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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 2016**

FINANCIAL HIGHLIGHTS

- The revenue for the Year amounted to RMB2,074,090,000, representing an increase of RMB266,325,000 or 14.73% compared to the revenue for the Year 2015 in the amount of RMB1,807,765,000. It was mainly due to the completion of technical improvement after the acquisition of Lian He in paper division of the Group, which released the production volume completely during the Year.
- The gross profit margin of the Year was 19.50% representing an increase of 0.49 percentage point compared with 19.01% for Year 2015.
- The profit and total comprehensive income recorded RMB108,998,000 during the Year. The comprehensive income for the year attributable to owners of the Company was RMB91,649,000, represented a significant increase of 122.80% compared to the Year 2015 in the amount of RMB41,136,000.
- Basic earnings per share amounted to RMB18 cents for the Year, and the basic and diluted earnings per share in the Year 2015 was RMB8 cents.
- The Board had resolved to recommend the payment a final dividend of RMB5.50 cents per Share for the Year.

ANNUAL RESULTS

The board of directors (the “**Board**”) of Zhengye International Holdings Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2016 (the “**Year**” or “**Year under review**”) together with the comparative figures for the corresponding year ended 31 December 2015 (the “**Year 2015**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

		2016	2015
	NOTES	RMB'000	RMB'000
Revenue	3	2,074,090	1,807,765
Cost of sales		<u>(1,669,542)</u>	<u>(1,464,027)</u>
Gross profit		404,548	343,738
Other income	4	34,308	24,549
Other gains and losses	5	(30,601)	(14,753)
Distribution and selling expenses		(69,410)	(64,823)
Administrative expenses		(116,574)	(120,062)
Finance costs	6	(43,963)	(62,302)
Other expenses		(674)	(476)
Research and development cost		<u>(52,725)</u>	<u>(49,153)</u>
Profit before tax	7	124,909	56,718
Income tax expense	8	<u>(15,911)</u>	<u>(14,025)</u>
Profit and total comprehensive income for the year		<u>108,998</u>	<u>42,693</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		91,649	41,136
Non-controlling interests		<u>17,349</u>	<u>1,557</u>
		<u>108,998</u>	<u>42,693</u>
Earnings per share			
Basic (RMB)	10	<u>18 cents</u>	<u>8 cents</u>
Diluted (RMB)	10	<u>N/A</u>	<u>8 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>NOTES</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Non-current Assets			
Property, plant and equipment		920,248	981,150
Prepaid lease payments		163,298	206,349
Investment property		13,773	-
Other intangible assets		1,074	2,331
Deferred tax assets		2,235	868
Deposits for acquisition of property, plant and equipment		12,696	9,172
		<u>1,113,324</u>	<u>1,199,870</u>
Current Assets			
Inventories		130,663	139,843
Trade and other receivables	11	894,373	938,470
Prepaid lease payments		4,720	5,530
Pledged bank deposits		123,367	145,855
Short-term investment		-	10,000
Bank balances and cash		159,518	59,442
		<u>1,312,641</u>	<u>1,299,140</u>
Current Liabilities			
Trade and other payables	12	739,835	698,447
Tax liabilities		11,856	7,372
Bank borrowings		636,873	779,723
Other borrowings		65,234	43,982
Obligations under finance leases		350	330
Amounts due to directors		2,389	2,620
Loans from a non-controlling equity owner of a subsidiary		-	25,138
		<u>1,456,537</u>	<u>1,557,612</u>
Net Current Liabilities		<u>(143,896)</u>	<u>(258,472)</u>
Total Assets Less Current Liabilities		<u>969,428</u>	<u>941,398</u>

Capital and Reserves

Share capital	13	41,655	41,655
Share premium and reserves		<u>638,721</u>	<u>547,072</u>

Equity attributable to Owners of the Company		680,376	588,727
Non-controlling interests		<u>127,762</u>	<u>110,413</u>

Total Equity		<u>808,138</u>	<u>699,140</u>
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Non-current Liabilities

