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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 2023

#### FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue	<b>2,390,517</b>	3,013,957
Gross Profit Margin	<b>11.29%</b>	11.34%
EBITDA	<b>157,063</b>	263,428
(Loss) Profit and Total Comprehensive (Expense) Income for the Year Attributable to the Owners of the Company	<b>(17,553)</b>	47,167
(Loss) Return on Equity Attributable to the Owners of the Company	<b>(1.61%)</b>	4.24%
(Loss) Earnings per Share (Basic) – RMB	<b>(0.04)</b>	0.09
Recommended Final Dividend – HKD per Share	<b>1.10 cents</b>	1.6 cents

- The Board had resolved to recommend the payment of a final dividend of RMB1.00 cents (equivalent to HKD1.10 cents) per Share for the year ended 31 December 2023 (2022: a final dividend of RMB1.42 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 2023 (the “**Year**” or “**Year under review**”) together with the comparative figures for the corresponding year ended 31 December 2022 (the “**Year 2022**”) as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	NOTES	2023 RMB'000	2022 RMB'000
Revenue	3	2,390,517	3,013,957
Cost of sales		<u>(2,120,521)</u>	<u>(2,672,227)</u>
Gross profit		269,996	341,730
Other income	4	83,835	138,337
Impairment losses under expected credit loss model, net of reversal	5	419	2,146
Other gains and losses	5	(2,047)	(4,343)
Distribution and selling expenses		(86,334)	(92,103)
Administrative expenses		(138,972)	(131,637)
Finance costs	6	(52,434)	(59,600)
Other expenses		(1,906)	(1,275)
Research and development costs		<u>(90,235)</u>	<u>(116,388)</u>
(Loss) profit before tax	7	(17,678)	76,867
Income tax credit (expense)	8	<u>836</u>	<u>(8,263)</u>
(Loss) profit and total comprehensive (expense) income for the year		<u><u>(16,842)</u></u>	<u><u>68,604</u></u>
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(17,553)	47,167
Non-controlling interests		<u>711</u>	<u>21,437</u>
		<u><u>(16,842)</u></u>	<u><u>68,604</u></u>
(Loss) earnings per share			
Basic (RMB)	10	<u><u>(0.04)</u></u>	<u><u>0.09</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

		2023	2022
	NOTES	RMB'000	RMB'000
<b>Non-current Assets</b>			
Property, plant and equipment		1,387,695	1,370,453
Right of use assets		165,758	174,010
Intangible assets		13,772	12,616
Deferred tax assets		1,046	335
Deposits for acquisition of property, plant and equipment		26,655	31,037
		<u>1,594,926</u>	<u>1,588,451</u>
<b>Current Assets</b>			
Inventories		205,308	228,353
Trade and other receivables	11	833,939	805,278
Contract assets		10,824	9,377
Tax recoverable		196	8,348
Pledged bank deposits		93,340	64,016
Bank balances and cash		253,915	279,840
		<u>1,397,522</u>	<u>1,395,212</u>
<b>Current Liabilities</b>			
Trade and other payables	12	428,982	356,910
Consideration payables		–	5,809
Tax liabilities		555	2,219
Bank and other borrowings		802,506	870,919
Lease liabilities		4,539	5,119
Contract liabilities		10,133	7,158
Amounts due to directors		94,168	46,746
		<u>1,340,883</u>	<u>1,294,880</u>
<b>Net Current Assets</b>		<u>56,639</u>	<u>100,332</u>
<b>Total Assets Less Current Liabilities</b>		<u><u>1,651,565</u></u>	<u><u>1,688,783</u></u>

		2023	2022
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Capital and Reserves</b>			
Share capital	13	41,655	41,655
Share premium and reserves		<u>1,047,381</u>	<u>1,072,034</u>
Equity attributable to owners of the Company		<b>1,089,036</b>	1,113,689
Non-controlling interests		<u>281,602</u>	<u>288,867</u>
<b>Total Equity</b>		<u><b>1,370,638</b></u>	<u>1,402,556</u>
<b>Non-current Liabilities</b>			
Deferred tax liabilities		4,989	6,087
Amounts due to directors		–	44,640
Bank and other borrowings		219,556	183,266
Lease liabilities		23,001	25,915
Deferred income		<u>33,381</u>	<u>26,319</u>
		<u>280,927</u>	<u>286,227</u>
		<u><b>1,651,565</b></u>	<u>1,688,783</u>

## 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 NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

#### **New and amendments to HKFRSs that are mandatorily effective of the current year**

In the current year, the Group has applied the following new and 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 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	<i>Insurance Contracts</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two model Rules</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>

Except as described below, the application of the new and 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 HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

The Group has applied the amendments for the first time in the current year. The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision:

- (i) the Group has applied the new accounting policy retrospectively to leasing transactions and provisions for decommissioning and restoration that occurred on or after 1 January 2022;
- (ii) the Group also, as at 1 January 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance.

