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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 2023**

FINANCIAL HIGHLIGHT

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,164,940	1,574,698
Gross Profit Margin	11.31%	14.11%
EBITDA	71,397	154,827
Profit attributable to the owners of the Company for the period	(15,583)	41,940
Return on equity attributable to the owners of the Company for the period	(1.42%)	3.64%
Basic earnings per share – RMB	(3) cents	8 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 2023 (the “**period**” or the “**period under review**”) together with the comparative figures for the corresponding period in 2022 as set out below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	NOTES	Six months ended 30 June	
		2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Revenue	3	1,164,940	1,574,698
Cost of sales		(1,033,234)	(1,352,511)
Gross profit		131,706	222,187
Other income	4	27,806	48,163
Net value of reversal of impairment loss		(1,402)	1,216
Other gains and losses	5	(611)	1,254
Distribution and selling expenses		(43,778)	(54,572)
Administrative and other expenses		(67,499)	(72,450)
Finance costs	6	(26,100)	(28,732)
Other expenses		(714)	(420)
Research and development expenses		(39,294)	(51,662)
Profit before tax	7	(19,886)	64,984
Income tax expense	8	440	(9,232)
Profit and total comprehensive income for the period		<u>(19,446)</u>	<u>55,752</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(15,583)	41,940
Non-controlling interests		(3,863)	13,812
		<u>(19,446)</u>	<u>55,752</u>
EARNINGS PER SHARE			
Basic (RMB)	10	<u>(0.03)</u>	<u>0.08</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

		30 June 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
Non-current Assets			
Property, plant and equipment	11	1,380,435	1,370,453
Right-of-use-assets		168,948	174,010
Other intangible assets	12	15,841	12,616
Deferred tax assets	18	268	335
Deposits paid for acquisition of property, plant and equipment		41,039	31,037
		1,606,531	1,588,451
Current Assets			
Inventories		253,443	228,353
Trade and other receivables	13	698,108	805,278
Contract assets		10,714	9,377
Tax recoverable		342	8,348
Pledged bank deposits		48,572	64,016
Bank balances and cash	14	239,966	279,840
		1,251,145	1,395,212
Current Liabilities			
Trade and other payables	15	372,152	356,910
Consideration payable		–	5,809
Tax liabilities		1,749	2,219
Bank and other borrowings	17	762,680	870,919
Lease liabilities		4,796	5,119
Contract liabilities		4,781	7,158
Amounts due to directors	16	47,243	46,746
		1,193,401	1,294,880
Net Current Assets		57,744	100,332
Total Assets Less Current Liabilities		1,664,275	1,688,783

		30 June 2023	31 December 2022
		RMB'000	RMB'000
	<i>NOTES</i>	(unaudited)	(audited)
Capital and Reserves			
Share capital	19	41,655	41,655
Reserves		1,056,451	1,072,034
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Equity attributable to owners of the Company		1,098,106	1,113,689
Non-controlling interests		285,004	288,867
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Total Equity		1,383,110	1,402,556
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Non-current Liabilities			
Deferred tax liabilities	18	4,412	6,087
Consideration payable		–	–
Amounts due to directors		44,640	44,640
Bank and other borrowings	17	183,933	183,266
Lease liabilities		23,501	25,915
Deferred income		24,679	26,319
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		281,165	286,227
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		1,664,275	1,688,783
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 2023 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2022.

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:

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

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

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 The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. 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. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have material impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have material impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have material impact on the financial position or performance of the Group.

2.2 Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

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:

Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture²</i>
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback³</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)³</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants³</i>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements³</i>

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

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

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 2023 (unaudited)

	Packaging paper <i>RMB'000</i>	Paper-based packaging <i>RMB'000</i>	Total <i>RMB'000</i>
REVENUE			
External sales	802,809	362,131	1,164,940
Inter-segment sales	43,909	–	43,909
Segment revenue	<u>846,718</u>	<u>362,131</u>	1,208,849
Eliminations			<u>(43,909)</u>
Group Revenue			<u>1,164,940</u>
Segment profit	<u>(24,933)</u>	<u>9,626</u>	(15,307)
Eliminations			
Unallocated other income			(2)
Unallocated corporate income, net			<u>(4,577)</u>
Profit before tax			<u>(19,886)</u>

