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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 2020

**FINANCIAL HIGHLIGHT**

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Revenue | **982,522** | 1,188,875 |
| Gross Profit Margin | **14.26%** | 20.86% |
| EBITDA | **85,335** | 143,951 |
| Profit attributable to the owners of the Company for the period | **8,743** | 51,382 |
| Return on equity attributable to the owners of the Company for the period | **0.94%** | 5.74% |
| Basic earnings per share – RMB | **2cents** | 10cents |

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 2020 (the "**period**" or the "**period under review**") together with the comparative figures for the corresponding period in 2019 as set out below.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2020

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2020** | 2019 |
| | | **RMB'000** | RMB'000 |
| | NOTES | **(unaudited)** | (unaudited) |
| Revenue | **3** | **982,522** | 1,188,875 |
| Cost of sales | | **(842,424)** | (940,920) |
| Gross profit | | **140,098** | 247,955 |
| Other income | **4** | **14,893** | 4,001 |
| Other gains and losses | **5** | **(1,490)** | (979) |
| Distribution and selling expenses | | **(32,465)** | (35,822) |
| Administrative and other expenses | | **(60,018)** | (68,537) |
| Finance costs | **6** | **(20,307)** | (20,825) |
| Research and development expenses | | **(30,133)** | (44,324) |
| Profit before tax | **7** | **10,578** | 81,469 |
| Income tax expense | **8** | **(3,058)** | (16,796) |
| Profit and total comprehensive income for the period | | **7,520** | 64,673 |
| PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO: | | | |
| Owners of the Company | | **8,743** | 51,382 |
| Non-controlling interests | | **(1,223)** | 13,291 |
| | | **7,520** | 64,673 |
| EARNINGS PER SHARE | | | |
| Basic (RMB) | **10** | **0.02** | 0.10 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
AT 30 JUNE 2020

| | NOTES | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **1,031,899** | 892,291 |
| Right-of-use-assets | | **208,925** | 216,194 |
| Deferred tax assets | | **7,624** | 6,475 |
| Deposits for acquisition of a subsidiary | | **-** | 5,000 |
| Deposits paid for acquisition of property, plant and equipment | | **15,465** | 6,785 |
| | | **1,263,913** | 1,126,745 |
| **Current Assets** | | | |
| Inventories | | **149,397** | 137,275 |
| Trade and other receivables | **11** | **722,205** | 771,974 |
| Contract assets | | **12,219** | 16,957 |
| Tax recoverable | | **959** | 607 |
| Pledged bank deposits | | **156,530** | 139,904 |
| Bank balances and cash | | **144,534** | 231,089 |
| | | **1,185,844** | 1,297,806 |
| **Current Liabilities** | | | |
| Trade and other payables | **12** | **285,540** | 307,580 |
| Tax liabilities | | **5,324** | 6,452 |
| Bank borrowings | | **775,879** | 777,488 |
| Other borrowings | | **72,214** | 39,105 |
| Lease liabilities | | **15,121** | 17,277 |
| Contract liabilities | | **3,771** | 2,215 |
| Amounts due to directors | | **419** | 354 |
| | | **1,158,268** | 1,150,471 |
| **Net Current Assets** | | **27,576** | 147,335 |
| **Total Assets Less Current Liabilities** | | **1,291,489** | 1,274,080 |

| | NOTES | 30 June 2020 RMB'000 (unaudited) | 31 December 2019 RMB'000 (audited) |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | **13** | **41,655** | 41,655 |
| Reserves | | **892,997** | 884,254 |
| Equity attributable to owners of the Company | | **934,652** | 925,909 |
| Non-controlling interests | | **214,786** | 198,498 |
| **Total Equity** | | **1,149,438** | 1,124,407 |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | **4,574** | 5,629 |
| Bank borrowings | | **23,411** | 33,250 |
| Other borrowings | | **41,202** | 23,469 |
| Lease liabilities | | **33,579** | 48,407 |
| Deferred income | | **39,285** | 38,918 |
| | | **142,051** | 149,673 |
| | | **1,291,489** | 1,274,080 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

### 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 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

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 HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

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 of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

## 2.2 Impacts of application on Amendments to HKFRS 3 "Definition of Business"

### *2.2.1 Accounting policies*

*Business combinations or asset acquisitions*

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

### *2.2.2 Transition and summary of effects*

The amendments had no impact on the condensed consolidated financial statements of the Group.