Deferred tax liabilities		5,007	2,074
Deferred income		12,966	34,276
Bank borrowings		115,356	38,500
Other borrowings		20,143	22,748
Obligations under finance leases		7,818	8,168
Loans from a non-controlling equity owner of a subsidiary		<u>-</u>	<u>136,492</u>

<u>161,290</u>	<u>242,258</u>
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<u>969,428</u>	<u>941,398</u>
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Notes:

1. GENERAL INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is located in the PRC.

The Company acts as an investment holding company. Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, who collectively own 75% of the Company's share in aggregate and act in concert, are regarded as the controlling shareholders of the Company.

The principal activities of its subsidiaries are mainly engaged in manufacturing and sale of paper, paperboard and paper-based packaging products. The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**".

The consolidated financial statements are presented in Renminbi ("**RMB**"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the "**functional currency**").

In preparing the consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration of the Group in light of its net current liabilities of RMB143,896,000 and also commitments as at 31 December 2016. On the basis that the Group has secured credit facilities of approximately RMB264,425,000 which remains unutilized at the date of the consolidated financial statements ended 31 December 2016, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("**HKFRSs**")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

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

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 15	Classification to HKFRS 15 Revenue from Contracts with Customers ¹
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 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Leases ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵

1. Effective for annual periods beginning on or after 1 January 2018.
2. Effective for annual periods beginning on or after 1 January 2019.
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 2017.
5. Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

Except for the impact of HKFRS 9, 15, 16 and amendment to HKAS 7, the directors of the Company anticipate the application of other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the supply of corrugated medium paper and paper-based packaging products.

The Group is organised into business units based on their products, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment performance. The Group's reportable segments under HKFRS 8 are identified as two main operations:

1. Paper-based packaging: this segment produces and sells paper-based packaging products.
2. Corrugated medium paper: this segment produces and sells corrugated medium paper.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

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

Other segment information included in the measurement of segment results:

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
Depreciation	23,477	55,382	78,859
Amortisation	267	4,438	4,705
Impairment of trade receivables	4,552	2,487	7,039
Impairment of inventories	<u>-</u>	<u>2,436</u>	<u>2,436</u>

For the year ended 31 December 2015			
	Paper-based packaging <i>RMB '000</i>	Corrugated medium paper <i>RMB '000</i>	Total <i>RMB '000</i>
REVENUE			
External sales	809,751	998,014	1,807,765
Inter-segment sales	-	79,476	79,476
Segment revenue	<u>809,751</u>	<u>1,077,490</u>	1,887,241
Eliminations			<u>(79,476)</u>
Group Revenue			<u>1,807,765</u>
Segment Profit	<u>11,461</u>	<u>47,401</u>	58,862
Eliminations			<u>(59)</u>
Unallocated corporate expenses, net			<u>58,803</u> <u>(2,085)</u>
Profit before tax			<u>56,718</u>

Other segment information included in the measurement of segment results:

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

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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Brown Box	448,340	511,183
Corrugated medium paper AA grade	1,329,041	810,242
Honeycomb paper-based products	189,330	213,987
Corrugated medium paper C grade	21,884	187,772
Colour Box	85,495	84,581
	<u>2,074,090</u>	<u>1,807,765</u>

(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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Customer A ¹	<u>311,837</u>	<u>344,812</u>

^{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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest income	3,030	3,836
Income from short-term investments	348	744
Management fee income	185	210
Sales of scrap materials	507	497
Government grants (<i>note</i>)	30,128	18,270
Sundry income	110	992
Total	34,308	24,549

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Exchange loss, net	(17,635)	(14,716)
Gain (loss) on disposals of property, plant and equipment, net	192	(37)
Gain on disposal of a subsidiary	1,930	-
Loss on termination of an investment project	(8,049)	-
Impairment losses recognised on trade and other receivables	(7,039)	-
	(30,601)	(14,753)

