

Zhongtian Construction (Hunan) Group Limited

中天建設(湖南)集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2433

INTERIM REPORT

2023



CONTENTS

Corporate Information	2
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	3
Condensed Consolidated Statement of Financial Position	4
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Statement of Cash Flows	7
Notes to the Condensed Consolidated Financial Statements	9
Management Discussion and Analysis	25
Corporate Governance and Other Information	33





Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Yang Zhongjie (*Chairman*)
Mr. Liu Xiaohong (*Chief Executive Officer*)
Mr. Min Shixiong
Mr. Shen Qiang
Mr. Chen Weiwu

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Liu Jianlong
Ms. Deng Jianhua
Mr. Lau Kwok Fai Patrick

REGISTERED OFFICE IN THE CAYMAN ISLANDS

71 Fort Street,
PO Box 500,
George Town, Grand Cayman, KY1-1106,
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 913, 9/F.
Chinachem Golden Plaza
No. 77 Mody Road
Tsim Sha Tsui
Kowloon
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1197 East Xinhua Road
Hetang District
Zhuzhou City
Hunan Province
PRC

COMPANY'S WEBSITE

www.ztcon.com

COMPANY SECRETARY

Ms. Chan Kit Ming (*Certified Public Accountant*)

AUTHORISED REPRESENTATIVES

Ms. Chan Kit Ming (*Certified Public Accountant*)
Mr. Yang Zhongjie

AUDIT COMMITTEE

Mr. Lau Kwok Fai Patrick (*Chairperson*)
Dr. Liu Jianlong
Ms. Deng Jianhua

REMUNERATION COMMITTEE

Ms. Deng Jianhua (*Chairperson*)
Mr. Liu Xiaohong
Mr. Lau Kwok Fai Patrick

NOMINATION COMMITTEE

Mr. Yang Zhongjie (*Chairperson*)
Dr. Liu Jianlong
Ms. Deng Jianhua

AUDITORS

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Central
Hong Kong

COMPLIANCE ADVISER

Grande Capital Limited
Room 2701, 27/F
Tower One, Admiralty Centre
18 Harcourt Road
Admiralty
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

ONC Lawyers
19th Floor
Three Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Appleby Global Services (Cayman) Limited
71 Fort Street
PO Box 500
George Town
Grand Cayman
KY1-1106
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
2103B, 21st Floor
148 Electric Road
North Point
Hong Kong

PRINCIPAL BANKER

China Construction Bank Corporation Zhuzhou
Renmin Road Sub-branch
No. 2 Qiyi Road, Zhuzhou City
Hunan Province
PRC

STOCK CODE

2433

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	5	681,356	758,279
Cost of sales		(601,869)	(675,168)
Gross profit		79,487	83,111
Other income and other gains, net	6	516	255
Administrative expenses		(37,228)	(46,232)
Listing expenses		(10,998)	(3,974)
Impairment on financial and contract assets, net		(5,771)	(3,021)
Finance costs	7	(4,054)	(2,436)
Profit before taxation	8	21,952	27,703
Income tax expense	9	(2,963)	(3,749)
Profit and total comprehensive income for the period		18,989	23,954
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		18,824	23,604
Non-controlling interests		165	350
		18,989	23,954
Earnings per share attributable to owners of the Company for the period			
Basic and diluted (expressed in RMB cents per share)	10	4.47	6.56

Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	17,834	19,566
Deferred tax assets		4,976	4,107
Intangible assets		43	45
		22,853	23,718
Current assets			
Inventories		537	828
Trade, bills and other receivables	13	489,911	434,116
Contract assets		1,259,334	1,127,150
Amounts due from related companies	16	20,604	8,318
Amounts due from shareholders	16	—	4,352
Restricted bank deposits		45,965	17,599
Cash and cash equivalents		71,596	151,661
		1,887,947	1,744,024
Current liabilities			
Trade and bills payables	14	716,553	803,363
Accruals and other payables	15	494,428	420,745
Contract liabilities		50,574	17,267
Amounts due to related companies	16	9,921	8,618
Amounts due to shareholders	16	—	5,806
Amounts due to directors	16	—	748
Borrowings	17	137,855	136,705
Income tax payable		13,610	11,334
		1,422,941	1,404,586
Net current assets		465,006	339,438
Total assets less current liabilities		487,859	363,156
Non-current liabilities			
Borrowings	17	2,847	3,425
		2,847	3,425
NET ASSETS		485,012	359,731

Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2023

		30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital	18	4,245	1
Reserves		470,679	349,807
		<hr/>	
		474,924	349,808
Non-controlling interests		10,088	9,923
		<hr/>	
TOTAL EQUITY		485,012	359,731
		<hr/>	

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 June 2023

	Equity attributable to the owners of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserve	Statutory	Statutory reserve	Retained earnings			
				special reserve					
RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	
Balance at 1 January 2022	1	—	79,673	627	22,229	182,732	285,262	8,906	294,168
Profit and total comprehensive income for the period	—	—	—	—	—	23,604	23,604	350	23,954
Appropriation to statutory reserve	—	—	—	—	2,437	(2,437)	—	—	—
Transfer to special reserve	—	—	—	10,517	—	—	10,517	—	10,517
Utilisation of special reserve	—	—	—	(10,468)	—	—	(10,468)	—	(10,468)
At 30 June 2022	1	—	79,673	676	24,666	203,899	308,915	9,256	318,171
Balance at 1 January 2023	1	—	79,673	702	28,737	240,695	349,808	9,923	359,731
Issuance of shares upon listing	1,061	124,154	—	—	—	—	125,215	—	125,215
Capitalisation issue	3,183	(3,183)	—	—	—	—	—	—	—
Expenses attributed to issue of new shares upon listing	—	(18,378)	—	—	—	—	(18,378)	—	(18,378)
Profit and total comprehensive income for the period	—	—	—	—	—	18,824	18,824	165	18,989
Appropriation to statutory reserve	—	—	—	—	2,693	(2,693)	—	—	—
Transfer to special reserve	—	—	—	10,499	—	—	10,499	—	10,499
Utilisation of special reserve	—	—	—	(11,044)	—	—	(11,044)	—	(11,044)
At 30 June 2023	4,245	102,593	79,673	157	31,430	256,826	474,924	10,088	485,012