## 3. SEGMENT INFORMATION

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

**Six months ended 30 June 2020 (unaudited)**

| | Corrugated medium paper **RMB'000** | Paper-based packaging **RMB'000** | Total **RMB'000** |
|---|---|---|---|
| **REVENUE** | | | |
| External sales | **630,221** | **352,301** | **982,522** |
| Inter-segment sales | **63,528** | | **63,528** |
| Segment revenue | **693,749** | **352,301** | **1,046,050** |
| Eliminations | | | **(63,528)** |
| Group Revenue | | | **982,522** |
| Segment profit | **1,968** | **13,116** | **15,084** |
| Eliminations | | | **546** |
| Unallocated corporate income, net | | | **(5,052)** |
| Profit before tax | | | **10,578** |

Six months ended 30 June 2019 (unaudited)

| | Corrugated medium paper RMB'000 | Paper-based packaging RMB'000 | Total RMB'000 |
|---|---|---|---|
| **REVENUE** | | | |
| External sales | 753,118 | 435,757 | 1,188,875 |
| Inter-segment sales | 74,756 | - | 74,756 |
| Segment revenue | 827,874 | 435,757 | 1,263,631 |
| Eliminations | | | (74,756) |
| Group Revenue | | | 1,188,875 |
| Segment profit | 71,744 | 14,402 | 86,146 |
| Unallocated corporate income, net | | | (4,677) |
| Profit before tax | | | 81,469 |

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** | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Interest income from bank deposits | **2,669** | 2,161 |
| Interest income from rental deposits | **51** | - |
| Government grant | **9,932** | 1,533 |
| Sundry income | **2,241** | 307 |
| | **14,893** | 4,001 |

## 5. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Exchange loss, net | **(1,215)** | (1,190) |
| (Loss) gain on disposal of property, plant and equipment | **(275)** | 211 |
| | **(1,490)** | (979) |

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Interest on: | | |
| Bank borrowings | **17,273** | 18,440 |
| Other borrowings | **2,489** | 2,125 |
| Finance lease | **-** | 260 |
| Lease liabilities | **545** | - |
| | **20,307** | 20,825 |

## 7. PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Profit before tax has been arrived at after charging the following items: | | |
| Depreciation of property, plant and equipment | **44,042** | 39,096 |
| Depreciation of right-of-use assets | **10,408** | 2,360 |
| Amortisation of other intangible assets (included in cost of sales) | **-** | 201 |

## 8. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Current tax: | | |
| PRC Enterprise Income Tax | **3,915** | 21,175 |
| Deferred tax | | |
| Current period | **(857)** | (4,379) |
| Income tax expense | **3,058** | 16,796 |

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, four 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 5%, and taxable profit above RMB1 million will be taxed at 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 2020 (for the six months ended 30 June 2019: 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 | |
|---|---|---|
| | **2020** | 2019 |
| | **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 | **8,743** | 51,382 |
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic earnings per share | **500,000,000** | 500,000,000 |

## 11. TRADE AND OTHER RECEIVABLES

| | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| Trade receivables | **405,915** | 431,716 |
| Less: allowance for doubtful debts | **(1,912)** | (1,912) |
| | **404,003** | 429,804 |
| Trade receivables backed by bank bills | **265,153** | 298,640 |
| | **669,156** | 728,444 |
| Advances to suppliers | **32,506** | 25,693 |
| Prepayment | **5,498** | 5,304 |
| Other receivables | **15,045** | 12,533 |
| | **53,049** | 43,530 |
| Total trade and other receivables | **722,205** | 771,974 |