6. FINANCE COSTS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest on:		
Bank borrowings	37,785	54,900
Other borrowings	3,662	4,557
Loans from a non-controlling equity owner of a subsidiary	1,996	2,306
Finance leases	520	539
	43,963	62,302

7. PROFIT BEFORE TAX

	2016 RMB'000	2015 RMB'000
Profit before tax for the Year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	78,724	73,913
Depreciation of investment property	135	-
Amortisation of other intangible assets	1,257	1,806
Amortisation of prepaid lease payments	5,061	5,530
Less: Amount capitalised in construction in progress	(240)	(577)
Less: Amount capitalised in inventories	(63,138)	(52,291)
	<hr/>	<hr/>
Total depreciation and amortisation	21,799	28,381
	<hr/>	<hr/>
Auditor's remuneration	1,743	2,068
Exchange loss, net	17,635	14,716
Cost of inventories recognised as expense	1,669,542	1,464,027
Operating lease rental in respect of		
- rented factory and office premises	19,611	19,361
- rented vehicles	59	178
Staff costs		
- directors' and chief executive's emoluments	5,769	7,723
- salaries and other benefits costs	221,301	217,182
- retirement benefits scheme contribution	17,579	18,405
	<hr/>	<hr/>
Total staff costs	244,649	243,310
	<hr/>	<hr/>

8. INCOME TAX EXPENSE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Hong Kong Profits Tax:		
Current tax	-	-
PRC Enterprise Income Tax:		
Current tax	15,510	10,125
(Over) under-provision in prior years	<u>(1,165)</u>	<u>3,743</u>
	14,345	13,868
Withholding Tax	-	-
Deferred tax		
Current year	<u>1,566</u>	<u>157</u>
	<u>15,911</u>	<u>14,025</u>

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

Under the Law of The People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

Zheng Ye Packaging (Zhongshan) Company Limited* (正業包裝(中山)有限公司) ("**Zheng Ye Packaging (Zhongshan)**") and Zhongshan Yong Fa Paper Industry Company Limited* (中山永發紙業有限公司) ("**Zhongshan Yong Fa Paper**") obtained the Advanced-technology Enterprise Certificate in 2009 for three years and the applicable income tax rate was 15% in 2012 based on certain conditions. In 2012 and 2015, Zheng Ye Packaging (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2018.

In 2013, Zhuhai Zheng Ye Packaging Company Limited* (正業包裝(珠海)有限公司) ("**Zheng Ye Packaging (Zhuhai)**") was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2016. In 2016, Zhuhai Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Zhuhai)") have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2019.

* For identification purpose only

9. DIVIDENDS

The Directors of the Company recommend the payment of a final dividend of RMB5.50 cents per Share for the year ended 31 December 2016 (2015: nil). The proposed dividend of approximately RMB27,500,000 will be paid on or about 18 July 2017 to those shareholders whose names appear on the Company's register of members on 29 June 2017.

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 and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Earnings		
Profit for the Year attributable to owners of the Company for the purpose of basic and diluted earnings per Share	<u>91,649</u>	<u>41,136</u>
Number of shares		
Number of ordinary shares for the purposes of basic and diluted earnings per share	<u>500,000,000</u>	<u>500,000,000</u>

The computation of diluted earnings per share for the year ended 31 December 2015 did not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares during the years ended for 31 December 2015.

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

11. TRADE AND OTHER RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables	495,670	488,076
Less: allowance for doubtful debts	<u>(8,357)</u>	<u>(1,318)</u>
	<u>487,313</u>	<u>486,758</u>
Advanced to suppliers	<u>3,213</u>	<u>2,945</u>
Bills receivables	384,355	424,651
Prepayment	2,895	4,519
Other receivables	<u>16,597</u>	<u>19,597</u>
	<u>403,847</u>	<u>448,767</u>
Total trade and other receivables	<u>894,373</u>	<u>938,470</u>

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

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0-60 days	337,209	334,122
61-90 days	70,438	87,520
91-180 days	57,450	63,942
Over 180 days	<u>22,216</u>	<u>1,174</u>
	<u>487,313</u>	<u>486,758</u>

