019

	NOTES	**2019 (Unaudited)** ***RMB'000***	2018 (Audited) *RMB'000*
Revenue	**3**	**2,367,151**	2,848,016
Cost of sales		**(1,918,338)**	(2,338,314)
Gross profit		**448,813**	509,702
Other income	**4**	**14,028**	9,435
Impairment losses, net of reversal	**5**	**(40)**	(350)
Other gains and losses	**5**	**(932)**	(1,842)
Distribution and selling expenses		**(72,994)**	(74,472)
Administrative expenses		**(137,858)**	(143,656)
Finance costs	**6**	**(45,835)**	(46,295)
Other expenses		**(1,032)**	(3,269)
Research and development cost		**(84,970)**	(95,239)
Profit before tax	**7**	**119,180**	154,014
Income tax expense	**8**	**(18,152)**	(23,301)
Profit and total comprehensive income for the year		**101,028**	130,713
Total comprehensive income for the year attributable to:			
Owners of the Company		**82,184**	109,358
Non-controlling interests		**18,844**	21,355
		101,028	130,713
Earnings per share			
Basic *(RMB)*	**10**	**16 cents**	22 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - UNAUDITED

As at 31 December 2019

	NOTES	**2019 (Unaudited) *RMB'000***	2018 (Audited) *RMB'000*
Non-current Assets			
Property, plant and equipment		**892,291**	891,169
Right-of-use assets		**216,194**	-
Prepaid lease payments		**-**	153,858
Other intangible assets		**-**	338
Deferred tax assets		**6,475**	4,070
Deposits for acquisition of a subsidiary		**5,000**	-
Deposits for acquisition of property, plant and equipment		**6,785**	2,771
		1,126,745	1,052,206
Current Assets			
Inventories		**137,275**	161,778
Trade and other receivables	**11**	**771,974**	951,153
Contract assets		**16,957**	19,257
Prepaid lease payments		**-**	4,720
Tax recoverable		**607**	818
Pledged bank deposits		**139,904**	108,910
Bank balances and cash		**231,089**	258,981
		1,297,806	1,505,617
Current Liabilities			
Trade and other payables	**12**	**307,580**	473,686
Tax liabilities		**6,452**	7,749
Bank borrowings		**777,488**	904,345
Other borrowings		**39,105**	47,340
Lease liabilities		**17,277**	-
Obligation under a finance lease		**-**	394
Contract liabilities		**2,215**	2,644
Amounts due to directors		**354**	2,181
		1,150,471	1,438,339
Net Current Assets		**147,335**	67,278
Total Assets Less Current Liabilities		**1,274,080**	1,119,484

Capital and Reserves			
Share capital	**13**	**41,655**	41,655
Share premium and reserves		**884,254**	852,070
Equity attributable to the owners of the Company		**925,909**	893,725
Non-controlling interests		**198,498**	179,654
Total Equity		**1,124,407**	1,073,379
Non-current Liabilities			
Deferred tax liabilities		**5,629**	7,525
Bank borrowings		**33,250**	-
Other borrowings		**23,469**	5,786
Lease liabilities		**48,407**	-
Obligation under a finance lease		**-**	7,052
Deferred income		**38,918**	25,742
		149,673	46,105
		1,274,080	1,119,484

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 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;
- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of premises in China was determined on a portfolio basis; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant group entities range from 5.70% to 6.12%.

	Note	At 1 January 2019 *RMB'000*
Operating leasing commitments disclosed as at 31 December 2018		**60,034**
Lease liabilities discounted at relevant incremental borrowing rates		**44,004**
Add: Extension options reasonably certain to be exercised		**18,787**
Less: Recognition exemption – short-term leases		**703**
Less: Practical expedient – leases with lease term ending within 12 months from the date of initial application		**2,297**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		**59,791**
Add: Obligations under finance leases recognised at 31 December 2018	(b)	**7,446**
Lease liabilities as at 1 January 2019		**67,237**
Analysed as:		
Current		**12,426**
Non-current		**54,811**
		67,237

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Rights-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application HKFRS 16		**59,791**
Reclassification from prepaid lease payments	(a)	**158,578**
Amounts included in property, plant and equipment as at 31 December 2018 – Assets previously under finance leases	(b)	**4,730**
Adjustments on rental deposits at 1 January 2019	(c)	**871**
		223,970

Note:

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB4,720,000 and RMB153,858,000 respectively were reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB4,730,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB394,000 and RMB7,052,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

(c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied under other receivables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB871,000 was adjusted to refundable rental deposits paid and right-of-use assets.