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Profit before taxation	21,952	27,703
Adjustments for:		
Depreciation of property, plant and equipment	1,815	2,429
Amortisation of intangible assets	2	2
Finance costs	4,054	2,436
Interest income	(276)	(164)
Impairment on financial and contract assets, net	5,771	3,021
	<hr/>	<hr/>
Operating profit before working capital changes	33,318	35,427
Decrease in inventories	291	2,311
Increase in trade, bills and other receivables	(61,416)	(14,637)
Increase in contract assets	(133,420)	(98,421)
Decrease in trade and bills payables	(86,810)	(80,896)
Increase in accruals and other payables	73,137	32,596
Increase in contract liabilities	33,307	7,111
Increase in amounts due from related companies	(12,339)	(3,273)
Decrease in amounts due from shareholders	5,492	7,900
(Increase)/decrease in restricted bank deposits	(28,366)	8,466
	<hr/>	<hr/>
Cash used in operations	(176,806)	(103,416)
Income tax paid	(1,556)	(2,873)
	<hr/>	<hr/>
Net cash used in operating activities	(178,362)	(106,289)

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cash flows from investing activities		
Proceeds from issue of new shares	125,215	—
Payment of share issue expenses	(18,378)	—
Purchase of property, plant and equipment	(87)	(404)
Proceeds on disposal of property, plant and equipment	4	—
Interest received	276	164
Net cash generated from/(used in) investing activities	107,030	(240)
Cash flows from financing activities		
Proceeds from new borrowings	97,700	96,418
Repayments of borrowings	(97,128)	(26,429)
Interest paid	(4,054)	(2,436)
Repayments of lease liabilities	—	(203)
Advances from/(repayments to) related companies	1,303	(777)
Repayments to shareholders	(5,806)	(7,656)
(Repayments to)/advances from directors	(748)	192
Net cash (used in)/generated from financing activities	(8,733)	59,109
Net decrease in cash and cash equivalents	(80,065)	(47,420)
Cash and cash equivalents at the beginning of the period	151,661	89,106
Cash and cash equivalents at the end of the period	71,596	41,686

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. GENERAL INFORMATION

Zhongtian Construction (Hunan) Group Limited (the “**Company**”) is a limited liability company incorporated in the Cayman Islands on 27 March 2020. The Company’s registered office is located at 71 Fort Street, P.O. Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands. The principal place of business of the Company is located in the People’s Republic of China (the “**PRC**”). The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 30 March 2023 (the “**Listing Date**”).

The Company, an investment holding company, and its subsidiaries (collectively referred as the “**Group**”) are principally engaged in the provision of construction services in the PRC.

In the opinion of the directors, as at the date of this report, the ultimate holding company is ZT (A) Limited (“**ZT (A)**”), a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The unaudited condensed consolidated interim financial information does not include all the information and disclosures required in annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2022 (the “**Annual Report 2022**”) which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The unaudited condensed consolidated interim financial information has been prepared in accordance with the same accounting policies and methods of computation as adopted by the Group in the Annual Report 2022 except for the adoption of new or amended HKFRSs as mentioned in note 3.

In preparing the unaudited condensed consolidated interim financial information, the significant judgment made by the management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the Annual Report 2022.

The unaudited condensed consolidated interim financial information has been prepared under the historical cost basis and presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated. These unaudited condensed consolidated interim financial statements have not been audited or reviewed by the Company’s external auditors, but have been reviewed by the Company’s audit committee.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

3. ADOPTION OF HKFRSs

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

In the current period, the Group has applied for the first time the following new standard, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2023.

HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules

The adoption of the above new or revised HKFRSs in the current period has no material impact on the amounts reported and/or disclosures set out in these unaudited condensed consolidated financial statements.

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current and related amendments to Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements ²
Amendments to HKAS 1	Non-current liabilities with Covenants ²
Amendments to HKFRS 16	Lease liability in a Sale and Leaseback ²
HK Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²

¹ No mandatory effective date determined yet but available for adoption

² Effective for annual periods beginning on or after 1 January 2024

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

4. SEGMENT INFORMATION

(a) Operating segment information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance.

Management has determined the operating segments based on the reports reviewed by chief operating decision maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in the provision of construction services in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Company regards that there is only one segment which is used to make strategic decisions.

The major operating entities of the Group is domiciled in the PRC. Accordingly, all of the Group's revenue were derived in the PRC during the periods ended 30 June 2023 and 2022.

As at 30 June 2023 and 31 December 2022, all of the non-current assets were located in the PRC.

(b) Information about major customers

Revenue from major customers, each of them accounting for 10% or more of the Group's revenue for the periods ended 30 June 2023 and 2022, is set out below:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	N/A*	103,600

* The corresponding revenue did not contribute over 10% of the total revenue of the Group during that period.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

5. REVENUE

Revenue represents the revenue from construction contracts and provision of construction machinery and equipment for construction projects.

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue from construction contracts		
Civil building construction	320,311	355,068
Municipal works construction	243,920	266,135
Foundation works	7,654	16,997
Prefabricated steel structure construction works	91,303	113,091
Other specialised contracting works	15,000	3,405
Revenue from provision of construction machinery and equipment service	3,168	3,583
	681,356	758,279

Timing of revenue recognition:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
— Transferred over time	681,356	758,279

The following table provides information about the geographical areas of the revenue derived from customers:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Hunan	487,436	551,031
Hainan	172,615	156,185
	660,051	707,216
Others	21,305	51,063
	681,356	758,279

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

5. REVENUE (Continued)

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers.

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables, net (note 13)	391,268	354,373
Contract assets	1,259,334	1,127,150
Contract liabilities	50,574	17,267

The contract assets primarily relate to the Group's rights to consideration for work completed at the reporting date on revenue related to the provision of construction services. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it becomes unconditional and the milestones are reached.

The contract liabilities mainly relate to the advance consideration received from customers.

(i) Revenue recognised in relation to contract liabilities at the beginning of the reporting periods

The following table shows the amounts of the revenue recognised during the reporting periods relates to carried forward contract liabilities:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Revenue recognised during the periods	3,976	12,789

(ii) Transaction price allocated to the remaining performance obligations

The following table shows the amounts of the unsatisfied performance obligation in the reporting periods:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Partially unsatisfied performance obligation	1,057,379	968,450

As at 30 June 2023, there is unsatisfied performance obligation amounted to approximately RMB1,880,885,000 (31 December 2022: approximately RMB1,304,590,000), which represents the wholly unperformed revenue contracts. These amounts represent revenue expected to be recognised in the future from long-term construction contracts. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur in the next 1 to 23 months.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

6. OTHER INCOME AND OTHER GAINS, NET

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income on bank deposits	276	164
Government grants (Note)	205	172
Others	35	(81)
	516	255

Note:

These represented grants to incentivise the development of the Group, of which the entitlement was unconditional and one-off in nature.

7. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest charge on lease liabilities	—	5
Interest charge on borrowings	4,054	2,431
	4,054	2,436

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the followings:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories	268,658	292,175
Auditors' remuneration	329	19
Depreciation of property, plant and equipment owned	1,815	2,221
Depreciation of right-of-use assets	—	208
Amortisation of intangible assets	2	2
Research and development costs	17,987	23,205
Listing expenses	10,998	3,974
Short-term leases expenses		
— Office premises	214	29
— Machinery and equipment	41,491	70,269
Staff costs (including directors' emoluments):		
— Salaries and wages	10,856	17,970
— Retirement scheme contributions	3,173	2,937

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

9. INCOME TAX EXPENSE

Provision for the PRC Enterprise Income Tax (“EIT”) for the reporting periods was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax		
Current year	3,832	4,213
Deferred tax	(869)	(464)
	2,963	3,749

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulations of the EIT Law, the tax rate of the Group is 25% for the six months ended 30 June 2023 and 2022, except for the following subsidiaries:

A subsidiary of the Company has been certified as new high technology enterprise in the PRC and enjoyed a preferential enterprise income tax rate of 15% for the six months ended 30 June 2023 and 2022.

Two subsidiaries of the Company were qualified as small enterprise and are eligible for preferential tax rate for the six months ended 30 June 2023 and 2022.

The income tax expense for the reporting periods can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before taxation	21,952	27,703
Tax calculated at the rates applicable to profits in the tax jurisdictions concerned	5,488	6,926
Tax effect of non-deductible Items	255	549
Tax effect of preferential tax rate	(2,780)	(3,726)
Income tax expense	2,963	3,749

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Profit and total comprehensive income for the period attributable to owners of the Company (RMB'000)	18,824	23,604
Weighted average number of shares in issue (note)	421,333,000	360,000,000
Basic earnings per share (RMB cents)	4.47	6.56

Note:

The calculation of basic earnings per share for the six months ended 30 June 2023 and 2022 is based on the profit for the period attributable to ordinary equity holders of the Company of approximately RMB18,824,000 (six months ended 30 June 2022: approximately RMB23,604,000), and the weighted average number of ordinary shares of 421,333,000 in issue during the six months ended 30 June 2023 (six months ended 30 June 2022: 360,000,000).

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2023 represented 101,100 ordinary shares of the Company as at 1 January 2023, 359,898,900 ordinary shares of the Company issued under the Capitalisation Issue (as defined in Note 18(iii)), as if these additional shares issued under the Capitalisation Issue had been in issue throughout the six months ended 30 June 2023, and weighted average number of 61,333,333 ordinary shares of the Company issued upon the listing of the shares of the Company (the "Listing") on the Main Board of the Stock Exchange on 30 March 2023.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2022 represented 101,100 ordinary shares of the Company as at 1 January 2022, 359,898,900 ordinary shares of the Company issued under the Capitalisation Issue, as if these additional shares issued under the Capitalisation Issue had been in issue throughout the six months ended 30 June 2022.

Diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share outstanding for the six months ended 30 June 2023 and 2022.

11. DIVIDENDS

No dividends were paid or declared by the Company for the six months ended 30 June 2023 and 2022.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired property, plant and equipment of approximately RMB87,000 (six months ended 30 June 2022: RMB781,000). In addition, during the six months ended 30 June 2023, the Group disposed property, plant and equipment of approximately RMB133,000 (six months ended 30 June 2022: RMB Nil).

As at 30 June 2023, certain plant and machinery with carrying amount of approximately RMB7,234,000 (31 December 2022: approximately RMB7,539,000) were pledged as securities for the Group's borrowings (note 17).

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

13. TRADE, BILLS AND OTHER RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables		
— Third parties	370,376	341,233
— Related parties	34,184	21,794
	404,560	363,027
Bills receivables	11,266	300
Impairment provision for		
— Trade receivables	(13,292)	(8,654)
— Bills receivables	(104)	(3)
	(13,396)	(8,657)
Trade and bills receivables, net	402,430	354,670
Deposits and other receivables	56,746	53,092
Prepayments	38,869	33,608
Impairment provision for deposits and other receivables	(8,134)	(7,254)
Other receivables, prepayments and deposits, net	87,481	79,446
	489,911	434,116

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of each reporting period:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables, aged		
0–90 days	97,882	180,116
91–180 days	89,511	17,477
181–365 days	88,626	66,231
1–2 years	63,177	70,153
2–3 years	34,806	3,729
Over 3 years	17,266	16,667
	391,268	354,373

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

13. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on due dates, as of the end of each reporting period:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables, aged		
Not yet past due	100,649	234,063
0–90 days	107,833	18,225
91–180 days	42,145	15,936
181–365 days	57,045	49,773
1–2 years	55,419	17,674
2–3 years	11,183	2,035
Over 3 years	16,994	16,667
	391,268	354,373

Trade receivables are generally due within 10 to 90 days from the date of billing.

As at 30 June 2023, no trade and bills receivables arising from provision of construction services were pledged as securities for the Group's borrowings (31 December 2022: approximately RMB1,910,000) (note 17).

14. TRADE AND BILLS PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables		
– Third parties	664,010	767,508
– Related parties	28,739	20,855
	692,749	788,363
Bills payables (note 17)	23,804	15,000
	716,553	803,363

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

14. TRADE AND BILLS PAYABLES (Continued)

A credit period of up to 3 months from the date of billing is generally granted by the Group's trade suppliers. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at the end of each reporting period is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
0-90 days	127,344	223,588
91-180 days	65,542	116,288
181-365 days	109,609	252,924
1-2 years	283,406	92,018
Over 2 years	106,848	103,545
	692,749	788,363

15. ACCRUALS AND OTHER PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Deposits received	12,381	13,148
Other payables	152,053	92,517
Other tax payables	322,809	310,343
Accruals	7,185	4,737
	494,428	420,745

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

16. AMOUNTS DUE FROM/(TO) RELATED COMPANIES/SHAREHOLDERS/DIRECTORS

(a) Amounts due to directors

Details of amounts due to directors are as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Liu Xiaohong	—	735
Min Shixiong	—	13
	<hr/>	<hr/>
	—	748
	<hr/>	<hr/>

As at 31 December 2022, the amounts due to directors are unsecured, interest free and repayable on demand.

(b) Amounts due from/(to) shareholders

As at 31 December 2022, the amounts due from/(to) shareholders are unsecured, interest free and repayable on demand.

(c) Amounts due from/(to) related companies

As at 30 June 2023 and 31 December 2022, the amounts due from/(to) related companies are unsecured, interest free and repayable on demand.

