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 2023

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 2023 (the "**1H2023**"), together with the comparative figures for the six months ended 30 June 2022 (the "**1H2022**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023 — unaudited
*(Expressed in Renminbi ("**RMB**"))*

		Six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
			(Restated)
Revenue	*3*	**909,819**	365,267
Cost of sales		**(763,885)**	(313,874)
Gross profit		**145,934**	51,393
Other net income		**4,273**	4,680
Selling expenses		**(7,520)**	(8,168)
Administrative expenses		**(42,299)**	(37,606)
Impairment losses on trade and other receivables and contract assets		**(24,402)**	(57,607)
Profit/(loss) from operations		**75,986**	(47,308)
Finance costs	*4(a)*	**(32,329)**	(36,295)
Share profits of associates		**908**	1,572
Share of profits of a joint venture		**1,512**	3,526
Profit/(loss) before taxation	*4*	**46,077**	(78,505)
Income tax	*5*	**(2,586)**	10,250
Profit/(loss) for the period		**43,491**	(68,255)
Attributable to:			
Equity shareholders of the Company		**37,102**	(65,240)
Non-controlling interests		**6,389**	(3,015)
Profit/(loss) for the period		**43,491**	(68,255)
Earnings/(loss) per share (RMB cents)			
Basic and diluted	*6*	**13**	(24)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 — unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Profit/(loss) for the period	**43,491**	(68,255)
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	**(4,272)**	(374)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas companies of the Group	**1,090**	1,274
Other comprehensive income for the period	**(3,182)**	900
Total comprehensive income for the period	**40,309**	(67,355)
Attributable to:		
Equity shareholders of the Company	**33,920**	(64,344)
Non-controlling interests	**6,389**	(3,011)
Total comprehensive income for the period	**40,309**	(67,355)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 — unaudited
(Expressed in RMB)

	Note	**At 30 June 2023** *RMB'000*	At 31 December 2022 (Restated) *RMB'000*
Non-current assets			
Property, plant and equipment		**38,320**	37,575
Intangible assets		**2,200**	2,440
Right-of-use assets		**7,775**	8,574
Interest in associates		**78,420**	77,512
Interest in a joint venture		**197,172**	195,660
Other equity investments		**71,436**	75,622
Deferred tax assets		**82,931**	77,422
Non-current portion of trade receivables		**9,743**	18,988
		487,997	493,793
Current assets			
Inventories and other contract costs		**63,282**	36,193
Contract assets	*7(a)*	**922,096**	1,055,709
Trade and bills receivables	*8*	**1,546,605**	1,560,456
Prepayments, deposits and other receivables		**537,968**	794,377
Restricted bank deposits		**7,745**	22,223
Cash and cash equivalents		**131,057**	220,233
		3,208,753	3,689,191

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2023 — unaudited
(Expressed in RMB)

	Note	At 30 June 2023 RMB'000	At 31 December 2022 (Restated) RMB'000
Current liabilities			
Trade and bills payables	9	**1,131,472**	1,237,478
Accrued expenses and other payables		**612,989**	348,290
Contract liabilities	7(b)	**428,885**	583,036
Bank and other loans		**741,488**	974,781
Lease liabilities		**1,312**	2,610
Income tax payable		**28,652**	26,270
		2,944,798	3,172,465
Net current assets		**263,955**	516,726
Total assets less current liabilities		**751,952**	1,010,519
Non-current liabilities			
Bank loans		**77,932**	78,932
Lease liabilities		**1,078**	815
Deferred tax liabilities		**12,072**	12,762
		91,082	92,509
NET ASSETS		**660,870**	918,010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2023 — unaudited
(Expressed in RMB)

	At 30 June 2023	At 31 December 2022 (Restated)
	RMB'000	*RMB'000*
CAPITAL AND RESERVES		
Share capital	**230**	230
Reserves	**551,676**	867,523
Total equity attributable to equity shareholders of the Company	**551,906**	867,753
Non-controlling interests	**108,964**	50,257
TOTAL EQUITY	**660,870**	918,010

NOTES

(Expressed in RMB unless otherwise indicated)

1. BASIS OF PREPARATION

This interim financial information 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 30 August 2023.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 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.