(d) The Group acts as a seller-lessee.
In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group applies the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. During the year, the Group entered into sale and leaseback transactions in relation to certain machinery and the transactions do not satisfy the requirements as sale. Accordingly, the Group accounts for the transfer proceeds of RMB44,900,000 as borrowing within the scope of HKFRS 9.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2018 *RMB'000*	Adjustments *RMB'000*	**Carrying amounts under HKRS 16 at 1 January 2019** ***RMB'000***
Non-current assets				
Property, plant and equipment	(b)	891,169	(4,730)	**886,439**
Right-of-use assets		-	223,970	**223,970**
Prepaid lease payments	(a)	153,858	(153,858)	**-**
Current asset				
Trade and other receivables	(c)	951,153	(871)	**950,282**
Prepaid lease payments	(a)	4,720	(4,720)	**-**
Current liability				
Obligation under a finance lease	(b)	394	(394)	**-**
Lease liabilities	(b)	-	12,426	**12,426**
Non-current liability				
Obligation under a finance lease	(b)	7,052	(7,052)	**-**
Lease liabilities	(b)	-	54,811	**54,811**

New and revised HKFRSs issued but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale of Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKFRS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS7	Interest Rate Benchmark Reform[4]

1. Effective for annual periods beginning on or after 1 January 2021.
2. Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3. Effective for annual periods beginning on or after a date to be determined.
4. Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the Group's consolidated financial statements in the foreseeable future.

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 2019		
	Corrugated medium paper (Unaudited) *RMB'000*	**Paper-based packaging (Unaudited)** *RMB'000*	**Total (Unaudited)** *RMB'000*
REVENUE			
External sales	**1,559,861**	**807,290**	**2,367,151**
Inter-segment sales	**133,263**	**-**	**133,263**
Segment revenue	**1,693,124**	**807,290**	**2,500,414**
Eliminations			**(133,263)**
Group Revenue			**2,367,151**
Segment Profit	**104,570**	**18,661**	**123,231**
Eliminations			**82**
			123,313
Unallocated corporate expenses, net			**(4,133)**
Profit before tax			**119,180**

Other segment information included in the measurement of segment results:

	Corrugated medium paper (Unaudited) *RMB'000*	**Paper-base packaging (Unaudited)** *RMB'000*	**Total (Unaudited)** *RMB'000*
Depreciation of property, plant and equipment	**59,189**	**21,775**	**80,964**
Depreciation of right-of-use assets	**7,780**	**12,426**	**20,206**
Amortisation	**338**	**-**	**338**
Less: Amount capitalised in inventories	**(41,878)**	**-**	**(41,878)**
Less: Amount recognised in cost of sales	**-**	**(17,874)**	**(17,874)**
Total depreciation and amortisation	**25,429**	**16,327**	**41,756**
Impairment losses recognised (reversed) on trade and other receivables	**104**	**(64)**	**40**

	For the year ended 31 December 2018		
	Corrugated medium paper (Audited) *RMB'000*	Paper-based packaging (Audited) *RMB'000*	Total (Audited) *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 (Audited) *RMB'000*	Paper-based packaging (Audited) *RMB'000*	Total (Audited) *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

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:

	2019 **(Unaudited)** ***RMB'000***	2018 (Audited) *RMB'000*
Corrugated medium paper AA grade	**1,559,861**	1,842,803
Watermark Box	**495,384**	627,663
Colour Box	**139,221**	149,165
Honeycomb paper-based products	**172,685**	228,385
	2,367,151	2,848,016

(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:

	2019 **(Unaudited)** ***RMB'000***	2018 (Audited) *RMB'000*
Customer A[1]	**253,424**	376,038

