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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 2021**

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue	3,558,009	2,493,041
Gross Profit Margin	19.03%	15.68%
EBITDA	417,080	226,952
Total Comprehensive Income for the Year Attributable to the Owners of the Company	160,841	54,772
Return on Equity Attributable to the Owners of the Company	14.47%	5.67%
Earnings per Share (Basic) – RMB	0.32	0.11
Recommended Final Dividend – HKD per share	10.9197 cents	3.525 cents

- The Board had resolved to recommend the payment a final dividend of RMB9.00 cents (equivalent to HKD10.9197 cents) per Share for the Year (2020: a final dividend of RMB3.00 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 2021 (the “**Year**” or “**Year under review**”) together with the comparative figures for the corresponding year ended 31 December 2020 (the “**Year 2020**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>NOTES</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	3	3,558,009	2,493,041
Cost of sales		<u>(2,881,037)</u>	<u>(2,102,176)</u>
Gross profit		676,972	390,865
Other income	4	50,715	26,287
Impairment losses under expected credit loss model, net of reversal	5	(1,288)	(5,055)
Other gains and losses	5	(26,276)	(2,201)
Distribution and selling expenses		(98,569)	(72,651)
Administrative expenses		(169,821)	(141,327)
Finance costs	6	(62,831)	(49,615)
Other expenses		(470)	(1,926)
Research and development cost		<u>(131,116)</u>	<u>(79,446)</u>
Profit before tax	7	237,316	64,931
Income tax expense	8	<u>(29,038)</u>	<u>(2,371)</u>
Profit and total comprehensive income for the year		<u>208,278</u>	<u>62,560</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		160,841	54,772
Non-controlling interests		<u>47,437</u>	<u>7,788</u>
		<u>208,278</u>	<u>62,560</u>
Earnings per share			
Basic (<i>RMB</i>)	10	<u>32 cents</u>	<u>11 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>NOTES</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current Assets			
Property, plant and equipment		1,132,113	1,040,423
Right-of-use assets		193,094	197,943
Intangible assets		5,416	4,120
Deferred tax assets		11,223	7,265
Deposits for acquisition of property, plant and equipment		29,499	30,137
		1,371,345	1,279,888
Current Assets			
Inventories		223,283	169,750
Trade and other receivables	11	1,101,478	922,741
Contract assets		15,550	18,628
Tax recoverable		323	-
Pledged bank deposits		92,368	106,401
Bank balances and cash		229,581	185,367
		1,662,583	1,402,887
Current Liabilities			
Trade and other payables	12	337,347	259,447
Consideration payables		5,818	11,956
Tax liabilities		11,521	6,461
Bank and other borrowings		1,022,356	1,025,339
Lease liabilities		15,458	14,226
Contract liabilities		8,025	3,583
Amounts due to directors		443	507
		1,400,968	1,321,519
Net Current Assets		261,615	81,368
Total Assets Less Current Liabilities		1,632,960	1,361,256

Capital and Reserves

Share capital	13	41,655	41,655
Share premium and reserves		<u>1,069,867</u>	<u>924,026</u>

Equity attributable to the owners of the Company		1,111,522	965,681
Non-controlling interests		<u>270,430</u>	<u>223,893</u>

Total Equity		<u>1,381,952</u>	<u>1,189,574</u>
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Non-current Liabilities

Deferred tax liabilities		8,737	6,787
Consideration payables		5,681	10,875
Bank and other borrowings		169,098	86,004
Lease liabilities		29,857	30,998
Deferred income		<u>37,635</u>	<u>37,018</u>

		<u>251,008</u>	<u>171,682</u>
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		<u>1,632,960</u>	<u>1,361,256</u>
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Notes:

1. GENERAL INFORMATION

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

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 share in aggregate and act in concert, are regarded as the controlling shareholders of the Company.

The principal activities of its subsidiaries are mainly engaged in manufacturing and sale of paper, paperboard and paper-based packaging products. The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**" and its principal place of business is located in the People's Republic of China ("**PRC**" or "**China**").

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

2. APPLICATION OF NEW AND REVISED 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 annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, Interest Rate Benchmark Reform – Phase 2
HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the agenda decision of the Committee 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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures ("HKFRS 7").

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortised cost.

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	<i>Insurance Contracts and the related Amendments</i> ³
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> ²
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i> ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ³
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ³
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ³
Amendments to HKAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i> ²
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ²
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018-2020</i> ²

¹ Effective for annual periods beginning on or after 1 April 2021.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective for annual periods beginning on or after a date to be determined.

