

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2022

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Revenue	3,013,957	3,558,009
Gross Profit Margin	11.34%	19.03%
EBITDA	263,428	417,080
Total Comprehensive Income for the Year		
Attributable to the Owners of the Company	47,167	160,841
Return on Equity Attributable to the Owners of the Company	4.24%	14.47%
Earnings per Share (Basic) – RMB	0.09	0.32
Recommended Final Dividend – HKD per Share	1.6 cents	10.9197 cents

- The Board had resolved to recommend the payment of a final dividend of RMB1.42 cents (equivalent to HKD1.6 cents) per Share for the year ended 31 December 2022 (2021: a final dividend of RMB9.00 cents per Share).

ANNUAL RESULTS

The board of directors (the “**Board**”) of Zhengye International Holdings Company Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2022 (the “**Year**” or “**Year under review**”) together with the comparative figures for the corresponding year ended 31 December 2021 (the “**Year 2021**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

		2022	2021
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	3,013,957	3,558,009
Cost of sales		<u>(2,672,227)</u>	<u>(2,881,037)</u>
Gross profit		341,730	676,972
Other income	4	138,337	50,715
Impairment losses under expected credit loss model, net of reversal	5	2,146	(1,288)
Other gains and losses	5	(4,343)	(26,276)
Distribution and selling expenses		(92,103)	(98,569)
Administrative expenses		(131,637)	(169,821)
Finance costs	6	(59,600)	(62,831)
Other expenses		(1,275)	(470)
Research and development costs		<u>(116,388)</u>	<u>(131,116)</u>
Profit before tax	7	76,867	237,316
Income tax expense	8	<u>(8,263)</u>	<u>(29,038)</u>
Profit and total comprehensive income for the year		<u>68,604</u>	<u>208,278</u>
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		47,167	160,841
Non-controlling interests		<u>21,437</u>	<u>47,437</u>
		<u>68,604</u>	<u>208,278</u>
Earnings per share			
Basic (<i>RMB</i>)	10	<u>0.09</u>	<u>0.32</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

		2022	2021
	NOTES	RMB'000	RMB'000
Non-current Assets			
Property, plant and equipment		1,370,453	1,132,113
Right of use assets		174,010	193,094
Intangible assets		12,616	5,416
Deferred tax assets		335	11,223
Deposits for acquisition of property, plant and equipment		31,037	29,499
		<u>1,588,451</u>	<u>1,371,345</u>
Current Assets			
Inventories		228,353	223,283
Trade and other receivables	11	805,278	1,101,478
Contract assets		9,377	15,550
Tax recoverable		8,348	323
Pledged bank deposits		64,016	92,368
Bank balances and cash		279,840	229,581
		<u>1,395,212</u>	<u>1,662,583</u>
Current Liabilities			
Trade and other payables	12	356,910	337,347
Consideration payables		5,809	5,818
Tax liabilities		2,219	11,521
Bank and other borrowings		870,919	1,022,356
Lease liabilities		5,119	15,458
Contract liabilities		7,158	8,025
Amounts due to directors		46,746	443
		<u>1,294,880</u>	<u>1,400,968</u>
Net Current Assets		<u>100,332</u>	<u>261,615</u>
Total Assets Less Current Liabilities		<u><u>1,688,783</u></u>	<u><u>1,632,960</u></u>

	<i>NOTES</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Capital and Reserves			
Share capital	13	41,655	41,655
Share premium and reserves		1,072,034	1,069,867
Equity attributable to owners of the Company		1,113,689	1,111,522
Non-controlling interests		288,867	270,430
Total Equity		1,402,556	1,381,952
Non-current Liabilities			
Deferred tax liabilities		6,087	8,737
Consideration payables		–	5,681
Amounts due to directors		44,640	–
Bank and other borrowings		183,266	169,098
Lease liabilities		25,915	29,857
Deferred income		26,319	37,635
		286,227	251,008
		1,688,783	1,632,960

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. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company. Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Ms. Hu Jianwen, who collectively own 75% of the Company's shares 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 manufacture 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 Company and its principal subsidiaries operate.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective of the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the Group's annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018–2020</i>

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

Impacts on application of Amendments to HKFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 January 2022. The amendments update a reference in HKFRS 3 *Business Combinations* so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010), add a requirement that, for transactions and events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

Impacts on application of Amendments to HKAS 16 Property, Plant and Equipment – Proceeds before Intended Use

The Group has applied the amendments for the first time in the current year. The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 *Inventories*.