#### ***Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies***

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* 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 has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in note 3 to the consolidated financial statements.

#### **Amendments to HKFRSs in issue but not yet effective**

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

Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>1</sup>
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> <sup>2</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i> <sup>2</sup>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i> <sup>2</sup>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i> <sup>2</sup>
Amendments to HKAS 21	<i>Lack of Exchangeability</i> <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2024.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2025.

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other amendments to HKFRSs will have no material impact on the 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 January 1, 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after January 1, 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 2023, and the related terms and conditions stipulated in the agreements between the Group and the relevant lenders, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group’s liabilities.

### 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.

#### (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 2023*

	<b>Packaging paper RMB'000</b>	<b>Paper-based packaging RMB'000</b>	<b>Total RMB'000</b>
<b>REVENUE</b>			
External sales	1,728,660	661,857	2,390,517
Inter-segment sales	76,729	–	76,729
Segment revenue	<u>1,805,389</u>	<u>661,857</u>	2,467,246
Eliminations			<u>(76,729)</u>
Group revenue			<u>2,390,517</u>
Segment (loss) profit	<u>(19,526)</u>	<u>10,942</u>	(8,584)
Unallocated other income			353
Unallocated corporate expenses			<u>(9,447)</u>
Loss before tax			<u>(17,678)</u>



Other segment information included in the measurement of segment results:

	<b>Packaging paper RMB'000</b>	<b>Paper-based packaging RMB'000</b>	<b>Total RMB'000</b>
Depreciation on property, plant and equipment	83,440	25,212	108,652
Depreciation on right-of-use assets	8,758	2,200	10,958
Amortisation of intangible assets	3,106	–	3,106
	<hr/>	<hr/>	<hr/>
Total depreciation and amortisation	95,304	27,412	122,716
Less: Amount capitalised in inventories	(57,522)	–	(57,522)
Less: Amount capitalised in intangible assets	(409)	–	(409)
	<hr/>	<hr/>	<hr/>
	37,373	27,412	64,785
Impairment losses recognised (reversed) on trade and other receivables	1,277	(1,696)	(419)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*For the year ended 31 December 2022*

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

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 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
	<hr/>	<hr/>	<hr/>
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)
	<hr/>	<hr/>	<hr/>
	42,304	26,702	69,006
Impairment losses reversed on trade and other receivables	(556)	(1,590)	(2,146)
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The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represented the profit earned by/loss from 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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Corrugated medium paper AA grade	1,383,350	1,787,161
Corrugated medium paper C grade	32	126
Craft paper	345,278	493,962
Craft box	461,448	572,383
Honeycomb paper	64,419	66,257
Color printing box	105,303	91,559
Color box packaging	30,687	2,509
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	2,390,517	3,013,957
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**(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 2023 and 2022, 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**

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest income from bank deposits	4,232	3,616
Imputed interest income from rental deposits	86	115
Management fee income	82	74
Net income from sales of scrap materials	2,439	4,323
Government grants related to income ( <i>note</i> )	72,814	113,771
Government grants amortised from deferred income	3,400	12,110
Sundry income	782	4,328
	<hr/>	<hr/>
Total	<b>83,835</b>	<b>138,337</b>

*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**

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Exchange loss, net	904	3,526
Loss on disposals of property, plant and equipment, net	1,381	817
Others	(238)	–
	<hr/>	<hr/>
	<b>2,047</b>	<b>4,343</b>

**6. FINANCE COSTS**

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest on:		
Bank and other borrowings	46,034	51,742
Lease liabilities	1,897	2,138
Amounts due to directors	4,382	5,470
Others	121	250
	<hr/>	<hr/>
	<b>52,434</b>	<b>59,600</b>