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

3. REVENUE AND SEGMENT INFORMATION

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

The Group is organised into business units based on their products, based on which information is prepared and reported to the Group's chief operating decision maker (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. Corrugated medium paper: this segment produces and sells corrugated medium paper, craft paper.
2. Paper-based packaging: this segment produces and sells kraft cartons, color-printed cartons and honeycomb paper products

(a) **Segment revenue and results**

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

	For the year ended 31 December 2021		
	Corrugated medium 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	<u>310,842</u>	<u>-</u>	<u>310,842</u>
Segment revenue	<u>2,944,245</u>	<u>924,606</u>	<u>3,868,851</u>
Eliminations			<u>(310,842)</u>
Group Revenue			<u>3,558,009</u>
Segment Profit	<u>232,566</u>	<u>13,688</u>	<u>246,254</u>
Unallocated other income			614
Unallocated corporate expenses			<u>(9,552)</u>
Profit before tax			<u>237,316</u>

Other segment information included in the measurement of segment results:

	Corrugated medium paper RMB'000	Paper-based packaging RMB'000	Total RMB'000
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	<u>602</u>	<u>-</u>	<u>602</u>
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	<u>(105)</u>	<u>-</u>	<u>(105)</u>
	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	<u>22,229</u>	<u>-</u>	<u>22,229</u>

	For the year ended 31 December 2020		
	Corrugated medium paper <i>RMB '000</i>	Paper-based packaging <i>RMB '000</i>	Total <i>RMB '000</i>
REVENUE			
External sales	1,692,848	800,193	2,493,041
Inter-segment sales	<u>146,470</u>	<u>-</u>	<u>146,470</u>
Segment revenue	<u>1,839,318</u>	<u>800,193</u>	2,639,511
Eliminations			<u>(146,470)</u>
Group Revenue			<u>2,493,041</u>
Segment Profit	<u>46,415</u>	<u>22,786</u>	69,601
Unallocated other income			3,623
Unallocated corporate expenses			<u>(8,293)</u>
Profit before tax			<u>64,931</u>

Other segment information included in the measurement of segment results:

	Corrugated medium paper <i>RMB '000</i>	Paper-based packaging <i>RMB '000</i>	Total <i>RMB '000</i>
Depreciation of property, plant and equipment	68,251	23,257	91,508
Depreciation of right-of-use assets	<u>8,830</u>	<u>12,204</u>	<u>21,034</u>
Total depreciation	77,081	35,461	112,542
Less: Amount capitalised in inventories	(50,944)	-	(50,944)
Less: Amount recognised in intangible assets	<u>(136)</u>	<u>-</u>	<u>(136)</u>
	26,001	35,461	61,462
Impairment losses recognised on trade and other receivables	1,825	3,230	5,055
Impairment losses recognised on property, plant and equipment	<u>1,215</u>	<u>-</u>	<u>1,215</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment result represented the profit earned by each segment without allocation of corporate income and expenses.

(b) Information about products

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Corrugated medium paper AA grade	2,455,576	1,684,546
Corrugated medium paper C grade	1,013	8,302
Craft paper	176,814	-
Craft Box	629,385	538,250
Honeycomb paper	149,526	116,668
Colour Box	145,695	145,275
	<u>3,558,009</u>	<u>2,493,041</u>

(c) Geographic information

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

(d) Information about major customers

For the year ended 31 December 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 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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest income from bank deposits:	4,469	5,057
Imputed interest from rental deposits:	104	96
Management fee income	27	39
Net income from sales of scrap materials	2,503	1,249
Government grants related to income (<i>note</i>)	37,115	14,290
Government grants amortised from deferred income	4,488	4,100
Sundry income	<u>2,009</u>	<u>1,456</u>
Total	<u>50,715</u>	<u>26,287</u>

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

5. OTHER GAINS AND LOSSES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Exchange loss (gain), net	2,670	(1,294)
Loss on disposals of property, plant and equipment, net	1,377	2,280
Impairment losses recognised on property, plant and equipment	<u>22,229</u>	<u>1,215</u>
	<u>26,276</u>	<u>2,201</u>

6. FINANCE COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest on:		
Bank and other borrowings	58,017	45,288
Lease liabilities	4,016	3,125
Others	<u>798</u>	<u>1,202</u>
	<u>62,831</u>	<u>49,615</u>