The application of the amendments in the current year has had no significant impact on the Group's financial positions and performance.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendment to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ³
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i> ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate the application of all other new and amendments to HKFRSs will have no material impact on the Group's consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (the "2020 Amendments") and Amendments to HKAS 1 Non-current Liabilities with Covenants (the "2022 Amendments")

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2022, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the production and sale of packaging 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 (i.e. the executive directors of the Company) for the purposes of resource allocation and assessment of performance. The Group's reportable segments under HKFRS 8 *Operating Segments* are identified as two main operations:

1. Packaging paper: this segment produces and sells corrugated medium paper and craft paper.
2. Paper-based packaging products: this segment produces and sells craft cartons, color-printed cartons, honeycomb paper products and color box packaging.

During the year, the Group has changed the name of the reportable segment – Corrugated medium paper to Packing paper to better reflect the various product types in the segment.

(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 2022

	Packaging paper RMB'000	Paper-based packaging RMB'000	Total RMB'000
REVENUE			
External sales	2,281,249	732,708	3,013,957
Inter-segment sales	119,119	–	119,119
Segment revenue	<u>2,400,368</u>	<u>732,708</u>	3,133,076
Eliminations			<u>(119,119)</u>
Group revenue			<u>3,013,957</u>
Segment profit	<u>76,176</u>	<u>10,305</u>	86,481
Unallocated other income			2,219
Unallocated corporate expenses			<u>(11,833)</u>
Profit before tax			<u>76,867</u>

Other segment information included in the measurement of segment results:

	Packaging paper RMB'000	Paper-based packaging RMB'000	Total RMB'000
Depreciation on property, plant and equipment	88,913	20,903	109,816
Depreciation on right-of-use assets	9,571	5,799	15,370
Amortisation of intangible assets	2,313	–	2,313
	<u>100,797</u>	<u>26,702</u>	<u>127,499</u>
Total depreciation and amortisation	100,797	26,702	127,499
Less: Amount capitalised in inventories	(57,955)	–	(57,955)
Less: Amount capitalised in intangible assets	(538)	–	(538)
	<u>42,304</u>	<u>26,702</u>	<u>69,006</u>
Impairment losses reversed on trade and other receivables	(556)	(1,590)	(2,146)

For the year ended 31 December 2021

	Packaging paper RMB'000	Paper-based packaging RMB'000	Total RMB'000
REVENUE			
External sales	2,633,403	924,606	3,558,009
Inter-segment sales	310,842	–	310,842
	<u>2,944,245</u>	<u>924,606</u>	<u>3,868,851</u>
Segment revenue	2,944,245	924,606	3,868,851
Eliminations			(310,842)
Group Revenue			<u>3,558,009</u>
Segment Profit	<u>232,566</u>	<u>13,688</u>	246,254
Unallocated other income			614
Unallocated corporate expenses			(9,552)
Profit before tax			<u>237,316</u>

Other segment information included in the measurement of segment results:

	Packaging paper <i>RMB'000</i>	Paper-based packaging <i>RMB'000</i>	Total <i>RMB'000</i>
Depreciation of property, plant and equipment	75,643	20,462	96,105
Depreciation of right-of-use assets	7,081	13,250	20,331
Amortisation of intangible assets	602	–	602
	<hr/>	<hr/>	<hr/>
Total depreciation and amortisation	83,326	33,712	117,038
Less: Amount capitalised in inventories	(58,820)	–	(58,820)
Less: Amount capitalised in intangible assets	(105)	–	(105)
	<hr/>	<hr/>	<hr/>
	24,401	33,712	58,113
Impairment losses recognised on trade and other receivables	482	806	1,288
Impairment losses recognised on property, plant and equipment	22,229	–	22,229
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 corporate income and expenses.