## 7. (LOSS) PROFIT BEFORE TAX

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Depreciation of property, plant and equipment	108,652	109,816
Depreciation of right-of-use assets	10,958	15,370
Amortisation of intangible assets	3,106	2,313
	<hr/>	<hr/>
Total depreciation and amortisation	122,716	127,499
Less: Amount capitalised in inventories	(57,522)	(57,955)
Less: Amount capitalised in intangible assets	(409)	(538)
	<hr/>	<hr/>
	64,785	69,006
	<hr/>	<hr/>
Auditor's remuneration	1,689	1,965
Cost of inventories recognised as an expense (including write-down of inventories amounting to RMB612,000 (2022: RMB1,374,000))	1,963,066	2,555,821
Staff costs		
– directors' and chief executive's emoluments	5,977	5,744
– salaries and other benefits costs for staff other than directors and chief executive	256,532	253,524
– retirement benefits schemes contributions for staff other than directors and chief executive	24,543	22,229
	<hr/>	<hr/>
Total staff costs	287,052	281,497
Less: Amount capitalised in inventories	(59,334)	(55,633)
Less: Amount capitalised in intangible assets	(643)	(1,604)
	<hr/>	<hr/>
	227,075	224,260
	<hr/> <hr/>	<hr/> <hr/>

## 8. INCOME TAX (CREDIT) EXPENSE

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
PRC Enterprise Income Tax:		
Current tax	407	131
Overprovision in prior years	<u>(1,384)</u>	<u>(3,156)</u>
	(977)	(3,025)
Withholding tax	1,950	3,050
Deferred tax	<u>(1,809)</u>	<u>8,238</u>
	<u><u>(836)</u></u>	<u><u>8,263</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 RMB3 million of taxable profit of the qualifying group entities will be taxed at 5% (2022: The first RMB1 million of taxable profit of the qualifying group entities will be taxed at 2.5% and taxable profit above RMB1 million but less than RMB3 million will be taxed at 5%).

## 9. DIVIDEND

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
2022 Final – RMB1.42 cents (2022: 2021 Final – RMB9 cents) per share	<u><u>7,100</u></u>	<u><u>45,000</u></u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2023 of RMB1 cents (2022: final dividend in respect of the year ended 31 December 2022 of RMB1.42 cents) per ordinary share, in an aggregate amount of RMB5,000,000 (2022: RMB7,100,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

## 10. (LOSS) EARNINGS PER SHARE

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>(Loss) earnings</b>		
(Loss) profit for the year attributable to owners of the Company for the purpose of basic (loss) earnings per share	<u>(17,553)</u>	<u>47,167</u>
<b>Number of shares</b>		
Number of ordinary shares for the purpose of basic (loss) earnings per share	<u>500,000,000</u>	<u>500,000,000</u>

No diluted loss/earnings per share for both 2023 and 2022 were presented as there were no potential ordinary shares in issue for both 2023 and 2022.

## 11. TRADE AND OTHER RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables not backed by bills	307,594	428,505
Less: allowance for credit losses	<u>(3,049)</u>	<u>(5,355)</u>
	<u>304,545</u>	<u>423,150</u>
Trade receivables backed by other bills	80,256	166,972
Less: allowance for credit losses	<u>(215)</u>	<u>(121)</u>
	<u>80,041</u>	<u>166,851</u>
Total trade receivables not backed by bank bills	387,850	595,477
Less: allowance for credit losses	<u>(3,264)</u>	<u>(5,476)</u>
	<u>384,586</u>	<u>590,001</u>
Trade receivables backed by bank bills	397,225	157,703
Less: allowance for credit losses	<u>(776)</u>	<u>(454)</u>
	<u>396,449</u>	<u>157,249</u>
Total trade receivables	<u>781,035</u>	<u>747,250</u>
Advances to suppliers	16,025	14,382
Prepayments	4,364	4,345
Other receivables	32,808	39,442
Less: allowance for credit losses	<u>(293)</u>	<u>(141)</u>
	<u>52,904</u>	<u>58,028</u>
Total trade and other receivables	<u>833,939</u>	<u>805,278</u>

As at 1 January 2022, trade receivables from contracts with customers amounted to RMB1,050,824,000.

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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
0–60 days	256,266	331,971
61–90 days	17,286	33,527
91–180 days	28,119	53,378
Over 180 days	2,874	4,274
	<u>304,545</u>	<u>423,150</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 2023 will be disclosed in the consolidated financial statements of the Group.

## 12. TRADE AND OTHER PAYABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables	234,277	173,872
Bills payables – secured	92,086	68,013
Other tax payables ( <i>note</i> )	35,479	51,964
Payroll and welfare payables	33,790	24,639
Construction payables	–	5,192
Others	33,350	33,230
	<u>428,982</u>	<u>356,910</u>

*Note:* Included in other tax payables is provision for value-added tax amounting to RMB32,732,000 (2022: RMB48,469,000).