In July 2022, the Group acquired the entire equity interests of Jilin Jinghe Design Engineering Co., Ltd. ("**Jilin Jinghe Design**"), a fellow subsidiary of the Group, from Zhongqing Investment Holding Group Limited Liability Company ("**ZIHG**") and a third party at considerations of RMB12,207,000 and RMB378,000, respectively.

In June 2023, the Group acquired the 87.5% equity interests of Jilin Modern Zhongqing City Construction Co. Ltd. ("**Jilin Modern Zhongqing**"), a fellow subsidiary of the Group, from ZIHG at considerations of RMB305,756,000.

Jilin Jinghe Design and Jilin Modern Zhongqing became subsidiaries of the Group upon the completion of the acquisitions. These business combinations under common control have been accounted for using the principle of merger accounting. The interim financial information of the Group has been prepared using the merger basis of accounting as if the current group structure has been in existence throughout the periods presented. The opening balance at 1 January 2022 has been restated, with consequential adjustments to comparatives for the six months ended 30 June 2022.

In March 2023, Jilin Modern Zhongqing 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 Zhongqing was owned as to 89.74% by ZIHG, 5.13% by Mr. Sun Yangang and 5.13% by Mr. Li Peng and Jilin Modern Zhongqing acquired 90.65% equity interests of Changchun Chengjianweihu Group Co., Ltd. at a cash consideration of RMB340,700,000 from ZIHG. The net assets of 10.26% interests of Jilin Modern Zhongqing attributable to equity shareholders of the Company was transferred to non-controlling interests.

In April 2023, Jilin Modern Zhongqing 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 Zhongqing 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 Zhongqing attributable to equity shareholders of the Company and the consideration of RMB8,736,000 was recognised in other reserve.

For the six months ended 30 June 2023, the Group had net cash used in operating activities of RMB29,602,000.

In this regard, the directors of the Company have identified various initiatives to address the Group's liquidity needs, which include the following:

- The Group continues to improve its operating cash flows by accelerating the progress billings and collection of trade receivables, actively participating in bidding, negotiating with suppliers on payment terms, and reduction of operation expenses;

- The Group continues the negotiations with various banks to:

  (i) renew the short-term bank loans upon maturity; and/or

  (ii) provide additional bank facilities to the Group.

- ZIHG, which is controlled by the controlling parties of the Group, has committed to provide the necessary financial support, including but not limited to:

  (i) renewal of the short-term loans from ZIHG and its subsidiaries upon maturity; and/or

  (ii) provision of additional loan facilities from ZIHG and its subsidiaries, as needed.

Based on the cash flow forecast of the Group prepared by the management and assuming success of the above measures, the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the interim financial information on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES

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

- IFRS17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

None of these developments have had a material effect on how the Group's results and financial position for the current period have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 projects.

As mentioned in Note 1 to the interim financial information, the acquisition of Jilin Modern Zhongqing has been completed and the Group have undertaken significant additional activities through acquisition of Jilin Modern Zhongqing. The Group's most senior executive management considered the adoption of new segments is appropriate, and the comparative data of segments for the six months ended 30 June 2022 have been restated.

(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	
	2023	2022
		(Restated)
	RMB'000	*RMB'000*
Disaggregated by major products or service lines		
– Revenue from city renewal construction services	**783,582**	277,212
– Revenue from city operation and maintenance services	**61,674**	69,436
– Revenue from design and consultancy services	**64,563**	18,619
	909,819	365,267

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 2023 and 2022 is set out below.

	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**

	Six months ended 30 June 2022 (Restated)			
	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	–	–	–	–
Over time	277,212	69,436	18,619	365,267
Revenue from external customers and reportable segment revenue	277,212	69,436	18,619	365,267
Reportable segment gross profit/ (losses)	36,258	18,193	(3,058)	51,393

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

	Six months ended 30 June	
	2023	2022 (Restated)
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue and consolidated revenue *(Note 3(b)(i))*	**909,819**	365,267
Profit/(loss)		
Total reportable segment gross profit	**145,934**	51,393
Other net income	**4,273**	4,680
Selling expenses	**(7,520)**	(8,168)
Administrative expenses	**(42,299)**	(37,606)
Impairment losses on trade and other receivables and contract assets	**(24,402)**	(57,607)
Finance costs	**(32,329)**	(36,295)
Share of profits of associates	**908**	1,572
Share of profits of a joint venture	**1,512**	3,526
Consolidated profit/(loss) before taxation	**46,077**	(78,505)