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

	2019 **(Unaudited)** ***RMB'000***	2018 (Audited) *RMB'000*
Interest income from bank deposits:	**6,085**	2,388
Interest income from rental deposits:	**139**	-
Management fee income	**73**	149
Sales of scrap materials	**806**	548
Government grants related to income *(note)*	**1,937**	3,962
Government grants amortised from deferred income	**3,325**	2,138
Sundry income	**1,663**	250
Total	**14,028**	9,435

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

	2019 **(Unaudited)** ***RMB'000***	2018 (Audited) *RMB'000*
Impairment losses, net of reversal		
Impairment losses recognised on trade and other receivables	**(40)**	(350)
Other gains and losses		
Exchange loss, net	**(932)**	(1,594)
Gains (loss) on disposals of property, plant and equipment, net	**546**	(248)
Impairment losses recognised on property, plant and equipment, net	**(546)**	-
	(972)	(2,192)

6. FINANCE COSTS

	2019 (Unaudited) *RMB'000*	2018 (Audited) *RMB'000*
Interest on:		
Bank borrowings	**37,965**	41,142
Other borrowings	**4,062**	4,675
Finance lease	**-**	478
Lease liabilities	**3,808**	-
	45,835	46,295

7. PROFIT BEFORE TAX

	2019 (Unaudited) *RMB'000*	2018 (Audited) *RMB'000*
Profit before tax for the Year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**80,964**	75,985
Depreciation of right-of-use assets	**20,206**	-
Amortisation of other intangible assets	**338**	368
Amortisation of prepaid lease payments	**-**	4,720
Less: Amount capitalised in inventories	**(41,878)**	(42,503)
Less: Amount recognised in cost of sales	**(17,874)**	(17,789)
Total depreciation and amortisation	**41,756**	20,781
Auditor's remuneration	**1,748**	1,714
Cost of inventories recognised as expense	**1,777,080**	2,197,435
Staff costs		
- directors' and chief executive's emoluments	**3,828**	7,642
- salaries and other benefits costs	**220,224**	233,353
- retirement benefits scheme contribution	**15,856**	20,927
Less: Amount capitalised in inventories	**(42,317)**	(45,259)
Less: Amount recognised in cost of sales	**(77,768)**	(82,763)
Total staff costs	**119,823**	133,900

8. INCOME TAX EXPENSE

	2019 (Unaudited) *RMB'000*	2018 (Audited) *RMB'000*
PRC Enterprise Income Tax:		
Current tax	**16,468**	18,126
(Over) under provision in prior years	**(1,303)**	914
	15,165	19,040
Withholding Tax	**7,288**	7,542
Deferred tax	**(4,301)**	(3,281)
	18,152	23,301

Hong Kong profits 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%.

9. DIVIDENDS

	2019 (Unaudited) *RMB'000*	2018 (Audited) *RMB'000*
Dividends recognized as distribution during the Year	**50,000**	54,800

The Directors of the Company recommend the payment of a final dividend of RMB3.00 cents (equivalent to HKD3.246 cents) per Share for the year ended 31 December 2019 (2018: a final dividend of RMB10.00 cents per Share). The proposed dividend of approximately RMB15,000,000 will be paid on or about 15 July 2020 to those shareholders whose names appear on the Company's register of members on 3 July 2020.

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:

	2019 **(Unaudited)** ***RMB'000***	2018 (Audited) *RMB'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per Share	**82,184**	109,358
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 2019 and 2018 was presented as there was no potential ordinary shares in issue for the years ended 31 December 2019 and 2018.

11. TRADE AND OTHER RECEIVABLES

	2019 **(Unaudited)** ***RMB'000***	2018 (Audited) *RMB'000*
Trade receivables	**431,716**	504,144
Less: allowance for doubtful debts	**(1,912)**	(1,872)
	429,804	502,272
Trade receivables backed by bank bills	**298,640**	423,006
	728,444	925,278
Advanced to suppliers	**25,693**	5,721
Prepayment	**5,304**	6,271
Other receivables	**12,533**	13,883
	43,530	25,875
Total trade and other receivables	**771,974**	951,153

As at 31 December 2019 and 31 December 2018, gross amount of trade receivables from contracts with customers amounted to RMB730,356,000 and RMB 927,150,000 respectively.

