ZONQING Environmental Limited
中庆环境股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1855)

UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024

The board (the "**Board**") of directors (the "**Directors**") of ZONQING Environmental Limited (the "**Company**") announces the unaudited interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2024 (the "**1H2024**"), together with the comparative figures for the six months ended 30 June 2023 (the "**1H2023**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2024 — unaudited
*(Expressed in Renminbi (“**RMB**”))*

		Six months ended 30 June	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**775,648**	909,819
Cost of sales		**(600,287)**	(763,885)
Gross profit		**175,361**	145,934
Other net income		**7,155**	4,273
Selling expenses		**(12,458)**	(7,520)
Administrative expenses		**(38,017)**	(42,299)
Impairment losses on trade and other receivables and contract assets		**(60,005)**	(24,402)
Profit from operations		**72,036**	75,986
Finance costs	*4(a)*	**(24,960)**	(32,329)
Share of profits of associates		**363**	908
Share of (losses)/profits of a joint venture		**(298)**	1,512
Profit before taxation	*4*	**47,141**	46,077
Income tax	*5*	**(3,729)**	(2,586)
Profit for the period		**43,412**	43,491
Attributable to:			
Equity shareholders of the Company		**34,259**	37,102
Non-controlling interests		**9,153**	6,389
Profit for the period		**43,412**	43,491
Earnings per share (RMB cents)			
Basic and diluted	*6*	**12**	13

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024 — unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Profit for the period	**43,412**	43,491
Other comprehensive income for the period		
Item that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income – net movement in fair value reserve	**66**	(4,272)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas companies of the Group	**438**	1,090
Other comprehensive income for the period	**504**	(3,182)
Total comprehensive income for the period	**43,916**	40,309
Attributable to:		
Equity shareholders of the Company	**34,763**	33,920
Non-controlling interests	**9,153**	6,389
Total comprehensive income for the period	**43,916**	40,309

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024 — unaudited
(Expressed in RMB)

	Note	**At 30 June 2024** *RMB'000*	At 31 December 2023 *RMB'000*
Non-current assets			
Property, plant and equipment		**36,998**	39,309
Intangible assets		**7,703**	1,938
Right-of-use assets		**15,324**	7,871
Interest in associates		**79,241**	78,878
Interest in a joint venture		**190,975**	191,273
Other equity investments		**70,219**	70,141
Deferred tax assets		**103,671**	93,921
Non-current portion of trade receivables	*8*	**614**	602
		504,745	483,933
Current assets			
Inventories and other contract costs		**20,823**	53,924
Contract assets	*7(a)*	**1,376,653**	1,118,463
Trade and bills receivables	*8*	**1,643,436**	1,764,513
Prepayments, deposits and other receivables		**235,269**	194,842
Restricted bank deposits		**14,846**	20,346
Cash and cash equivalents		**61,190**	210,405
		3,352,217	3,362,493

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2024 — unaudited
(Expressed in RMB)

	Note	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Current liabilities			
Trade and bills payables	*9*	**1,354,125**	1,389,181
Accrued expenses and other payables		**243,790**	211,540
Contract liabilities	*7(b)*	**555,845**	602,071
Bank and other loans		**775,700**	726,263
Lease liabilities		**2,611**	2,018
Income tax payable		**33,317**	54,212
		2,965,388	2,985,285
Net current assets		**386,829**	377,208
Total assets less current liabilities		**891,574**	861,141
Non-current liabilities			
Bank loans		**80,556**	79,947
Accrued expenses and other payables		**1,736**	–
Lease liabilities		**5,579**	1,249
Deferred tax liabilities		**9,865**	10,476
		97,736	91,672
NET ASSETS		**793,838**	769,469

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2024 — unaudited
(Expressed in RMB)

	At 30 June 2024 ***RMB'000***	At 31 December 2023 *RMB'000*
CAPITAL AND RESERVES		
Share capital	**230**	230
Reserves	**664,381**	649,365
Total equity attributable to equity shareholders of the Company	**664,611**	649,595
Non-controlling interests	**129,227**	119,874
TOTAL EQUITY	**793,838**	769,469

NOTES

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial information set out below is derived from the unaudited interim financial report, which has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34, Interim financial reporting, issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on 23 August 2024.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2023 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2024 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2023 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRS Accounting Standards.

In June 2023, the Group acquired the 87.5% equity interests of Jilin Modern Zhongqing City Construction Co. Ltd. ("**Jilin Modern**"), a fellow subsidiary of the Group, from Zhongqing Investment Holding Group Limited Liability Company ("**ZIHG**") at considerations of RMB305,756,000. The consideration of RMB305,756,000 has been paid in July 2023.

