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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 2021**

**FINANCIAL HIGHLIGHT**

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue	<b>1,609,364</b>	982,522
Gross Profit Margin	<b>18.84%</b>	14.26%
EBITDA	<b>166,708</b>	85,335
Profit attributable to the owners of the Company for the period	<b>51,633</b>	8,743
Return on equity attributable to the owners of the Company for the period	<b>5.08%</b>	0.94%
Basic earnings per share – RMB	<b>10 cents</b>	2 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 2021 (the “**period**” or the “**period under review**”) together with the comparative figures for the corresponding period in 2020 as set out below:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**  
FOR THE SIX MONTHS ENDED 30 JUNE 2021

	NOTES	Six months ended 30 June	
		2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Revenue	3	1,609,364	982,522
Cost of sales		<u>(1,306,177)</u>	<u>(842,424)</u>
Gross profit		303,187	140,098
Other income	4	10,756	14,893
Net value of reversal of impairment loss		(172)	-
Other gains and losses	5	(2,013)	(1,490)
Distribution and selling expenses		(54,069)	(32,465)
Administrative and other expenses		(91,387)	(60,018)
Finance costs	6	(30,616)	(20,307)
Other expenses		(1,010)	-
Research and development expenses		<u>(55,796)</u>	<u>(30,133)</u>
Profit before tax	7	78,880	10,578
Income tax expense	8	<u>(11,257)</u>	<u>(3,058)</u>
Profit and total comprehensive income for the period		<u><b>67,623</b></u>	<u><b>7,520</b></u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		51,633	8,743
Non-controlling interests		<u>15,990</u>	<u>(1,223)</u>
		<u><b>67,623</b></u>	<u><b>7,520</b></u>
EARNINGS PER SHARE			
Basic (RMB)	10	<u><b>0.10</b></u>	<u><b>0.02</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2021**

		<b>30 June 2021 RMB'000 (unaudited)</b>	<b>31 December 2020 RMB'000 (audited)</b>
	NOTES		
<b>Non-current Assets</b>			
Property, plant and equipment		<b>1,080,239</b>	1,040,423
Right-of-use-assets		<b>190,305</b>	197,943
Other intangible assets		<b>6,018</b>	4,120
Deferred tax assets		<b>7,764</b>	7,265
Deposits paid for acquisition of property, plant and equipment		<b>40,043</b>	30,137
		<b>1,324,369</b>	1,279,888
<b>Current Assets</b>			
Inventories		<b>215,270</b>	169,750
Trade and other receivables	<b>11</b>	<b>961,836</b>	922,741
Contract assets		<b>21,272</b>	18,628
Pledged bank deposits		<b>191,244</b>	106,401
Bank balances and cash		<b>338,745</b>	185,367
		<b>1,728,367</b>	1,402,887
<b>Current Liabilities</b>			
Trade and other payables	<b>12</b>	<b>399,699</b>	259,447
Consideration payable		<b>5,672</b>	11,956
Tax liabilities		<b>5,673</b>	6,461
Bank borrowings		<b>953,067</b>	833,826
Other borrowings		<b>180,938</b>	191,513
Lease liabilities		<b>13,647</b>	14,226
Contract liabilities		<b>2,797</b>	3,583
Amounts due to directors		<b>293</b>	507
		<b>1,561,786</b>	1,321,519
<b>Net Current Assets</b>		<b>166,581</b>	81,368
<b>Total Assets Less Current Liabilities</b>		<b>1,490,950</b>	1,361,256

		<b>30 June 2021 RMB'000 (unaudited)</b>	31 December 2020 RMB'000 (audited)
	NOTES		
<b>Capital and Reserves</b>			
Share capital	<b>13</b>	<b>41,655</b>	41,655
Reserves		<u><b>975,659</b></u>	<u>924,026</u>
Equity attributable to owners of the Company		<b>1,017,314</b>	965,681
Non-controlling interests		<u><b>239,883</b></u>	<u>223,893</u>
<b>Total Equity</b>		<u><b>1,257,197</b></u>	<u>1,189,574</u>
<b>Non-current Liabilities</b>			
Deferred tax liabilities		<b>7,924</b>	6,787
Consideration payable		<b>5,534</b>	10,875
Bank borrowings		<b>56,626</b>	14,250
Other borrowings		<b>98,560</b>	71,754
Lease liabilities		<b>26,082</b>	30,998
Deferred income		<u><b>39,027</b></u>	<u>37,018</u>
		<u><b>233,753</b></u>	<u>171,682</u>
		<u><b>1,490,950</b></u>	<u>1,361,256</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2021**

**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 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

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 2021.