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:

	2019	2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
0-60 days	**307,211**	390,587
61-90 days	**40,519**	60,685
91-180 days	**59,461**	47,342
Over 180 days	**22,613**	3,658
	429,804	502,272

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

Details of impairment assessment of trade and other receivables for the year ended 31 December 2019 will be disclosed in the consolidated financial statements of the Group.

12. TRADE AND OTHER PAYABLES

	2019	2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade payables	**156,003**	205,383
Bills payables – secured	**68,572**	165,928
Other tax payables	**30,800**	47,052
Payroll and welfare payables	**30,901**	34,170
Construction payables	**3,918**	3,951
Others	**17,386**	17,202
	307,580	473,686

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

	2019	2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
0-60 days	**131,759**	140,238
61-90 days	**11,822**	17,670
91-180 days	**4,181**	35,279
Over 180 days	**8,241**	12,196
	156,003	205,383

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 2018, 31 December 2018 and 31 December 2019	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 31 December 2019	500,000,000	50,000,000
		RMB'000
Presented as: At 31 December 2018 and 2019		41,655

14. EVENT AFTER REPORTING PERIOD

On 3 January 2020, the Group entered into the Agreements with Zhengyi Paper Products and Paper Industry Company Limited ("**Zhengyi**") to acquire 80% equity interest in Zhengyi for a consideration of RMB60,000,000. Please refer to the Company's announcement dated 3 January 2020 for details. The acquisition has been completed on 1 March 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is principally engaged in the production and sale of corrugated medium paper from recycled waste paper as well as 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. 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 China's leading pioneer of environmental packaging enterprise. 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 the operation of six wholly-owned subsidiaries and one holding company in the above regions. The Group's paper packaging products have a high market share in sub-segments such as air-conditioning packaging and condiment packaging, and have won the trust of many well-known domestic and foreign brands that provide customers with quality products and services. 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.

In 2019, the Group's papermaking segment was affected by Sino-U.S. Trade frictions and the downturn of the international and domestic economies during the year, which downstream orders in the packaging carton industry decreased significantly, and the price of raw paper fell sharply. Under the difficult market situation because of the oversupply in the domestic paper industry, the Group continued to strengthen research and development of new products during the period, which successfully produced 48g/m^2 AA grade low-quantity high-strength corrugated medium paper to increase the marketing efforts to successfully open new customers. At the same time, it improved equipment production efficiency, increased product capacity, reduced unit cost consumption in order to premise of stable product quality to achieve the increase about 1.60% in sales volume of the papermaking segment compared with the same period last year. However, due to the unit price of sales decreased by 16.44%compared with last year, it recorded the revenue of RMB1,559,861,000 (unaudited) during the year, which decreased by RMB282,942,000 compared with the same period last year; the profitability increased by 13.27% compared with the same period last year by contrast, which is better profit level in the industry. During the period, the Group signed a sale and purchase agreement to acquire a paper mill in Jiangxi in January 2020, and completed the transaction on March 1, 2020. This paper mill owns 200,000 tons of paper production capacity approval and which has been completed into production of 100,000 tons, this paper mill will be another new momentum to the future development of the Group's papermaking segment.

The packaging segment of the Group was greatly affected by the contraction of orders from downstream customers in 2019, which decreased by 14.81% approximately during the year, the unit price of products also fell by around 4.57% simultaneously. The revenue in the packaging segment recorded RMB807,290,000 (unaudited), a decrease of RMB197,923,000 compared with the same period last year, its profit also decreased by approximately 70.02%.

Products review

Corrugated medium paper

The Group produces 48 to 140 g/m^2 of high-strength corrugated medium paper. Except for some of the Group's paper-based packaging products as raw materials, it is mainly sold to paperboard manufacturers and carton packaging manufacturers in the Pearl River Delta region of Guangdong. The total number of customers currently serving exceeds 120. The Group has been committed to the research and development of low-gram-weight high-strength corrugated medium paper products in order to achieve win-win cooperation with downstream packaging companies that customers can reduce cost to buy base-papers and jointly resist market competition pressure. The Group successfully developed g/m^2 low-gram-weight high-strength corrugated medium paper products in 2019. This product has won customer recognition for its market scarcity and high cost performance. The gross profit margin of corrugated medium paper products in 2019 was approximately 18.44% (unaudited), an increase of 2.28 percentage points from 16.16% as compared to the same period last year.