Jilin Modern was established by ZIHG in December 2022. Prior to the establishment of Jilin Modern, the principal business of the Jilin Modern has been operated under Changchun Chengjianweihu Group Co., Ltd. ("**Changchun Chengwei**") and its subsidiary, which are held by ZIHG.

In March 2023, Jilin Modern increased its registered capital from RMB20,000,000 to RMB340,700,000, such registered capital of RMB305,756,000, RMB17,472,000 and RMB17,472,000 was subscribed and fully paid by ZIHG, Mr. Sun Yangang and Mr. Li Peng, respectively. Upon completion of the capital contributions, Jilin Modern was owned as to 89.74% by ZIHG, 5.13% by Mr. Sun Yangang and 5.13% by Mr. Li Peng, and Jilin Modern acquired 90.65% equity interests of Changchun Chengwei at a cash consideration of RMB340,700,000 from ZIHG. The net asset of 10.26% interests of Jilin Modern attributable to equity shareholders of the Company was transferred to non-controlling interests.

In April 2023, Jilin Modern increased its registered capital from RMB340,700,000 to RMB349,436,000, such increased registered capital of RMB8,736,000 was subscribed and fully paid by Kai Ming Investment Holding Limited ("**Kai Ming Investment**"). Upon completion of the capital contribution, Jilin Modern was owned as to 87.50% by ZIHG, 5.00% by Mr. Sun Yangang, 5.00% by Mr. Li Peng and 2.50% by Kai Ming Investment. The differences between net asset of 2.5% interests of Jilin Modern attributable to equity shareholders of the Company and the consideration of RMB8,736,000 was recognised in other reserve.

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to this interim financial report for the current accounting period:

- Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current ("2020 amendments")*
- Amendments to IAS 1, *Presentation of financial statements: Non-current liabilities with covenants ("2022 amendments")*
- Amendments to IFRS 16, *Leases: Lease liability in a sale and leaseback*
- Amendments to IAS 7, *Statement of cash flows* and IFRS 7, *Financial instruments: Disclosures – Supplier finance arrangement*

Amendments to IAS 1, *Presentation of financial statements* ("2020 and 2022 amendments", or collectively the "IAS 1 amendments")

The IAS 1 amendments impact the classification of a liability as current or non-current, and are applied retrospectively as a package.

The 2020 amendments primarily clarify the classification of a liability that can be settled in its own equity instruments. If the terms of a liability could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments and that conversion option is accounted for as an equity instrument, these terms do not affect the classification of the liability as current or non-current. Otherwise, the transfer of equity instruments would constitute settlement of the liability and impact classification.

The 2022 amendments specify that conditions with which an entity must comply after the reporting date do not affect the classification of a liability as current or non-current. However, the entity is required to disclose information about non-current liabilities subject to such conditions in a full set of financial statements.

Upon the adoption of the amendments, the Group has reassessed the classification of its liabilities as current or non-current and did not identify any reclassification to be made.

Amendments to IFRS 16, *Leases: Lease liability in a sale and leaseback*

The amendments clarify how an entity accounts for a sale and leaseback after the date of the transaction. The amendments require the seller-lessee to apply the general requirements for subsequent accounting of the lease liability in such a way that it does not recognise any gain or loss relating to the right of use it retains. A seller-lessee is required to apply the amendments retrospectively to sale and leaseback transactions entered into after the date of initial application. The amendments do not have a material impact on these interim financial report as the Group has not entered into any sale and leaseback transactions.

Amendments to IAS 7, *Statement of cash flows* and IFRS 7, *Financial instruments: Disclosures – Supplier finance arrangements*

The amendments introduce new disclosure requirements to enhance transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. Since those disclosures are not required for any interim period presented within the annual reporting period in which the amendments are initially applied, the Group has not made additional disclosures in this interim financial report.

3 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

– City renewal construction services: this segment includes construction services for landscaping, ecological restoration and municipal projects;

– City operation and maintenance services: this segment includes: (1) provision of maintenance services to landscaping, ecological restoration and municipal projects and public infrastructures; (2) provision of environmental hygiene services including cleaning and hygiene services to public infrastructures; and

– Design and consultancy services: this segment includes investigation, survey, design and consultancy for construction project.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers within the scope of IFRS 15 by major products or service lines is as follows:

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Disaggregated by major products or service lines		
– Revenue from city renewal construction services	**613,016**	783,582
– Revenue from city operation and maintenance services	**123,617**	61,674
– Revenue from design and consultancy services	**39,015**	64,563
	775,648	909,819

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in Note 3(b)(i).

(b) Segment reporting

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit.

The Group's other operating income and expenses, such as other net income, selling expenses, administrative expenses and impairment losses on trade and other receivables and contract assets are not measured under individual segments. The Group's most senior executive management monitor the Group's assets and liabilities as a whole, accordingly, no segment assets and liabilities is presented.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2024 and 2023 is set out below.

