ZONQING Environmental Limited
中庆环境股份有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1855)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

The board (the "**Board**") of directors (the "**Directors**") of ZONQING Environmental Limited (the "**Company**") hereby announces the audited annual results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2023 (the "**FY2023**"), together with the comparative figures for the year ended 31 December 2022 (the "**FY2022**"). The annual results have been audited by the Company's auditor and the financial information has been reviewed by audit committee of the Company ("**Audit Committee**") and approved by the Board.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
			(Restated)
Revenue	*5*	**2,355,497**	1,116,442
Cost of sales		**(1,904,649)**	(922,690)
Gross profit		**450,848**	193,752
Other net income	*6*	**10,552**	8,568
Selling expenses		**(18,800)**	(18,835)
Administrative expenses		**(91,667)**	(86,810)
Impairment losses on trade and other receivables, contract assets and financial guarantees issued	*7*	**(110,126)**	(138,478)
Profit/(loss) from operations		**240,807**	(41,803)
Finance costs		**(65,134)**	(69,881)
Share of profits/(losses) of associates		**1,366**	(3,928)
Share of (losses)/profits of a joint venture		**(4,387)**	863
Profit/(loss) before taxation	*8*	**172,652**	(114,749)
Income tax	*9*	**(19,427)**	18,061
Profit/(loss) for the year		**153,225**	(96,688)
Attributable to:			
Equity shareholders of the Company		**135,206**	(96,343)
Non-controlling interests		**18,019**	(345)
Profit/(loss) for the year		**153,225**	(96,688)
Earnings/(loss) per share (RMB cents)	*10*	**49**	(35)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Profit/(loss) for the year	**153,225**	(96,688)
Other comprehensive income for the year		
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	**(5,029)**	6,392
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas companies of the Group	**707**	3,126
Other comprehensive income for the year	**(4,322)**	9,518
Total comprehensive income for the year	**148,903**	(87,170)
Attributable to:		
Equity shareholders of the Company	**131,609**	(87,453)
Non-controlling interests	**17,294**	283
Total comprehensive income for the year	**148,903**	(87,170)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
			(Restated)
Non-current assets			
Property, plant and equipment		**39,309**	37,575
Intangible assets		**1,938**	2,440
Right-of-use assets		**7,871**	8,574
Interest in associates		**78,878**	77,512
Interest in a joint venture		**191,273**	195,660
Other equity investments		**70,141**	75,622
Deferred tax assets		**93,921**	77,422
Non-current portion of trade receivables	*12*	**602**	18,988
		483,933	493,793
Current assets			
Inventories and other contract costs		**53,924**	36,193
Contract assets	*11*	**1,118,463**	1,055,709
Trade and bills receivables	*12*	**1,764,513**	1,560,456
Prepayments, deposits and other receivables		**194,842**	794,377
Restricted bank deposits		**20,346**	22,223
Cash and cash equivalents		**210,405**	220,233
		3,362,493	3,689,191
Current liabilities			
Trade and bills payables	*13*	**1,389,181**	1,237,478
Accrued expenses and other payables		**211,540**	348,285
Contract liabilities		**602,071**	583,036
Bank and other loans	*14*	**726,263**	974,781
Lease liabilities		**2,018**	2,610
Income tax payable		**54,212**	26,270
		2,985,285	3,172,460

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
			(Restated)
Net current assets		**377,208**	516,731
Total assets less current liabilities		**861,141**	1,010,524
Non-current liabilities			
Bank loans	*14*	**79,947**	78,932
Lease liabilities		**1,249**	815
Deferred tax liabilities		**10,476**	12,762
		91,672	92,509
NET ASSETS		**769,469**	918,015
CAPITAL AND RESERVES			
Share capital		**230**	230
Reserves		**649,365**	867,523
Total equity attributable to equity shareholders of the Company		**649,595**	867,753
Non-controlling interests		**119,874**	50,262
TOTAL EQUITY		**769,469**	918,015

NOTES

1. CORPORATE INFORMATION

ZONQING Environmental Limited (formerly known as ZONBONG Landscape Environmental Limited) (the "**Company**") was incorporated in the Cayman Islands on 8 March 2019 with limited liability under the Companies Act (as revised) of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 6 January 2021. The Company and its subsidiaries (together, the "**Group**") are principally engaged in construction and maintenance services for landscaping, ecological restoration and public work projects, provision of environmental hygiene services and other related projects. The Group is ultimately controlled by Mr. Sun Juqing ("**Mr. Sun**") and Ms. Zhao Hongyu (the "**Controlling Parties**").