17. BORROWINGS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Current		
— Bank borrowings, secured/guaranteed	134,010	135,560
— Bank borrowings, unsecured	2,700	—
— Other borrowings, secured	1,145	1,145
	<hr/>	<hr/>
	137,855	136,705
Non-current		
— Bank borrowings, secured	1,880	1,885
— Other borrowings, secured	967	1,540
	<hr/>	<hr/>
	2,847	3,425
	<hr/>	<hr/>
	140,702	140,130
	<hr/>	<hr/>

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

17. BORROWINGS (Continued)

Bank borrowings were repayable as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 year	136,710	135,560
1–2 years	10	10
2–5 years	1,870	1,875
	138,590	137,445

Other borrowings were repayable as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 year	1,145	1,145
1–2 years	967	1,145
2–5 years	—	395
	2,112	2,685

The interest rate profiles for the Group's borrowings were as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Fixed-rate borrowings	110,702	90,130
Floating-rate borrowings	30,000	50,000
	140,702	140,130
Interest rate range per annum	3.7%–8.6%	3.7%–8.6%

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

17. BORROWINGS (Continued)

The borrowings were secured by the following assets:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Property, plant and equipment (note 12)	7,234	7,539
Trade and bills receivables (note 13)	—	1,910
	7,234	9,449

Note:

As at 31 December 2022, the Group's bank borrowings with principal amounts of RMB50,000,000, bills payables of RMB15,000,000 (note 14) and performance bonds issued by bank in favour of certain customers of the Group's construction projects with the aggregate value of RMB2,459,000 were secured by the properties of related companies; bank loans with principal amount of RMB6,550,000 were guaranteed by a director and his spouse of the Company; bank loans with principal amount of RMB2,000,000 were guaranteed by an independent third party, a guarantee company, and counter-guaranteed by one director and his spouse of a subsidiary; bank loans with principal amount of RMB2,000,000 were secured by the properties of the Group; bank loans with principal amount of RMB60,000,000 were secured by the properties of related companies and equity share of a related company, guaranteed by related companies, a director and his spouse of the Company; bank loans with principal amount of RMB8,000,000 were secured by the properties of related companies, and guaranteed by a related company, a director and his spouse of the Company; bank loans with principal amount of RMB1,895,000 were secured by bank deposits; and bank loans with principal amount of RMB7,000,000 were secured by trade receivables and guaranteed by a related company, four directors of a subsidiary and a director and his spouse of the Company. The securities and guarantees listed above will be released before or upon Listing.

As at 30 June 2023, the Group's bank borrowings with principal amounts of RMB50,000,000, bills payables of RMB15,000,000 (note 14) were guaranteed by the Company; bank borrowings with principal amount of RMB8,000,000 were guaranteed by the Company; bank borrowings with principal amount of RMB17,000,000 were guaranteed by a subsidiary; bank borrowings with principal amount of RMB30,000,000, bills payables of RMB8,804,000 (note 14) were guaranteed by a subsidiary; bank borrowings with principal amount of RMB2,000,000 were secured by the property, plant and equipment of the Group and guaranteed by a subsidiary and bank borrowings with principal amount of RMB28,890,000 were secured by bank deposits.

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

18. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000	Amount RMB'000
Authorised			
Ordinary shares of HK\$0.01 each			
At 1 January 2022 and 31 December 2022 (audited)	38,000,000	380	342
Increase in authorised share capital (note(ii))	4,962,000,000	49,620	44,658
	5,000,000,000	50,000	45,000
Issued and fully paid			
Ordinary shares of HK\$0.01 each			
At 1 January 2022 and 31 December 2022 (audited)	101,100	1	1
Issuance of shares upon Listing (note(iii))	120,000,000	1,200	1,061
Issuance of shares for Capitalisation Issue (note(iii))	359,898,900	3,599	3,183
	480,000,000	4,800	4,245

Notes:

- (i) The Company was incorporated in the Cayman Islands on 27 March 2020 as an exempted company with limited liability, with authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and issued 101,100 shares of HK\$0.01 each.
- (ii) On 10 March 2023, an ordinary resolution of the Company was passed, pursuant to which the authorised share capital of the Company was increased from RMB342,000 (equivalent to approximately HK\$380,000) to RMB45,000,000 (equivalent to approximately HK\$50,000,000) by the creation of additional 4,962,000,000 shares of HK\$0.01 each.
- (iii) In connection with the Company's issuance of new shares upon Listing, the Company allotted and issued 120,000,000 shares of HK\$0.01 each at a price of HK\$1.18 per share on 30 March 2023 as a result of the completion of Listing. The gross proceeds from issuance of new shares of approximately RMB125,215,000 (equivalent to approximately HK\$141,600,000) of which approximately RMB1,061,000 (equivalent to approximately HK\$1,200,000) was credited to the Company's share capital, and the remaining balance of approximately RMB124,154,000 (equivalent to approximately HK\$140,400,000) before deduction of share issuance expenses, was credited to share premium account. The share premium account can be used for deduction of share issuance expenses. After the share premium account of the Company being credited as a result of the issuance of new shares upon Listing, RMB3,183,000 (equivalent to approximately HK\$3,599,000) was capitalised from the share premium account and applied in paying up in full at par 359,898,900 new shares for allotment and issue to shareholders whose names appear on the register of members of the Company at the close of business on 30 March 2023 in proportion to their respective shareholdings ("**Capitalisation Issue**").

Notes to the Condensed Consolidated Financial Statements

FOR THE SIX MONTHS ENDED 30 JUNE 2023

19. RELATED PARTY TRANSACTIONS

The Group entered into the following related party transactions with related companies during the reporting periods:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Rental expenses paid/accrued to a related company	211	220
Purchase of materials from related companies	46,682	35,632
Construction services income earned from related companies	45,328	103,663
Sub-contracting service fee paid to related companies	3,796	—

The terms of the related party transactions carried out during the reporting periods were mutually agreed by the Group and the related companies.

Management Discussion and Analysis

BUSINESS REVIEW AND FUTURE OUTLOOK

The Group is a general contracting construction group in Hunan Province with over 40 years of operating history and is principally engaged in the provision of construction services comprising (i) civil building construction services, provision of construction contracting mainly as general contractor for residential, industrial and commercial construction projects; (ii) municipal works construction services, which mainly consist of construction of urban roads, education institutions, sports stadiums and water supply works; (iii) foundation works services which include foundation construction as well as earthwork construction; (iv) prefabricated steel structure construction services; and (v) other specialised contracting works which includes building renovation and decoration construction specialised contracting. In 2023, the business environment of the real estate industry in the PRC has worsened, especially since the second quarter of 2023. Such overall downturn of the domestic real estate market in the PRC has caused a challenging business environment for the construction sector which adversely impacted the financial performance of the Group for the six months ended 30 June 2023 (“1H2023”) and its financial position as at 30 June 2023.