7. PROFIT BEFORE TAX

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	96,105	91,508
Depreciation of right-of-use assets	20,331	21,034
Amortisation of intangible assets	<u>602</u>	<u>-</u>
Total depreciation and amortisation	117,038	112,542
Less: Amount capitalised in inventories	(58,820)	(50,944)
Less: Amount capitalised in intangible assets	<u>(105)</u>	<u>(136)</u>
	<u>58,113</u>	<u>61,462</u>
COVID-19-related rent concessions	-	(1,411)
Auditor's remuneration	1,950	1,950
Cost of inventories recognised as expense	2,767,047	2,028,040
Staff costs		
- directors' and chief executive's emoluments	5,504	4,975
- salaries and other benefits costs for staffs other than directors and chief executive	296,020	220,508
- retirement benefits scheme contribution for staffs other than directors and chief executive	<u>22,053</u>	<u>4,281</u>
Total staff costs	323,577	229,764
Less: Amount capitalised in inventories	(54,677)	(47,354)
Less: Amount capitalised in intangible assets	<u>(258)</u>	<u>(841)</u>
	<u>268,642</u>	<u>181,569</u>

8. INCOME TAX EXPENSE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
PRC Enterprise Income Tax:		
Current tax	27,271	3,579
Over provision in prior years	<u>(839)</u>	<u>(3,615)</u>
	26,432	(36)
Withholding Tax	4,614	1,237
Deferred tax	<u>(2,008)</u>	<u>1,170</u>
	<u>29,038</u>	<u>2,371</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 People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Certain PRC subsidiaries approved as advanced-technology enterprises by the relevant government authorities are subject to a preferential tax rate of 15%. During the year, five PRC subsidiaries approved as "small and low-profit enterprises" by the relevant government authorities are subject to a two-tiered preferential rates. The first RMB1 million of taxable profit of the qualifying group entities will be taxed at 2.5%, and taxable profit above RMB1 million will be taxed at 10%.

9. DIVIDENDS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Dividends recognized as distribution during the Year	<u>15,000</u>	<u>15,000</u>

The Directors of the Company recommend the payment of a final dividend of RMB9.00 cents (equivalent to HKD10.9197 cents) per Share for the year ended 31 December 2021 (2020: a final dividend of RMB3.00 cents per Share). The proposed dividend of approximately RMB45,000,000 will be paid on or about 13 July 2022 to those shareholders whose names appear on the Company's register of members on 30 June 2022.

This proposed final dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	<u>160,841</u>	<u>54,772</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 2021 and 2020 were presented as there were no potential ordinary shares in issue for both 2021 and 2020.

11. TRADE AND OTHER RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables not backed by bills	592,568	513,348
Less: allowance for credit losses	<u>(7,143)</u>	<u>(6,728)</u>
	585,425	506,620
Trade receivables backed by other bills	197,797	200,775
Less: allowance for credit losses	<u>(169)</u>	<u>(145)</u>
	197,628	200,630
Trade receivables not backed by bank bills	790,365	714,123
Less: allowance for credit losses	<u>(7,312)</u>	<u>(6,873)</u>
	783,053	707,250
Trade receivables backed by bank bills	268,533	172,076
Less: allowance for credit losses	<u>(762)</u>	<u>(327)</u>
	267,771	171,749
Total trade receivables	1,050,824	878,999
Advanced to suppliers	11,600	18,232
Prepayment	20,434	5,975
Other receivables	18,763	19,716
Less: allowance for credit losses	<u>(143)</u>	<u>(181)</u>
	50,654	43,742
Total trade and other receivables	1,101,478	922,741

As at 1 January 2020, trade receivables from contracts with customers amounted to RMB728,444,000.

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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0-60 days	470,595	409,324
61-90 days	49,589	42,753
91-180 days	55,421	49,197
Over 180 days	9,820	5,346
	<u>585,425</u>	<u>506,620</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 2021 will be disclosed in the consolidated financial statements of the Group.