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Statement of compliance

The annual results set out in this announcement are extracted from the Group's statutory financial statement for the year ended 31 December 2023.

These financial statements have been prepared in accordance with IFRS Accounting standards issued by the International Accounting Standards Board (the "**IASB**"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). Material accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new or amended standards that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except for other equity investments which is stated at their fair values.

The Company has its functional currency in Hong Kong dollar ("**HKD**"). As majority of the Group's operation are conducted by the subsidiaries of the Group in Chinese Mainland in Renminbi ("**RMB**"), the consolidated financial statements are presented in Renminbi.

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. ZIHG is controlled by the Controlling Parties. The consideration of RMB12,207,000 has been paid in July 2023.

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. The consideration of RMB305,756,000 has been paid in July 2023.

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

Jinlin 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 consolidated financial statements of the Group have been prepared using the merger basis of accounting as if the current group structure has been in existence throughout the years presented. The opening balance at 1 January 2022 has been restated, with consequential adjustments to comparatives for the year ended 31 December 2022.

The details of the restated balances have been disclosed in Note 15.

Prior to June 2022, Changchun Chengwei, a fellow subsidiary of the Group, held the entire interests in Changchun City Expressway Management and Maintenance Co., Ltd, which is engaged in expressway maintenance business (the "**Carve-Out Entity**"). The Carve-Out Entity is maintained by separate management personnel. As part of a group reorganisation, Changchun Chengwei's equity interest in the Carve-Out Entity was transferred to third parties in June 2022 at a consideration of RMB950,000. The consolidated financial statements excludes the assets, liabilities and results of operations of the Carve-Out Entity whose business are, in the opinion of the directors of the Company, clearly delineated from the business of the Changchun Chengwei and whose assets, liabilities, revenue and expenses are clearly identifiable. The consideration of RMB950,000 received from the disposal of the Carve-Out Entity is recorded as a deemed contribution within equity in June 2022.

On 26 December 2022, Changchun Chengwei increased its share capital by transferring retain profits of RMB150,000,000 to share capital of RMB146,957,000, and the remaining portion of RMB3,043,000 was paid as individual income tax for the shareholders, and recorded as a deemed distribution arising from Reorganisation.

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 Chengwei 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.

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS Accounting Standards that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 4.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following new or amended standards that are first effective for the current accounting period of the Group:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements* and IFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- 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 current or prior periods 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.

4. ACCOUNTING JUDGEMENT AND ESTIMATES

Key sources of estimation uncertainty are as follows:

(a) Revenue recognition

Revenue from construction contracts and certain service contracts are recognised over time. Such revenue and profit recognition on incomplete projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction and design activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(b) Impairment losses for receivables and contract assets

The management maintains a loss allowance for receivables and contract assets for estimated losses resulting from the inability of the customers and other debtors to make the required payments. The management bases the estimates on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions. If the financial condition of the customers and debtors were to deteriorate, actual write-offs would be higher than estimated.

(c) Recognition of deferred tax assets

Deferred tax assets in respect of deductible temporary differences and unused tax losses are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to the future operating performance of the Group and requires a significant level of judgement exercised by the management. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit or loss in future periods.

5. REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group is principally engaged in construction and maintenance services for landscaping, ecological restoration and public work projects, provision of environmental hygiene services and other related projects. Further details regarding the Group's principal activities are disclosed in Note 5(b).

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or services lines is as follows:

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
– Revenue from city renewal construction services	**2,024,246**	863,659
– Revenue from city operation and maintenance services	**218,957**	148,413
– Revenue from design and consultancy services	**112,294**	104,370
	2,355,497	1,116,442

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The following table includes the aggregated amounts of the transaction price allocated to the remaining performance obligations under the Group's existing construction, maintenance and design contracts. The transaction price does not include any estimated amounts of variable consideration, unless at the reporting date it is highly probable that the Group will satisfy the conditions of variable consideration. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 31 months (2022: 43 months).

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Remaining performance obligations expected to be satisfied	**2,847,978**	2,265,523

(b) 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 segment.

– 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 2(b), 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 year ended 31 December 2022 have been restated.