(b) Information about products

The following is an analysis of the Group's revenue from its major products:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Corrugated medium paper AA grade	1,787,161	2,455,576
Corrugated medium paper C grade	126	1,013
Craft paper	493,962	176,814
Craft box	572,383	629,385
Honeycomb paper	66,257	149,526
Color printing box	91,559	145,695
Color box packaging	2,509	–
	<hr/>	<hr/>
	3,013,957	3,558,009
	<hr/> <hr/>	<hr/> <hr/>

(c) Geographical information

The Group's operations and customers are all located in the PRC.

(d) Information about major customers

For the year ended 31 December 2022 and 2021, no customer contributed over 10% of the total revenue of the Group for the respective year.

(e) **Segment assets and liabilities**

Information of the reporting and 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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest income from bank deposits	3,616	4,469
Imputed interest income from rental deposits	115	104
Management fee income	74	27
Net income from sales of scrap materials	4,323	2,503
Government grants related to income (<i>note</i>)	113,771	37,115
Government grants amortised from deferred income	12,110	4,488
Sundry income	4,328	2,009
	<hr/>	<hr/>
Total	138,337	50,715

Note: Government grants received and receivable by the Group's PRC subsidiaries as financial incentives for operation. No conditions are attached to these financial incentives.

5. OTHER GAINS AND LOSSES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Exchange loss, net	3,526	2,670
Loss on disposals of property, plant and equipment, net	817	1,377
Impairment losses recognised on property, plant and equipment (<i>note</i>)	–	22,229
	<hr/>	<hr/>
	4,343	26,276

Note: During the year ended 31 December 2021, certain machinery became idle after the completion of “coal-to-gas” conversion project in two of the subsidiaries in the Group. As a result, impairment losses were recognised in profit or loss.

6. FINANCE COSTS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest on:		
Bank and other borrowings	51,742	58,017
Lease liabilities	2,138	4,016
Amounts due to directors	5,470	–
Others	250	798
	<hr/>	<hr/>
	59,600	62,831

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Depreciation of property, plant and equipment	109,816	96,105
Depreciation of right-of-use assets	15,370	20,331
Amortisation of intangible assets	2,313	602
	<hr/>	<hr/>
Total depreciation and amortisation	127,499	117,038
Less: Amount capitalised in inventories	(57,955)	(58,820)
Less: Amount capitalised in intangible assets	(538)	(105)
	<hr/>	<hr/>
	69,006	58,113
	<hr/>	<hr/>
Auditor's remuneration	1,965	1,950
Cost of inventories recognised as an expense (including write-down of inventories amounting to RMB1,374,000 (2021: RMB262,000))	2,555,821	2,767,047
Staff costs		
– directors' and chief executive's emoluments	5,744	5,504
– salaries and other benefits costs for staff other than directors and chief executive	253,524	296,020
– retirement benefits schemes contributions for staff other than directors and chief executive	22,229	22,053
	<hr/>	<hr/>
Total staff costs	281,497	323,577
Less: Amount capitalised in inventories	(55,633)	(54,677)
Less: Amount capitalised in intangible assets	(1,604)	(258)
	<hr/>	<hr/>
	224,260	268,642
	<hr/> <hr/>	<hr/> <hr/>

8. INCOME TAX EXPENSE

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
PRC Enterprise Income Tax:		
Current tax	131	27,271
Overprovision in prior years	<u>(3,156)</u>	<u>(839)</u>
	(3,025)	26,432
Withholding tax	3,050	4,614
Deferred tax	<u>8,238</u>	<u>(2,008)</u>
	<u><u>8,263</u></u>	<u><u>29,038</u></u>

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

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Certain PRC subsidiaries approved as advanced-technology enterprises or enterprises applicable to EIT policies for large-scale development in the Western Region by the relevant government authorities are subject to a preferential tax rate of 15%. During the year, certain PRC subsidiaries approved as “small and low-profit enterprises” by the relevant government authorities are subject to two-tiered preferential tax rates. The first RMB1 million of taxable profit of the qualifying group entities will be taxed at 2.5% (2021: 2.5%) and taxable profit above RMB1 million but less RMB3 million will be taxed at 5% (2021: 10%).