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0-60 days	34,724	42,476
61-90 days	115,994	98,105
91-180 days	189,342	183,180
Over 180 days	<u>44,295</u>	<u>100,890</u>
	<u>384,355</u>	<u>424,651</u>

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB39,107,000 (2015: RMB13,681,000) which are past due for which the Group has not provided for impairment loss because the Group believes that the amounts are still recoverable after taking into account the significant settlements subsequent to the end of reporting period, legal advice on disputed cases, the repayment histories and financial position of debtors. The Group does not hold any collateral over these balances. Trade receivables in which customers have provided bills for settlement are not considered as past due.

Aging of trade receivables which are past due but not impaired

	2016 RMB'000	2015 <i>RMB'000</i>
Overdue by:		
0-30 days	17,925	7,507
31-60 days	2,736	4,602
61-90 days	2,911	801
Over 90 days	15,535	771
	<hr/>	<hr/>
Total	39,107	13,681
	<hr/>	<hr/>

Movement in the allowance for doubtful debts

	2016 RMB'000	2015 <i>RMB'000</i>
Balance at beginning of the year	1,318	1,318
Impairment losses recognised on trade receivables	7,039	-
	<hr/>	<hr/>
Balance at end of the year	8,357	1,318
	<hr/>	<hr/>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The customers with balances that are neither past due nor impaired have good repayment histories and no impairment is considered necessary.

12. TRADE AND OTHER PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payables	399,690	445,116
Bills payables – secured	218,971	148,043
Other tax payables (<i>note</i>)	62,347	42,648
Payroll and welfare payables	25,430	27,916
Construction payables	4,450	865
Advance from customers	9,572	11,554
Others	19,375	22,305
	739,835	698,447

Note: Included in other tax payables is RMB56,487,000 (2015: RMB37,268,000) 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.

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0-60 days	255,885	207,827
61-90 days	50,686	95,600
91-180 days	82,316	115,897
Over 180 days	10,803	25,792
	399,690	445,116

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0-60 days	65,130	32,520
61-90 days	8,950	5,000
91-180 days	89,341	110,523
Over 180 days	55,550	-
	218,971	148,043

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 HK\$
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 31 December 2016	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
At 1 January 2015, 31 December 2015 and 31 December 2016	<u>500,000,000</u>	<u>50,000,000</u>
		RMB '000
Presented as: At 31 December 2015 and 2016		<u>41,655</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

According to the 2016 GDP data published by the National Bureau of Statistics of China in January, the GDP growth rate of China stood at 6.7%, hitting a record low for the last 26 years, but still within the expected range set by the government. The PRC economy maintained growth within a reasonable range, with a focus on the development quality of each industry. The paper-making industry also benefitted from the further penetration of supply-side structural reform. During the Year, in order to address the overcapacity problem and environmental issues of the paper-making industry, the PRC government took proactive measures to eliminate backward production capacity, with an aim to improve the supply-demand condition of the paper-making industry. The government stepped up effort to squeeze backward capacity out of the market by eliminating manufacturers who provide mixed product quality and fail to meet environmental protection requirements and supporting quality brands, so as to promote development of the paper-making industry. As a regional leading corrugated medium paper and paper-based packaging service provider, Zhengye International has competitive advantage in various aspects such as economy of scale, energy conservation and environmental protection as well as innovative technology. Therefore, the Group maintained steady development amidst market consolidation.