Paper-based packaging products

The Group's paper packaging products use containerboard and corrugated medium paper as the main raw materials, including watermark cartons, colour printing cartons and honeycomb paper-based products. In 2019, the revenue in paper-based packaging products of the Group's was RMB807,290,000 (unaudited), representing a decrease of RMB197,923,000 or 19.69% as compared with 2018, it was mainly due to downstream customers' orders falling by 14.81% because of the economic downturn and unit price of products falling by 4.57% at the same time. The gross profit margin of paper-based packaging products in 2019 was approximately 19.96% (unaudited), down by 1.13% percentage points from 21.09% as compared to the same period last year.

Watermark Cartons

The Group's watermark cartons are mainly used for household air-conditioning packaging, small household appliance packaging, household electronic consumer products, and food seasoning product packaging. The Group continues to ensure high-quality product supply and quality after-sales service, and enhance customer trust and access. Many brand customers favour and maintain long-term stable cooperation.

Colour Printing Cartons

In order to meet customers' requirements for different product packaging quality, the Group also provides high-quality colour printing cartons for household air-conditioning packaging, small household appliance packaging, household electronic consumer products and food seasoning product packaging.

Honeycomb Paper-Based Products

The honeycomb paper-based products produced by the Group mainly replace the plastic cushioning packaging materials and the alternative foam cushioning products used in the protection of the original various types of cartons. They are environmentally-friendly and energy-saving materials with light capacity, smooth surface, non-deformation and good cushioning performance; it can buffer the packaging for a variety of industries. The honeycomb paper products currently produced by our group are still mainly provided for the Group's floating watermark cartons and colour printing cartons.

Financial review

For the year ended 31 December 2019, the revenue of the Group was approximately RMB2,367,151,000 (unaudited) (2018: RMB2,848,016,000), representing a decrease of approximately RMB480,865,000 or 16.88%, of which the revenue of paper-making segment decreased 15.35% and its sales volume of products increased by 1.60% compared with last year, and the sales unit price decreased about 16.44%; the revenue of packaging segment dropped 19.69% because of the decrease in the sales volume and selling price per unit by approximately 14.81% and 4.57% respectively. The Group's gross profit margin for the year of 2019 was 18.96% (unaudited) (2018: 17.90%), an increase of 1.06 percentage points as compared with the same period of last year, it is mainly due to the gross profit of paper-making segment of the Group increased 2.28 percentage points from 16.16% last year to 18.44% (unaudited) in the year.

For the year ended 31 December 2019, the profit and total comprehensive income for the Year attributable to owners of the Group was RMB82,184,000 (unaudited) (2018: RMB109,358,000), representing a decrease of RMB27,174,000 or 24.85% as compared with the same period last year, it was mainly due to both decreases in sales volume and selling price per unit of the packaging segment, which results the profit of packaging segment decreased about 70.02% as compared to the same period last year.

Group's Profit

For the year ended 31 December 2019, the Group's profit before tax was approximately RMB119,180,000 (unaudited) (2018: RMB154,014,000), representing a decrease of RMB34,834,000 or 22.62% as compared with the same period last year.

The finance costs were approximately RMB45,835,000 (unaudited) (2018: RMB46,295,000), a slight decrease 0.99% at the same period last year. As at 31 December 2019, the balance of bank borrowings, other borrowings and obligations under a finance lease of the Group amounted RMB873,312,000 (unaudited), represented a decrease of RMB91,605,000 to RMB964,917,000. Interest expenses in finance costs reduced RMB4,268,000 in the year. However, to the implementation of the initial application of HKFRS 16 – Leasing in 2019, this calculated present value of lease liabilities in finance costs, affecting the amount of RMB3,808,000, the finance costs lowered RMB460,000 as compared to last year only.

The income tax expense was approximately RMB18,152,000 (unaudited) (2018: RMB23,301,000), representing a decrease of RMB5,149,000 as compared with the same period last year.