(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/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Six months ended 30 June	
	2023	2022
		(Restated)
	RMB'000	*RMB'000*
Interest on bank and other loans and loans from related parties	**32,224**	32,818
Interest on lease liabilities	**105**	210
Net foreign exchange loss of bank loan	**–**	3,267
	32,329	36,295

(b) Other items

	Six months ended 30 June	
	2023	2022
		(Restated)
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**4,367**	3,809
Depreciation of right-of-use assets	**1,882**	2,420
Amortisation of intangible assets	**240**	240
Leases charges relating to short-term leases and leases of low-value assets	**5,515**	5,502
Research and development costs	**54,418**	17,378
Cost of inventories	**197,757**	116,151

5. INCOME TAX

	Six months ended 30 June	
	2023	2022
		(Restated)
	RMB'000	*RMB'000*
Current tax		
Provision for the period	**8,871**	4,001
Deferred tax		
Origination and reversal of temporary differences	**(6,285)**	(14,251)
	2,586	(10,250)

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 2023 (six months ended 30 June 2022: 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 2023 (six months ended 30 June 2022: 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 2023 (six months ended 30 June 2022: 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 2023 (six months ended 30 June 2022: 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 2023 (six months ended 30 June 2022: 75%).

6. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of RMB37,102,000 (six months ended 30 June 2022: loss of RMB65,240,000 (Restated)), and 275,000,000 ordinary shares in issue during the interim period (six months ended 30 June 2022: 275,000,000 ordinary shares).

(b) Diluted earnings/(loss) per share

There were no dilutive potential shares outstanding during the six months ended 30 June 2023 and 2022. Hence, the diluted earnings/(loss) per share is the same as basic earnings/(loss) per share.

7. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	At 30 June 2023	At 31 December 2022 (Restated)
	RMB'000	*RMB'000*
Contract assets		
– due from ZIHG and its subsidiaries, joint ventures and associates	**54,845**	123,900
– due from a joint venture	**51,429**	51,416
– due from an associate	**57,746**	50,932
– due from companies managed by a key management personnel of ZIHG	**1,906**	14,539
– due from third parties	**1,006,346**	1,058,486
	1,172,272	1,299,273
Less: loss allowance	**(250,176)**	(243,564)
	922,096	1,055,709
Trade receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade receivables" *(Note 8)*	**1,521,962**	1,559,577

The Group's construction contracts, operation and maintenance contracts, design and consultancy contracts include payment schedules which require stage payments over the design, consultancy, operation and maintenance 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 RMB438,192,000 (31 December 2022: RMB455,828,000 (Restated)), which are expected to be billed after more than one year.

(b) Contract liabilities

	At 30 June 2023	At 31 December 2022 (Restated)
	RMB'000	*RMB'000*
Contract liabilities		
– due to ZIHG and its subsidiaries, joint ventures and associates	**9,955**	3,663
– due to a joint venture	**18,324**	18,324
– due to companies managed by a key management personnel of ZIHG	**902**	394
– due to third parties	**399,704**	560,655
	428,885	583,036

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 2023 *RMB'000*	At 31 December 2022 (Restated) *RMB'000*
Trade receivables		
– due from ZIHG and its subsidiaries, joint ventures and associates	**161,314**	84,886
– due from a joint venture	**18,480**	18,480
– due from an associate	**8,311**	12,034
– due from companies managed by a key management personnel of ZIHG	**8,185**	33,205
– due from third parties	**1,536,350**	1,601,067
	1,732,640	1,749,672
Bills receivable for contract work	**13,087**	1,752
	1,745,727	1,751,424
Less: loss allowance	**(189,379)**	(171,980)
	1,556,348	1,579,444
Reconciliation to the consolidated statement of financial position:		
Non-current	**9,743**	18,988
Current	**1,546,605**	1,560,456
	1,556,348	1,579,444

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 2023	At 31 December 2022 (Restated)
	RMB'000	*RMB'000*
Within 1 year	**839,774**	735,224
1 to 2 years	**363,983**	525,701
2 to 3 years	**151,629**	145,543
3 to 4 years	**78,379**	40,181
4 to 5 years	**44,079**	49,413
Over 5 years	**78,504**	83,382
	1,556,348	1,579,444

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

9. TRADE AND BILLS PAYABLES

	At 30 June 2023	At 31 December 2022 (Restated)
	RMB'000	*RMB'000*
Trade payables		
– due to ZIHG and its subsidiaries, joint ventures and associates	**21,036**	14,698
– due to companies managed by key management personnel of ZIHG	**4,863**	20,685
– due to third parties	**1,101,273**	1,140,402
Bills payables	**4,300**	61,693
	1,131,472	1,237,478

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 2023	At 31 December 2022 (Restated)
	RMB'000	*RMB'000*
Within 1 year	**605,664**	685,188
1 to 3 years	**362,525**	444,249
Over 3 years	**163,283**	108,041
	1,131,472	1,237,478

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 2023 (six months ended 30 June 2022: HKDNil).