Six months ended 30 June 2022 (unaudited)

	Packaging paper <i>RMB'000</i>	Paper-based packaging <i>RMB'000</i>	Total <i>RMB'000</i>
REVENUE			
External sales	1,138,729	435,969	1,574,698
Inter-segment sales	176,037	–	176,037
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>

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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest income from bank deposits	2,224	2,113
Interest income from rental deposits	32	57
Government grant	23,784	40,524
Sundry income	1,766	5,469
	<u>27,806</u>	<u>48,163</u>

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Exchange gain/loss, net	561	461
Gain/loss on disposal of property, plant and equipment	50	793
	<u>611</u>	<u>1,254</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings	20,430	21,324
Other borrowings	3,341	3,963
Lease liabilities	(55)	893
Consideration payable	2,384	2,552
	<u>26,100</u>	<u>28,732</u>

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	56,713	50,855
Depreciation of right-of-use assets	6,773	9,511
Amortisation of other intangible assets (included in cost of sales)	1,697	745
	<u>65,183</u>	<u>61,111</u>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	(308)	8,914
Deferred tax		
Current period	(132)	318
Income tax expense	<u>(440)</u>	<u>9,232</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 or enterprises applicable to EIT policies for large-scale development in the Western Region by the relevant government authorities are subject to a preferential tax rate of 15%. During the year, certain PRC subsidiaries approved as “small and low-profit enterprises” by the relevant government authorities are subject to two-tiered preferential tax rates. The first RMB1 million of taxable profit of the qualifying group entities will be taxed at 5% (2022: 2.5%) and taxable profit above RMB1 million but less RMB3 million will be taxed at 5% (2022: 5%).

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 2023 (for the six months ended 30 June 2022: 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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	<u>(15,583)</u>	<u>41,940</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:

	<i>RMB'000</i>
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	<u>(50,855)</u>
As at 30 June 2022 (unaudited)	<u>1,342,069</u>
As at 1 January 2023 (audited)	1,370,453
Acquisition of a subsidiary	–
Additions of plant and equipment	67,022
Disposals of plant and equipment	(327)
Depreciation for the period	<u>(56,713)</u>
As at 30 June 2023 (unaudited)	<u>1,380,435</u>

12. OTHER INTANGIBLE ASSETS

	<i>RMB'000</i>
As at 1 January 2022 (audited)	5,416
Increase for the period	9,345
Charge for the period	<u>(745)</u>
As at 30 June 2022 (unaudited)	<u><u>14,016</u></u>
As at 1 January 2023 (audited)	12,616
Increase for the period	4,922
Charge for the period	<u>(1,697)</u>
As at 30 June 2023 (unaudited)	<u><u>15,841</u></u>

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 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
Trade receivables not backed by bills	406,697	428,505
Less: Allowance for doubtful debts	<u>(5,683)</u>	<u>(5,355)</u>
	401,014	423,150
Trade receivables backed by bills	229,186	324,675
Less: Provision of trade receivables	<u>(291)</u>	<u>(575)</u>
	228,895	324,100
Total trade receivables	629,909	747,250
Advances to suppliers	19,730	14,382
Prepayment	8,789	4,345
Other receivables	39,860	39,442
Less: Provision of other receivables	<u>(180)</u>	<u>(141)</u>
	68,199	58,028
Total trade and other receivables	<u><u>698,108</u></u>	<u><u>805,278</u></u>

As at 30 June 2023 and 31 December 2022, gross amount of trade receivables from contracts with customers amounted to RMB635,883,000 and RMB753,180,000 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 2023, total bills received amounting to RMB229,186,000 (31 December 2022: RMB324,675,000) 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.

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 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
0 to 60 days	327,065	331,971
61 to 90 days	34,499	33,527
91 to 180 days	36,186	53,378
Over 180 days	3,264	4,274
	401,014	423,150

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 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
0 to 60 days	7,797	1,140
61 to 90 days	42,956	28,969
91 to 180 days	101,990	100,574
Over 180 days	76,152	193,417
	228,895	324,100

14. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances carry interest at market rates within range from 0.25% to 1.71% (31 December 2022: 0.01% to 0.35%) per annum. The pledged deposits carry interest rates which range from 1.30% to 2.25% (31 December 2022: 0.30% to 2.25%) per annum.