## 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 2021 (unaudited)

	Corrugated medium paper RMB'000	Paper-based packaging RMB'000	Total RMB'000
<b>REVENUE</b>			
External sales	1,152,444	456,920	1,609,364
Inter-segment sales	104,162		104,162
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>

Six months ended 30 June 2020 (unaudited)

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Interest income from bank deposits	2,520	2,669
Interest income from rental deposits	56	51
Government grant	5,253	9,932
Sundry income	<u>2,927</u>	<u>2,241</u>
	<u>10,756</u>	<u>14,893</u>

## 5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Exchange loss, net	(1,862)	(1,215)
Loss on disposal of property, plant and equipment	(151)	(275)
	<u>(2,013)</u>	<u>(1,490)</u>

## 6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings	23,860	17,273
Other borrowings	4,743	2,489
Lease liabilities	1,508	545
Consideration payable	505	-
	<u>30,616</u>	<u>20,307</u>

## 7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	47,861	44,042
Depreciation of right-of-use assets	9,350	10,408
Amortisation of other intangible assets (included in cost of sales)	-	-
	<u>-</u>	<u>-</u>



## 8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	11,258	3,915
Deferred tax		
Current period	(1)	(857)
Income tax expense	<u>11,257</u>	<u>3,058</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, 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 Board has determined that no interim dividend has been paid for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil).

## 10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<b>Earnings</b>		
Profit for the period attributable to owners of the Company		
for the purpose of basic earnings per share	<u>51,633</u>	<u>8,743</u>
<b>Number of shares</b>		
Number of ordinary shares for the purpose of		
basic earnings per share	<u>500,000,000</u>	<u>500,000,000</u>

## 11. TRADE AND OTHER RECEIVABLES

	<b>30 June 2021 RMB'000 (unaudited)</b>	<b>31 December 2020 RMB'000 (audited)</b>
Trade receivables	<b>559,806</b>	513,348
Less: Allowance for doubtful debts	<b>(7,471)</b>	<b>(6,728)</b>
	<b>552,335</b>	506,620
Trade receivables backed by bank bills	<b>327,884</b>	372,851
Less: Provision of trade receivables	<b>156</b>	<b>(472)</b>
	<b>880,375</b>	878,999
Advances to suppliers	<b>55,560</b>	18,232
Prepayment	<b>7,195</b>	5,975
Other receivables	<b>18,740</b>	19,716
Less: Provision of other receivables	<b>(34)</b>	<b>(181)</b>
	<b>81,461</b>	43,742
Total trade and other receivables	<b>961,836</b>	922,741

As at 30 June 2021 and 31 December 2020, gross amount of trade receivables from contracts with customers amounted to RMB887,690,000 and RMB886,199,000 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 2021, total bills received amounting to RMB327,884,000 (31 December 2020: RMB372,851,000) 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:

	<b>30 June 2021 RMB'000 (unaudited)</b>	<b>31 December 2020 RMB'000 (audited)</b>
0 to 60 days	<b>377,393</b>	409,324
61 to 90 days	<b>69,710</b>	42,753
91 to 180 days	<b>100,459</b>	49,197
Over 180 days	<b>4,773</b>	5,346
	<b>552,335</b>	506,620

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:

	<b>30 June 2021 RMB'000 (unaudited)</b>	<b>31 December 2020 RMB'000 (audited)</b>
0 to 60 days	50,390	41,818
61 to 90 days	61,558	51,869
91 to 180 days	156,664	195,698
Over 180 days	59,428	82,994
	<b>328,040</b>	<b>372,379</b>

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

	<b>30 June 2021 RMB'000 (unaudited)</b>	<b>31 December 2020 RMB'000 (audited)</b>
Trade payables	164,414	139,194
Bills payables – secured	130,397	15,829
Other taxes payables	41,995	37,893
Payroll and welfare payables	30,620	35,919
Construction payables	4,341	4,341
Others	27,932	26,271
	<b>399,699</b>	<b>259,447</b>

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:

	<b>30 June 2021 RMB'000 (unaudited)</b>	<b>31 December 2020 RMB'000 (audited)</b>
0 to 60 days	133,537	117,537
61 to 90 days	13,870	5,040
91 to 180 days	11,552	8,456
Over 180 days	5,455	8,161
	<b>164,414</b>	<b>139,194</b>

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:

	<b>30 June 2021 RMB'000 (unaudited)</b>	<b>31 December 2020 RMB'000 (audited)</b>
0 to 60 days	<b>80,210</b>	5,416
61 to 90 days	<b>27,692</b>	6,741
91 to 180 days	<b>22,495</b>	3,672
	<b><u>130,397</u></b>	<b><u>15,829</u></b>