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

No final dividend in respect of the previous financial year has been approved during the six months ended 30 June 2023 (six months ended 30 June 2022: HKDNil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2023, the Group actively integrated its product lines to expand its businesses of construction and upgrading of urban parks, urban road and bridge construction and greening, water ecology, smart city maintenance and sanitation. The Group's related qualifications were strengthened continuously and the Group's bidding capacity was enhanced. In addition to solidifying its stronghold in Changchun, the Group also expanded its presence across the country and continued to develop its outbound markets. In the first half of 2023, the Group submitted a total of 272 tenders and achieved a successful tender rate of approximately 41.54%, with the contract value of newly awarded projects amounting to approximately RMB2,209.03 million.

During the first half of 2023, the Group has won the bid for several sizeable projects, such as:

(i) the Jingyuetan Scenic Area (Tourism) Infrastructure Construction Project (Main Contracting) in Changchun City, Jilin Province (with a successful bid price of approximately RMB459.48 million);

(ii) the Main Contracting for the New Urbanisation Construction Project (Phase I) PPP Project in Changchun New Area – Phase II Comprehensive Treatment of the Northern Section of the Yitong River (Urban Enhancement for Changchun New Area) (with a successful bid price of approximately RMB751.90 million);

(iii) the Main Contracting for the Water Ecological Treatment of Baili Yitong River in Changchun – Service Facilities Enhancement (excluding sludge treatment plant) of the Yitong River Basin (with a successful bid price of approximately RMB524.17 million);

(iv) the Changchun City Five Largest Wastewater Treatment Systems "One Plant, One Policy" Quality Improvement and Efficiency Enhancement Project – Second Bidding Section of the Jingyue District Project 2023 (Main Contracting) (with a successful bid price of approximately RMB114.12 million); and

(v) the Construction Bidding Section 01 of the Changchun Municipal Infrastructure Maintenance Project 2023 (Road Maintenance and Drainage Facilities Maintenance Project) (with a successful bid price of approximately RMB48.50 million).

In particular, regarding outbound regional expansion, the Group has also won bids including the EPC Main Contracting for the Ecological Comprehensive Improvement Project at the Source of Longhe River (Lengshui Area) (with a successful bid price of approximately RMB20.00 million) and the bid for the Ecological Restoration Project of the Shoreline of Nangang Industrial Zone in Tianjin – Ecological Greenway Project at Nandi Road (Jinqi Highway - Xizhonghuan Extension).

