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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHT	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue	1,574,698	1,609,364
Gross Profit Margin	14.11%	18.84%
EBITDA	154,827	166,708
Profit attributable to the owners of the Company for the period	41,940	51,633
Return on equity attributable to the owners of the Company for the period	3.64%	5.08%
Basic earnings per share – RMB	8 cents	10 cents

The board of directors (the “**Board**”) of Zhengye International Holdings Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2022 (the “**period**” or the “**period under review**”) together with the comparative figures for the corresponding period in 2021 as set out below:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Six months ended 30 June	
		2022	2021
	NOTES	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	1,574,698	1,609,364
Cost of sales		<u>(1,352,511)</u>	<u>(1,306,177)</u>
Gross profit		222,187	303,187
Other income	4	48,163	10,756
Net value of reversal of impairment loss		1,216	(172)
Other gains and losses	5	1,254	(2,013)
Distribution and selling expenses		(54,572)	(54,069)
Administrative and other expenses		(72,450)	(91,387)
Finance costs	6	(28,732)	(30,616)
Other expenses		(420)	(1,010)
Research and development expenses		<u>(51,662)</u>	<u>(55,796)</u>
Profit before tax	7	64,984	78,880
Income tax expense	8	<u>(9,232)</u>	<u>(11,257)</u>
Profit and total comprehensive income for the period		<u>55,752</u>	<u>67,623</u>
 PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		41,940	51,633
Non-controlling interests		<u>13,812</u>	<u>15,990</u>
		<u>55,752</u>	<u>67,623</u>
 EARNINGS PER SHARE			
Basic (RMB)	10	<u>0.08</u>	<u>0.10</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2022

		30 June	31 December
		2022	2021
		RMB'000	RMB'000
	NOTES	(unaudited)	(audited)
Non-current Assets			
Property, plant and equipment	11	1,342,069	1,132,113
Right-of-use-assets		179,770	193,094
Other intangible assets	12	14,016	5,416
Deferred tax assets	18	8,545	11,223
Deposits paid for acquisition of property, plant and equipment		<u>27,356</u>	<u>29,499</u>
		<u>1,571,756</u>	<u>1,371,345</u>
Current Assets			
Inventories		309,480	223,283
Trade and other receivables	13	911,176	1,101,478
Contract assets		8,925	15,550
Tax recoverable		919	323
Pledged bank deposits		41,588	92,368
Bank balances and cash	14	<u>247,152</u>	<u>229,581</u>
		<u>1,519,240</u>	<u>1,662,583</u>
Current Liabilities			
Trade and other payables	15	320,420	337,347
Consideration payable		33,982	5,818
Tax liabilities		4,642	11,521
Bank and other borrowings	17	923,762	1,022,356
Lease liabilities		7,034	15,458
Contract liabilities		5,856	8,025
Amounts due to directors	16	<u>480</u>	<u>443</u>
		<u>1,296,176</u>	<u>1,400,968</u>
Net Current Assets		<u>223,064</u>	<u>261,615</u>
Total Assets Less Current Liabilities		<u>1,794,820</u>	<u>1,632,960</u>

		30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Capital and Reserves	NOTES		
Share capital	19	41,655	41,655
Reserves		1,111,807	1,069,867
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,153,462	1,111,522
Non-controlling interests		284,242	270,430
		<hr/>	<hr/>
Total Equity		1,437,704	1,381,952
		<hr/>	<hr/>
Non-current Liabilities			
Deferred tax liabilities	18	4,622	8,737
Consideration payable		96,443	5,681
Bank and other borrowings	17	192,639	169,098
Lease liabilities		27,384	29,857
Deferred income		36,028	37,635
		<hr/>	<hr/>
		357,116	251,008
		<hr/>	<hr/>
		1,794,820	1,632,960
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”)

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and method of computations used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2021.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 9,
HKAS 39 and HKFRS 7,
HKFRS 4 and HKFRS 16

Interest Rate Benchmark Reform-Phase 2

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 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.

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. Additional disclosures as required by HKFRS 7 are set out in note 39.