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.

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
0–60 days	131,245	87,452
61–90 days	19,663	24,816
91–180 days	19,578	32,445
Over 180 days	63,791	29,159
	<u>234,277</u>	<u>173,872</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>
<b>Ordinary shares of HK\$0.10 each</b>		
Authorised:		
At 1 January 2022, 31 December 2022, and 31 December 2023	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
At 1 January 2022, 31 December 2022, and 31 December 2023	<u>500,000,000</u>	<u>50,000,000</u>
		<i>RMB'000</i>
Presented as at 31 December 2022 and 2023		<u>41,655</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In 2023, under the backdrop of the prolonged impact of the COVID-19 pandemic, escalating geopolitical conflicts, and complex changes in the international situation, China's macroeconomic situation entered a period of recovery after the pandemic. In the first half of the year, the Company faced triple pressures of shrinking demand, supply shocks, and weakening expectations. To address the new circumstances and challenges, China made significant adjustments to its macroeconomic policies. With the effective drive of proactive fiscal policies and prudent monetary policies, economic sentiment rebounded after the third quarter, achieving moderate growth for the year as a whole.

The paper and paper packaging products industry has always been regarded as a barometer of consumption. In the first half of the year, due to the weakening of China's domestic consumption demand and severe imbalances in supply and demand, the Group's business suffered significant impacts, particularly in the paper manufacturing business. In the first half of the year, the unit price of products continued to decline, coupled with the excessive energy costs incurred by the predominant use of natural gas, leading to an annual loss in the Group's paper manufacturing business. In the second half of the year, with the recovery of domestic consumption, the paper industry was further revitalized. From the fourth quarter onwards, paper prices stabilized and rebounded, sales of paper production increased, and the overall business of the Group expanded. Furthermore, the Company increased the steam supply of biomass boilers to reduce energy costs, significantly improving the Group's profitability.

#### **Paper manufacturing segment**

The Group's paper production products mainly include corrugated medium paper and craft paper.

The Group produces 42 g/cm<sup>2</sup>–140 g/cm<sup>2</sup> high-strength corrugated medium paper and 70g/cm<sup>2</sup>–140g/cm<sup>2</sup> craft paper. 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 nearly 400.

In the year 2023, the Group's paper production business achieved a revenue of RMB1,728,660,000 a significant decrease of 24.22% compared to the revenue of RMB2,281,249,000 for the corresponding period last year. During the period, the gross profit margin of the paper production business decreased to 6.98% from 8.08% for the corresponding period last year. The gross profit amount significantly decreased as compared to the last year for RMB63,642,000. The Group's paper production business recorded an annual loss for the first time.

In the first half of 2023, facing a severe imbalance in the overall market supply and demand, the Group's paper manufacturing sector persisted in product research and development, continuously optimized production costs and expenses, and enhanced product market competitiveness, enabling the Group's paper products to achieve a balance between production and sales. In the second half of 2023, as the consumer market experienced a turnaround, the Group's paper manufacturing sector business witnessed stable and substantial growth. With the increased of biomass boilers steam supply, energy costs were effectively reduced, leading to a significant improvement in the profitability of the Group's paper manufacturing.

### **Packaging segment**

The Group's paper packaging products include exquisite color box packaging, color printing corrugated cartons, corrugated cartons and honeycomb paper-based Products.

The Group's paper packaging products mainly serve large home appliance companies, major fast-moving consumer goods companies in the food sector, high-tech electronics products, daily chemical products and cosmetics, as well as the wine industry and other high-end manufacturing enterprises. The Group continues to ensure high-quality product supply and excellent after-sales service, aiming to enhance customer trust, gain the favor of multiple brand customers, and maintain long-term stable cooperation.

During the review period, the Group's paper packaging business recorded a revenue of RMB661,857,000, a decrease of 9.67% as compared to RMB732,708,000 for the corresponding period last year. Among them, revenue from Craft box, Color printing box, Honeycomb paper, Color box packaging reached RMB461,448,000, RMB105,303,000, RMB64,419,000, and RMB30,687,000 respectively (In 2022: RMB572,383,000, RMB91,559,000, RMB66,257,000, and RMB2,509,000 respectively). Due to the significant 21.5% decrease in the price of raw paper during the review period, the gross profit margin of the paper packaging business for the period was 22.57%, representing an increase of 1.07% as compared to the corresponding period last year.