In the first half of 2023, the Water Ecological Treatment of Baili Yitong River in Changchun – Nanxi Water Culture Ecological Park Project of Jinghe Design Group Limited* (境和設計集團有限公司) ("**Jinghe Design Group**") was awarded the "First Class Award for Garden Landscape and Ecological Environment Design in the 2011 National Industry Excellent Survey and Design Awards" (二零二一年度全國行業優秀勘察設計獎園林景觀與生態環境設計一等獎) in March 2023; the application of LIM technology in the Changchun Water Culture Ecological Park Project won the "Third Class Award in the Seventh Construction Engineering BIM Competition" (第七屆建設工程BIM大賽三等獎); and the Dongfeng International Sika Deer Industrial Park Project won the "2022 Jilin Province Quality Engineering Decoration Award" (2022年度吉林省優質工程裝飾獎) in June 2023. At the same time, Jinghe Design Group was recognised as a "New, distinctive, specialised and sophisticated (專精特新)" small and medium-sized enterprise of Jilin Province in 2023 and appointed as a member of the standardisation work committee of China Society for the Promotion of Science and Technology Commercialization (group standard code: T/CSPSTC); the Supplementary Project for the Comprehensive Improvement in relation to Black and Odorous Water Body in the Urban Area of Liaoyuan City (Ecological Restoration and Enhancement of the Riparian Zone of Dongliao River) – Construction and Supervision of Landscaping Project (Phase I, Phase III) (Bidding Section I: Engineering Construction) and the Shenjunshan Ecological Restoration and Landscaping Project of Zonbong Ecology Environmental Construction Limited* (中邦生態環境有限公司) ("**Zonbong Ecology Environmental**") were awarded the "Changbaishan Award for Quality Construction Works in Jilin Province" (吉林省建設工程省優質工程"長白山杯"獎) granted by the Jilin Provincial Construction Association (吉林省建築業協會). Zonbong Ecology Environmental was also awarded the national "Credit Star Certificate (6-Star)" (信用星級證書(6星)) jointly granted by the China Association of Construction Enterprise Management and its Credit Evaluation Committee and honoured as an "Excellent Construction Enterprise in Jilin Province" (吉林省優秀施工企業) by the Jilin Provincial Construction Association. The Water Environment Comprehensive Treatment Project of Yitong River Basin in Changchun – Yitong River Basin Black and Odorous Water Body Treatment Project East Drainage Ditch Sewage Pipe Project (Shitong Road) and the Changchun Five Largest Wastewater Treatment Systems "One Plant, One Policy" Quality Improvement and Efficiency Enhancement Project - Chuanhu Wastewater Treatment System of Municipal Construction Co. of the Group were honoured as "2022 Construction Safety Production Standardized Sites for City-wide Construction Projects" (2022年全市範圍建設工程項目施工安全生產標準化工地) by the Changchun City Construction Industry Safety Association (長春市建築業安全協會), while Changchun Chengjianweihu Group Co., Ltd.* (長春市城建維護集團股份有限公司) ("**Changchun Chengjianweihu**") was awarded as an "Excellent Construction Enterprise in Jilin Province" by the Jilin Provincial Construction Association.

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 1H2023.

PROSPECTS

From January 2023 to June 2023, the Group's subsidiaries, being Beijing Zonqing Cultural & Commercial Tourism Operation Management Co., Limited* (北京中慶文商旅運營管理有限公司), Jinghe Design Group, Zonbong Ecology Environmental and Changchun Chengjianweihu worked in cooperation with each other and leveraged on the synergistic advantages formed via the integration of cultural, commercial, tourism and industrial activities ranging from project commercial planning, engineering design, construction services to urban construction and maintenance, sanitation, to cultural and tourism operations. The Group has secured new contracts amounting to RMB2,209.0 million in the first half of 2023 (first half of 2022: RMB160.2 million), an increase of 1,278.9% as compared to the same period last year. These include an urban upgrading project of approximately RMB752 million in Changchun New Area; a main contracting project for scenic spot (tourism) infrastructure construction of approximately RMB459 million in Jingyue District; a main contracting ecological management project for service facilities enhancement of approximately RMB524 million in the Yitong River Basin; and the Group thereby achieved new breakthrough in its business.

Regarding national policies, in August 2022, the General Office of the CPC Central Committee, together with the General Office of the State Council, published the "Cultural Development Plan for the 14th Five-Year Plan" and included the "deep integration of culture and tourism" as one of the main objectives of industry development, with an aim to carry out the pilot integration of the functions of public cultural institutions and tourism service centres, promote the integrated development of culture and tourism, sports, education, information, construction and manufacturing, and extend the industrial chain. In the Government Work Report published in March 2023, it was proposed that "efforts should be made to expand domestic demand. Government investment and policy incentives should effectively drive investment in society as a whole, with RMB3.8 trillion to be allocated as special-purpose bonds for local governments this year to speed up the implementation of major projects set out in the 14th Five-Year Plan and launch urban renewal projects. We should promote complementary development between regions and see that each region fully leverages its strengths. We should encourage and attract more private capital into major state projects and projects aimed at addressing areas of weakness in order to stimulate private investment."