	Six months ended 30 June 2024			
	City renewal construction services	**City operation and maintenance services**	**Design and consultancy services**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Disaggregated by timing of revenue recognition				
Point in time	**–**	**8,031**	**164**	**8,195**
Over time	**613,016**	**115,586**	**38,851**	**767,453**
Revenue from external customers and reportable segment revenue	**613,016**	**123,617**	**39,015**	**775,648**
Reportable segment gross profit	**143,449**	**28,045**	**3,867**	**175,361**

	Six months ended 30 June 2023			
	City renewal construction services	City operation and maintenance services	Design and consultancy services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Disaggregated by timing of revenue recognition				
Point in time	–	–	2,730	2,730
Over time	783,582	61,674	61,833	907,089
Revenue from external customers and reportable segment revenue	783,582	61,674	64,563	909,819
Reportable segment gross profit	115,975	9,977	19,982	145,934

(ii) Reconciliation of reportable segment revenue and profit or loss

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue and consolidated revenue *(Note 3(b)(i))*	**775,648**	909,819
Profit		
Total reportable segment gross profit	**175,361**	145,934
Other net income	**7,155**	4,273
Selling expenses	**(12,458)**	(7,520)
Administrative expenses	**(38,017)**	(42,299)
Impairment losses on trade and other receivables and contract assets	**(60,005)**	(24,402)
Finance costs	**(24,960)**	(32,329)
Share of profits of associates	**363**	908
Share of (losses)/profits of a joint venture	**(298)**	1,512
Consolidated profit before taxation	**47,141**	46,077

(iii) Geographic information

The Group's revenue is generated from the city renewal construction services, city operation and maintenance services and design and consultancy services in the People's Republic of China ("**PRC**"). The Group does not have material assets or operations outside the PRC, therefore, no segment analysis based on geographical locations of the customers and assets is presented.

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Interest on bank and other loans and loans from related parties	**24,847**	32,224
Interest on lease liabilities	**113**	105
	24,960	32,329

(b) Other items

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**4,773**	4,367
Depreciation of right-of-use assets	**2,687**	1,882
Amortisation of intangible assets	**381**	240
Leases charges relating to short-term leases and leases of low-value assets	**8,131**	5,515
Research and development costs	**36,677**	54,418
Cost of inventories	**242,873**	267,851

5 INCOME TAX

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Current tax		
Provision for the period	**14,102**	8,871
Deferred tax		
Origination and reversal of temporary differences	**(10,373)**	(6,285)
	3,729	2,586

The Company and subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2024 (six months ended 30 June 2023: 16.5%). No provision for Hong Kong Profits Tax has been made as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB Nil).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and the subsidiaries of the Group incorporated in the Cayman Islands and the British Virgin Islands, are not subject to any income tax.

The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate at 25% for the six months ended 30 June 2024 (six months ended 30 June 2023: 25%).

Four subsidiaries of the Group established in the PRC have obtained approval from the tax bureau to be taxed as enterprises with advanced and new technologies, and therefore enjoy a preferential PRC Corporate Income Tax rate of 15% for the six months ended 30 June 2024 (six months ended 30 June 2023: PRC Corporate Income Tax rate of 15%). In addition to the preferential PRC Corporate Income Tax rate, these subsidiaries entitle additional tax deductible allowance amounted to 100% of qualified research and development costs for the six months ended 30 June 2024 (six months ended 30 June 2023: 100%).

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profits attributable to equity shareholders of the Company of RMB34,259,000 (six months ended 30 June 2023: earnings of RMB37,102,000), and 275,000,000 ordinary shares in issue during the interim period (six months ended 30 June 2023: 275,000,000 ordinary shares).

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the six months ended 30 June 2024 and 2023. Hence, the diluted earnings per share is the same as basic earnings per share.

7 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	At 30 June 2024 *RMB'000*	At 31 December 2023 *RMB'000*
Contract assets		
– due from ZIHG and its subsidiaries, joint ventures and associates	**88,055**	62,398
– due from a joint venture	**44,842**	45,011
– due from an associate	**28,750**	22,299
– due from a company managed by a key management personnel of ZIHG	**7,791**	8,678
– due from third parties	**1,455,722**	1,201,777
	1,625,160	1,340,163
Less: loss allowance	**(248,507)**	(221,700)
	1,376,653	1,118,463
Trade receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade receivables"	**1,620,894**	1,742,401

The Group's construction contracts and design contracts include payment schedules which require stage payments over the design and construction period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. The contract assets that could be billed and settled within one year according to terms of the contracts with customers are classified as current assets. Otherwise, the contract assets are classified as non-current assets.

Notwithstanding the terms of the contracts with customers, the directors consider that all of the amounts are expected to be billed within one year as of the end of the reporting period, except for the amounts of RMB611,927,000 (31 December 2023: RMB513,436,000), which are expected to be billed after more than one year.