Prospects

In 2020, it is expected that the trade friction between China and the United States and the outbreak of the new novel coronavirus (COVID-19) epidemic will cause the Chinese economy to be oppressed and make Chinese enterprises encounter unprecedented difficulties. However, the economic fundamentals of China remain stable while China's industrial economy is still making progressing in transformation. China's status as the world's largest consumer, exporter, and consumer product manufacturer remains unchanged, and it has further strengthened that Chinese enterprises continue to move towards reform and innovation. The two major paper production bases of the Group will ban the burning of raw coal and use clean energy such as natural gas in accordance with government requirements in 2020. It is expected that it will have a certain impact on the Group's operating efficiency in the short term. However, for the long-term growth and development, the Group will face difficulties and turn crisis into opportunities, vigorously promote technological research and development, improve equipment operation efficiency, and improve the overall competitiveness and profitability of the Group with products that better fulfill market demand and more comprehensive and high-quality services. At the same time, the Group will also continue to pay attention to investment projects with development prospects, and develop steadily while maintaining the capital structure, and strive to create higher returns for shareholders.

Partial Financial Statements Analysis

Cost of Sales

The Group’s cost of sales increased from RMB2,338,314,000 in 2018 to RMB1,918,338,000 (unaudited), representing a drop of 17.96%.

Corrugated Medium Paper

The cost of sales of corrugated medium paper were RMB1,272,188,000 (unaudited) (2018: RMB1,545,070,000), representing a decrease of 17.66%.

Paper-Based Packaging Products

The cost of sales of paper-based packaging products were RMB646,150,000 (unaudited) (2018: RMB793,244,000), representing an increase of 18.54%.

Gross Profit and Gross Profit Margin

The gross profit recorded for the Year is RMB448,813,000 (unaudited), representing a decrease of 11.95% as compared with RMB509,702,000 in Year 2018. The average gross profit margin increased from 17.90% in Year 2018 to 18.96% (unaudited) for the Year.

Corrugated Medium Paper

The gross profit from corrugated medium paper for 2019 was RMB287,673,000 (unaudited) (2018: RMB297,733,000), representing a drop of 3.38%. The overall gross profit margin for 2019 was 18.44% (unaudited) (2018: 16.16%), up by 2.28 percentage points.

Paper-Based Packaging Products

The gross profit from paper-based packaging products for 2019 was RMB161,140,000 (unaudited) (2018: RMB211,969,000), representing a decrease of 23.98%. The overall gross profit margin for 2019 was 19.96% (unaudited) (2018: 21.09%), rose 1.13 percentage points.

Distribution and selling expenses

The distribution and selling expenses of the Group decreased by approximately 1.98% from RMB74,472,000 for the Year 2018 to RMB72,994,000 (unaudited) 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 decrease of distribution and selling expenses is mainly due to the decrease in transportation costs in order to decline in sales.

Administrative expenses

The Group's administrative expenses decreased by approximately 4.04% from RMB143,656,000 for the Year 2018 to RMB137,858,000 (unaudited) for the Year. The administrative and other expenses during the Year mainly included salaries of management, staff welfare, rent and depreciation. The decrease of administrative expenses is mainly due to the decline in salaries in relation to payment of performance bonus to certain management personnel for the Year.

Finance costs

Finance costs of the Group decreased by approximately 0.99% from RMB46,295,000 for the Year 2018 to RMB45,835,000 (unaudited) for the Year,.

Interest rates of bank borrowings were at variable rates ranging from 4.35% to 5.66% for the Year, as compared with 4.35% to 6.18% for the previous year.

Research and development expenses

Research and development expenses of the Group decreased by 10.78% from RMB95,239,000 in the Year 2018 to RMB84,970,000 (unaudited) for the Year. The research and development expenses 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.

Profit and total comprehensive income

The Group's profit and total comprehensive income for the Year was RMB101,028,000 (unaudited). The profit and total comprehensive income for the year attributable to owners of the Company was RMB82,184,000 (unaudited), representing a drop of 24.85% to RMB109,358,000 to the profit and total comprehensive income attributable to owners of the Company for Year 2018, it is mainly due to decreases in sales volume and selling price per unit of the packaging segment to resulted a significant drop in profit from packaging segment about 70.02%.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2019, the Group had a net cash outflow of RMB27,892,000 (unaudited).