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB48,572,000 (31 December 2022: RMB64,016,000) 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 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Trade payables	199,692	173,872
Bills payables – secured	62,714	68,013
Other taxes payables	46,683	51,964
Payroll and welfare payables	27,638	24,639
Construction payables	4,068	5,192
Others	31,357	33,230
	372,152	356,910

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 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
0 to 60 days	100,621	87,452
61 to 90 days	23,997	24,816
91 to 180 days	37,119	32,445
Over 180 days	37,955	29,159
	199,692	173,872

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 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
0 to 60 days	5,091	23,256
61 to 90 days	916	7,215
91 to 180 days	11,707	23,303
Over 180 days	45,000	14,239
	62,714	68,013

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 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Bank borrowings, secured	808,969	791,031
Bank borrowings, unsecured	7,376	26,798
Sub-total	816,345	817,829
Other borrowings, secured	130,268	236,356
Other borrowings, unsecured	–	–
Sub-total	130,268	236,356
Total	946,613	1,054,185
Carrying amount repayable:		
Within one year	762,680	870,919
Within in a period more than one year but not exceeding two years	89,554	95,831
Within in a period more than two years but not exceeding five years	81,319	76,535
Exceeding five years	13,060	10,900
	946,613	1,054,185
Less: Amounts due within one year shown under current liabilities	(762,680)	(870,919)
Amounts shown under non-current liabilities	183,933	183,266

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 2023	31 December 2022
Effective interest rate:		
Fixed rate borrowings	1.05% to 5.70% per annum	1.05% to 5.70% per annum
Variable rate borrowings	5.44% to 6.48% per annum	5.44% to 6.48% 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 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Deferred tax assets	(268)	(335)
Deferred tax liabilities	4,412	6,087
	4,144	5,752

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

	Right-of-use assets RMB'000	Lease liabilities RMB'000	Contract assets RMB'000	Provision for inventory RMB'000	Deferred income RMB'000	Impairment of receivables RMB'000	Depreciation differences RMB'000	Undistributable profit of subsidiaries RMB'000	Impairment on property, plant and equipment RMB'000	Total RMB'000
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)	<u>5,942</u>	<u>(5,629)</u>	<u>335</u>	<u>(2,065)</u>	<u>(5,402)</u>	<u>(1,292)</u>	<u>3,664</u>	<u>1,705</u>	<u>(1,181)</u>	<u>(3,923)</u>
At 1 January 2023 (audited)	2,135	(2,183)	390	-	(161)	(208)	3,779	2,000	-	5,752
Charge (credit) for the period	(28)	-	74	-	26	(215)	(15)	(1,450)	-	(1,608)
At 30 June 2023 (unaudited)	<u>2,107</u>	<u>(2,183)</u>	<u>464</u>	<u>-</u>	<u>(135)</u>	<u>(423)</u>	<u>3,764</u>	<u>550</u>	<u>-</u>	<u>4,144</u>

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 RMB813,131,000 (31 December 2022: RMB813,131,000).

No deferred tax liability has been recognised in respect of these differences because the Group's 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 <i>HK\$</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	<u>500,000,000</u>	<u>50,000,000</u>
		<i>RMB'000</i>
Presented as: (At 31 December 2022 and 30 June 2023)		<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 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
Buildings and construction in progress	261,214	267,888
Plant and machinery	261,700	268,299
Land use right	101,556	101,820
Trade receivables	80,000	80,000
Bills receivables	128,611	232,643
Pledge bank deposits	48,572	64,016
Inventories	<u>155,530</u>	<u>140,482</u>
	<u>1,037,183</u>	<u>1,155,148</u>

21. CAPITAL COMMITMENTS

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>27,537</u>	<u>36,367</u>
	<u>27,537</u>	<u>36,367</u>

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

Note: The acquisition has been completed on 10 February 2022. Following the Completion, Zheng Ye Leasing has become an indirect wholly-owned subsidiary of the Company.