(b) Contract liabilities

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Contract liabilities		
– due to ZIHG and its subsidiaries, joint ventures and associates	**23,132**	24,607
– due to a joint venture	**19,281**	19,281
– due to a company managed by a key management personnel of ZIHG	**8,711**	8,442
– due to third parties	**504,721**	549,741
	555,845	602,071

When the Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the project exceeds the amount of the deposit.

All of the contract liabilities are expected to be recognised as revenue within one year, according to the contract terms and working progress estimation.

8 TRADE AND BILLS RECEIVABLES

	At 30 June 2024 *RMB'000*	At 31 December 2023 *RMB'000*
Trade receivables		
– due from ZIHG and its subsidiaries, joint ventures and associates	**170,130**	175,615
– due from a joint venture	**22,368**	22,368
– due from an associate	**37,901**	17,900
– due from a company managed by a key management personnel of ZIHG	**18,850**	11,100
– due from third parties	**1,707,113**	1,825,225
	1,956,362	2,052,208
Bills receivable	**–**	316
	1,956,362	2,052,524
Less: loss allowance	**(312,312)**	(287,409)
	1,644,050	1,765,115
Reconciliation to the consolidated statement of financial position:		
Non-current	**614**	602
Current	**1,643,436**	1,764,513
	1,644,050	1,765,115

All of the current trade receivables, net of loss allowance, are expected to be recovered within one year.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	At 30 June 2024 ***RMB'000***	At 31 December 2023 *RMB'000*
Within 1 year	**707,380**	927,684
1 to 2 years	**333,151**	265,083
2 to 3 years	**326,344**	346,694
3 to 4 years	**123,423**	102,359
4 to 5 years	**56,365**	31,098
Over 5 years	**97,387**	92,197
	1,644,050	1,765,115

The Group generally requires customers to settle progress billings in accordance with contracted terms.

9 TRADE AND BILLS PAYABLES

	At 30 June 2024 ***RMB'000***	At 31 December 2023 *RMB'000*
Trade payables		
– due to ZIHG and its subsidiaries, joint ventures and associates	**25,390**	24,445
– due to companies managed by key management personnel of ZIHG	**42,465**	28,299
– due to third parties	**1,282,880**	1,336,437
Bills payables	**3,390**	–
	1,354,125	1,389,181

As of the end of the reporting period, the ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	At 30 June 2024 *RMB'000*	At 31 December 2023 *RMB'000*
Within 1 year	**718,606**	1,078,377
1 to 3 years	**454,224**	190,745
Over 3 years	**181,295**	120,059
	1,354,125	1,389,181

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

10 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

The directors of the Company do not recommend the payment of a dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: HKDNil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

During the six months ended 30 June 2024, a final dividend of RMB0.071 (equivalent to HKD0.078) per share in respect of the year ended 31 December 2023 (six months ended 30 June 2023: HKDNil per share in respect of the year ended 31 December 2022) was declared. The aggregate amount of the final dividend declared during the six months ended 30 June 2024 amounted to RMB19,747,000 (equivalent to HKD21,450,000) (six months ended 30 June 2023: RMBNil).

MANAGEMENT DISCUSSION AND ANALYSIS

In 1H2024, the Group continued to consolidate its existing product lines, expand the construction and upgrading of new urban parks, greening construction of urban roads, and water ecology smart city operation and maintenance. The Group's related qualifications were strengthened continuously and the Group's bidding capacity was enhanced. In addition to firming up its national development strategy, the Group continued to deeply cultivate its outbound markets. In 1H2024, the Group submitted a total of 344 tenders and achieved a successful tender rate of approximately 44.48%, with the contract value of newly awarded projects amounting to approximately RMB1,249.72 million.

During 1H2024, the Group has won the bid for projects such as:

(i) the Main Contracting for the "Three Roads and Two Streams" urban upgrading project (Phase II) (with a successful bid price of approximately RMB407.76 million);

(ii) the project operation and maintenance of the New Urbanisation Construction Project (two bidding sections) (with a successful bid price of approximately RMB198.49 million); and

(iii) the resettlement project of residential properties constructed on the Xiao Kai Yuan land parcel (with a successful bid price of approximately RMB110.16 million).

In 1H2024, Jinghe Design Group Limited* (境和設計集團有限公司) ("**Jinghe Design Group**") passed the 2024 (11th batch) accreditation assessment of Changchun Municipal Enterprise Technology Center; Zonbong Ecology Environmental Construction Limited* (中邦生態環境有限公司) ("**Zonbong Ecology Environmental**") was awarded the national level "Credit Star Certificate (7-Star)" (信用星級證書(7星)) jointly granted by the China Association of Construction Enterprise Management* (中國施工企業管理協會) and the Credit Evaluation Committee* (信用評價工作委員會); and Changchun Chengjianweihu Group Co., Ltd.* (長春市城建維護集團股份有限公司) ("**Changchun Chengjianweihu**") was awarded the national level "Credit Star Certificate (6-Star)" (信用星級證書(6星)) jointly granted by the China Association of Construction Enterprise Management* (中國施工企業管理協會) and the Credit Evaluation Committee* (信用評價工作委員會). In the first half of the year, the Group obtained two invention patents, five utility model patents, one software copyright, six construction methods at provincial level, and 70 innovation achievements.