In the face of the complicated industry situation, the Group would continue to adhere to its aspiration and review the prevailing situation to operate steadily and forge ahead. The Group considered that the projects from government entities, state-owned enterprises and state-invested enterprises (collectively, the “**Government-related Entities**”) are generally less vulnerable or sensitive to the property sales market or individual performance or financial conditions of the project owners in the PRC than the projects from non-Government-related Entities. Furthermore, Government-related Entities customers in general have better creditability and less history of default. Therefore, to maintain a healthy customer mix and leveraging on our Group’s experience and proven track records in undertaking projects from Government-related Entities, we would put more focus on securing new projects from Government-related Entities, perform periodic review on the existing customer mix and make appropriate adjustment when needed to cope with the changing external environment.

FINANCIAL REVIEW

Revenue

Our Group’s revenue for 1H2023 amounted to approximately RMB681.4 million, representing a decrease of approximately RMB76.9 million or 10.1% from approximately RMB758.3 million for the six months ended 30 June 2022 (“1H2022”).

Construction contracts

For 1H2023, our revenue generated from construction contracts decreased by approximately RMB76.5 million or 10.1% from approximately RMB754.7 million in 1H2022 to approximately RMB678.2 million in 1H2023. The decrement was mainly due to the decrease in revenue generated from civil building construction, municipal works construction, foundation works and prefabricated steel structure construction works, which decreased by approximately RMB34.8 million, RMB22.2 million, RMB9.3 million and RMB21.8 million respectively while partially net-off by the increment in revenue generated from other specialised contracting works of approximately RMB11.6 million.

Civil building construction

For 1H2023, our revenue generated from civil building construction decreased by approximately RMB34.8 million or 9.8% from approximately RMB355.1 million in 1H2022 to RMB320.3 million in 1H2023, which was mainly attributable to (i) the decrease in revenue generated from a project started in 1H2022 namely Kairuisi Phase I* (凱睿思(一期)) project with a contract sum (excluded VAT) amounting to approximately RMB130.8 million and generated revenue of approximately RMB48.7 million in 1H2022, compared to revenue of approximately RMB17.0 million in 1H2023 as the project is approaching its middle stage; (ii) owing to the negative impact from the real estate industry, our Group has secured fewer new contracts for civil building construction in 2023; and (iii) the delay in commencement of the Sharing Lease Housing* (共享租賃住房) project from April 2023 to December 2023 because the site preparation work is not yet ready for commencement of the construction works. The decrement was partially net-off with a number of new projects commenced in 1H2023 but were comparatively less sizable and generated revenue of approximately RMB21.2 million.



Management Discussion and Analysis

Municipal works construction

Our revenue generated from municipal works construction decreased by approximately RMB22.2 million or 8.3% from approximately RMB266.1 million in 1H2022 to RMB243.9 million in 1H2023, which was mainly due to decrease in revenue contributed by Xupu County Chengbei School Supporting Facilities Construction* (溱浦縣城北學校配套設施建設工程) project by approximately RMB24.8 million compared to 1H2022 due to completion of substantial parts in 1H2022.

Foundation works

Our revenue generated from foundation works substantially decreased by approximately RMB9.3 million or 55.0% from approximately RMB17.0 million in 1H2022 to approximately RMB7.7 million in 1H2023, mainly due to our foundation works were mostly ancillary work to civil building construction or municipal works construction and we usually do not undertake isolated foundation works as a subcontractor. For 1H2023, the decrement was mainly because of (i) the decrement in revenue contributed from Chaling Creative Park Foundation Works* (茶陵創業園土方) project by approximately RMB2.2 million compared to 1H2022; and (ii) the decrement in revenue contributed from Zhuzhou Luosha Hongbei Cultural and Creative Park Plant Water, Electricity, Road, Land Levelling and Ancillary Works* (株洲羅莎烘焙文創園地塊三通一平及附屬工程) project that was substantially completed in 2022 with approximately RMB4.3 million of revenue recognised in 1H2022 while no revenue was recognised in 1H2023.

Prefabricated steel structure construction works

For 1H2023, our revenue generated from prefabricated steel structure construction works decreased from approximately RMB113.1 million for 1H2022 to approximately RMB91.3 million for 1H2023, mainly due to the decrement in revenue generated from Zhongtian Lutai* (中天•麓台) project by approximately RMB51.0 million compared with 1H2022 as the project has completed the majority parts of its construction works in 2022 and was approaching its later stage of construction and integration in 1H2023.

Other specialised contracting works

For 1H2023, our revenue from other specialised contracting works increased from approximately RMB3.4 million in 1H2022 to approximately RMB15.0 million in 1H2023 as the Group has undertaken a new project in late 2022 which generated a revenue of approximately RMB12.3 million for 1H2023.

Provision of construction machinery and equipment service

For 1H2023, our revenue from this sub-segment remained relatively stable at approximately RMB3.2 million compared to approximately RMB3.6 million in 1H2022.

Cost of sales

Our cost of sales decreased by approximately 10.9% from approximately RMB675.2 million in 1H2022 to approximately RMB601.9 million in 1H2023, which is in line with the decrease in revenue of approximately 10.1%.

Management Discussion and Analysis

Gross profit margin

For 1H2023, our overall gross profit margin increased from approximately 11.0% in 1H2022 to 11.7% in 1H2023, in which our gross profit margin from construction contracts increased from approximately 10.9% in 1H2022 to 11.6% in 1H2023. The increment was mainly because (i) we have made careful selection on our projects before we submitted our tenders and (ii) we have made efforts to reduce our costs by engaging labour subcontractors and by making bulk purchases.

In particular, the gross profit margin of civil building construction in 1H2023 exhibited an increment of approximately 1.4% from approximately 10.1% in 1H2022 to approximately 11.5% in 1H2023 mainly because we undertook a new project in 1H2023 namely Old Village Revampment* (花垣縣移動公司宿舍片區老舊社區配套基礎設施改造項目) project, which recorded higher gross profit margin due to the relatively higher construction complexity and requirement compared to other types of civil building construction works engaged in 2022 while the gross profit margin of municipal works construction exhibited a moderate increment of approximately 0.8% from approximately 10.9% in 1H2022 to approximately 11.7% in 1H2023 as some major revenue contribution projects in 1H2023 were projects that were approaching their later stage of development, namely Tongdao County Sports Stadium* (通道縣體育館) project and Sanya City Third Ring Road* (三亞市三環路) project, which incurred lower costs at this stage compared to the beginning stage, leading to higher gross profit.

For 1H2023, the gross profit margin of foundation works slightly increased to approximately 7.9% compared with approximately 6.6% in 1H2022 as while in 1H2023, the revenue for foundation works also included projects with higher gross profit margin such as Chaling Degang Furniture Limited* (茶陵德港傢俱土石方項目) project of approximately 9.3%.