Under the strong guidance and support from government policy, the Group will vigorously utilise the synergistic integrated business of culture, commerce, tourism and industry (文旅商工一體化), continue to take advantage on its existing strengths in terms of qualification, experience and business integration, and continue to try to secure new business projects with its First-Grade Qualification of Main Contractor for Municipal Public Works (市政公用工程施工總承包壹級資質); and, in addition to solidifying its stronghold in Changchun, in particular for its landscaping and ecological restoration related business, expand nationwide to cities including Tianjin, Chongqing, Beijing, Shandong and Guangzhou, with a plan to jointly bid for projects and jointly develop the national market with its various partners to complement each other's strengths and to extend its business to the whole process of consultancy. The Group will continue to consider qualification upgrades to stabilise and enhance its corporate creditworthiness, ensure AAA-grade corporate creditworthiness, and apply for national, provincial and municipal awards for outstanding design and engineering, thereby laying a solid foundation for sustained results growth.

Looking ahead to the second half of 2023, the Group's business focus will be to continue to integrate its product lines, closely follow the policy direction of the central government, expand the construction and upgrading of new urban parks, urban roads, bridges and greening construction, and introduce cultural and tourism operations, smart operation and maintenance and other ideas and technological ways into its existing products, so as to achieve city upgrading objectives and satisfy public's pursuit of a "Lifestyle of Health and Sustainability" (LOHAS).

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. The Company is committed to becoming a leading brand of integrated operation service provider for the landscaping, ecological environment construction, and cultural and tourism industry.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased by approximately 149.1% or approximately RMB544.5 million from approximately RMB365.3 million (Restated) for 1H2022 to approximately RMB909.8 million for 1H2023. The increase in revenue during 1H2023 was mainly due to (i) the Group's revenue (including the revenue generated by Jilin Modern Zhongqing and its subsidiaries) being adversely affected during 1H2022 due to the implementation of control and lockdown measures to combat the Covid-19 outbreak in Changchun city in March 2022, which only started to lift in around mid of May 2022; and (ii) the increase in newly awarded contracts in the 1H2023.

City renewal construction services

The Group recorded an increase in revenue from the city renewal construction services segment, from approximately RMB277.2 million (Restated) for 1H2022 to approximately RMB783.6 million for 1H2023, representing an increase of approximately 182.7% or approximately RMB506.4 million, which was mainly due to the increase in major contracts newly awarded during 1H2023.

City operation and maintenance services

The Group recorded a decrease in revenue from the city operation and maintenance services segment, from approximately RMB69.4 million (Restated) for 1H2022 to approximately RMB61.7 million for 1H2023, representing a decrease of approximately 11.1% or approximately RMB7.7 million, which was mainly due to the expiry of a sizeable environmental hygiene project in 2022, hence no revenue was recognised from this project in 2023.

Design and consultancy services

The Group recorded an increase in revenue from the design and consultancy services segment, from approximately RMB18.6 million (Restated) for 1H2022 to approximately RMB64.6 million for 1H2023, representing an increase of approximately 247.3% or approximately RMB46.0 million, which was mainly attributable to the newly awarded major consultancy projects undertaken during 1H2023.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 183.8% or approximately RMB94.5 million from approximately RMB51.4 million (Restated) for 1H2022 to approximately RMB145.9 million for 1H2023. The increase in gross profit was primarily due to (i) the effect of the rise in revenue of approximately RMB544.6 million in 1H2023, which was mainly due to the relaxation of pandemic containment measures and the increase in newly awarded major construction projects.

Other net income

The Group's other net income decreased by approximately 8.5% or approximately RMB0.4 million from approximately RMB4.7 million (Restated) for 1H2022 to approximately RMB4.3 million for 1H2023. The decrease was mainly attributable to the decrease in government grants in relation to the COVID-19 pandemic during 1H2023.

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 decreased by approximately 8.5% or approximately RMB0.7 million from approximately RMB8.2 million (Restated) for 1H2022 to approximately RMB7.5 million for 1H2023. The decrease was mainly attributable to the reduction in number of staff.

Administrative expenses

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

The administrative expenses increased by approximately 12.5% or approximately RMB4.7 million from approximately RMB37.6 million (Restated) for 1H2022 to approximately RMB42.3 million for 1H2023, which was mainly due to the increase in fee charged by professional parties, primarily in relation to the acquisition of Jilin Modern Zhongqing.

Finance costs

The Group's finance costs mainly represented interest expenses on bank and other loans, and decreased by approximately 11.0% or approximately RMB4.0 million from approximately RMB36.3 million (Restated) for 1H2022 to approximately RMB32.3 million for 1H2023, which was mainly due to the absence of net foreign exchange loss of bank loan during IH2023.