RISK MANAGEMENT

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure to the Group's business such as investment risk, interest rate risk and liquidity risk, participates in formulating appropriate risk management and internal control measures and to ensure their implementation in daily operational management. There was no material deficiency in the Group's internal control over financial reporting during 1H2024.

PROSPECTS

In 1H2024, the global economy generally became stable, but the overall growth rate has not yet returned to the level before 2020. Unstable factors such as geopolitics, inflation, and monetary tightening were still suppressing economic recovery. Interest rate cuts in developed economies have been postponed, and the high-interest rate environment has tightened global financial conditions, exerting greater pressure on the growth of developing economies. Facing complex challenges in domestic and overseas environment, China's economic growth has slowed down. According to the National Bureau of Statistics, China's GDP increased by 5.0% year-on-year in the first half of the year. In particular, the growth rate of the second quarter was 4.7%, slowing down from the first quarter. Although the growth rate was still in the positive growth range, it was lower than expected and reflected the uncertainty of the global economy and the pressure of domestic structural adjustment.

Despite changes in the external environment, the Group has always regarded high-quality development as its top priority, actively responding to challenges, seizing high-quality development opportunities, vigorously cultivating new development momentum, and building new competitive advantages. From January 2024 to June 2024, the Group has secured new contracts with an aggregate contract sum amounting to approximately RMB1,249.72 million, including a "Three Roads and Two Streams" urban upgrading project of approximately RMB408 million, project operation and maintenance of a new urbanisation construction project (Phase I) (two bidding sections) of approximately RMB198 million, etc. In the face of complex and severe international financial environment and the industry trend of gradually entering into competition for stock, the Group actively consolidated its various quality advantages, secured numerous winning bids and ensured business continuity and stability with steady progress, showcasing the Group's resilience and potential.

In 1H2024, under the guidance of national policies and the drive of technological innovation, the construction industry presented a development trend with both opportunities and challenges. According to the National Bureau of Statistics, the total output value of the construction industry reached RMB13.8312 trillion in the first half of the year, with a year-on-year growth of 4.8%, indicating robust growth in the industry amidst a complex economic environment, while (full-calibre) infrastructure investment from January 2024 to June 2024 increased by 7.7% year-on-year. The breakdown revealed slow investment growth in certain areas such as water conservancy, environment and utilities management, indicating that traditional infrastructure investment was under considerable pressure. At the same time, the financial pressure on local governments gradually emerged, the pace of issuing special bonds slowed down, and infrastructure projects became more focused on quality improvement than quantity growth.

Looking ahead to the second half of 2024, the global economy is still in recovery and needs more growth momentum. Despite facing multiple challenges, China's economy remains stable in general and continues to be an important engine and stabiliser for global economic growth. While active fiscal policies and prudent monetary policies continue to exert their effects, measures such as tax cuts, fee reductions and issuance of special bonds and ultra-long-term special government bonds provide strong support for the economy. At the same time, as China keeps stepping up its policy to expand domestic demand, new consumption scenarios and growth points will continue to emerge. With the further manifestation of policy effects and the gradual improvement of both domestic and international environments, China's economy is expected to continue maintaining stable and healthy development. The Group will continue to utilise the synergistic integrated business of culture, commerce, tourism and industry (文商旅工一體化) with focus on cultural and tourism operations, and firm up its national development strategy. The Group will also continue to consider qualification upgrades to stabilise and enhance its corporate creditworthiness, and apply for national, provincial and municipal awards for outstanding design and engineering, thereby laying a solid foundation for sustained results growth. The Company will continue to uphold the core concept of "customer-centred and endeavour-oriented", fulfil the corporate mission of "Greening China for a Collective Future", and achieve healthy and sustainable development of the Company.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased by approximately 14.7% or approximately RMB134.2 million from approximately RMB909.8 million for 1H2023 to approximately RMB775.6 million for 1H2024. The decrease in revenue during 1H2024 was mainly due to the decrease in major contracts newly awarded during 1H2024 and the impact brought by external environment where the construction progress of individual projects slowed down leading to a drop in revenue.

City renewal construction services

The Group recorded a decrease in revenue from the city renewal construction services segment, from approximately RMB783.6 million for 1H2023 to approximately RMB613.0 million for 1H2024, representing a decrease of approximately 21.8% or approximately RMB170.6 million, which was mainly due to the decrease in major contracts newly awarded and the decline in average revenue recognised from contracts during 1H2024.