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

	<b>Number of shares</b>	<b>Share Capital HK\$</b>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2020, 30 June 2020, 1 January 2021 and 30 June 2021	<b><u>1,000,000,000</u></b>	<b><u>100,000,000</u></b>
Issued and fully paid:		
At 1 January 2020, 30 June 2020, 1 January 2021 and 30 June 2021	<b><u>500,000,000</u></b>	<b><u>50,000,000</u></b>
		RMB'000
Presented as: (At 31 December 2020 and 30 June 2021)		<b><u>41,655</u></b>

## 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, small household appliances and consumer electronic products, etc. At the same time, it provides comprehensive services including design, printing and logistics with customers integrated packaging solutions. In addition, in order to enhance the competitiveness of the Group's paper-based packaging products, the Group has, at the same time, extended its development in the upstream of the industry chain to use recycled waste paper as the raw materials for corrugated core paper and containerboard to produce paper packaging products for the Group and external sales.

The Group is committed to becoming the leading environmentally friendly paper packaging company in the PRC. The Group's products mainly include paper-based packaging products (including watermarked cartons, colour printing cartons and honeycomb paper-based products), corrugated medium paper and containerboard.

The Group currently has 5 wholly owned subsidiaries and 2 non-wholly owned subsidiaries in different regions of the PRC to conduct business and provide quality services to customers.

The Group's paper-based packaging products have been deeply involved in packaging of air-conditioning, condiment and small household appliances for many years. It has won the trust of many well-known domestic and foreign brands and has a group of customers who have established long and stable relationships.

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 2021:

- The Group achieved operating revenue of RMB1,609,364,000, a significant increase of 63.8% compared with the same period of last year;
- The profit for the period attributable to owners of the Company was RMB51,633,000, representing a significant increase of RMB42,890,000 as compared with the same period last year; and
- The basic earnings per share of the Company was approximately RMB0.10.

### Macro Environment

In the first half of 2021, the global economy recovered gradually, with the pace of global vaccination accelerating and the lifting of lockdown measures in various countries, resulting in a significant recovery in the world economy. However, the global supply chain is experiencing new challenges as commodity prices rise rapidly under the influence of multiple factors such as the recovery and growth of the world economy, easing monetary policies in the US and rising demand. There are currently price increases and supply shortages of copper, iron ore, steel and other raw materials around the world. This year is the beginning of the PRC's "14th Five-Year Plan". The domestic pandemic prevention and control as well as economic and social development continued to show results. The industrial economy continued its steady recovery since the second half of last year, with investment in the manufacturing sector continuing to recover, domestic consumption steadily improving, external trade steadily rebounding and economic activities further returning to normal. However, the significant increase in raw material prices will also intensify the imbalance in the recovery of benefits and increase the risk of business operation in all sectors. The recent resurgence of international and domestic pandemic outbreaks also contributed to the uncertainty of stable economic growth in the second half of the year.

## **Paper-Based Packaging Products**

During the period under review, the Group's paper-based packaging business benefited from the rebound in domestic consumer demand and achieved operating revenue of RMB456,920,000 during the period, representing an increase of 29.70% over the same period last year, of which RMB313,010,000, RMB73,763,000 and RMB70,147,000 (respectively for the first half of 2020: RMB228,137,000, RMB73,603,000 and RMB50,561,000) were achieved from watermarked cartons, colour printing cartons and honeycomb paper-based products. With the increasing orders from the rebounding consumers and the increase in phased orders from the downstream customers for external trade, the sales volume of the Group's paper-based packaging products increased significantly by over 25% during the period. However, as the unit price of raw paper, the main material, surged under the influence of rising commodity prices, while the price of finished cartons failed to increase in parallel, the gross profit margin of the paper packaging business for the period was 18.51%, representing a decrease of 0.49% compared with the same period last year.

## **Paper Making**

In the first half of 2021, benefiting from the sharp increases in international pulp prices, the price of the waste paper, the main raw material required for paper making, also increased after the complete cancellation of imports, and due to international shipping restrictions under the pandemic, finished raw paper is in short supply at this stage, prices also witnessed a long-awaited continuous increase. Meanwhile, the Group's paper making segment also completed the upgrade of the paper machines at the three paper making bases in the first half of 2021. Operating revenue for the period was RMB1,152,444,000, representing a significant increase of 82.86% over the same period last year, of which sales volume increased significantly by over 50% and unit sales price also increased by over 20%. The gross profit margin of the paper manufacturing business also rebounded significantly to 18.97% during the period, reaching the industry profitability level.