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. The acquisition falls within the de minimis criteria and is fully-exempted from the reporting, announcement and shareholders approval requirements in the Main Board Listing Rules. 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 1H2023, results of associates attributable to the Group decreased by approximately 42.2% or RMB0.7 million from share of profit of approximately RMB1.6 million (Restated) for 1H2022 to approximately RMB0.9 million for 1H2023.

Share of 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 1H2023, profits of a joint venture attributable to the Group decreased by approximately 57.1% or approximately RMB2.0 million from approximately RMB3.5 million (Restated) for 1H2022 to approximately RMB1.5 million for 1H2023. The fluctuation was mainly due to the decrease in revenue of the joint venture.

Income tax

The Group's income tax increased by approximately RMB12.9 million from approximately -RMB10.3 million (Restated) for 1H2022 to approximately RMB2.6 million for 1H2023, which was mainly due to the Group's turnaround from loss for 1H2022 to profit for 1H2023.

Net current assets

The Group's net current assets decreased by approximately 48.9% or approximately RMB252.7 million from approximately RMB516.7 million (Restated) as at 31 December 2022 to approximately RMB264.0 million as at 30 June 2023, the decrease was primarily due to the consideration payable to ZIHG in relation to the acquisition of Jilin Modern Zhongqing.

Liquidity and financial resources

As at 30 June 2023, the cash and cash equivalents of the Group amounted to approximately RMB131.1 million (31 December 2022: approximately RMB220.2 million (Restated)). As at 30 June 2023, the Group had borrowings of approximately RMB819.4 million (31 December 2022: approximately RMB1,053.7 million (Restated)). Based on the scheduled repayment terms set out in the loan agreements, approximately RMB741.5 million (31 December 2022: approximately RMB974.8 million (Restated)) 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 2023, there was no breach of loan covenants relating to the bank and other loans.

Gearing ratio

The gearing ratio (calculated by bank and other loans divided by total equity) increased from 1.1 times (Restated) as at 31 December 2022 to 1.2 times as at 30 June 2023, the increase was primarily due to the impact of the decrease of total equity arising from acquisition of Jilin Modern Zhongqing during 1H2023.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as the acquisition of 87.5% equity interests in Jilin Modern Zhongqing, which was completed on 30 June 2023, the Group had no other material acquisitions and disposals of subsidiaries, associates and joint ventures in 1H2023. Please refer to the announcement of the Company dated 11 April 2023 and the circular of the Company dated 9 June 2023 for details of the acquisition of 87.5% equity interests in Jilin Modern Zhongqing.

SIGNIFICANT INVESTMENTS HELD

As at 30 June 2023, 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 2023, the Group had 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 2023 the balance of the bank loan is RMB330,000,000 (31 December 2022: RMB RMB330,000,000). 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 2023, the unamortised balance of financial guarantee issued by the Group included in "accrued expenses and other payables" amounted to RMB20,171,000 (31 December 2022: RMB21,131,000).

As at 30 June 2023, the Group had 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 2023, the balance of the bank loan is RMB170,350,000 (31 December 2022: RMB180,000,000). 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 2023, the unamortised balance of financial guarantee issued by the Group included in "accrued expenses and other payables" amounted to RMB9,879,000.00 (31 December 2022: RMB10,670,000).

FINANCIAL GUARANTEES ISSUED

The Group's financial guarantees issued amounted to approximately RMB30.1 million and approximately RMB31.8 million as at 30 June 2023 and 31 December 2022, respectively, which was provided for the guarantees provided by the Group for the bank loans borrowed by an associate of the Group and the project company of the EDZ Project, namely Changchun Xianbang, and a joint venture of the Group and the project company of the Shenjunshan Project, namely Tianjun Tourism, for the purpose of supporting the financing for the two projects, and initially recognised with reference to fees charged in an arm's length transaction for similar services and 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 the associate and the joint venture in 2029 and 2033, respectively.

Except for above mentioned, all of financial guarantees issued to related parties and third parties as at 31 December 2022 were released during the six months ended 30 June 2023.

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 1H2023 (1H2022: nil).

Employees and remuneration policies

As at 30 June 2023, the Group had 844 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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during 1H2023.

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 1H2023.

Events after the reporting period

No significant events have taken place subsequent since 30 June 2023 and up to the date of this announcement.

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 14 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 2023 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 2023 will be dispatched to the shareholders of the Company 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, 30 August 2023

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.