12. TRADE AND OTHER PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	114,341	139,194
Bills payables – secured	83,630	15,829
Other tax payables	51,959	37,893
Payroll and welfare payables	43,080	35,919
Construction payables	5,668	4,341
Others	38,669	26,271
	<u>337,347</u>	<u>259,447</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0-60 days	96,334	117,537
61-90 days	5,126	5,040
91-180 days	5,093	8,456
Over 180 days	7,788	8,161
	<u>114,341</u>	<u>139,194</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>HK\$</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2020, 31 December 2020 and 31 December 2021	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
At 1 January 2020, 31 December 2020 and 31 December 2021	<u>500,000,000</u>	<u>50,000,000</u>
		<i>RMB '000</i>
Presented as: At 31 December 2020 and 2021		<u>41,655</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group offers integrated packaging solutions to notable domestic and foreign manufacturers, including those of home appliances, fast-moving consumer goods, electronic products, by providing mainly supporting paper packaging products and comprehensive customer services such as designing, printing, and logistics. In addition, we have extended our operation to the back-end of the industrial chain, utilizing recycled waste paper as raw materials to produce corrugated paper, liner paper, and other paper items for used as materials for the Group's paper packaging products and products for external sales.

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

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

Consisting currently of 9 wholly-owned subsidiaries and 2 non wholly-owned subsidiaries in different regions of China, our Group provides quality services to customers.

Our paper-based packaging products have been widely used in the packaging of home appliances, fast-moving consumer goods, electronic products for many years, which is why we have won the trust of many well-known domestic and foreign brands and have built a stable relationship with our customer base for over a decade.

Our corrugated medium paper and containerboard products have won the recognition of customers for their consistent quality and innovative design in the segmented market.

In 2021, orders for our packaging factory in Shijiazhuang dropped sharply due to the continuous impact of the COVID-19 pandemic. While the economic development of China's Greater Bay Area has made it a leader in the field of paper-based packaging, the management of the Group has decided to make the Greater Bay Area its target area for implementing the development strategy of its packaging business. During the Year, the Group has been building a new exquisite color box packaging production facility in our factory in Zhongshan, which is expected to come into operation in June 2022. Meanwhile, we have added four machineries for producing color printing cartons, which will be progressively installed and put into operation after October 2021. In the future, the Group's packaging business will further expand into the food, beverage, pharmaceutical, cosmetic and other industries to increase profitability. During the Year, the factory in Shijiazhuang has been liquidated and has resulted in a loss of approximately RMB4,469,000. Driven by the gradual improvement in the domestic epidemic situation and the increase in orders from downstream clients, our packaging segment achieved a total operating revenue of RMB924,606,000 during the period, representing a year-on-year (YoY) increase of 15.55% as compared to RMB800,193,000 in the corresponding period last year. However, due to the substantial increase in raw paper prices, profit was 39.93% lower than the previous year.

Regarding our paper production segment, due to the completion of the "coal-to-gas" project in the two paper-making bases in Guangdong and the speed-up transformation of our paper production equipment, the production and sales volumes of our products in the segment achieved a significant YoY growth of 31.08%. Meanwhile, product prices also increased 18.68% YoY. In 2021, the operating revenue of our paper production segment reached a record high of RMB2,633,403,000, representing a significant increase of 55.56% compared to RMB 1,692,848,000 in 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, and honeycomb paper-based products. The sales revenue of our paper-based packaging products was RMB924,606,000 in 2021, increasing by 15.55% as compared with RMB800,193,000 in 2020 and accounting for approximately 25.99% of the Group's sales. The gross margin of paper-based packaging products in 2021 was approximately 18.82%.

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 2021, the revenue for color printing cartons was RMB145,695,000.

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.

Corrugated medium paper:

The Group produces 48G-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 363. Our liner paper products launched this year swiftly entered the market, increasing the variety of our paper products and establishing a solid foundation for business expansion. Benefiting from the increase in production volume and price of our corrugated paper and liner paper products, the sales revenue of paper products during the period was RMB2,633,403,000, with the gross margin reaching 19.10%

Financial review

For the year ended 31 December 2021, the revenue of the Group was approximately RMB3,558,009,000 (2020: RMB2,493,041,000), representing an increase of approximately RMB1,064,968,000 or 42.72%, it was mainly due to the increase in sales of paper segment. The sales volume of products in the papermaking sector increased by 31.08% compared with last year, and the sales unit price increased by approximately 18.68%, while the sales volume and sales unit price of the packaging sector increased by approximately 10.34% and 4.72% respectively. The Group's gross profit margin in 2021 was 19.03% (2020: approximately 15.68%), an increase of 3.35 percentage points as compared with the same period of last year.

For the year ended 31 December 2021, the profit and total comprehensive income for the Year attributable to owners of the Group was RMB160,841,000 (2020: RMB54,772,000), representing an increase of RMB106,069,000, the main reason is that the volume and price of the Group's papermaking segment have increased, and the revenue has increased significantly while the control of various costs has been achieved, and the Group's gross profit has been increased substantially.