### **PROSPECTS**

Looking ahead to 2024, with the steady recovery of the Chinese economy and continuous policy support, the effects of growth-stabilizing policies will continue to manifest. Domestic demand is expected to sustain recovery, and the Chinese economy will gradually return to its potential growth rate, further consolidating its foundation of stable and positive development.

In 2024, in the paper manufacturing sector, the Group will continue to invest in the research and development of low-grammage high-strength corrugated paper products, strengthen technological innovation, and improve supply chain management. Through technological transformation, we will further enhance the operational efficiency of paper machines, strengthen product competitiveness, and continue to increase the market share of our company's low-grammage high-strength corrugated paper products in the Greater Bay Area. The Company is committed to becoming an influential producer of high-strength low-grammage corrugated paper in South China. In the packaging sector, the Company will continue to expand its customer base in industries such as home appliances and fast-moving consumer goods, and steadily promote the expansion of new packaging capacity in the Greater Bay Area. We will also increase investment in digitized and intelligent production facilities, accelerate industrial upgrading, and aim for steady growth in the sales of our paper packaging products while the industry rebounds. Our goal is to continue moving towards becoming a leading paper packaging enterprise in the Greater Bay Area.

## **FINANCIAL REVIEW**

For the year ended 31 December 2023, the revenue of the Group was approximately RMB 2,390,517,000 (2022: RMB 3,013,957,000), representing a decrease of approximately 20.69% as compared to the corresponding period last year. Mainly due to the sales revenue from paper production segment significantly decreased by 24.22%, sales volume in the paper production product decreased by approximately 14.7% as compared to last year, sales unit price decreased by approximately 11.17%.

The Group's gross profit margin in 2023 was 11.29% (2022 the corresponding period: approximately 11.34%), basically staying level as compared to the corresponding period last year. Due to the impact of the Group's paper production business's gross profit amount significantly decreased by RMB63,642,000 as compared to the last year, the Group recorded operation loss for the first time.

For the year ended 31 December 2023, the loss attributable to owners of the Company during the year is RMB17,553,000.

## **Cost of sales**

The Group's cost of sales decreased from RMB2,672,227,000 in 2022 to RMB2,120,521,000 in 2023, representing a decrease of 20.65%.

### ***Packaging paper***

The cost of sales of packaging paper in 2023 were RMB1,608,071,000 (2022: RMB2,097,018,000), representing a decrease of 23.32%.

### ***Paper-based packaging products***

The cost of sales of paper-based packaging products in 2023 were RMB512,450,000 (2022: RMB575,209,000), representing a decrease of 10.91%.

## **Gross profit and gross profit margin**

For the Year 2023, the gross profit recorded RMB269,996,000, representing a decrease of 20.99% as compared with RMB341,730,000 in the same period of Year 2022. The average gross profit margin decreased from 11.34% in Year 2022 to 11.29% 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 2023, the gross profit from packaging paper was RMB120,589,000 (2022: RMB184,231,000), representing a decrease of 34.54%. The overall gross profit margin for 2023 was 6.98% (2022: 8.08%), decreased by 1.1 percentage points.

### ***Paper-based packaging products***

For the Year 2023, the gross profit from paper-based packaging products was RMB149,407,000 (2022: RMB157,499,000), representing a decrease of 5.14%. The overall gross profit margin for 2023 was 22.57% (2022: 21.50%), increased by 1.07 percentage points.

## **Other income, other gains and losses**

Other income, other gains and losses mainly included income from interest of RMB4,318,000 (2022: RMB3,731,000), government subsidies of RMB76,214,000 (2022: RMB125,881,000) and net amount of exchange losses of RMB904,000 (2022: net amount of exchange loss RMB3,526,000).

### **Distribution and selling expenses**

The distribution and selling expenses of the Group decreased by approximately 6.26% from RMB92,103,000 for the Year 2022 to RMB86,334,000 for the Year 2023. 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 increased by approximately 5.57% from RMB131,637,000 for the Year 2022 to RMB138,972,000 for the Year 2023. 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 12.02% from RMB59,600,000 for the Year 2022 to RMB52,434,000 for the Year 2023. 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 RMB116,388,000 (approximately 3.86% of sales revenue) in the Year 2022 to RMB90,235,000 (approximately 3.77% of sales revenue) for the Year 2023.