9. DIVIDEND

Dividend for ordinary shareholders of the Company recognised as distribution during the year:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
2021 Final – RMB9 cents (2021: 2020 Final – RMB3 cents) per share	<u><u>45,000</u></u>	<u><u>15,000</u></u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 of RMB1.42 cents (2021: final dividend in respect of the year ended 31 December 2021 of RMB9 cents) per ordinary share, in an aggregate amount of RMB7,100,000 (2021: RMB45,000,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

10. EARNINGS PER SHARE

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	<u>47,167</u>	<u>160,841</u>
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	<u>500,000,000</u>	<u>500,000,000</u>

No diluted earnings per share for both 2022 and 2021 were presented as there were no potential ordinary shares in issue for both 2022 and 2021.

11. TRADE AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables not backed by bills	428,505	592,568
Less: allowance for credit losses	<u>(5,355)</u>	<u>(7,143)</u>
	<u>423,150</u>	<u>585,425</u>
Trade receivables backed by other bills	166,972	197,797
Less: allowance for credit losses	<u>(121)</u>	<u>(169)</u>
	<u>166,851</u>	<u>197,628</u>
Total trade receivables not backed by bank bills	595,477	790,365
Less: allowance for credit losses	<u>(5,476)</u>	<u>(7,312)</u>
	<u>590,001</u>	<u>783,053</u>
Trade receivables backed by bank bills	157,703	268,533
Less: allowance for credit losses	<u>(454)</u>	<u>(762)</u>
	<u>157,249</u>	<u>267,771</u>
Total trade receivables	<u>747,250</u>	<u>1,050,824</u>
Advances to suppliers	14,382	11,600
Prepayments	4,345	20,434
Other receivables	39,442	18,763
Less: allowance for credit losses	<u>(141)</u>	<u>(143)</u>
	<u>58,028</u>	<u>50,654</u>
Total trade and other receivables	<u>805,278</u>	<u>1,101,478</u>

As at 1 January 2021, trade receivables from contracts with customers amounted to RMB878,999,000.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0–60 days	331,971	470,595
61–90 days	33,527	49,589
91–180 days	53,378	55,421
Over 180 days	4,274	9,820
	<u>423,150</u>	<u>585,425</u>

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 2022 will be disclosed in the consolidated financial statements of the Group.

12. TRADE AND OTHER PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	173,872	114,341
Bills payables – secured	68,013	83,630
Other tax payables (<i>note</i>)	51,964	51,959
Payroll and welfare payables	24,639	43,080
Construction payables	5,192	5,668
Others	33,230	38,669
	<u>356,910</u>	<u>337,347</u>

Note: Included in other tax payables is provision for value-added tax amounting to RMB48,469,000 (2021: RMB44,261,000).

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0–60 days	87,452	96,334
61–90 days	24,816	5,126
91–180 days	32,445	5,093
Over 180 days	29,159	7,788
	<u>173,872</u>	<u>114,341</u>

The credit period on purchase of materials 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 <i>HKD</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2021, 31 December 2021 and 31 December 2022	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
At 1 January 2021, 31 December 2021 and 31 December 2022	<u>500,000,000</u>	<u>50,000,000</u>
		<i>RMB'000</i>
Presented as at 31 December 2021 and 2022		<u>41,655</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year 2022 (refers to the twelve months ended 31 December 2022, the same below), the Group's principal business was the provision of ancillary paper packaging products to domestic and foreign manufacturers of household appliances, fast-moving consumer goods, electronic products and cosmetics, and the provision of comprehensive services including design, printing, logistics and other customer services to provide customers with integrated packaging solutions. In addition, in order to enhance the competitiveness of the Group's paper packaging products, the Group has also extended its operations to the back-end of the industrial chain by utilising recycled waste paper as raw materials for the production of corrugated paper, liner paper and other paper products, which are used as materials for the Group's paper packaging products and for external sales of products.