Inventories

The inventories decreased by 15.15% to RMB137,275,000 (unaudited) as at 31 December 2019 as compared to the inventories balance of RMB161,778,000 as at 31 December 2018. During the Year, the inventory turnover day was extended up to 28 days (2018: 25 days), remaining at a normal level.

Trade receivables

As at 31 December 2019, the trade receivables amounted to RMB429,804,000 (unaudited) (as at 31 December 2018: RMB502,272,000). 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 delayed to 72 days (2018: 66 days).

Trade receivables backed by bank bills receivables

As at 31 December 2019, the trade receivables backed by bank bills receivables amounted to RMB298,640,000 (unaudited) (31 December 2018: RMB423,006,000).

Trade payables

As at 31 December 2019, the trade payables amounted to RMB156,003,000 (unaudited) (as at 31 December 2018: RMB205,383,000). 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 34 days (2018: 37 days), which was mainly due to the Group continued to convert settlements to its suppliers from using bank acceptance bills to cash settlement to reduce the purchase of cost of raw materials from said suppliers continuously.

Borrowings

As at 31 December 2019, the Group's bank borrowings and other borrowings balance amounted to RMB873,312,000 (unaudited) (as at 31 December 2018: RMB957,471,000).

Gearing ratio

As at 31 December 2019, the gross gearing ratio was approximately 36.02% (unaudited) (as at 31 December 2018: 37.43%), 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 54.25% (unaudited), 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 2018: 65.97%).

Capital commitments

As at 31 December 2019, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB23,275,000 (unaudited) (as at 31 December 2018: RMB12,855,000). 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 2019.

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

In the highly volatility of the current domestic and international market under the outbreak of novel coronavirus (COVID-19) epidemic at China in early 2020 would cause a lot of uncertainties. Therefore, 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 RMB3.00 cents (equivalent to HKD3.246 cents) per Share for the Year (2018: a final dividend of RMB10.00 cents per Share) to those Shareholders whose names appear on the register of members of the Company on Friday, 3 July 2020. The recommended final dividend, if approved at the AGM on Friday, 26 June 2020. 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 27 March 2020. The final dividend is expected to be paid on or around Wednesday, 15 July 2020.

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 Monday, 22 June 2020 to Friday, 26 June 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 26 June 2020.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Monday, 6 July 2020 to Tuesday, 7 July 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 July 2020. The final dividend will be paid to shareholders on or around Wednesday, 15 July 2020.

EVENTS AFTER THE REPORTING PERIOD

On 3 January 2020, the Group entered into the Zhengyi Agreements to acquire 80% equity interest in Zhengyi for a consideration of RMB60,000,000. Please refer to the Company's announcement dated 3 January 2020 for details. The acquisition has been completed on 1 March 2020.

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.

REVIEW OF UNAUDITED ANNUAL RESULTS

The Company's auditor informed the Company that the auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of China to combat the COVID-19 outbreak. An announcement relating to the audited results will be made after the remaining auditing process has been completed by the auditor in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants as soon as practicable.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

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 The Audit Committee was satisfied that the unaudited annual results 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, 26 June 2020. 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.

FURTHER ANNOUNCEMENT(S) OF AUDITED ANNUAL RESULTS AND PUBLICATION OF ANNUAL REPORT

This announcement is the unaudited annual results of the Company for the year ended 31 December 2019. Following the completion of the auditing process, the Company will issue further announcement in relation to the audited annual results of the Company for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. 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.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 27 March 2020

As at the date of this announcement, the Board comprised Mr. Hu Zheng (Mr. Hu Jianpeng as his alternate), Mr. Hu Hancheng (Mr. Hu Jianjun as his alternate) and Mr. Hu Hanchao (Mr. Tan Xijian as his alternate) as executive directors, Mr. Chen Riyue as non-executive director and Mr. Chung Kwok Mo John, Mr. Liew Fui Kiang and Mr. Shin Yick Fabian 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.