The gross profit margin of other specialised contracting works was approximately 12.5% and 13.1% for 1H2023 and 1H2022, respectively, depending on the nature and level of complexity of the specialised contracting works being engaged.

Other income and other gains

The other income and gains in 1H2023 slightly increased by approximately RMB0.3 million as compared to 1H2022 mainly due to the increase in interest income on bank deposits and increase in government grants which were one-off in nature.

Administrative expenses

Our administrative expenses mainly consisted of research and development costs, salaries and other benefits, depreciation and amortisation, repair and maintenance expenses, office administration expenses and other expenses. For 1H2023, our administrative expenses decreased from approximately RMB46.2 million to approximately RMB37.2 million mainly due to (i) the decrement in research and development costs of approximately RMB5.2 million; and (ii) the decrement in salaries and other benefits of approximately RMB2.6 million as a result of the decrement in discretionary bonus for employees in 1H2023.

Listing expenses

Listing expenses represented professional services fees incurred for the purpose of the Listing on the Main Board of The Stock Exchange of Hong Kong Limited on the Listing Date. The Group incurred Listing expenses of approximately RMB11.0 million and RMB4.0 million for 1H2023 and 1H2022, respectively.



Management Discussion and Analysis

Impairment on financial and contract assets, net

Our impairment on financial and contract assets (net) represents the expected credit losses on our trade receivables, other receivables and contract assets. We conducted impairment analysis at the end of each year using a provision matrix to measure expected credit losses. For 1H2022 and 1H2023, our impairment on financial and contract assets was approximately RMB3.0 million and RMB5.8 million, respectively.

For 1H2023, impairment losses on financial and contract assets increased by approximately RMB2.8 million or 91.0% as compared to 1H2022 mainly due to the increase in contract assets and trade receivables balances as at 30 June 2023 for prudent sake in response to the overall market conditions and real estate market in the PRC.

Finance costs

Our finance costs in 1H2023 increased by approximately RMB1.6 million as compared to 1H2022, which was in line with the increase in bank and other borrowings as at 30 June 2023.

Income tax expenses

Our income tax expenses consist principally of enterprise income tax and movements in deferred tax assets. For 1H2022 and 1H2023, our income tax was RMB3.8 million and RMB3.0 million, respectively, and our effective tax rate for the corresponding periods was 13.5% and 13.5%, respectively. Since 1 January 2018, Hunan Zhongtian Construction Group Corporation* (湖南中天建設集團股份有限公司) (“**Zhongtian Construction**”), our principal operating subsidiary has been accredited as a High and New Technology Enterprise (高新技術企業) under the relevant PRC laws and regulation and was entitled to a preferential tax treatment of 15%, which is lower than the statutory rate of 25%. The preferential tax treatment in relation to the High and New Technology Enterprise Certificate (高新技術企業證書) will expire on 17 September 2024 unless the High and New Technology Enterprise Certificate (高新技術企業證書) is renewed.

Net profit

Our net profit decreased by approximately RMB5.0 million in 1H2023 as compared to 1H2022 mainly attributable to the decrement in gross profit of approximately RMB3.6 million and the increase in Listing expenses of approximately RMB7.0 million and the increase in impairment on financial and contract assets of approximately RMB2.8 million, which was partially net-off by the decrement in administrative expenses of approximately RMB9.0 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Our sources of funds are a combination of internal generated funds, bank and other borrowings as well as net proceeds from the Listing. There has been no change in the capital structure of the Company since the Listing Date up to the date of this report. As at 30 June 2023, the capital structure of the Company comprised mainly issued share capital and reserves.

As at 30 June 2023, the Group had net current assets of approximately RMB465.0 million (31 December 2022: RMB339.4 million). The Group's current ratio improved from approximately 1.24 as at 31 December 2022 to approximately 1.33 as at 30 June 2023 due to the increase in contract assets by approximately RMB132.2 million, partially offset by the decrease in trade and bills payables by approximately RMB86.8 million. Our increase in contract assets was mainly due to the prolonged settlement audit process of our projects, and the outstanding contract assets accumulated for some major sizable projects with long project duration remained on-going as at 30 June 2023. The worsened business environment of the real estate industry in the PRC contributed to the prolonged settlement audit process of our projects.

Management Discussion and Analysis

We had lower cash and cash equivalents of approximately RMB71.6 million as at 30 June 2023 as compared with cash and cash equivalents of RMB151.7 million as at 31 December 2022. Our cash and cash equivalents dropped mainly because (i) more working capital was used for settling trade payables; (ii) the increase in contract assets due to reasons stated above; (iii) the increase in outstanding trade receivables due to the worsened business environment of the real estate industry in the PRC and the longer settlement process of Government-related Entities; (iv) the increase in restricted bank deposits from approximately RMB17.6 million as at 31 December 2022 to approximately RMB46.0 million for securing the Group's borrowing.

Our aggregate indebtedness (total interest-bearing borrowings) increased slightly from approximately RMB140.1 million as at 31 December 2022 to approximately RMB140.7 million as at 30 June 2023. Our gearing ratio dropped from approximately 39.0% as at 31 December 2022 to approximately 29.0% as at 30 June 2023, mainly because our equity grew significantly by approximately 34.8% between 31 December 2022 and 30 June 2023 due to the Listing while our borrowing remained at a similar level.

FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with licensed banks. To manage liquidity risk, the board of the Company (the “**Board**”) closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

CAPITAL COMMITMENTS

As at 30 June 2023, the Group had approximately RMB14.5 million (31 December 2022: RMB14.5 million) of capital commitments in respect of the acquisition of property, plant and equipment.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, the Group employed 332 employees in the PRC (30 June 2022: 353 employees). The total staff costs incurred by the Group for 1H2023 was approximately RMB14.0 million compared to approximately RMB20.9 million for 1H2022. Our Group's employees may be remunerated by way of fixed salary, hourly wage or on project-by-project basis, depending on their job nature. Our Group utilises an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary review and determining the amount of bonuses. Our employees are also entitled to a number of fringe benefits and welfare, including transportation allowance, health care allowance and paid leave. Our Group provides trainings to our employees, which includes induction training which is held by our human resources department, on-the-board training, and sometimes education opportunities depending on the job function of the employees. Our Group will hold seminars and events occasionally for our employees, in order for them to catch up with market trends.

SHARE OPTION SCHEME

The share option scheme (the “**Share Option Scheme**”) was conditionally adopted by written resolutions of the Company's shareholders passed on 10 March 2023. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Share Option Scheme” in the report of the directors of the Company (the “**Directors**”) in the annual report of the Company for the year ended 31 December 2022.