(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 bases:

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 years ended 31 December 2023 and 2022 is set out below.

	2023			
	City renewal construction services *RMB'000*	**City operation and maintenance services** *RMB'000*	**Design and consultancy services** *RMB'000*	**Total** *RMB'000*
Disaggregated by timing of revenue recognition				
Point in time	**–**	**–**	**3,868**	**3,868**
Over time	**2,024,246**	**218,957**	**108,426**	**2,351,629**
Revenue from external customers and reportable segment revenue	**2,024,246**	**218,957**	**112,294**	**2,355,497**
Reportable segment gross profit	**373,767**	**57,521**	**19,560**	**450,848**

	2022 (Restated)			
	City renewal construction services *RMB'000*	City operation and maintenance services *RMB'000*	Design and consultancy services *RMB'000*	Total *RMB'000*
Disaggregated by timing of revenue recognition				
Point in time	–	–	11,090	11,090
Over time	863,659	148,413	93,280	1,105,352
Revenue from external customers and reportable segment revenue	863,659	148,413	104,370	1,116,442
Reportable segment gross profit	133,969	35,255	24,528	193,752

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

	2023 ***RMB'000***	2022 *RMB'000* (Restated)
Revenue		
Reportable segment revenue and consolidated revenue (Note 5(b)(i))	**2,355,497**	1,116,442
Profit/(loss)		
Total reportable segment gross profit	**450,848**	193,752
Other net income	**10,552**	8,568
Selling expenses	**(18,800)**	(18,835)
Administrative expenses	**(91,667)**	(86,810)
Impairment losses on trade and other receivables, contract assets and financial guarantees issued	**(110,126)**	(138,478)
Finance costs	**(65,134)**	(69,881)
Share of profits/(losses) of associates	**1,366**	(3,928)
Share of (losses)/profits of a joint venture	**(4,387)**	863
Consolidated profit/(loss) before taxation	**172,652**	(114,749)

(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.

6. OTHER NET INCOME

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Interest income on trade and other receivables	**5,404**	5,092
Interest income on bank deposits	**854**	578
Interest income on finance lease	**190**	47
Government grants	**2,043**	2,748
Net foreign exchange loss	**(277)**	(3,499)
Net gain/(loss) on disposal of non-current assets	**86**	(231)
Income from financial guarantees issued	**3,502**	3,502
Others	**(1,250)**	331
	10,552	8,568

7. IMPAIRMENT LOSSES ON TRADE AND OTHER RECEIVABLES CONTRACT ASSETS AND FINANCIAL GUARANTEES ISSUED

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Impairment losses on trade and bills receivables	**115,539**	66,795
(Reversal of impairment)/impairment losses on contract assets	**(21,864)**	71,938
Impairment losses/(reversal of impairment losses) on prepayments, deposits and other receivables	**7,750**	(255)
Impairment losses on financial guarantee issued	**8,701**	–
	110,126	138,478

8. PROFIT/(LOSS) BEFORE TAXATION

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

(a) Finance costs

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Interest on bank and other loans	**64,953**	65,629
Net foreign exchange gain of bank and other loans	**–**	3,878
Interest on lease liabilities	**181**	374
	65,134	69,881

No borrowing costs have been capitalised during the years ended 31 December 2023 and 2022.

(b) Staff costs

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Salaries, wages and other benefits	**153,379**	156,710
Contributions to defined contribution retirement schemes (Note)	**16,355**	16,533
	169,734	173,243

Note: The Group's subsidiaries in the PRC are required to participate in defined contribution retirement schemes administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated based on certain percentages of the prevailing average salary as agreed by the local municipal government to the schemes to fund the retirement benefits of the employees. Contributions to the schemes vest immediately, there is no forfeited contributions that may be used by the Group to reduce existing level of contributions. The Group has no other material obligation for the payment of retirement benefits beyond the contributions described above.