### **Profit and total comprehensive (expense) income**

During the year, the total loss attributable to equity holders of the Group was RMB16,842,000. The annual loss attributable to owners of the Company was RMB17,553,000, a decrease of 137.21% from the profit attributable to owners of the Company in 2022 to RMB47,167,000.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

### **Cash flow**

For the year ended 31 December 2023, the operational activity net cash outflow amounted to RMB120,773,000 (2022 net cash inflow: RMB148,762,000).

For the year 2023, the net cash outflow used for investment activity amounted to RMB150,039,000, mainly including capital expenditures paid for the acquisition and construction of long-term assets of the enterprise.

For the year 2023, the net cash inflow used for finance activity amounted to RMB244,887,000, mainly including the income from borrowing obtained in the course of business activities of the enterprise and expenditures for repayment of borrowings.

As at 31 December 2023, the net cash outflow of the Group amounted to RMB25,925,000 (For the same period in 2022, the net cash inflow of the Group: RMB50,259,000).

The IFRS Interpretation Committee (IFRIC) meeting in December 2020 has made an agenda decision on the impact of the application of financial reporting standard in cash flows. It clarified how to present the liabilities for the payment of goods or services received and the settlement-related cash flow generated by the financing arrangement of the supplier under the consolidated statement of financial position and the consolidated statement of cash flows. The direct settlement of trade-related payables by the relevant financier constitutes a non-cash transaction. Subsequent settlement between the entity and the financier shall be regarded as repayment of borrowings and reported under the financing activities item in the consolidated statement of cash flows. The agenda decision also includes content that in the context of supplier financing arrangements, the accounting policies related to the presentation of the consolidated statement of cash flows have been reassessed. When the bills discount arrangement does not meet the conditions for de-recognition of receivables, it will be presented in cash inflow from financing activities in the consolidated statement of cash flows.

For the year ended 31 December 2023, the net cash from operating activities would have been increased by approximately RMB418,571,000 (2022: RMB324,627,000) and the net cash from financing activities would have been decreased by RMB418,571,000 (2022: RMB324,627,000), if the Group has not applied the accounting policies.

### **Trade receivables not backed by bills**

As at 31 December 2023, the trade receivables not backed by bills amounted to RMB304,545,000 (as at 31 December 2022: RMB423,150,000). 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 55 days (2022: 61 days).

### **Trade receivables backed by bills**

As at 31 December 2023, the trade receivables backed by bills receivables amounted to RMB476,490,000 (31 December 2022: RMB324,100,000).

### **Trade payables**

As at 31 December 2023, the trade payables amounted to RMB234,277,000 (as at 31 December 2022: RMB173,872,000). 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 35 days (2022: 19 days).

### **Borrowings**

As at 31 December 2023, the Group's bank and other borrowings balance amounted to RMB1,022,062,000 (as at 31 December 2022: RMB1,054,185,000).

### **Gearing ratio**

As at 31 December 2023, the gross gearing ratio was approximately 34.15% (as at 31 December 2022: 35.33%), 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 61.96%, 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 2022: 63.78%).

### **Pledge of assets**

As at 31 December 2023, the Group pledged certain assets with carrying value of RMB895,429,000 as collateral for the Group's borrowings (as at 31 December 2022: RMB1,155,148,000).

### **Capital commitments**

As at 31 December 2023, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB12,611,000 (as at 31 December 2022: RMB36,367,000). All the capital commitments were related to acquisition of property, plant and equipment.

### **Contingent liabilities**

As at 31 December 2023, 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 of the Company (the “**AGM**”), the payment of a final dividend of RMB1.00 cents (equivalent to HKD1.10 cents) per Share for the year ended 31 December 2023 (2022: a final dividend of RMB1.42 cents per Share) to those Shareholders whose names appear on the register of members of the Company on Wednesday, 3 July 2024. 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 calculated using the opening indicative counter buying telegraphic transfer rate for off-shore RMB of The Hong Kong Association of Banks announced on 27 March 2024. The final dividend is expected to be paid on or around Friday, 12 July 2024.

## **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 C3 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 C1 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 2023.

## **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 2023 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, 21 June 2024. A notice convening the AGM will be published 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 Tuesday, 18 June 2024 to Friday, 21 June 2024 (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 Shops 1712–16, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 17 June 2024.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Thursday, 27 June 2024 to Tuesday, 2 July 2024 (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 Shops 1712–16, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 26 June 2024. The final dividend will be paid to shareholders on or around Friday, 12 July 2024.

## **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 published 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, 27 March 2024

*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), Mr. Hu Jianpeng and Ms. Chen Wei 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.*