With improvement in the supply-demand structure of the industry, Zhengye International benefitted from our previous efforts in optimizing capacity allocation with positive results. Zhongshan Rengo Huang Hing Paper Manufacturing Company Limited* (中山聯合鴻興造紙有限公司) (“**Lian He**”) previously acquired by the Group has completed the technological upgrade project during the Year and commenced full operation, which greatly improved the production capacity of corrugated medium paper and consolidated the production base of upstream sector, contributing to the revenue of the Group. As at 31 December 2016, the Group recorded a turnover of RMB2,074,090,000, up 14.73% over last year, among which the sales of paper-based packaging products and corrugated medium paper products accounted for 34.87% and 65.13% of total sales respectively. With the new production capacity of corrugated medium paper and benefiting from the decrease in raw material (coal and waste paper) price in the first half of the Year, a gross profit of the Group during the Year amounted to RMB404,548,000 was recorded, up 17.69% year-on-year, with a gross profit margin stabilizing at 19.50%. In addition, the Group continued to consolidate its internal resources to improve production efficiency, and maintained stable profitability by strengthening internal cost management during the Year. Profit and total comprehensive income attributable to owners of the Company for the Year was RMB91,649,000, representing a significant increase of 122.80% over last year. The profit and total comprehensive income for the Year of the Group was RMB108,998,000, a year-on-year growth of 155.31%. Basic earnings per share amounted to approximately RMB18 cents.

Sales of the Group are mainly conducted in Renminbi (“RMB”). To address the effect of ongoing depreciation of RMB on our foreign currency denominated borrowings, the Group had arranged the RMB borrowings in March and May 2016 for the purposes of repayment of the principal amounted to JPY2,917,000,000 for the next six years, so as to minimize the currency risks in the future.

Paper-based packaging products

The paper-based packaging products offered by the Group were mainly corrugated cartons and honeycomb paper-based products. As quality corrugated packaging paper is light, strong and recyclable, it is widely used by manufacturers of small home appliances and air conditioners, while the major customers of the Group are the leading domestic manufacturers of small home appliances and air conditioners. During the Year, competition in the white goods industry remained intensified. The implementation of home purchase curb by the government and tightening in monetary policy, coupled with the cooling down in the real estate market, has led to decrease in demands for white goods. In addition, the strategic disposal of all equity interest in Hefei City Zheng Ye Packaging Company Limited* (合肥市正業包裝有限公司) (“**Hefei Zheng Ye**”) by the Group on 21 June 2016 led to decrease in overall production capacity, resulting in decrease in the revenue from the paper-based packaging products for the Year. During the Year, the Group recorded an overall turnover of RMB723,165,000 for paper-based packaging products, a decrease of 10.69% (2015: RMB809,751,000), among which corrugated cartons and honeycomb paper-based products accounted for 73.82% and 26.18% respectively (2015: 73.57% and 26.43%).

* For identification purpose only

Corrugated medium paper

Since 2016, the government reinforced implementation of environmental protection policy, especially imposing stringent approval procedures for new capacity in the coastal areas with severe pollution problem, which led to significant improvement in base paper supply. Despite the rising price of raw material (including waste paper and coal) during the second half of the year, the sales price of corrugated medium paper recorded the largest increase for the last six years in the last quarter of 2016 as improvement in supply condition had boosted the bargaining power of industry players. As corrugated medium paper is a key upstream product for the corrugated packaging products, the additional production capacity contributed by Lian He during the Year helped to meet market demands. With increase in both production capacity and product price, turnover from the corrugated medium paper business for 2016 was RMB1,350,925,000, representing a year-on-year increase of 35.36% (turnover for 2015: RMB998,014,000).

Gross profit and gross profit margin

The gross profit recorded for the Year is RMB404,548,000, representing an increase of 17.69% as compared with RMB343,738,000 in Year 2015. The average gross profit margin rose from 19.01% in Year 2015 to 19.50% for the Year.