As at 30 June 2020 and 31 December 2019, gross amount of trade receivables from contracts with customers amounted to RMB671,068,000 and RMB730,356,000 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 2020, total bills received amounting to RMB265,153,0000 (31 December 2019: RMB298,640,000) 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 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **313,610** | 307,211 |
| 61 to 90 days | **37,282** | 40,519 |
| 91 to 180 days | **46,072** | 59,461 |
| Over 180 days | **7,039** | 22,613 |
| | **404,003** | 429,804 |

The aged analysis of trade receivables backed by bank 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 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **62,854** | 65,413 |
| 61 to 90 days | **55,801** | 35,514 |
| 91 to 180 days | **128,463** | 148,813 |
| Over 180 days | **18,035** | 48,900 |
| | **265,153** | 298,640 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

## 12. TRADE AND OTHER PAYABLES

| | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| Trade payables | **122,872** | 156,003 |
| Bills payables – secured | **51,142** | 68,572 |
| Other taxes payables | **36,165** | 30,800 |
| Payroll and welfare payables | **19,529** | 30,901 |
| Construction payables | **3,918** | 3,918 |
| Others | **51,914** | 17,386 |
| | **285,540** | 307,580 |

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

| | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **106,848** | 131,759 |
| 61 to 90 days | **7,364** | 11,822 |
| 91 to 180 days | **4,786** | 4,181 |
| Over 180 days | **3,874** | 8,241 |
| | **122,872** | 156,003 |

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

| | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| 0 to 60 days | **7,705** | 20,538 |
| 61 to 90 days | **21,492** | 13,744 |
| 91 to 180 days | **21,945** | 34,290 |
| | **51,142** | 68,572 |

The credit period on purchase of material is 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## 13. SHARE CAPITAL

| | **Number of share** | **Share Capital** HK$ |
|---|---|---|
| Ordinary shares of HK$0.10 each | | |
| Authorised: | | |
| At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020 | **1,000,000,000** | **100,000,000** |
| Issued and fully paid: | | |
| At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020 | **500,000,000** | **50,000,000** |
| | | RMB'000 |
| Presented as: (At 31 December 2019 and 30 June 2020) | | **41,655** |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

The Group mainly provides supporting paper-based packaging products for well-known domestic and foreign manufacturers of household air conditioners, food seasonings, and small household electronic products. At the same time, it provides comprehensive customers services including design, printing, logistics as well as the integrated packaging solution. In addition, in order to enhance the competitiveness of the Group's paper-based packaging products, the Group has also extended the back-end industry chain to use recycled waste paper as raw materials to produce corrugated medium paper for the use of the Group's paper packaging products and external sales.

The Group is committed to becoming the leading environmental friendly paper packaging company in China.

The Group’s products mainly include corrugated medium paper and paper-based packaging products (including watermarked cartons, colour printing cartons and honeycomb paper-based products).

The Group currently has six subsidiaries and one holding subsidiary in different regions of China to conduct business and provide quality services to customers.

The Group’s paper-based packaging products have been deeply cultivated for many years in air-conditioning packaging, condiment packaging and small household electronic product packaging. They have been trusted by many well-known brands at home and abroad, and have a group of customers who have established stable relationships for more than ten years.

The low-weight and high-strength corrugated medium paper products produced by the Group are favoured by customers in the market segment with stable quality and leading service.

For the six months ended 30 June 2020:

- The Group recorded operating revenue of RMB982,522,000, a decrease of 17.36% compared with the same period of last year;

- The profit for the period attributable to owners of the Company was RMB8,743,000, representing a significant decrease of 82.98% as compared with the same period last year; and

- The basic earnings per share of the Company was RMB2 cents approximately.