(b) Related parties transactions

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Zheng Ye Leasing		
– Interest on lease liabilities	–	33
– Lease liabilities	–	–
	<u>–</u>	<u>–</u>
Directors of the Company		
– Interest on amounts due to directors	7,875	5,470
– Consideration paid	94,860	94,860
	<u>7,875</u>	<u>5,470</u>
	<u>94,860</u>	<u>94,860</u>

(c) Related parties balances

Amounts due to directors is 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 2023 RMB'000 (unaudited)	30 June 2022 RMB'000 (unaudited)
Salaries and other benefits	11,913	12,290
Retirement benefits scheme contributions	300	295
	12,213	12,585

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's principal business is the provision of ancillary paper packaging products to domestic and foreign manufacturers of household appliances, consumer electronics, food and cosmetics, and the provision of comprehensive services including professional and competitive design, printing, logistics and other customer services to provide customers with integrated packaging solutions. In addition, in order to enhance the competitiveness of the Group's paper packaging products, the Group has also extended its operations to the back end of the industrial chain by utilizing recycled wastepaper as raw materials for the production of corrugated paper, liner paper and other paper products, which are used as materials for the Group's paper packaging products and for external sales of products.

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

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

Consisting currently of 10 wholly owned subsidiaries and 3 non-wholly owned subsidiaries in different regions of China, the Group provides services with high quality to customers.

The Group's paper packaging products have been established for many years in a number of segmented markets such as home appliance packaging, consumer electronics packaging and food packaging, and have gained the trust of various renowned brands both on the domestic and overseas and have established a stable relationship with a group of customers for over a decade. At the same time, the Group's packaging production base has advanced automated production lines and reasonably efficient production layout. The Group will make every effort to create digital production facilities, providing customers with first class service with leading technology and quality management level and helping the Group stabilize revenue and profit in the extremely uncertain market environment.

The new production line for exquisite color box in our factory in Zhongshan started last year. The Group has expanded its packaging products into the markets of cosmetics, household products, food and pharmaceuticals, gaining a new group of high-quality customers. With the addition of the exquisite color box packaging business, products variety has been enriched. Product development has been oriented towards mid-to-high end. The market thus expands effectively and lays a solid foundation for the Group to realize its revenue and profit growth.

Our corrugated medium paper and high-strength containerboard products have won the recognition of customers for their consistent quality and innovative design in the segmented market. Our paper production segment utilizes its own industrial technology benefits to meet customers' needs and adapt to the complex and volatile external environment. It also continues to improve the Group's competitiveness in the market constantly through product research and development and innovation. In particular, the Group researches and develops low-weight and high-strength corrugated paper products, which even win customers' satisfaction with extreme cost-effectiveness.

For the six months ended 30 June 2023:

- The Group achieved operating revenue of RMB1,164,940,000, representing a decrease of 26.02% compared with the same period of last year.
- The loss attributable to shareholders of the Company was approximately RMB15,583,000.
- The basic loss per share of the Company was approximately RMB0.03.

Macro Environment

In 2023, the global economy is experiencing unpredictable changes and challenges. The global economic growth rate gradually slowed down. Although various governments have increased basic facilities construction and fiscal policies stimulus, the restoration of the global economic system is still facing much pressure. The outbreak and intensification of the COVID-19 three years ago forced the global trade and pricing market to face new challenges. Factors such as the Ukraine crisis, climate change and change of the macroeconomic situation still dim the prospects of the global economy's strong recovery.

During the first half of 2023, as the pandemic was winding down in China, the economy and society returned to normal in the first quarter. The rebounded demand promoted economic recovery and achieved a favorable beginning. However, after entering the second quarter, the economic recovery slowed down. Most of the indicators peaked and declined. "High expectation" gave way to "harsh reality". Affected by increasing employment pressure and slowing income growth, consumption capacity was impaired among citizens, and the growth rate of durable goods consumption saw remarkable decline. Consumer sentiment was weakened in the market. Domestic export business also turned into a downturn due to factors such as slowing external demand and geopolitics.