As at the Listing Date and 30 June 2023, no Share option has been granted by the Company and the outstanding number of Share options available for grant under the Share Option Scheme is 48,000,000 Share options to subscribe for the Shares, representing 10% of the issued share capital of the Company, out of which the outstanding number of Share options available for grant under the Service Provider Sublimit is 4,800,000 Shares options to subscribe for the Shares, representing 1% of the issued share capital of the Company.



Management Discussion and Analysis

Since the adoption of the Share Option Scheme, no option has been granted under the Share Option Scheme. Therefore, no option was exercised or cancelled or has lapsed during 1H2023 and there was no outstanding option as at 30 June 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the section headed “Future Plans and Use of Proceeds” of the Company’s prospectus dated 20 March 2023 (the “**Prospectus**”), the Group does not have other plans for material investments and capital assets as at 30 June 2023.

CONTINGENT LIABILITIES

Other than a number of lawsuits and claims arising from the normal course of business were lodged against our Group which remained outstanding as at 30 June 2023, the Group had no material contingent liability as at 30 June 2023.

FOREIGN EXCHANGE RISK

The assets, liabilities and transactions of the Group are principally denominated in Renminbi. As at 30 June 2023, the Group has not entered into any foreign exchange contracts to hedge against the fluctuation in exchange rates and the Group did not have any foreign currency investments which have been hedged by currency borrowing and other hedging instruments. The Directors consider the impact of foreign exchange exposure to the Group is minimal.

GEARING RATIO

As at 30 June 2023, the gearing ratio, which is calculated as total interest-bearing debt divided by total equity, is 29.0%. (31 December 2022: 39.0%).

PLEDGE OF ASSETS

As at 30 June 2023, fixed deposits of approximately RMB32.0 million (31 December 2022: approximately RMB2.0 million), certain plant and machinery with carrying amount of approximately RMB7.2 million (31 December 2022: approximately RMB7.5 million) and nil trade and bills receivables arising from provision of construction services (31 December 2022: approximately RMB1.9 million) were pledged as securities for the Group’s borrowings.

PURCHASE, SALE OR REDEMPTION OF OUR COMPANY’S SHARES

Since the Listing Date up to 30 June 2023, there were no purchases, sales or redemption by the Company, or any of its subsidiaries, of the Company’s listed securities.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company has been listed on the Stock Exchange since the Listing Date following the completion of the global offering (the “**Global Offering**”) of 120,000,000 new ordinary shares of the Company (the “**Shares**”). The amount of net proceeds from the Global Offering amounted to approximately RMB76.6 million (equivalent to approximately HK\$84.1 million), after deduction of the underwriting commission and other expenses. The Company applied the proceeds from the Global Offering in accordance with the purposes as set out in the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in the Prospectus which is also set out below. During 1H2023, net proceeds of approximately RMB20.1 million (equivalent to approximately HK\$22.1 million) were used.

Management Discussion and Analysis

The following table sets out the breakdown of the use of proceeds from the Global Offering:

Purpose	Intended use of proceeds	Net	Utilised amount as at 30 June 2023	Unutilised amount as at 30 June 2023	Estimated timeline for utilising the unutilised net proceeds
		proceeds utilised during 1H2023			
	RMB' million	RMB' million	RMB' million	RMB' million	
To fund our upfront expenditure of three projects on hand (Note)	38.3	6.9	6.9	31.4	Before December 2023
To acquire and/or replace our construction machinery and equipment	15.3	—	—	15.3	Before December 2023
To fund the establishment and operation of our know-how centre	15.3	5.5	5.5	9.8	Before December 2024
Working capital and general corporate purposes	7.7	7.7	7.7	—	N/A
Total	76.6	20.1	20.1	56.5	

Note: As the commencement of the Sharing Lease Housing* (共享租賃住房) project has been delayed from April 2023 to December 2023 because the site preparation work is not ready for commencement of the construction works, the full amounts proceeds of approximately RMB7.9 million utilised was used for Old Village Revampment* (花垣縣移動公司宿舍片區老舊社區配套基礎設施改造項目) project.

SIGNIFICANT INVESTMENTS HELD, ACQUISITION AND DISPOSALS

Except for investment in subsidiaries, there were no significant investments held by the Group during 1H2023. The Group did not have any material acquisitions or disposal of subsidiaries, associates or joint ventures during 1H2023.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 1H2023 (1H2022: Nil).

AUDIT COMMITTEE

The Company has established the audit committee (“**Audit Committee**”) on 10 March 2023 with written terms of reference. The composition of the Audit Committee meets the requirement of Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and provide material advice in respect of financial reporting, oversee the financial reporting process, internal control, risk management systems and audit process of the Company and perform other duties and responsibilities assigned by the Board. The Audit Committee, comprising the three independent non-executive Directors, namely Mr. Lau Kwok Fai Patrick (Chairperson), Dr. Liu Jianlong and Ms. Deng Jianhua.



Management Discussion and Analysis

REVIEW OF INTERIM FINANCIAL RESULTS BY AUDIT COMMITTEE

The unaudited consolidated interim financial information of the Group for 1H2023 and the accounting information given in this report has not been reviewed by the external auditor of the Company but has been reviewed by the Audit Committee, which agreed with the accounting treatment adopted by the Company, and was of the opinion that the preparation of such accounting information complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made.

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2023, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules, were as follows:

(i) Interest in our Shares

Name of Director/ chief executive	Capacity/Nature of interest directly and indirectly held	Relevant company	Number of Shares (Note 1)	Approximate percentage of shareholding
Mr. Yang Zhongjie ("Mr. Yang")	Interest in a controlled corporation/Interest of spouse (Note 2)	ZT (E) Limited ("ZT (E)")	13,164,000 (L)	2.74%
Mr. Liu Xiaohong ("Mr. Liu")	Interest in a controlled corporation (Note 3)	ZT (F) Limited ("ZT (F)")	3,376,000 (L)	0.70%
Mr. Chen Weiwu ("Mr. Chen")	Interest in a controlled corporation/Interest of spouse (Note 4)	ZT (H) Limited ("ZT (H)")	1,770,000 (L)	0.37%
Mr. Shen Qiang ("Mr. Shen")	Interest in a controlled corporation (Note 5)	ZT (I) Limited ("ZT (I)")	1,314,000 (L)	0.27%
Mr. Min Shixiong ("Mr. Min")	Interest in a controlled corporation (Note 6)	ZT (K) Limited ("ZT (K)")	812,000 (L)	0.17%

Notes:

- (1) The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.
- (2) ZT (E) is owned as to approximately 77.93% by Mr. Yang and 22.07% by Ms. Gan Yinghua (甘映華). Ms. Gan Yinghua is the spouse of Mr. Yang. Mr. Yang is deemed to be interested in all the Shares held by Ms. Gan Yinghua by virtue of the SFO. Under the SFO, Mr. Yang is deemed to be interested in 100% of the Shares held by ZT (E).
- (3) ZT (F) is wholly-owned by Mr. Liu. Under the SFO, Mr. Liu is deemed to be interested in all the Shares held by ZT (F).
- (4) ZT (H) is owned as to approximately 94.97% by Mr. Chen and 5.03% by Ms. Yang Zhonghua (楊中華). Ms. Yang Zhonghua is the spouse of Mr. Chen. Mr. Chen is deemed to be interested in all the Shares held by Ms. Yang Zhonghua by virtue of the SFO. Under the SFO, Mr. Chen is deemed to be interested in 100% of the Shares held by ZT (H).
- (5) ZT (I) is wholly-owned by Mr. Shen. Under the SFO, Mr. Shen is deemed to be interested in all the Shares held by ZT (I).
- (6) ZT (K) is wholly-owned by Mr. Min. Under the SFO, Mr. Min is deemed to be interested in all the Shares held by ZT (K).

Corporate Governance and Other Information

(ii) Interest in our Company's associated corporations

Name of Director/ chief executive	Name of associated corporation	Capacity/Nature of interest directly and indirectly held	Number of shares of/capital contribution in associated corporation (Note 1)	Approximate percentage of shareholding/ equity interest of associated corporation
Mr. Yang	ZT (A) (Note 2)	Beneficial owner/Interest of spouse (Note 3)	21,831 (L)	29.12%
Mr. Liu	ZT (A) (Note 2)	Beneficial owner	4,621 (L)	6.16%
Mr. Chen	ZT (A) (Note 2)	Beneficial owner	2,195 (L)	2.93%
Mr. Min	ZT (A) (Note 2)	Beneficial owner/Interest of spouse (Note 4)	1,253 (L)	1.67%
Mr. Shen	ZT (A) (Note 2)	Beneficial owner	985 (L)	1.31%
Mr. Yang	Zhongtian Construction (Note 5)	Beneficial owner	108,049 (L)	0.17%
Mr. Liu	Zhongtian Construction (Note 5)	Beneficial owner	35,550 (L)	0.06%
Mr. Chen	Zhongtian Construction (Note 5)	Beneficial owner	17,681 (L)	0.03%
Mr. Shen	Zhongtian Construction (Note 5)	Beneficial owner	13,834 (L)	0.02%
Mr. Min	Zhongtian Construction (Note 5)	Beneficial owner	8,554 (L)	0.01%
Mr. Min	Zhuzhou Kaida Lifting Apparatus Leasing Company Limited ("Kaida Apparatus") (Note 6)	Beneficial owner	RMB76,000 (L)	1.17%

Notes:

- (1) The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.
- (2) Our Company has been owned as to approximately 55.62% by ZT (A) immediately after completion of the Capitalisation Issue and the Global Offering (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme). Under the SFO, ZT (A) is an associated corporation of our Company.
- (3) ZT (A) is owned as to approximately 25.24% by Mr. Yang and 3.88% by Ms. Gan Yinghua. Ms. Gan Yinghua is the spouse of Mr. Yang. Mr. Yang is deemed to be interested in all the Shares held by Ms. Gan Yinghua by virtue of the SFO.
- (4) ZT (A) is owned as to approximately 1.30% by Mr. Min and 0.37% by Ms. Yang Bingquan (楊冰泉). Ms. Yang Bingquan is the spouse of Mr. Min. Mr. Min is deemed to be interested in all the Shares held by Ms. Yang Bingquan by virtue of the SFO.
- (5) Zhongtian Construction is owned as to approximately 99.5% by Hangxiao Materials, which is owned as to approximately 99.99% by Zhaolin Trading, which is an indirect wholly-owned subsidiary of our Company. Under the SFO, Zhongtian Construction is an associated corporation of our Company.
- (6) Kaida Apparatus is owned as to approximately 56.99% by Zhongtian Construction. Under the SFO, Kaida Apparatus is an associated corporation of our Company.

Corporate Governance and Other Information

Save as disclosed above, as at 30 June 2023, none of the Directors nor chief executive of the Company has registered an interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 June 2023, the following persons (not being Directors or chief executive of the Company) have or are deemed or taken to have an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of Shares held (Note 1)	Percentage of interest
ZT (A) (Note 2)	Beneficial owner	266,965,000 (L)	55.62%
ZT (M) Limited (“ ZT (M) ”) (Note 3)	Beneficial owner	27,814,000 (L)	5.79%

Notes:

1. The letter “L” denotes a person’s/corporation’s “long position” (as defined under Part XV of the SFO) in the Shares.
2. ZT (A) is owned by 79 individual shareholders including 12 individuals who are directors or senior management members of our Group or their associates as to approximately 49.04% and 67 individuals who are Independent Third Parties including our employees as to approximately 50.96%, and none of such individual shareholders, together with his/her respective close associates, controls one-third or more of the voting power at the general meetings of ZT (A).
3. ZT (M) was held by 25 Independent Third Parties including our employees and ex-employees, with each of the Independent Third Parties holding approximately 0.04% to 20.42%, and none of such individual shareholders, together with his/her respective close associates, controls one-third or more of the voting power at the general meetings of ZT (M).

Save as disclosed above, as at 30 June 2023, the Directors were not aware of any other persons who had or deemed or taken to have any interests or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our shareholders.

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Since the Listing Date up to 30 June 2023, our Group has adopted and complied with the Corporate Governance Code (“**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.



Corporate Governance and Other Information

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules).

As the Company was listed on the Stock Exchange since the Listing Date, related rules under the Listing Rules concerning the Model Code that Directors shall observe applied to the Company since the Listing Date.

Having made specific enquiry with all the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code since the Listing Date.

COMPETING INTERESTS

During 1H2023, none of the Directors, controlling shareholder of the Company, Hunan Zhongtian Holdings Group Company Limited* (湖南中天控股集團股份有限公司) ("**Zhongtian Holdings**") and their respective close associates had any business or interest that competes or may compete with the business of the Group nor had any other conflicts of interest with the Group.

A deed of non-competition dated 17 March 2023 has been entered into by ZT (A), the controlling shareholder of the Company within the meaning of the Listing Rules, and Zhongtian Holdings (collectively the "**Covenantors**") in favour of the Company regarding certain non-competition undertakings given by the Covenantors in favour of the Company. The details of this deed of non-competition have been disclosed in the section headed "Relationship with our Controlling Shareholder" in the Prospectus.

On behalf of the Board

Mr. Yang Zhongjie

Chairman and Executive Director