We are committed to becoming one of the world's leading eco-friendly packaging enterprises.

Our products mainly include craft cartons, color printing cartons, honeycomb paper-based products, color box packaging, corrugated paper and liner paper.

Consisting currently of 10 wholly-owned subsidiaries and 2 non-wholly-owned subsidiaries in different regions of China, our Group provides services with high quality to customers.

The Group's paper packaging products have been established for many years in a number of segmented market such as home appliance packaging, fast-moving consumer goods packaging and electronic products packaging, and have gained the trust of various renowned brands both on the domestic and overseas and have established a stable relationship with a group of customers for over a decade. The Group has expanded its operations to the production and sale of color box packaging products and has gradually expanded its packaging products into the markets of cosmetics, household products, food and pharmaceuticals.

Our corrugated paper and liner paper products have won the recognition of customers for their consistent quality and innovative design in the segmented market. The Group actively researches and develops low-weight and high-strength corrugated paper to meet customer needs with more cost-effective products.

In 2022, the COVID-19 pandemic continued to disrupt the recovery of the global economy. The ongoing tension in geopolitics, as well as inflationary pressures, resulted in a slowdown in the year-on-year growth rate of domestic exports, consumption, investment and other demands, and a sharp drop in orders, delivering a bigger blow to the packaging industry.

During the Year, the new production facility for exquisite color box packaging in our factory in Zhongshan officially started trial production in July 2022. The packaging business of the Group will further expand into the exquisite color box packaging business. With the addition of the exquisite color box packaging business, products variety has been enriched. Product development has been oriented towards mid-to-high end in order to further realize the profit growth of the Group and achieve the upward turning point of profitability. Meanwhile, during the Year, the Group also completed the acquisition of all property assets of Zheng Ye Leasing at a consideration of RMB186 million. The acquisition will enhance the packaging business' asset portfolio by properly allocating available resources to improve profitability and enhance long-term potential for capital appreciation.

In 2022, under the double influence of recurrent domestic pandemic and shrinking orders from downstream customers, our packaging sector achieved a total operating revenue of RMB732,708,000 during the period, representing a decrease of 20.75% as compared to RMB924,606,000 in the corresponding period last year, and a decrease of 24.72% in profit as compared to last year.

Regarding our paper production segment, affected by the Russo-Ukrainian war, upstream energy prices rose significantly. In addition, the consumer end was affected by the pandemic which led to sluggish consumption. As a result of the imbalance between supply and demand, paper prices decreased, resulting in a year-on-year decrease in the production and sales of products in the paper production segment of 8.48%. Meanwhile, product prices also decreased by 5.35% year-on-year. In 2022, the operating revenue of our paper production segment for the period was RMB2,281,249,000, representing a significant decrease of 13.37% as compared to the corresponding period last year.

PRODUCTS REVIEW

Paper-based packaging products

Our paper-based packaging products are mainly made of liner paper and corrugated paper and include craft cartons, color printing cartons, honeycomb paper-based products and color box packaging products. The sales revenue of our paper-based packaging products was RMB732,708,000 in 2022, decreasing by 20.75% as compared with RMB924,606,000 in 2021 and accounting for approximately 24.31% of the Group's sales. The gross margin of paper-based packaging products in 2022 was approximately 21.50%.

Craft cartons

Our craft cartons are mostly used in the packaging of home appliances, fast-moving consumer goods, electronic products. The Group continues to ensure high-quality product supply and after-sales service to gain the trust of our clients, who remained supportive of our services and maintained a long-term and stable cooperative relationship with us.