### Macro Environment

In the first half of 2020, affected by the sudden catastrophe of the COVID-19 epidemic, the global economy suffered a disaster impact, leading to a sharp decline in international trade and investment. The concentrated outbreak of the Chinese epidemic in the first quarter severely impacted both ends of the macroeconomic supply and demand, but the Chinese government with a strong ability to respond to public crisis events demonstrated by the COVID-19 epidemic made the domestic epidemic basically controlled at the beginning of the second quarter; the domestic economic growth in the second quarter turned from negative to positive, which showing the strong resilience of the Chinese economy. At the same time, the overseas epidemic was spreading comprehensively, which China cannot be able to discharge the epidemic prevention completely. The Chinese economy is facing the impact of the epidemic as well as the structural and institutional cyclical contradictions. This has also added uncertainties to the recovering of the Chinese economy. Future risks and challenges should not be underestimated, and we are still facing great difficulties and pressures. However, the fundamentals of China's economic has not changed and is showing its stability and long-term improvement. In the second half of the year, China's economic growth will continue to recover, which maintain to improve the effectiveness in terms of continuity and stability in the macroeconomic policies. China can recover from the impact of the epidemic as soon as possible and further recovery from investment and consumption under the firmly stabilizing in employment, enterprises functions, industry’s supply chain, firmly implementing the expanding domestic demand strategy and unswervingly deepening reform and opening up the Chinese economy.

**Products Review**

*Paper-based packaging products*

During the period under review, the Group’s paper-based packaging business was affected by the epidemic and macro environment. The downstream customers’ orders decreased about 15.61% and the order price dropped around 3.20%. The Group’s paper packaging business achieved operating turnover of RMB352,301,000 during the period, a decrease of 19.15% compared with the same period of last year. The operating income of floating watermark cartons, colour printing cartons and honeycomb paper-based products was RMB228,137,000, RMB73,603,000 and RMB50,561,000 respectively (the six months ended June 30, 2019 were RMB274,456,000, RMB67,523,000 and RMB93,778,000 respectively). The Group’s paper packaging business seized the opportunity after the peak of the domestic epidemic, and cooperated with the downstream consumer, food and beverage industries to resume production. Meanwhile the Group implemented with various cost control measurements during the period. The raw paper procurement cost decreased 8.11% during the period was compared with last year, the gross profit margin during the period was around 19%, basically maintaining the industry level. With the gradual recovery of the economy in the second half of the year and the Group's efforts to develop new customers in the food and beverage consumer industry during the period, it is expected that the sales revenue of the paper packaging business will rebound steadily and create greater contributions to the Group's profitability.

*Corrugated medium paper*

In the first half of 2020, under the influence of the COVID-19 epidemic and the continuous downturn of the world and domestic economies, the demand declined in the downstream paper packaging industry, products price dropped and the profits fell due to the contradiction between supply and demand in the paper industry. The Guangdong Provincial Government has issued stricter "coal-to-gas" policy for cities in the Pearl River Delta in the context of the national "Blue Sky Defense War". In response to this policy, cities in the Pearl River Delta region include Foshan, Zhuhai, Jiangmen, Guangzhou, Zhongshan, Dongguan and others have successively promulgated relevant policies and regulations, requiring relevant enterprises to implement coal-to-gas conversion. According to the above policy, the Group's two paper mills in Zhongshan took the lead in completing the coal-to-gas project during the period. This change resulted in a certain increase in the fuel cost per ton of paper production compared to the same period last year. At the same time, in order to cope with the impact of the aforementioned increase in fuel costs on product profitability, the Group actively upgraded the main production facilities of the two papermaking companies during the period, which increased the downtime losses during the period. The Group’s paper making segments recorded the turnover of RMB630,221,000 during the first half of 2020, representing a decrease of 16.32% compared with the same period last year, which was mainly due to the selling price per unit had dropped 11% approximately during the period. The gross profit margin dropped to 11.61% during the period. In the second half of the year, it is expected that the Group's two paper mills in Zhongshan will be able to operate normally and continue to create stable profits for the Group after the transformation. The Group completed the acquisition of Jiangxi papermaking base, which also achieved its profitability during the period, and adding momentum to the continuous growth of the Group's papermaking business.

**Financial review**

The Group's revenue for the six months ended 30 June 2020 was approximately RMB982,522,000, representing a decrease of approximately RMB206,353,000 or 17.36% from RMB1,188,875,000 for the same period in 2019, of which the turnover of the packaging segment decreased by RMB83,456,000. The turnover of paper-making segment products decreased to RMB122,897,000 compared with last year, it was mainly affected by the epidemic and the economic downturn, causing the order demand decreased 15.61% and decline in product prices of papermaking segments of the Group, exceeds around 11% during the period. The Group's gross profit margin for the six-month period ended 30 June 2020 was 14.26%, compared with 20.86% for the six months ended June 30 2019, representing an increase of 6.60 percentage points over the same period last year.