Disposal of all equity interest in Hefei City Zheng Ye Packaging Company Limited

The Group announced on 21 June 2016 that it had entered into an agreement to dispose of 100% of the equity interest (equivalent to all issued share capital) in Hefei City Zheng Ye Packaging Company Limited* (“**Hefei Zheng Ye**”) (合肥市正業包裝有限公司) for a cash consideration of RMB34,000,000, and the transaction was completed in September 2016. Hefei Zheng Ye is mainly involved in manufacturing and selling paper-based packaging products, as well as printing packaging and decoration materials. The main assets of Hefei Zheng Ye are land with an area of 66,700 sq.m. and plant under construction with an area of 29,376 sq.m. in Feixi County of Hefei City. The disposal was in the interest of the Group as a whole. The disposal contributed a gain of approximately RMB1,930,000 to the Group in the second half of the year. The Board considered that the disposal can enhance the cash position and the operating capital of the Company, allowing the Group brought positive financial and operational impacts, which is conducive to the future development of the Company. The net cash flow from the disposal were approximately RMB32,613,000, which used to repay bank borrowings.

Agreement for Termination of Hubei Project Investment

On 30 June 2016, the Group entered into an agreement for termination of Hubei project investment, which entered into force on the same date. The Group will not build the new paper-making plant and facilities in Songzi City, Hubei Province. On 30 November 2012, Hubei Yong Fa Paper Industry Company Limited* (“**Hubei Yong Fa Paper**”) (湖北永發紙業有限公司), an indirectly wholly-owned subsidiary of the Group, successfully won the bid through auction of the land use rights of a plot of construction land with a total site area of 200,000 sq.m. located at Songzi City Industrial Park at a total consideration of RMB28,800,000. On 26 December 2012, the Songzi City Municipal Government* (the “**Municipal Government**”) (湖北省松滋市政府) and the Songzi City Lingang Industrial Park* (the “**Industrial Park**”) (松滋市臨港工業園) respectively granted RMB23,800,000 and RMB5,000,000, or an amount of RMB28,800,000 in total, to Hubei Yong Fa Paper as financial incentives to encourage the Group to develop the paper-making project in Songzi City. The Group originally intended to construct a paper-making plant with an annual

production capacity of 600,000 tonnes. However, given the fact that the Group completed the acquisition of Lian He in Zhongshan, Guangdong Province in April 2014, the Directors consider that it will be uneconomical for the Group to continue to construct a new plant, because it will involve additional investment and operational costs, and therefore terminate the construction of the new plant. This will enable the Group to reduce its additional capital expenditures and operational expenses arising from the construction of the plant, which is in the interest of the Group. On termination, the related assets and liabilities are being charged or credited to profit or loss and the resulting loss on termination of investment project of RMB8,049,000 is included in the other gains and losses. The Directors consider that the termination of the agreement will not have any material adverse impact on the working capital of the Group.

Prospects

It is expected that the elimination of backward capacity since 2016 and the implementation of stringent environmental protection policy and capacity control will continue in 2017. With the continuous optimization of industry structure, the Group will also keep abreast with the development pace of the industry by adjusting its internal structure and resource allocation, in an effort to maintain steady increase in market share. During the Year, the Group adopted the performance indicator approach to manage the corrugated medium paper production lines, successfully improving the overall production efficiency of these production lines. In view of this, the Group will continue to apply the performance indicator approach to optimize the corrugated cartons and honeycomb paper-based product production lines, so as to enhance its internal management and improve its operating efficiency and performance. Meanwhile, the Group will implement strict control over cost expenditure and monitor the financial position of each business unit. In order to avoid impact of fluctuations in the exchange rate against RMB, the Group will adjust raw material procurement strategy in a timely manner and adopt flexible approaches towards foreign currency loans, so as to reduce exchange loss. The Group will continue to invest in research and development activities and improve production technology, with an aim to constantly improve the core competitiveness of the Group. While efforts will be made to improve production efficiency, the Group will focus on improving product quality and developing new products, so as to promote long term development of the overall business.

On the other hand, as the PRC government continues to implement environmental protection policy, the Group will use the most advanced environmental protection production technology and equipment, strictly monitor all procedures of production to fulfill the environmental standards, and abide by the most updated energy conservation and emission reduction requirements of the government, so as to maintain our status as industry pioneer in environmental protection.