Paper-based Packaging Business

During the period under review, the overall customer orders of the Group's paper-based packaging business have stabilized. Although the pandemic control was completely relaxed in the first half of this year, there was no significant increase in orders from customers compared to the second half of last year, and export orders were still decreasing due to the impact of the external environment. During the period, the Group's paper-based packaging business achieved operating revenue of RMB362,131,000, representing a decrease of 16.94% over the same period last year, of which RMB258,215,000, RMB56,443,000, RMB33,025,000 and RMB14,448,000 (respectively for the first half of 2022: RMB339,108,000, RMB55,049,000, RMB41,812,000 and RMB0) were achieved from watermarked cartons, color printing cartons, honeycomb paper-based products and exquisite color box packaging. 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 9.9% during the period. At the same time, during the period, the unit price of the packaging products decreased by 7.81% over the same period last year. The price of raw paper also significantly decreased 21.09% during the reporting period, resulting in a gross profit margin of 23.33% for the paper packaging business during the period, representing an increase of 1.54% compared to the same period last year.

Paper Making Business

In the first half of 2023, the Group's paper making business achieved operating revenue of RMB802,809,000 for the period, representing a significant decrease of 29.50% as compared to the corresponding period last year. In the first half of the year, the paper making business was affected by the continued sluggish market demand and excessive production capacity, with a severe imbalance between supply and demand, and product prices continued to fall. However, the decrease in the cost of raw waste paper was relatively minor, and at the same time, influenced by the Ukraine crisis, the cost of natural gas and other energy costs stood high, which further narrowed down the marginal profit of paper making products and the gross profit margins, and certain products even recorded a negative gross profit, the paper making business recorded losses for the first time in the period. Resulting in a significant decrease of 5.29% in gross profit and 5.88% in gross profit margin for the period from 11.17% for the same period last year.

FINANCIAL REVIEW

For the six months ended 30 June 2023, the Group's revenue was approximately RMB1,164,940,000 (for the same period in 2022: RMB1,574,698,000), representing a decrease of RMB409,758,000 or 26.02%, of which the sales revenue of the packaging segment decreased by RMB73,838,000 year-on-year. Sales revenue of the paper making segment decreased by RMB335,920,000 year-on-year. The Group's gross profit margin for the first half of 2023 was 11.31% (approximately 14.11% for the same period in 2022), representing a decrease of 2.8% over the same period last year, mainly due to the sharp decrease in the gross profit margin of the Group's paper making business by 5.29% year-on-year.

During the period, the Group's sales volume of its paper making products decreased by 9.02% as compared to the sales volume in the second half of last year, due to the sluggish market which resulted in our need to reduce production to reduce inventory. At the same time, we followed the market trend to cut prices significantly for promotion. During the period, the sales price of paper-making products decreased significantly by 21.09% year-on-year. Coupled with high energy costs, the gross profit margin of paper-making products decreased significantly. Therefore, the Group's paper making business recorded a loss during the current period. In the face of the tough market environment in the paper making industry, the Group responded proactively by exploring more the demands of customers and continuing to develop more cost-effective new products. Meanwhile, the Group carried out comprehensive cost-saving measures and strengthened working capital management to minimize financial risks.

For the six months ended 30 June 2023, the Group's loss attributable to equity holders amounted to approximately RMB15,583,000 (for the same period in 2022: the Group's profit attributable to equity holders of approximately RMB41,940,000).

PROSPECT

In the second half of 2023, the outlook for a strong global economic recovery remains bleak, as a result of factors such as financial risk in the United States and Europe, the crisis in Ukraine, climate change and changes in the macroeconomic situation. The world economy is at risk of protracted period of slow growth against the backdrop of high inflation, rising interest rates and heightened uncertainty.

In 2023, international trade protectionism and geopolitical risks will exert certain pressure and challenges on the Chinese economy. China's economic development direction of continuing to open up and expanding demand will remain unchanged, and the government will also adopt measures to promote the realization of sustainable, high-quality development. Under the concept of high-quality development, the government is focusing more on growth in terms of quality, which indicates that the keynote of the government's policy has fundamentally changed, focusing more on long-term development issues. With the introduction and implementation of policy measures since July, market demand is expected to gradually recover, the production supply will continue to increase, prices and employment will be generally stable, and the development of high quality will be steadily promoted. However, we should remain vigilant, as the world political and economic situation is intricate and complex, and the foundation for a sustained recovery and development of the domestic economy is still not solid, and it will still take a long period of time for the economy to grow again.