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

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

Six months ended 30 June 2022 (unaudited)

	Corrugated medium paper RMB'000	Paper-based packaging RMB'000	Total RMB'000
REVENUE			
External sales	1,138,729	435,969	1,574,698
Inter-segment sales	<u>176,037</u>	<u> </u>	<u>176,037</u>
Segment revenue	<u>1,314,766</u>	<u>435,969</u>	1,750,735
Eliminations			<u>(176,037)</u>
Group Revenue			<u>1,574,698</u>
Segment profit	<u>56,279</u>	<u>11,795</u>	68,074
Eliminations			979
Unallocated corporate income, net			<u>(4,069)</u>
Profit before tax			<u>64,984</u>

Six months ended 30 June 2021 (unaudited)

	Corrugated medium paper RMB'000	Paper-based packaging RMB'000	Total RMB'000
REVENUE			
External sales	1,152,444	456,920	1,609,364
Inter-segment sales	<u>104,162</u>		<u>104,162</u>
Segment revenue	<u>1,256,606</u>	<u>456,920</u>	1,713,526
Eliminations			<u>(104,162)</u>
Group Revenue			<u>1,609,364</u>
Segment profit	<u>71,978</u>	<u>12,914</u>	84,892
Eliminations			(412)
Unallocated corporate income, net			<u>(5,600)</u>
Profit before tax			<u>78,880</u>

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

No reconciliation of reportable segment revenues is provided as the total revenues for reportable segments excluded inter-segment revenue is the same as the Group's revenue.

4. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income from bank deposits	2,113	2,520
Interest income from rental deposits	57	56
Government grant	40,524	5,253
Sundry income	<u>5,469</u>	<u>2,927</u>
	<u>48,163</u>	<u>10,756</u>

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Exchange gain / loss, net	461	(1,862)
Gain / loss on disposal of property, plant and equipment	793	(151)
	<u>1,254</u>	<u>(2,013)</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings	21,324	23,860
Other borrowings	3,963	4,743
Lease liabilities	893	1,508
Consideration payable	2,552	505
	<u>28,732</u>	<u>30,616</u>

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	50,855	47,861
Depreciation of right-of-use assets	9,511	9,350
Amortisation of other intangible assets (included in cost of sales)	745	-
	<u>745</u>	<u>-</u>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	8,914	11,258
Deferred tax		
Current period	<u>318</u>	<u>(1)</u>
Income tax expense	<u>9,232</u>	<u>11,257</u>

Accordingly, stating from the current year, the Hong Kong profit tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profit above HK\$ 2 million.

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

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 by the relevant government authorities are subject to a preferential rate of 15%. During the year, six PRC subsidiaries were approved as “small and low-profit enterprises” by the relevant government authorities are subject to a two-tiered preferential rate. The first RMB1 million of taxable profit of the qualifying group entities will be taxed at 2.5% (2021: 2.5%), and taxable profit above RMB1 million will be taxed at 5%(2021: 10%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. DIVIDENDS

The directors have determined that no interim dividend has been paid for the six months ended 30 June 2022 (for the six months ended 30 June 2021: nil).

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:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	<u>41,940</u>	<u>51,633</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>

11. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the period is summarised as follows:

	RMB'000
As at 1 January 2021 (audited)	1,040,423
Acquisition of a subsidiary	-
Additions of plant and equipment	88,418
Disposals of plant and equipment	(741)
Depreciation for the period	(47,861)
As at 30 June 2021 (unaudited)	1,080,239
As at 1 January 2022 (audited)	1,132,113
Acquisition of a subsidiary	185,975
Additions of plant and equipment	85,408
Disposals of plant and equipment	(10,572)
Depreciation for the period	(50,855)
As at 30 June 2022 (unaudited)	1,342,069

12. OTHER INTANGIBLE ASSETS

	RMB'000
As at 1 January 2021 (audited)	4,120
Increase for the period	1,898
Charge for the period	-
As at 30 June 2021 (unaudited)	6,018
As at 1 January 2022 (audited)	5,416
Increase for the period	9,345
Charge for the period	745
As at 30 June 2022 (unaudited)	14,016

Development costs are internally generated.

Such intangible asset are amortised on a straight-line basis over 5 years.