Group's Profit

For the year ended 31 December 2021, the Group's profit before tax was approximately RMB237,316,000 (2020: RMB64,931,000), representing an increase of RMB172,385,000 as compared with the same period last year.

The income tax expense was approximately RMB29,038,000 (2020: RMB2,371,000), representing an increase of RMB26,667,000 as compared with the same period last year.

Prospects

In 2022, despite the complex and volatile external environment, the continuous domestic COVID-19 outbreaks, and the expected decline in its economy, China will remain a major economic entity leading the growth of the global economy. The determination of the Chinese government to maintain a steady and speedy economic development remains unchanged. The results of the government's control in domestic epidemic situations continue to rank high among other countries. Meanwhile, China is still an important base for global production and supply. The government has been accelerating the construction of a new development scheme and increasing domestic demand, resulting in a gradually recovering consumer market to form a virtuous circle.

In 2022, the Group will continue to integrate our strengths and resources to develop its core business of packaging and paper production.

In terms of our packaging business, with the increasing demands for packaging and printing products from our downstream high-end clients, we have been upgrading our carton products into medium to high-end products. In response to such change in requirements, the Group has also increased its investment in manufacturing equipment of exquisite color box packaging as well as new products and business segments. We are also exploring new directions for the development of the paper packaging industry, introducing an automated production system and intellectualizing factories in order to significantly improve the profitability of paper packaging products.

Regarding our paper production business, the rising cost of waste paper after the waste ban of imported waste paper and the recent rise in oil, natural gas, coal, and other energy prices have led to an increase sharply in the cost of paper products. To adapt to this market change, the Group will also increase its research and development of new products and implement energy-saving measures proactively to increase production capacity and efficiency and stabilize our business performance.

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.

Partial Financial Statements Analysis

Cost of Sales

The Group's cost of sales increased from RMB2,102,176,000 in 2020 to RMB2,881,037,000, representing an increase of 37.05%.

Corrugated medium paper

The cost of sales of corrugated medium paper were RMB2,130,398,000 (2020: RMB1,460,558,000), representing an increase of 45.86%, it was mainly due to the increase in the sales of the two papermaking bases.

Paper-Based Packaging Products

The cost of sales of paper-based packaging products were RMB750,639,000 (2020: RMB641,618,000), representing an increase of 16.99%.

Gross Profit and Gross Profit Margin

For the Year, the gross profit recorded RMB676,972,000, representing an increase of 73.20% as compared with RMB390,865,000 in Year 2020. The average gross profit margin increased from 15.68% in Year 2020 to 19.03% for the Year.

Corrugated medium paper

For the Year, the gross profit from corrugated medium paper was RMB503,005,000 (2020: RMB232,290,000), representing an increase of 116.54%. The overall gross profit margin for 2021 was 19.10% (2020: 13.72%), increased by 5.38 percentage points.

Paper-Based Packaging Products

For the Year, the gross profit from paper-based packaging products was RMB173,967,000 (2020: RMB158,575,000), representing an increase of 9.70%. The overall gross profit margin for 2021 was 18.82% (2020: 19.82%), decreased by 1.00 percentage points.

Other Income, Other Gains and Losses

Other income, other gains and losses mainly included income from interest of RMB4,573,000 (2020: RMB5,153,000), government subsidies of RMB41,603,000 (2020: RMB18,390,000) and net amount of exchange losses of RMB2,670,000 (2020: net amount of exchange gains RMB1,294,000).

Distribution and selling expenses

The distribution and selling expenses of the Group increased by approximately 35.67% from RMB72,651,000 for the Year 2020 to RMB98,569,000 for the Year. During the Year, the distribution and selling expenses mainly included salaries of salesmen, transportation costs and business promotion expenses. The increase in distribution and selling expenses was attributable to the substantial increase in the Group's sales during the year.

Administrative expenses

Administrative expenses of the Group increased by approximately 20.16% from RMB141,327,000 for the Year 2020 to RMB169,821,000 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 increased by approximately 26.64% from RMB49,615,000 for the Year 2020 to RMB62,831,000 for the Year, it was mainly due to the increase in the Group's new fixed assets and bank borrowings during the year.