## **Financial Review**

For the six months ended 30 June 2021, the Group's revenue was approximately RMB1,609,364,000 (for the same period in 2020: RMB982,522,000), representing a significant increase of RMB626,842,000 or 63.80%, of which the sales revenue of the packaging segment increased by RMB104,619,000 year-on-year. Sales revenue of the paper making segment increased by RMB522,223,000 compared to the same period last year, mainly due to the significant increase in both sales volume and unit price of the paper making segment. The Group's gross profit margin for the first half of 2021 was 18.84% (approximately 14.26% for the same period in 2020), representing an increase of 4.58% over the same period last year.

For the six months ended 30 June 2021, the Group's net profit attributable to equity holders amounted to approximately RMB51,633,000 (for the same period in 2020: RMB8,743,000), representing a significant increase of RMB42,890,000 over the same period last year.

## **Group's Profit**

For the six months ended 30 June 2021, the Group's profit before income tax was approximately RMB78,880,000 (for the same period in 2020: RMB10,578,000), representing a significant increase of RMB68,302,000 from the same period last year.

During the period under review, the financial expenses were approximately RMB30,616,000 (for the same period in 2020: RMB20,307,000), representing an increase of RMB10,309,000 or 50.76% from the same period last year.

During the period under review, the income tax expense was approximately RMB11,257,000 (for the same period in 2020: RMB3,058,000), representing an increase of RMB8,199,000 from the same period last year.

## **Prospect**

The global economic recovery remains uncertain in the second half of 2021. The duration of the pandemic is still uncertain, and variants that are more contagious are causing the pandemic to recur in various countries. The recent pandemic prevention and control situation in the PRC has also intensified compared to the first half of the year, and the incremental demand from domestic consumption and external markets has now stabilised after a concentrated release in the first half of the year. All these factors will put pressure on economic growth in the second half of the year. The Group will focus more on the high-quality development of the paper packaging industry and the optimisation of its internal business structure, and will make continuous research and development and innovative development as basis of its strategic development to unleash the growth potential of the Group's business. In the future, the Group will continue to strengthen the integration of the upstream and downstream of the packaging and paper-making industry chain, and continue to innovate and explore in the areas of paper packaging design, raw paper research and development, and business model innovation, in order to build a core competitiveness that can continue to create value for customers and continue to create value for shareholders while enhancing its own strength.

## Selected Financial Statements Analysis

### Current Assets, Liquidity, Financial Resources and Capital Structure

In 30 June 2021, the Group's main sources of funding were cash generated from operating activities and bank loans.

	<b>30 June 2021 RMB'000 (unaudited)</b>	<b>31 December 2020 RMB'000 (audited)</b>
Net assets	<b>1,257,197</b>	1,189,574
Bank and cash balances (including pledge bank deposits)	<b>529,989</b>	291,768
Total borrowings#	<b>1,289,191</b>	1,111,343
Equity attributable to the Owners of the Company	<b>1,017,314</b>	965,681
Current ratios	<b>1.11</b>	1.06
Net gearing ratio*	<b>74.63%</b>	84.87%

# As at 30 June 2021, secured bank borrowings include the discounting of bills receivables from external trade customers amounting to RMB113,512,000 (31 December 2020: RMB141,186,000).

\* 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 2021, the net cash inflow amount of the Group was RMB153,378,000.

### Capital Expenditure, Commitments and Contingent Liabilities

#### Capital expenditures

For the six months ended 30 June 2021, the Group's capital expenditure was approximately RMB105,668,000, details as follows:

	<b>RMB'000</b>	<b>Percentage of capital expenditure</b>
Paper projects	<b>25,267</b>	<b>23.91%</b>
Packaging projects	<b>80,401</b>	<b>76.09%</b>
Total	<b>105,668</b>	<b>100.00%</b>



## Capital commitments

As at 30 June 2021, the Group had the following capital commitments:

	30 June 2021 RMB'000 (unaudited)	31 December 2020 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	<u>19,886</u>	<u>22,484</u>

## Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 30 June 2021.

## 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 2,953 employees as at 30 June 2021 (as at 30 June 2020: 2,814 employees), of which 488 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 2021:

Function	Number of employees	Percentage of total
Management and Administration	616	20.86%
Sales and Marketing	104	3.52%
Research and Development in Technology and Engineering	284	9.62%
Production and Quality Control	1,949	66.00%
Total	2,953	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 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.

## DIVIDENDS

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2021 to the shareholder of the Company (for the six months ended 30 June 2020 : nil).

## AUDIT COMMITTEE REVIEW

The condensed consolidated financial statements of the Group for the six months ended 30 June 2021 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 this announcement, 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 2021 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 2021

*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.*