The profit for the period attributable to the owners of the Company was approximately RMB8,743,000, representing a significant decrease of RMB42,639,000, or 82.98%, compared with RMB51,382,000 for the same period last year for the six months ended 30 June 2019.

**Group's profit**

For the six months ended 30 June 2020, the Group's profit before income tax was approximately RMB10,578,000, representing a huge decrease of RMB70,891,000 or 87.02% as compared with RMB81,469,000 for the same period last year.

During the period under review, the financial expenses were approximately RMB20,307,000, representing a slight decrease RMB518,000 or 2.49% from RMB20,825,000 for the same period last year.

During the period under review, the income tax expense was approximately RMB3,058,000, representing a significant decrease of RMB13,738,000 from RMB16,796,000 for the same period last year.

**PROSPECT**

In the second half of 2020, there is still great uncertainty in the evolution of the global COVID-19 epidemic. The global supply chain interruption caused by the epidemic and the stagnation of international trade are still fermenting. Due to the impact of the epidemic and the narrow policies space of major countries, the global economy will slow down significantly. In China, with the gradual improvement in demand, the momentum of economic growth is recovering; the trend of low in the first half and high in the second half in the economic growth throughout the year has gradually become clear; the economic growth rate in the second half of the year will be significantly faster than that of the first half. The development situation in the global epidemic and the degree of recovery of external demand will have an impact on the operation of China's economy; China's proactive fiscal policy, monetary policy and credit policy will also play a role in stabilizing growth as soon as possible, directly benefiting enterprises and the people, which contributing to the Chinese economy. In the second half of the year, domestic demand rebounded and consumption recovery set a clear direction.

The Group will also continue to pay attention to the opportunities, changes and risks in the paper packaging industry market, which gradually transform to a high-tech and high-equipment manufacturing industry. The Group are also strengthen the intelligence of paper packaging equipment and its design and development capabilities, and enhance the in innovation and research and development capabilities of corrugated medium paper products to keep maintaining the competitiveness of products in the market, survive in adversity, seek development in difficulties, strengthen confidence, move forward steadily, and create maximization value for shareholders continuously.

**Current Assets, Liquidity, Financial Resources And Capital Structure**

In 30 June 2020, the Group's main sources of funding were cash generated from operating activities and bank loans.

| | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 RMB'000 (audited) |
|---|---|---|
| Net assets | **1,149,438** | 1,124,407 |
| Bank and cash balances (including pledge bank deposits) | **301,064** | 370,993 |
| Total borrowings# | **912,706** | 873,312 |
| Equity attributable to the Owners of the Company | **934,652** | 925,909 |
| Current ratios | **1.02** | 1.13 |
| Net gearing ratio* | **65.44%** | 54.25% |

\# As at 30 June 2020, secured bank borrowings include the discounting of bills receivables from external trade customers amounting to RMB222,790,000 (31 December 2019: RMB213,978,000).

* 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 borrowings less bank and cash balances.

**Cash flow**

As at 30 June 2019, the net cash outflow amount of the Group was RMB86,555,000.

**Capital Expenditure, Commitments and Contingent Liabilities**

**Capital expenditures**

For the six months ended 30 June 2020, the Group's capital expenditure was approximately RMB45,061,000, which was as follows:

| | **RMB'000** | **Percentage of capital expenditure** |
|---|---|---|
| Paper projects | **38,491** | **85.42%** |
| Packaging projects | **6,570** | **14.58%** |
| Total | **45,061** | **100.00%** |

**Capital commitments**

As at 30 June 2020, the Group had the following capital commitments:

| | **30 June 2020 RMB'000 (unaudited)** | 31 December 2019 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 | **8,735** | 23,275 |

**Contingent liabilities**

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 30 June 2020.

**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 currencies of United States and Hong Kong, the exposures to exchange rate fluctuations is minimal. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

## 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 period under review.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2020 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 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 2019 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, 21 August 2020

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