Research and development expenses

Research and development expenses of the Group increased RMB79,446,000 (about 3.19% of sales revenue) in the Year 2020 to RMB131,116,000 (about 3.68% of sales revenue) for the Year. The Group invests 3% - 4% of its sales revenue in research and development expenses, mainly for the development of new products and the research and development of new technology and new process to enhance production efficiency and product quality.

Profit and total comprehensive income

During the Year, the Group's profit and total comprehensive income was RMB208,278,000. The profit and total comprehensive income for the year attributable to owners of the Company was RMB160,841,000, representing an increase of 193.66% as compared with RMB54,772,000 to the profit and total comprehensive income attributable to owners of the Company for Year 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2021, the Group had a net cash inflow of RMB44,214,000.

Inventories

As at 31 December 2021, the inventories of the Group increased by 31.54% to RMB223,283,000 as compared to the inventories balance of RMB169,750,000 as at 31 December 2020. During the Year, the inventory turnover day was approximately 25 days (2020: 26 days), remaining at a normal level.

Trade receivables not backed by bills

As at 31 December 2021, the trade receivables not backed by bills amounted to RMB585,425,000 (as at 31 December 2020: RMB506,620,000). 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 56 days (2020: 75 days).

Trade receivables backed by bills

As at 31 December 2021, the trade receivables backed by bills receivables amounted to RMB465,399,000 (31 December 2020: RMB372,379,000).

Trade payables

As at 31 December 2021, the trade payables amounted to RMB114,341,000 (as at 31 December 2020: RMB139,194,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of its suppliers. The trade payables turnover days was shortened to 16 days (2020: 25 days).

Borrowings

As at 31 December 2021, the Group's bank and other borrowings balance amounted to RMB1,191,454,000 (as at 31 December 2020: RMB1,111,343,000).

Gearing ratio

As at 31 December 2021, the gross gearing ratio was approximately 39.27% (as at 31 December 2020: 41.43%), 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 78.23%, 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 2020: 84.87%).

Pledge of assets

As at 31 December 2021, the Group pledged certain assets with carrying value of RMB940,077,000 as collateral for the Group's borrowings (as at 31 December 2020: RMB836,290,000).

Capital commitments

As at 31 December 2021, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB212,752,000 (as at 31 December 2020: RMB22,484,000). All the capital commitments were related to purchase of properties, plants and equipment, and commitment to acquire Zhongshan City Zheng Ye Leasing Company Limited ("Zheng Ye Leasing") for RMB186,000,000.

Contingent liabilities

As at 31 December 2021, 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.

SUBSEQUENT EVENT

During the year, the Group entered into a sale and purchase agreement and a supplemental agreement (the “**Sale and Purchase Agreements**”) with the equity owners of Zhongshan City Zheng Ye Leasing Company Limited (“**Zheng Ye Leasing**”), pursuant to which the Group has conditionally agreed to acquire the entire equity interest in Zheng Ye Leasing at an aggregate consideration of RMB186,000,000.

On 10 February 2022, all conditions precedent to the Sale and Purchase Agreements were fulfilled and the Group had completed the acquisition of Zheng Ye Leasing. Zheng Ye Leasing became an indirect owned subsidiary of the Company. The Group concluded that the acquired set of assets and liabilities do not constitute a business and the transaction is accounted for as an asset acquisition.

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 RMB9.00 cents (equivalent to HKD10.9197 cents) per Share for the Year (2020: a final dividend of RMB3.00 cents per Share) to those Shareholders whose names appear on the register of members of the Company on Wednesday, 29 June 2022. The recommended final dividend, if approved at the AGM on Thursday, 23 June 2022. The recommended final dividend will be paid in Hong Kong dollars. The RMB to Hong Kong dollar exchange rate for the final dividend calculated using the opening indicative counter buying telegraphic transfer rate for off-shore RMB of The Hong Kong Association of Banks announced on 25 March 2022. The final dividend is expected to be paid on or around Tuesday, 12 July 2022.

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.

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 2021 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 Thursday, 23 June 2022. 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, 20 June 2022 to Thursday, 23 June 2022 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 June 2022.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Thursday, 30 June 2022 to Tuesday, 5 July 2022 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to the recommended final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 29 June 2022. The final dividend will be paid to shareholders on or around Tuesday, 12 July 2022.

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, 25 March 2022

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, Mr. Chen Riyue as non-executive Director and Mr. Chung Kwok Mo John, Mr. Liew Fui Kiang and Mr. Shin Yick Fabian as independent non-executive Directors.

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