Color printing cartons

The Group also provides quality color printing cartons for the packaging of home appliances, fast-moving consumer goods, electronic products and other products in order to meet clients' requirements for packaging different products. During the Year, the Group added new color printing machinery for the active and continuous expansion of its color printing carton business in the future. In 2022, the revenue for color printing cartons was RMB91,559,000.

Honeycomb paper-based products

Honeycomb paper-based products produced by the Group mainly serve as a replacement for plastic cushioning materials and foam cushioning products used for protecting the original various types of cardboard boxes. They are lightweight, smooth-surfaced, non-deformable, environmentally-friendly and energy-saving materials with outstanding cushioning performance and are widely used in various industries for cushioning. Honeycomb paper-based products currently produced by the Group are primarily used along with our craft cartons and color printing cartons.

Color box packaging

The color box packaging products produced by the Group use paper as the main raw material. After printing, surface treatment, die-cutting, bonding, molding and assembly, they are made into packaging for containing, protecting, explaining and promoting products. Such products are mainly used in cosmetics, daily chemical products, food, pharmaceuticals, etc. The Group provides integrated color box packaging solutions based on customer needs and product features.

Packaging paper

The Group produces 47G–140G high-strength corrugated paper and liner paper products. While some of these are used as raw materials for our paper-based packaging products, they are mostly sold to cardboard manufacturers and carton packaging manufacturers in the Pearl River Delta region of Guangdong. Customers of the Group's paper-making business segment spread across Guangdong, Jiangxi, Fujian, Chaoshan, and other regions; the total number of which is currently over 389. Our 47g corrugated paper products launched this year swiftly entered the market, increasing the variety of our paper products and establishing a solid foundation for business expansion. Due to falling selling prices and rising costs of raw and auxiliary materials, energy and so on, the profit margin is sharply reduced. The sales revenue of paper products during the period was RMB2,281,249,000, with the gross margin dropping to 8.08%.

FINANCIAL REVIEW

For the year ended 31 December 2022, the revenue of the Group was approximately RMB3,013,957,000 (2021: RMB3,558,009,000), representing a decrease of approximately RMB544,052,000 or 15.29% as compared with the same period of last year. The sales volume in the paper-making sector decreased by approximately 8.48% compared with last year, and the sales unit price decreased by approximately 5.35%, while the sales volume and sales unit price of the packaging sector decreased by approximately 19.81% and 1.18% respectively. The Group's gross profit margin in 2022 was 11.34% (2021: approximately 19.03%), a decrease of 7.69 percentage points as compared with the same period of last year.

Cost of sales

The Group's cost of sales decreased from RMB2,881,037,000 in 2021 to RMB2,672,227,000 in 2022, representing a decrease of 7.25%.

Packaging paper

The cost of sales of packaging paper were RMB2,097,018,000 (2021: RMB2,130,398,000), representing a decrease of 1.57%.

Paper-based packaging products

The cost of sales of paper-based packaging products were RMB575,209,000 (2021: RMB750,639,000), representing a decrease of 23.37%.

Gross profit and gross profit margin

For the Year, the gross profit recorded RMB341,730,000, representing a decrease of 49.52% as compared with RMB676,972,000 in Year 2021. The average gross profit margin decreased from 19.03% in Year 2021 to 11.34% for the Year, primarily due to the decreased market demand for paper-based packaging product as a result of sluggish consumption under the influence of the COVID-19 pandemic and other factors, leading to the decrease in sales price of packaging paper under the imbalance between supply and demand. Meanwhile, affected by the Russo-Ukrainian war, energy costs rose significantly. The marginal efficiency of the paper manufacturing sector of the Group dropped significantly compared with previous years.

Packaging paper

For the Year, the gross profit from packaging paper was RMB184,231,000 (2021: RMB503,005,000), representing a decrease of 63.37%. The overall gross profit margin for 2022 was 8.08% (2021: 19.10%), decreased by 11.02 percentage points.