13. TRADE AND OTHER RECEIVABLES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade receivables	502,554	592,568
Less: Allowance for doubtful debts	(6,184)	(7,143)
	496,370	585,425
Trade receivables backed by bills	368,923	466,330
Less: Provision of trade receivables	(685)	(931)
	368,238	465,399
Total trade receivables	864,608	1,050,824
Advances to suppliers	5,623	11,600
Prepayment	7,547	20,434
Other receivables	33,529	18,763
Less: Provision of other receivables	(131)	(143)
	46,568	50,654
Total trade and other receivables	911,176	1,101,478

As at 30 June 2022 and 31 December 2021, gross amount of trade receivables from contracts with customers amounted to RMB871,477,000 and RMB1,058,898,000 respectively.

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

As at 30 June 2022, total bills received amounting to RMB368,923,000(31 December 2021: RMB466,330,000) are held by the Group for future settlement of trade receivables, of which certain bills were further discounted/endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

13. TRADE AND OTHER RECEIVABLES (Cont.)

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

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 to 60 days	379,582	470,595
61 to 90 days	44,870	49,589
91 to 180 days	68,711	55,421
Over 180 days	3,207	9,820
	496,370	585,425

The aged analysis of trade receivables backed by bills based on dates of delivery of goods or recognition date of the gross trade receivables, at the end of the reporting period are analysed as follows:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 to 60 days	78,560	48,245
61 to 90 days	42,936	64,798
91 to 180 days	170,589	216,694
Over 180 days	76,153	135,662
	368,238	465,399

14. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances carry interest at market rates within range from 0.35% to 1.71% (31 December 2021: 0.01% to 0.35%) per annum. The pledged deposits carry interest rates which range from 1.30% to 2.25% (31 December 2021: 0.30% to 1.65%) per annum.

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB41,588,000 (31 December 2021: RMB92,368,000) have been pledged to secure the short-term bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

15. TRADE AND OTHER PAYABLES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade payables	124,120	114,341
Bills payables - secured	50,473	83,630
Other taxes payables	58,393	51,959
Payroll and welfare payables	33,591	43,080
Construction payables	5,000	5,668
Others	48,843	38,669
	320,420	337,347

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.

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 to 60 days	102,795	96,334
61 to 90 days	3,361	5,126
91 to 180 days	8,887	5,093
Over 180 days	9,077	7,788
	124,120	114,341

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

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 to 60 days	6,423	12,326
61 to 90 days	12,773	6,000
91 to 180 days	16,277	37,104
Over 180 days	15,000	28,200
	50,473	83,630

The credit period on purchase of material is 30 to 120 days. The Group has financial risk management policies in place to monitor the settlement.

16. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest free and repayable on demand.

17. BANK AND OTHER BORROWINGS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Bank borrowings, secured	847,739	873,907
Bank borrowings, unsecured	25,656	17,170
Sub-total	873,395	891,077
Other borrowings, secured	241,206	298,577
Other borrowings, unsecured	1,800	1,800
Sub-total	243,006	300,377
Total	1,116,401	1,191,454
Carrying amount repayable:		
Within one year	923,762	1,022,356
Within in a period more than one year but not exceeding two years	110,118	114,488
Within in a period more than two years but not exceeding five years	82,521	54,610
	1,116,401	1,191,454
Less: Amounts due within one year shown under current liabilities	(923,762)	(1,022,356)
Amounts shown under non-current liabilities	192,639	169,098

Bank borrowings and other borrowings as at period end were secured by the pledged of assets set out in note 20.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	30 June 2022	31 December 2021
Effective interest rate:		
Fixed rate borrowings	0.77% to 6.50% per annum	2.66% to 7.20% per annum
Variable rate borrowings	3.25% to 3.87% per annum	3.08% to 3.17% per annum

Benchmark interest rate is quoted by the Peoples' Bank of China.

18. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Deferred tax assets	(8,545)	(11,223)
Deferred tax liabilities	4,622	8,737
	(3,923)	(2,486)

The following are the major deferred taxation liabilities recognised and movement thereon during the current and preceding interim period:

	Right-of-use assets	Lease liabilities	Contract assets	Provision for inventory	Deferred income	Impairment of receivables	Depreciation differences	Undistributable profit of subsidiaries	Unused tax loss	Other payables	Impairment on property - plant and payables equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021(audited)	7,275	(7,301)	589	(2,019)	(5,554)	(1,029)	3,479	5,190	(920)	(5)	(183)	(478)
Charge (credit) for the period	(31)	4	(31)	(25)	(322)	(115)	130	550	480	-	-	639
At 30 June 2021 (unaudited)	7,244	(7,297)	558	(2,044)	(5,876)	(1,144)	3,609	5,740	(440)	(5)	(183)	161
At 1 January 2022(audited)	5,832	(5,927)	449	(2,058)	(5,658)	(1,207)	3,596	6,005	-	-	(3,518)	(2,486)
Charge (credit) for the period	110	298	(114)	(7)	256	(85)	68	(4,300)	-	-	2,337	(1,437)
At 30 June 2022 (unaudited)	5,942	(5,629)	335	(2,065)	(5,402)	(1,292)	3,664	1,705	-	-	(1,181)	(3,923)

Under the EIT Law of PRC, withholding tax is imposed on 10% of dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at the end of the current interim period, the aggregate amount of taxable temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised amounted to RMB767,171,000 (31 December 2021: RMB767,171,000).

No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

19. SHARE CAPITAL

	Number of shares	Share Capital HK\$
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	<u>500,000,000</u>	<u>50,000,000</u>
		RMB'000
Presented as: (At 31 December 2021 and 30 June 2022)		<u>41,655</u>

20. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking and other facilities (including properties, plant and equipment under a finance lease) granted to the Group at the end of the reporting period:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Buildings and construction in progress	92,108	95,813
Plant and machinery	172,488	148,207
Land use right – prepaid lease payment	104,804	106,428
Trade receivables	80,000	80,000
Bills receivables	203,227	305,999
Pledge bank deposits	41,588	92,368
Inventories	87,987	111,262
	<u>782,202</u>	<u>940,077</u>

21. CAPITAL COMMITMENTS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	34,622	26,752
Commitment to acquire Zhongshan City Zheng Ye Leasing Company Limited (" Zheng Ye Leasing ")	128,282	186,000
	162,904	212,752

22. RELATED PARTIES TRANSACTIONS AND BALANCES

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye Leasing Company Limited (" Zheng Ye Leasing ")	Controlled by the controlling shareholders of the Company

(b) Related parties transactions

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Zheng Ye Leasing		
- Interest on lease liabilities	33	343
- Lease liabilities		9,873

Note:

Zheng Ye Packaging (Zhongshan) Company Limited, entered into a sale and purchase agreement in October 2021 to acquire the entire equity interest in Zhongshan City Zheng Ye Lease Company Limited, following the Completion in February 2022, Zheng Ye Lease Company Limited has become an indirect wholly-owned subsidiary of the Company.

22. RELATED PARTIES TRANSACTIONS AND BALANCES (Cont.)

(c) Related parties balances

Amount due from a related party, amounts due to directors and amounts due to related parties are separately disclosed on the Condensed Consolidated Statement of Financial Position.

(d) Compensation of key management

The remuneration of directors of the Company and other members of key management during the period were as follows:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Salaries and other benefits	12,290	10,622
Retirement benefits scheme contributions	295	178
	12,585	10,800

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 (“FMCG”), electronic products, cosmetics, 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, craft 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, color box packaging and craft paper.

Consisting currently of 10 wholly-owned subsidiaries and 2 non whollyowned 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 has a group of customers who have established long and stable relationships. With the new production and sales of color box packaging products, the Group will have sophisticated and practical color box packaging for cosmetics, daily chemical products, food and pharmaceuticals, etc., which will enable the Group to extend its paper packaging products to a wider market.

Our corrugated medium paper and craft paper products have won the recognition of customers for their consistent quality and innovative products and services in the segmented market. The Group is actively developing low-weight and high-strength corrugated medium paper to meet customers' needs with more cost-effective products.

For the six months ended 30 June 2022:

- The Group achieved operating revenue of RMB1,574,698,000, representing a decrease of 2.15% compared with the same period of last year.
- The profit for the period attributable to owners of the Company was RMB41,940,000, representing a decrease of 18.77% as compared with the same period last year.
- The basic earnings per share of the Company was approximately RMB0.08.