The paper-making industry is closely related to national economic development, and the Group believes the market still has room for development. In order to seize market opportunities, the Group will pay close attention to industry changes and trends for integration, and proactively adjust and optimize product mix and expand customer base, so as to promote growth of our business. The sales team of the Group will develop appropriate marketing strategy, get a comprehensive update on the latest development of the paper-making industry, and proactively seek to build a diversified customer base.

* *For identification purpose only*

In addition, with the rapid development of the modern e-commerce business, e-commerce platform provides new development opportunities for the paper-making industry. In order to seize the huge market demand of e-commerce business for the paper-based packaging products, the Group will proactively look for opportunities to attract e-commerce customers, so as to explore new business opportunities and expand our market shares.

The management is optimistic about the future development prospect of the Group. The Group will continue to implement strict cost control and enhance good capital operation, so as to maintain our market competitiveness in the paper-making and packaging industries. Our experienced and competent management team will continue to manage the Group's business, and efforts will be made to further improve the scale and profitability of the Group, with an aim to achieve maximum profit and return for the Company and the shareholders.

Distribution and selling expenses

The distribution and selling expenses of the Group increased by approximately 7.08% from RMB64,823,000 for the Year 2015 to RMB69,410,000 for the Year. The distribution and selling expenses during the Year mainly included during the Year are salaries of salesmen, transportation costs and business advertisement and promotion.

Administrative expenses

The Group's administrative expenses decreased by approximately 2.91% from RMB120,062,000 for the Year 2015 to RMB116,574,000 for the Year. The administrative and other expenses during the Year mainly included during the Year are salaries of management, staff welfare, rent and depreciation.

Finance costs

Finance costs of the Group slipped by approximately 29.44% from RMB62,302,000 for the Year 2015 to RMB43,963,000 for the Year.

Interest rates of bank borrowings were at variable rates ranging from 3.63% to 6.69% for the Year, compared with 2.40% to 6.69% for the same period of last year. The weighted average interest rates under bank borrowings in fixed rate, bank borrowings in variable rate, obligations under finance leases in fixed rate and other borrowings in variable rate during the Year were 5.78%, 4.83%, 6.12% and 10.91% respectively (2015: 4.81%, 4.57%, 6.12% and 10.62% respectively).

The bank borrowings, other borrowings and obligations under finance leases amounted to RMB845,774,000 as at 31 December 2016, compared with RMB893,451,000 as at 31 December 2015.

Research and development expenses

Research and development expenses of the Group increased by 7.27% from RMB49,153,000 in the Year 2015 to RMB52,725,000 during the Year. The increase was mainly due to our goal to improve the competitiveness of the Group's products and develop new products in response to the demand from customers to conduct research on new technology and new process to enhance production efficiency and product quality.

Income tax expense

During the Year, the Group's income tax expense was RMB15,911,000 (2015: RMB14,025,000), with effective tax rate of 12.74% (2015: 24.73%). The lower effective tax rate for the year was mainly due to the effect of utilisation of tax losses previously not recognized. For details of the reconciliation of tax charge for the year to the profit before tax, please refer to income tax expense section of the annual report, which will be published at the end of April 2017.

Profit and total comprehensive income

The Group's profit and total comprehensive income for the Year was RMB108,998,000, the total comprehensive income for the Year attributable to owners of the Company was RMB91,649,000, represented a significant increase of 122.80% compared with RMB41,136,000 for the Year 2015.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2016, the Group had a net cash inflow of RMB100,076,000.

The net amount of the cash inflow arising from investing activities for the disposal of a subsidiary in amount of RMB32,613,000, and the proceeds from redemption of short-term investments in amount of RMB10,348,000.

Inventories

The inventories decreased 6.56% to approximately RMB130,663,000 as at 31 December 2016, compared to approximately RMB139,843,000 as at 31 December 2015. During the Year, the inventory turnover day was speed up to 30 days (2015: 36 days) which was at a normal level.