Paper-based packaging industry and the national economy, especially the consumer economy is closely related. Leading by the green environmental protection and under the influence of increasing consumer awareness on food safety and health, paper-based packaging because of its own characteristics of disposable consumption, the market consumption rate is high, and has a good prospect for the development of the industry. With the improvement of people's level of consumption, their demand for quality of life will be boosted accordingly, and the market scale of the packaging paper industry and the downstream paper products consumption industry is expected to further expand. Our Group's new quality color box business is also expected to seize the market opportunities and gradually expand its sales and increase its market share.

Although in the short term, the decline in domestic consumption and consumption sentiment has not been significantly shifted, in the second half of the year, the economy will still be affected by a variety of unfavorable factors both domestically and internationally, China's paper industry is confronted with weak demand, the imbalance between supply and demand pattern has not been changed, the government is still releasing policy signals to boost the confidence of the domestic consumer, it is believed that the economic fluctuations can be alleviated to a certain extent, boost the strength of demand and relieve the pressure of the downside. Therefore, domestic consumption restored to stability, driving the paper industry out of the sluggishness.

In the second half of the year, the Group will carry out comprehensive measures to reduce headcount, cut costs and enhance efficiency, and will continue to engage in product and business innovations in an effort to become an outstanding competitor among its industry peers. The Group always adheres to prudent financial principles, strictly controls capital expenditure and effectively manages working capital, with the aim of maintaining a sound corporate operating position and being prepared for challenges.

SELECTED FINANCIAL STATEMENTS ANALYSIS

Current Assets, Liquidity, Financial Resources and Capital Structure

In 30 June 2023, the Group's main sources of funding were cash generated from operating activities and bank loans.

	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Net assets	1,383,110	1,402,556
Bank and cash balances	239,966	279,840
Total borrowings [#]	946,613	1,054,185
Equity attributable to the Owners of the Company	1,098,106	1,113,689
Current ratios	1.05	1.08
Net gearing ratio*	59.93%	63.78%

[#] As at 30 June 2023, bank borrowings related to discounted bills with full recourse from external trade customers amounting to RMB99,370,000 (31 December 2022: RMB129,880,000).

* 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

Operating cash flow inflow for the six months ended 30 June 2023 was RMB109,905,000, compared to RMB5,435,000 for the six months ended 30 June 2022.

Net cash outflow in investing activities was RMB73,318,000 for the first half of 2023, consisting primarily of the capital expenditure for the acquisition and construction of long-term assets of the Company.

Net cash outflow in financing activities was RMB76,461,000 for the first half of 2023, consisting primarily of income from loans obtained by the Company in the business activities and expenditure for repaying loans.

As at 30 June 2023, the Group had a net cash outflow of RMB39,874,000 (net cash inflow RMB17,571,000 for the same period in 2022).

CAPITAL EXPENDITURE, COMMITMENTS AND CONTINGENT LIABILITIES

Capital expenditures

For the six months ended 30 June 2023, the Group's capital expenditure was approximately RMB46,125,000, details as follows:

	<i>RMB'000</i>	Percentage of capital expenditure
Paper projects	35,983	78.01%
Packaging projects	10,142	21.99%
	<hr/>	<hr/>
Total	46,125	100.00%
	<hr/> <hr/>	<hr/> <hr/>

Capital commitments

As at 30 June 2023, the Group had the following capital commitments:

	30 June 2023	31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(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	27,537	36,367
	<hr/>	<hr/>
	27,537	36,367
	<hr/> <hr/>	<hr/> <hr/>

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 30 June 2023.

FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC and the majority of its asset income and cash balances are denominated in Renminbi, except for some bank borrowings and deposits denominated in Hong Kong dollars. 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 2,610 employees as at 30 June 2023 (as at 31 December 2022: 2,484 employees), in which approximately 450 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 2023:

Function	Number of employees	Percentage of total
Management and Administration	379	14.52%
Sales and Marketing	130	4.98%
Research and Development in Technology and Engineering	304	11.65%
Production and Quality Control	1,797	68.85%
Total	2,610	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 2023 (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 2023 to the shareholder of the company (for the six months ended 30 June 2022: nil).

AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2023 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 2023 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, 25 August 2023

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