Macro Environment

In the first half of 2022, the global economic growth rate fell back due to the impact of the global inflation change beyond expectations, the Ukraine crisis and the accelerated monetary policy tightening by the Federal Reserve, and the overall commodity prices remained at relatively high levels. Upstream energy prices performed relatively strong due to substantial overseas supply shocks, while industrial commodity prices on the downstream demand side were downward due to weaker world economic fundamentals. Since the second quarter, the international environment has become more complex and severe and the impact of the domestic pandemic beyond expectations, some economic indicators have turned significantly weaker, some key areas of poor logistics, industrial and supply chain disruptions, exports, consumption, investment and other demand growth slowed significantly year-on-year. Under the dual pressure of supply and demand, the market contradictions between supply and demand and business operating pressure has become more prominent.

Paper-Based Packaging Products

During the period under review, the Group's paper-based packaging business was affected by the pandemic and export orders, and achieved operating revenue of RMB435,969,000 during the period, representing a decrease of 4.59% over the same period last year, of which RMB339,108,000, RMB55,049,000 and RMB41,812,000 (respectively for the first half of 2021: RMB313,010,000, RMB73,763,000 and RMB70,147,000) were achieved from watermarked cartons, colour printing cartons and honeycomb paper-based products. Although the weak domestic consumer demand and the decrease in phased orders from the downstream customers for external trade, the sales volume of the Group's paper-based packaging products decreased by over 7.88% during the period. The Group reduced product costs by reducing staff and increasing efficiency and improving equipment utilization, resulting in a gross profit margin of 21.79% for the paper packaging business during the period, representing an increase of 3.28% compared to the same period last year.

Paper Making

In the first half of 2022, the Group's paper making business achieved operating revenue of RMB1,138,729,000 for the period, representing a slight decrease of 1.19% as compared to the corresponding period last year. As a result of the downstream demand, the price of finished paper products fluctuated downward, while the price of domestic waste paper, the main raw material, moved upward overall due to the decrease in total market volume. Meanwhile, under the impact of the international economic environment, the energy costs required for paper making business increased significantly, resulting in a significant decrease of 7.80% in gross profit and 11.17% in gross profit margin from 18.97% for the same period last year.

Financial Review

For the six months ended 30 June 2022, the Group's revenue was approximately RMB1,574,698,000 (for the same period in 2021: RMB1,609,364,000), representing a decrease of RMB34,666,000 or 2.15%, of which the sales revenue of the packaging segment decreased by RMB20,951,000 year-on-year. Sales revenue of the paper making segment decreased by RMB13,715,000 year-on-year. The Group's gross profit margin for the first half of 2022 was 14.11% (approximately 18.84% for the same period in 2021), representing a decrease of 4.73% over the same period last year, mainly due to a decrease of 4.82% in the sales price of finished products in the paper making business, and an increase in the cost of waste paper and energy, resulting in an increase of 4.34% in the unit cost of finished products, the gross profit margin of the Group's paper making business fell sharply by 7.80% year-on-year.

For the six months ended 30 June 2022, the Group's net profit attributable to equity holders amounted to approximately RMB41,940,000 (for the same period in 2021: RMB51,633,000), representing a decrease of RMB9,693,000 over the same period last year.

Group's Profit

For the six months ended 30 June 2022, the Group's profit before income tax was approximately RMB64,984,000 (for the same period in 2021: RMB78,880,000), representing a decrease of RMB13,896,000 from the same period last year.

The financial expenses were approximately RMB28,732,000 (for the same period in 2021: RMB30,616,000), representing a decrease of RMB1,884,000 or 6.15% from the same period last year.

The income tax expense was approximately RMB9,232,000 (for the same period in 2021: RMB11,257,000), representing a decrease of RMB2,025,000 from the same period last year.