City operation and maintenance services

The Group recorded an increase in revenue from the city operation and maintenance services segment, from approximately RMB61.7 million for 1H2023 to approximately RMB123.6 million for 1H2024, representing an increase of approximately 100.3% or approximately RMB61.9 million, which was mainly due to the transformation of the Group's business operations achieved initial results and the business operations structure was further optimised.

Design and consultancy services

The Group recorded a decrease in revenue from the design and consultancy services segment, from approximately RMB64.6 million for 1H2023 to approximately RMB39.0 million for 1H2024, representing a decrease of approximately 39.6% or approximately RMB25.6 million, which was mainly attributable to the decrease in major contracts newly awarded, the decline in average revenue recognised from contracts and tight local financial funds and hence the Group prudently undertook projects and carefully promoted project implementation during 1H2024.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 20.1% or approximately RMB29.5 million from approximately RMB145.9 million for 1H2023 to approximately RMB175.4 million for 1H2024. The increase in gross profit was primarily due to the increase in gross profit margin of completed and ongoing projects during 1H2024 as compared with the corresponding period of last year, and the fact that the Company continued to implement lean management and optimise supply chain, thereby reducing costs per unit.

Other net income

The Group's other net income increased by approximately 67.4% or approximately RMB2.9 million from approximately RMB4.3 million for 1H2023 to approximately RMB7.2 million for 1H2024. The increase was mainly attributable to the increase in interest income, and dividends received by Jinghe Design, a subsidiary of the Group.

Selling expenses

The Group's selling expenses primarily comprised expenses incurred in relation to sales support and marketing activities of the Group.

The selling expenses increased by approximately 66.7% or approximately RMB5.0 million from approximately RMB7.5 million for 1H2023 to approximately RMB12.5 million for 1H2024. The increase was mainly attributable to the increase in related labour, rental and other expenses brought by newly established markets in other regions of the PRC.

Administrative expenses

The Group's administrative expenses primarily comprised expenses incurred in relation to the general operation of the Group.

The administrative expenses decreased by approximately 10.2% or approximately RMB4.3 million from approximately RMB42.3 million for 1H2023 to approximately RMB38.0 million for 1H2024, which was mainly due to the Group improved management efficiency and saved expenses this period and that no special agency fees were incurred in the first half of this year.

Impairment losses under the expected credit loss ("ECL") model

The impairment losses on trade and other receivables and contract assets under the ECL model for IH2024 was approximately RMB60.0 million (IH2023: approximately RMB24.4 million). The increase was mainly due to the slow turnover of trade and other receivables and contract assets during 1H2024.

Finance costs

The Group's finance costs mainly represented interest expenses on bank and other loans, and decreased by approximately 22.6% or approximately RMB7.3 million from approximately RMB32.3 million for 1H2023 to approximately RMB25.0 million for 1H2024, which was mainly due to the Group replaced high-interest debts in a timely manner when market interest rates fell which effectively reduced finance costs.

Share of profits of associates

The Group's share of profits of associates represented profits/(losses) shared from two associates, namely Changchun Xianbang Municipal and Landscape Limited* (長春現邦市政園林有限責任公司) ("**Changchun Xianbang**") and Tianjin Nangang Municipal Garden Engineering Limited* (天津南港市政園林工程有限公司) ("**Tianjin Nangang**").

Changchun Xianbang was established in Changchun, the PRC, in 2017 as a project company responsible for financing, developing, operating and maintaining a PPP project of Landscape and Greening Enhancement and Maintenance and Municipal Infrastructure Management and Maintenance for the Economic Development Zone (經開區綠化景觀提升維護及市政設施管理維護PPP項目) ("**EDZ Project**"), which commenced in 2017. The Group has been holding 50.0% equity interest in Changchun Xianbang since its establishment and it was accounted as associate of the Group given that the Group did not have the power to control its financial and operating policies.

The Group has also acquired 20% interest in Tianjin Nangang on 17 February 2022 at a consideration of approximately RMB4.72 million from an independent third party, which represents an investment in an associate of the Group. Tianjin Nangang is a comprehensive platform company based in Nangang Industrial Park (the "**Park**") and integrating quality resources from various parties, Tianjin Nangang is positioned as a quality service provider in the Park. It is committed to provide public utility services to the Park Management Committee and consulting, construction, operations, and maintenance services to enterprises in the Park.

During 1H2024, results of associates attributable to the Group decreased by approximately 55.5% or RMB0.5 million from share of profit of approximately RMB0.9 million for 1H2023 to approximately RMB0.4 million for 1H2024.