Trade receivables

As at 31 December 2016, the trade receivables amounted to RMB487,313,000 (as at 31 December 2015: RMB486,758,000). We granted to our paper-based packaging products customers credit period of 30 to 120 days and to our corrugated medium paper customers credit period of 30 to 75 days. The turnover day for trade receivables was approximately to 86 days (2015: 100 days).

Bills receivables

As at 31 December 2016, the bills receivables amounted to RMB384,355,000 (31 December 2015: RMB424,651,000).

Trade payables

As at 31 December 2016, the trade payables amounted to RMB399,690,000 (as at 31 December 2015: RMB445,116,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of its suppliers. The turnover day for trade payables was shortened to 92 days (2015: 120 days).

Borrowings

As at 31 December 2016, the Group's bank borrowings and other borrowings balance amounted to RMB837,606,000 (as at 31 December 2015: RMB884,953,000).

Gearing ratio

As at 31 December 2016, the gross gearing ratio was approximately 34.53% (as at 31 December 2015: 35.41%), 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 81.53%, 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 2015: 115.45%).

Pledge of assets

As at 31 December 2016, the Group pledged certain assets with carrying value of RMB737,006,000 as collateral for the Group's borrowing (as at 31 December 2015: RMB861,308,000).

Capital commitments

As at 31 December 2016, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB48,275,000 (as at 31 December 2015: RMB32,267,000). All the capital commitments were related to purchasing properties, plants and equipment.

Contingent liabilities

The Group had no significant contingent liabilities as at 31 December 2016.

Foreign currency exposure

The Group collects most of its revenue and incurs most of the expenditures in RMB. Although the Group undertakes certain transactions denominated in foreign currencies, mainly the currencies of United States, Hong Kong and United Kingdom. The Group has reduced the transactions using in such currencies during the Year due to the fluctuations in currencies from RMB to United States Dollars and other foreign currencies. The Group acquired Lian He paper manufacturing factories in 2014. Before the acquisition, Lian He borrowed a ten years borrowings with amount of JPY3,500,000,000 from Rengo Company Limited* (レンゴー株式会社), one of shareholder of Lian He. In order to minimize the currency risk in JPY, the Group had arranged RMB borrowings in March and May 2016 for the purposes of repayment the principal amounted to JPY2,917,000,000 for the next six years. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

* For identification purpose only

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 RMB5.50 cents per Share for the Year to those Shareholders whose names appear on the register of members of the Company on Thursday, 29 June 2017. The recommended final dividend, if approved at the AGM, will be paid in Hong Kong dollars. The RMB to Hong Kong dollar exchange rate for the final dividend will be set on the date of the AGM and calculated using the opening indicative counter buying telegraphic transfer rate for RMB of The Hong Kong Association of Banks, which will be published on the websites of the Stock Exchange and the Company together with the poll results of the AGM on Friday, 23 June 2017. The final dividend is expected to be paid on or around Tuesday, 18 July 2017.

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, 20 June 2017 to Friday, 23 June 2017 (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, 19 June 2017.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Friday, 30 June 2017 to Monday, 3 July 2017 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to for the recommended final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 29 July 2017. The final dividend will be paid to shareholders on or around Tuesday, 18 July 2017.

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 2016 as set out in the Preliminary Announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement

AUDIT COMMITTEE

The audit committee (the “**Audit Committee**”) established by the Board has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters (including the review of the audited consolidated financial statements of the Company for the Year) in conjunction with the Company’s external auditors. The Audit Committee was satisfied that the audited consolidated financial statements of the Company were prepared in accordance with applicable accounting standards and presented fairly the financial position and results of the Group for the Year.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 23 June 2017. A notice convening the AGM will be published and despatched to shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

APPRECIATION

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

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

Hong Kong, 24 March 2017

As at the date of this announcement, the Board comprised Mr. Hu Hanchao, Mr. Hu Hancheng and Mr. Hu Zheng as executive directors, Mr. Hu Hanxiang as non-executive director and Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei as independent non-executive directors.

This announcement is prepared in both English and Chinese. In the event of inconsistency, the English text of the announcement shall prevail over the Chinese text.