Prospect

In the second half of 2022, the global economy is still facing more uncertainty, under the continued impact of the negative spillover effects of the Ukraine crisis, developed economies face rising risks of stagflation, which will lead to accelerated tightening of monetary policy in Europe and the United States and other countries, the global economic growth will continue to slow down. At present, crude oil, copper and other commodities have fallen by more than 30% since their highs, and market expectations of a downward economic spiral have risen significantly. From China's domestic perspective, there is no obvious inflationary pressure, but the global economic downturn has affected China's export growth rate, which has also plummeted. It is expected that in the second half of the year, China will focus on stabilizing the general macroeconomic situation, implement prudent monetary policy, strengthen the growth of the internal circulation and provide stronger support for the real economy. In order to cope with the double pressure of a sharp drop in the price of finished goods in the face of shrinking market demand and rising energy costs, the Group has planned in advance to implement a number of projects to reduce staff and increase efficiency, save energy and reduce costs in order to enhance operational stability and strengthen its profitability base. In the meantime, the Group continues to strengthen the development of new products as well as technological innovation in order to enhance the market competitiveness of the Group's products. The completion of the Group's new color box packaging project in Zhongshan Packaging Plant has entered the trial production stage. With the increase in the business of refined color box packaging, it has enriched the category of paper packaging products, bringing momentum to the Company's future development and earnings growth.

Selected Financial Statements Analysis

Current Assets, Liquidity, Financial Resources and Capital Structure

In 30 June 2022, the Group's main sources of funding were cash generated from operating activities and bank loans.

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Net assets	1,437,704	1,381,952
Bank and cash balances	247,152	229,581
Total borrowings#	1,116,401	1,191,454
Equity attributable to the Owners of the Company	1,153,462	1,111,522
Current ratios	1.17	1.19
Net gearing ratio*	<u>71.75%</u>	<u>78.23%</u>

As at 30 June 2022, bank borrowings related to discounted bills with full recourse from external trade customers amounting to RMB166,505,000 (31 December 2021: RMB180,825,000).

* The net gearing ratio is calculated as net borrowings divided by equity attributable to the Owners of the Company, in which the net borrowings are calculated as total bank and other borrowings less pledge deposits and bank balances and cash.

Cash flow

As at 30 June 2022, the Group had a net cash inflow of RMB17,571,000.

Capital Expenditure, Commitments and Contingent Liabilities

Capital expenditures

For the six months ended 30 June 2022, the Group's capital expenditure was approximately RMB61,362,000, details as follows:

	RMB'000	Percentage of capital expenditure
Paper projects	39,747	64.77%
Packaging projects	21,615	35.23%
Total	<u>61,362</u>	<u>100.00%</u>

Capital commitments

As at 30 June 2022, the Group had the following capital commitments:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	34,622	26,752
Commitment to acquire Zhengye Leasing	128,282	186,000
	<u>162,904</u>	<u>212,752</u>

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 30 June 2022.

Foreign Exchange Risk

The Group mainly operates in the PRC and the majority of its asset income and cash balances are denominated in Renminbi ("RMB"), except for some bank borrowings and deposits denominated in Hong Kong dollars ("HK\$"). The Directors believe that exchange rate fluctuations do not have a material impact on the results of the Company.

Human Resources Management

The Group had 2,701 employees as at 30 June 2022 (as at 31 December 2021: 2,812 employees), in which approximately 489 were engineers and technical staff or employees with higher education backgrounds.

The table below shows the number of employees of the Group by function as at 30 June 2022:

Function	Number of employees	Percentage of total
Management and Administration	359	13.29%
Sales and Marketing	115	4.26%
Research and Development in Technology and Engineering	323	11.96%
Production and Quality Control	1,904	70.49%
Total	2,701	100.00%

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding securities transactions by directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules. All the Directors of the Company have confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2022 (the “Reporting Period”) under review.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company’s listed securities during the Reporting Period under review.

CORPORATE GOVERNANCE

The Company had adopted and complied with the code provisions (the “Code Provisions”) of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules and certain recommended best practices set out in the CG Code throughout the Reporting Period under review.

DIVIDENDS

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2022 to the shareholder of the company (for the six months ended 30 June 2021 : nil).

AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2022 have not been audited but have been reviewed by the audit committee of the Company (comprised all the independent non-executive directors of the Company).

EVENTS AFTER THE REPORTING PERIOD

As at the date of approval of this interim condensed financial information, the Group has no event after the reporting period that need to be disclosed.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim 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 interim report for the six months ended 30 June 2022 will be dispatched 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 period 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, 26 August 2022

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