Share of (losses)/profits of a joint venture

The Group's share of profits of a joint venture represents profits shared from a jointly controlled project company, namely Ulanhot Tianjiao Tianjun Tourism Development Limited (烏蘭浩特市天驕天駿旅遊開發有限公司) ("**Tianjun Tourism**"), which was registered in Inner Mongolia, the PRC, as a project company responsible for financing, developing, operating and maintaining a PPP project, the Shenjunshan Ecological Restoration and Landscaping Project (神駿山生態修復及景觀項目) ("**Shenjunshan Project**"), which commenced in 2017. The Group has been holding 75.0% equity interest in Tianjun Tourism since its incorporation and it was accounted as an joint venture of the Group given that the power to control its financial and operating policies was jointly held by the Group and another shareholder.

During 1H2024, profits of a joint venture attributable to the Group decreased by approximately 119.7% or approximately RMB1.8 million from share of profits of approximately RMB1.5 million for 1H2023 to share of losses of approximately RMB0.3 million for 1H2024. The fluctuation was mainly due to the increase in ECL of the joint venture.

Income tax

The Group's income tax increased by approximately RMB1.1 million from approximately RMB2.6 million for 1H2023 to approximately RMB3.7 million for 1H2024, which was mainly due to the Group's increased profit before taxation for 1H2024 than 1H2023.

Net current assets

The Group's net current assets increased by approximately 2.6% or approximately RMB9.6 million from approximately RMB377.2 million as at 31 December 2023 to approximately RMB386.8 million as at 30 June 2024, the increase was primarily due to the increased contract assets.

Liquidity and financial resources

As at 30 June 2024, the cash and cash equivalents of the Group amounted to approximately RMB61.2 million (31 December 2023: approximately RMB210.4 million). As at 30 June 2024, the Group had borrowings of approximately RMB856.3 million (31 December 2023: approximately RMB806.3 million), which are denominated in Reminbi. Based on the scheduled repayment terms set out in the loan agreements, approximately RMB775.7 million (31 December 2023: approximately RMB726.3 million) of the borrowings are payable within one year. Some of the borrowings were secured and guaranteed by controlling shareholders, trade receivables and contract assets and bank deposits of the Group, related parties or third-party guarantee companies.

As at 30 June 2024, there had been no breach of loan covenants relating to bank and other loans of the Group.

Gearing ratio

The gearing ratio (calculated by bank and other loans divided by total equity) increase from 1.05 times as at 31 December 2023 to 1.08 times as at 30 June 2024, the increase was primarily due to the increase in bank and other loans and the decrease in total equity after dividend distribution.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures in 1H2024.

SIGNIFICANT INVESTMENTS HELD

As at 30 June 2024, except for the associates and the joint venture of the Group as mentioned in this announcement, the Group did not hold any significant investments.

For discussion of the performance of the Group's associates and joint venture, please refer to the paragraphs headed "Share of profits of associates" and "Share of profits of a joint venture" in this announcement above.

CONTINGENT LIABILITIES

As at 30 June 2024, the Group has issued a guarantee in respect of a bank loan of Tianjun Tourism, a joint venture of the Group. In May 2019, Tianjun Tourism signed a long-term bank loan contract with the principal amounting to RMB410,000,000, among which RMB310,000,000 (including principal and interest) is to be guaranteed by the Group. As at 30 June 2024, the balance of the bank loan is RMB300,000,000 (31 December 2023: RMB315,000,000). The fair value of the financial guarantee provided by the Group was initially estimated as RMB28,015,000 and was recognised as "accrued expenses and other payables – financial guarantees issued". While no consideration was received for the financial guarantee granted, the fair value of the guarantee granted was accounted for as contributions to the investment in a joint venture and recognised as part of the cost of investment in a joint venture during the year ended 31 December 2019. The amounts of financial guarantee issued in "accrued expenses and other payables" will be amortised in profit or loss as "other net income" over the guarantee period. As at 30 June 2024, the unamortised balance of financial guarantee issued by the Group included in "accrued expenses and other payables" amounted to RMB23,275,000 (31 December 2023: RMB24,500,000).

As at 30 June 2024, the Group has issued a guarantee in respect of a bank loan of Changchun Xianbang, an associate of the Group. In November 2019, Changchun Xianbang signed a long-term bank loan contract with the principal amounting to RMB300,000,000, among which RMB330,000,000 (including principal and interest) is to be guaranteed by the Group. As at 30 June 2024, the balance of the bank loan is RMB126,500,000 (31 December 2023: RMB136,150,000). The fair value of the financial guarantee provided by the Group was initially estimated RMB12,685,000 and RMB2,692,000 was recognised as "accrued expenses and other payables – financial guarantees issued". While no consideration was received for the financial guarantee granted, the fair value of the guarantee granted was accounted for as contributions to the investment in an associate and recognised as part of the cost of investment in an associate during the year ended 31 December 2019 and 2020. The amounts of financial guarantee issued in "accrued expenses and other payables" will be amortised in profit or loss as "other net income" over the guarantee period. As at 30 June 2024, the unamortised balance of financial guarantee issued by the Group included in "accrued expenses and other payables" amounted to RMB11,413,000 (31 December 2023: RMB12,500,000).