Paper-based packaging products

For the Year, the gross profit from paper-based packaging products was RMB157,499,000 (2021: RMB173,967,000), representing a decrease of 9.47%. The overall gross profit margin for 2022 was 21.50% (2021: 18.82%), increased by 2.68 percentage points.

Other income, other gains and losses

Other income, other gains and losses mainly included income from interest of RMB3,731,000 (2021: RMB4,573,000), government subsidies of RMB125,881,000 (2021: RMB41,603,000) and net amount of exchange losses of RMB3,526,000 (2021: net amount of exchange loss RMB2,670,000).

Distribution and selling expenses

The distribution and selling expenses of the Group decreased by approximately 6.56% from RMB98,569,000 for the Year 2021 to RMB92,103,000 for the Year. During the Year, the distribution and selling expenses mainly included salaries of salesmen, transportation costs and business promotion expenses. The decrease in distribution and selling expenses was attributable to the substantial decrease in the Group's sales during the year.

Administrative expenses

Administrative expenses of the Group decreased by approximately 22.48% from RMB169,821,000 for the Year 2021 to RMB131,637,000 for the Year. The administrative and other expenses mainly included salaries of management, staff welfare, rent and depreciation.

Finance costs

Finance costs of the Group decreased by approximately 5.14% from RMB62,831,000 for the Year 2021 to RMB59,600,000 for the Year. It was mainly due to the decrease in the Group's bank loan amount and the decrease in the Group's interest rate on bank loans during the year.

Research and development expenses

Research and development expenses of the Group decreased from RMB131,116,000 (about 3.69% of sales revenue) in the Year 2021 to RMB116,388,000 (about 3.86% of sales revenue) for the Year.

Profit and total comprehensive income

During the Year, the Group's profit and total comprehensive income was RMB68,604,000. The profit and total comprehensive income for the year attributable to owners of the Company was RMB47,167,000, representing a decrease of 70.67% as compared with RMB160,841,000 in 2021.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2022, the Group had a net cash inflow of RMB50,259,000.

Inventories

As at 31 December 2022, the inventories of the Group increased by 2.27% to RMB228,353,000 as compared to the inventories balance of RMB223,283,000 as at 31 December 2021. During the Year, the inventory turnover day was approximately 30 days (2021: 25 days), remaining at a normal level.

Trade receivables not backed by bills

As at 31 December 2022, the trade receivables not backed by bills amounted to RMB423,150,000 (as at 31 December 2021: RMB585,425,000). The Group 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 wrapping paper customers. The trade receivables turnover days was approximately 61 days (2021: 56 days).

Trade receivables backed by bills

As at 31 December 2022, the trade receivables backed by bills receivables amounted to RMB324,100,000 (31 December 2021: RMB465,399,000).

Trade payables

As at 31 December 2022, the trade payables amounted to RMB173,872,000 (as at 31 December 2021: RMB114,341,000). 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 extended to 19 days (2021: 16 days).

Borrowings

As at 31 December 2022, the Group's bank and other borrowings balance amounted to RMB1,054,185,000 (as at 31 December 2021: RMB1,191,454,000).

Gearing ratio

As at 31 December 2022, the gross gearing ratio was approximately 35.33% (as at 31 December 2021: 39.27%), which was calculated on the basis of the total amount of bank and other borrowings as a percentage of the total assets. The net gearing ratio was 63.78%, which was calculated on the basis of the amount of bank and other borrowings less pledged bank deposits and cash and bank balances as a percentage of the shareholders' equity (as at 31 December 2021: 78.23%).

Pledge of assets

As at 31 December 2022, the Group pledged certain assets with carrying value of RMB1,155,148,000 as collateral for the Group's borrowings (as at 31 December 2021: RMB940,077,000).

Capital commitments

As at 31 December 2022, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB36,367,000 (as at 31 December 2021: RMB212,752,000). All the capital commitments were related to purchase of properties, plants and equipment.

Contingent liabilities

As at 31 December 2022, the Group had no significant contingent liabilities or litigation or arbitration of material importance.

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 Board, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

DIVIDENDS

The Board has recommended, subject to the approval of the Shareholders at the Annual General Meeting (the "AGM"), the payment of a final dividend of RMB1.42 cents (equivalent to HKD1.6 cents) per Share for the year ended 31 December 2022 (2021: a final dividend of RMB9.00 cents per Share) to those Shareholders whose names appear on the register of members of the Company on Wednesday, 28 June 2023. The recommended final dividend, if approved at the AGM on Friday, 23 June 2023, 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 31 March 2023. The final dividend is expected to be paid on or around Wednesday, 12 July 2023.

PROSPECTS

In 2023, the influence of geopolitics will continue, and global inflation will remain high. However, with the relaxation of pandemic prevention and control in China, the scientific optimization of pandemic prevention measures, and the full liberalization of economic activities, China will prioritize the recovery and expansion of consumption to boost the confidence in economic growth. After the pandemic, China's economy is expected to return to the medium-to-long-term growth path and develop in the direction of high value-added and high-quality. The Shenzhen-Hong Kong port will resume normal personnel exchanges between the mainland and Hong Kong in a phased and orderly manner, which will further promote the economic recovery of the Greater Bay Area. At the same time, the consumer goods market will be extensively upgraded. The mid-to-high-end service consumer goods market will bring new opportunities and development to the Group's business.

In 2023, the Group will continue to strengthen the upstream and downstream integration of the packaging and paper production industry chain and create core competitive products that can continue to create value for our customers.

With the gradual deepening of the layout of new products and new businesses in exquisite color box packaging, the market share of color box packaging will be further expanded, and the profit margin of our packaging business will be increased at the same time. The traditional packaging business will gradually recover with a steady rate. We will vigorously promote the automated production system, comprehensively upgrade the smart factory, comprehensively improve production efficiency, optimize the process, and reduce enterprise management costs in order to maintain profitability for the Group. In addition, the implementation of the "Plastic Restriction Order" in Mainland China and the increase in alternative demand caused by the plastic ban order have been a favorable news for the paper packaging industry.

Regarding our paper production business, in 2023, with the government's further emphasis on "steady growth", the demand from consumer end is expected to improve, but the introduction of new policies that reduce tariffs on certain finished papers and pulp to zero have led to reduced price of paper products and intensification of market competition. In response to this market change, the Group will continue to strengthen the optimization of internal business structure, continue to implement energy-saving and consumption-reducing measures, continue to explore new product development and innovation, actively respond, actively deploy upstream, improve its own strength while achieving corporate sustainability.

The Group also pays close attention to investment projects with notable prospects. The Group will achieve a steady development on the basis of maintaining a reasonable capital structure and strive to create higher returns for shareholders.

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 Rules Governing the Listing of Securities (the “**Listing Rules**”). All the Directors, after specific enquired 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 as set out in the Corporate Governance Code (the “**CG Code**”) contained 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

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

EVENTS AFTER THE REPORTING PERIOD

As at the date of this annual results announcement, there is no other material change or major event required to be disclosed by the Company after 31 December 2022.

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 2022 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 the 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 2023. 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.

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, 19 June 2023 to Friday, 23 June 2023 (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, Computershare Hong Kong Investor Services Limited, at Level 17, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 16 June 2023.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Thursday, 29 June 2023 to Monday, 3 July 2023 (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, Computershare Hong Kong Investor Services Limited, at Level 17, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 28 June 2023. The final dividend will be paid to shareholders on or around Wednesday, 12 July 2023.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

APPRECIATION

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

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

Hong Kong, 31 March 2023

As at the date of this announcement, the Board comprised Mr. Hu Zheng, Mr. Hu Hancheng (Mr. Hu Jianjun as his alternate), Mr. Hu Hanchao (Mr. Tan Xijian as his alternate) and Mr. Hu Jianpeng as executive Directors, Ms. Hu Jianwen 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.