FINANCIAL GUARANTEES ISSUED

The Group's financial guarantees issued amounted to approximately RMB34.7 million and approximately RMB37.0 million as at 30 June 2024 and 31 December 2023, respectively. The financial guarantees issued as at 30 June 2024 represented the guarantees provided by the Group for the borrowings of Changchun Xianbang and Tianjun Tourism, for the purpose of supporting the financing for their projects, and were initially recognised with reference to fees charged in an arm's length transaction for similar services and are amortised in profit or loss over the term of the guarantees subsequent to initial recognition. Such financial guarantees issued by the Group are expected to be released upon the maturity and full repayment of the bank loans borrowed by Changchun Xianbang and Tianjun Tourism in 2029 and 2033, respectively.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group does not have any concrete plans for material investments or capital assets as at the date of this announcement.

OTHER INFORMATION

Dividend

The Directors do not recommend the payment of an interim dividend for 1H2024 (1H2023: nil).

Employees and remuneration policies

As at 30 June 2024, the Group had 849 employees. The Group's Remuneration Management Policy and Fringe Benefits System has been formulated to establish a systematic remuneration system, which enabling the employees to have full vision and understanding of the Group's human resources management function, human resources management policies and system, composition and accounting of remuneration and fringe benefits etc., so as to ensure and enhance the transparency and fairness. The remuneration committee of the Company (the "**Remuneration Committee**") was set up for reviewing the Group's remuneration policy and structure of the Directors, senior management and employees of the Group. The Remuneration Committee currently comprises three independent non-executive Directors, namely Mr. Yin Jun, Mr. Lee Kwok Tung Louis and Mr. Gao Xiangnong, and Mr. Yin Jun is the chairman of the Remuneration Committee.

Purchase, sale and redemption of listed securities

During 1H2024, there are no treasury Shares held by the Company.

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares) during 1H2024.

Securities transactions by the Directors

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms in accordance to the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"). The Company, having made specific enquiry of all the Directors, is not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout 1H2024.

Events after the reporting period

The Board implemented a share subdivision with effect from 1 August 2024, on the basis that each of the existing issued and unissued Shares of nominal value of HK$0.001 each in the share capital of the Company be subdivided into three (3) subdivided Shares of nominal value of HK$0.0003 each in the share capital of the Company ("**Share Subdivision**"). The ordinary resolution in relation to the Share Subdivision was duly passed by the shareholders of the Company at the annual general meeting on 14 June 2024.

Upon the Share Subdivision becoming effective, the authorised share capital of the Company has become HK$10,000,000 divided into 30,000,000,000 subdivided shares, of which 825,000,000 subdivided shares are in issue and fully paid or credited as fully paid, whereas the board lot size of the subdivided shares for trading on the Stock Exchange will remain as 2,000 subdivided shares.

For details of the subdivision, please refer to the Company's announcement dated 10 April 2024 and circular dated 16 April 2024.

Corporate governance practices

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Company so as to achieve effective accountability.

The Company has adopted the code provisions as set out in Corporate Governance Code (the "**CG Code**") as contained in Appendix C1 to the Listing Rules as its own code of corporate governance. The Company will continue to review and enhance its corporate governance to ensure compliance with the CG Code.

Review by audit committee

The audit committee of the Company ("**Audit Committee**") comprises three independent non-executive Directors, namely, Mr. Lee Kwok Tung Louis (Chairman), Mr. Gao Xiangnong and Mr. Yin Jun. The unaudited interim results of the Group for the six months ended 30 June 2024 and the interim financial report have been reviewed by the Audit Committee.

Publication of interim results announcement and interim report

This interim results announcement is published on the website of the Company at www.zonqing.net and the website of the Stock Exchange at www.hkexnews.hk. The interim report of the Company for the six months ended 30 June 2024 will be dispatched to the shareholders of the Company upon their request and will be available on the above websites in due course.

By order of the Board
ZONQING Environmental Limited
Sun Juqing
Chairman and non-executive Director

Hong Kong, 23 August 2024

As at the date of this announcement, the Board of the Company comprises Mr. Liu Haitao (vice-chairman) and Ms. Wang Yan as executive Directors, Mr. Sun Juqing (chairman), Ms. Lyu Hongyan and Mr. Shao Zhanguang as non-executive Directors, and Mr. Gao Xiangnong, Mr. Yin Jun and Mr. Lee Kwok Tung Louis as independent non-executive Directors.

* *For identification purpose only*

In case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.