(c) Other items

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Depreciation of property, plant and equipment	**9,186**	7,631
Depreciation of right-of-use assets	**3,419**	4,835
Amortisation of intangible assets	**502**	491
Leases charges relating to short-term leases and leases of low-value assets	**9,964**	8,388
Research and development costs	**85,542**	44,198
Auditor's remuneration	**5,641**	3,113
Cost of inventories	**782,034**	325,139

9. INCOME TAX

(a) Taxation in the consolidated statement of profit or loss represents:

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Current tax		
Provision for the year	**37,760**	5,446
Deferred tax		
Origination and reversal of temporary differences	**(18,333)**	(23,507)
	19,427	(18,061)

(b) Reconciliation between tax expense/(credit) accounting profit/(loss) at applicable tax rates:

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Profit/(loss) before taxation	**172,652**	(114,749)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the respective tax jurisdictions concerned (Notes (i), (ii) and (iii))	**43,363**	(28,674)
Tax concessions and effect of changes of tax rate (Note (iv))	**(24,488)**	6,486
Tax effect of utilisation of prior years' unused tax losses previously not recognised	**–**	(1,301)
Tax effect of unused tax losses and deductible temporary differences not recognised	**61**	106
Tax effect of non-deductible expenses	**491**	5,322
Income tax expense/(credit)	**19,427**	(18,061)

Notes:

(i) The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2023 (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 year ended 31 December 2023 (2022: RMBNil).

(ii) 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.

(iii) The subsidiaries of the Group established in Chinese mainland are subject to PRC Corporate Income Tax rate at 25% for the year ended 31 December 2023 (2022: 25%).

(iv) 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 for the calendar years from 2018 to 2023, 2022 to 2024 or from 2023 to 2025, and therefore enjoy a preferential PRC Corporate Income Tax rate of 15% for the year ended 31 December 2023 (2022: 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 year ended 31 December 2023 (2022: 75%).

10. 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 RMB135,206,000 (2022: loss of RMB96,343,000 (Restated)), and the weighted average of 275,000,000 ordinary shares in issue during the year (2022: 275,000,000 ordinary shares), calculated as follows:

Weighted average number of ordinary shares

	2023	2022
	No. of shares	No. of shares
	'000	*'000*
Shares in issue on 1 January and 31 December	**275,000**	275,000

(b) Diluted earnings/(loss) per share

There were no dilutive potential shares outstanding during the years ended 31 December 2023 and 2022. Hence, the diluted earnings/(loss) per share is the same as basic earnings/(loss) per share.

11. CONTRACT ASSETS

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Contract assets		
– due from ZIHG and its subsidiaries, joint ventures and associates	**62,398**	123,900
– due from a joint venture	**45,011**	51,416
– due from an associate	**22,299**	50,932
– due from companies managed by key management personnel of ZIHG	**8,678**	14,539
– due from third parties	**1,201,777**	1,058,486
	1,340,163	1,299,273
Less: loss allowance	**(221,700)**	(243,564)
	1,118,463	1,055,709
Trade receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and bills receivables"	**1,742,401**	1,560,111

The Group's construction, maintenance and design contracts include payment schedules which require stage payments over the design, 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.

The amounts of revenue during the year ended 31 December 2023 from performance obligations satisfied (or partially satisfied) in previous periods is RMB(31,445,000) (2022: RMB14,059,000), mainly due to the changes in estimate of the stage of completion.

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 RMB513,436,000 (31 December 2022: RMB455,828,000(Restated)), which are expected to be billed after more than one year.

12. TRADE AND BILLS RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Trade receivables		
– due from ZIHG and its subsidiaries, joint ventures and associates	**175,615**	84,886
– due from a joint venture	**22,368**	18,480
– due from an associate	**17,900**	12,034
– due from companies managed by key management personnel of ZIHG	**11,100**	33,205
– due from third parties	**1,825,225**	1,601,067
	2,052,208	1,749,672
Bills receivable	**316**	1,752
	2,052,524	1,751,424
Less: loss allowance	**(287,409)**	(171,980)
	1,765,115	1,579,444
Reconciliation to the consolidated statement of financial position:		
Non-current	**602**	18,988
Current	**1,764,513**	1,560,456
	1,765,115	1,579,444

All of the current trade and bills 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:

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Within 1 year	**927,684**	735,224
1 to 2 years	**265,083**	525,701
2 to 3 years	**346,694**	145,543
3 to 4 years	**102,359**	40,181
4 to 5 years	**31,098**	49,413
Over 5 years	**92,197**	83,382
	1,765,115	1,579,444

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

13. TRADE AND BILLS PAYABLES

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Trade payables		
– due to ZIHG and its subsidiaries, joint ventures and associates	**24,445**	14,698
– due to companies managed by key management personnel of ZIHG	**28,299**	20,685
– due to third parties	**1,336,437**	1,140,402
Bills payables	**–**	61,693
	1,389,181	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:

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Within 1 year	**1,078,377**	685,188
1 to 3 years	**190,745**	444,249
Over 3 years	**120,059**	108,041
	1,389,181	1,237,478

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

14. BANK AND OTHER LOANS

(a) The Group's bank and other loans comprise:

	2023	2022
	RMB'000	*RMB'000*
Bank loans:		
Guaranteed by related parties	**14,990**	149,000
Guaranteed by third parties (Note 14(d))	**283,755**	273,705
Guaranteed by related parties and third parties (Note 14(d))	**238,274**	302,169
Guaranteed by related parties and secured by trade and bills receivables and contract assets of the Group	**40,433**	29,748
Guaranteed by a third party and secured by trade and bills receivables and contract assets of the Group (Notes 14(c) and 14(d))	**–**	29,663
Guaranteed by related parties and a third party and secured by trade and bills receivables and contract assets of the Group (Notes 14(c) and 14(d))	**99,310**	–
Guaranteed by a third party and secured by bank deposits of the Group (Notes 14(c) and 14(d))	**35,584**	49,473
Secured by trade and bills receivables and contract assets of the Group (Note 14(c))	**–**	25,000
Secured by bank deposits of the Group (Note 14(c))	**47,000**	6,220
Unguaranteed and unsecured	**28,300**	30,000
	787,646	894,978
Other loan:		
Unguaranteed and unsecured loans from third parties	**14,052**	17,145
Unguaranteed and unsecured loans from ZIHG and its subsidiaries, joint ventures and associates	**2,700**	141,590
Unguaranteed and unsecured loans from ZONBONG International Investment Limited ("**Zonbong International**")	**1,812**	–
	806,210	1,053,713

(b) **The Group's bank and other loans are repayable as follows:**

As of the end of the reporting period, the bank and other loans were repayable as follows:

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Within 1 year or on demand	**726,263**	974,781
After 1 year but within 2 years	**78,135**	2,000
After 2 year but within 5 years	**1,812**	76,932
	806,210	1,053,713

(c) **Certain of the Group's bank loans are secured by the following assets of the Group:**

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Trade and bills receivables and contract assets	**36,069**	270,571
Bank deposits	**18,800**	8,720

(d) **Certain of the Group's bank loans are guaranteed by third parties, where related parties provide counter-guarantee and/or secured by assets of the Group to these third parties:**

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Counter-guarantee by related parties	**656,923**	559,900
Trade and bills receivables and contract assets	**252,961**	340,670
Guarantee deposits	**16,400**	21,790

(e) All of the Group's banking facilities were utilised as of 31 December 2023 and 31 December 2022.

(f) Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become repayable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2023, none of the covenants relating to the bank loans had been breached (31 December 2022: None).

(g) At 31 December 2023 and 2022, certain bank loans were guaranteed by the subsidiaries within the Group.

15. BUSINESS COMBINATION UNDER COMMON CONTROL

As mentioned in Note 2(b), the acquisition of Jilin Modern Zhongqing has been accounted for based on merger accounting. Accordingly, the assets and liabilities of Jilin Modern Zhongqing acquired by the Group have been accounted for at historical cost and the consolidated financial statements of the Group for the year prior to the business combination have been restated to include the financial position, financial performance and cash flows of operation of Jilin Modern Zhongqing on a combined basis.

The details of the restated balances are stated as below.

The reconciliation of the effect arising from the business combination under common control on the consolidated statement of financial position as at 31 December 2022 and the consolidated statement of profit or loss for the year ended 31 December 2022 are as follows:

At 31 December 2022

	As previously reported	Jilin Modern Zhongqing	Elimination	Recognition of non-controlling interests	Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities					
Non-current assets					
Property, plant and equipment	8,400	29,175	–	–	37,575
Intangible assets	2,440	–	–	–	2,440
Right-of-use assets	3,287	5,287	–	–	8,574
Interest in associates	77,512	–	–	–	77,512
Interest in a joint venture	195,660	–	–	–	195,660
Other equity investments	17,285	58,337	–	–	75,622
Deferred tax assets	68,418	9,004	–	–	77,422
Non-current portion of trade receivables	18,988	–	–	–	18,988
	391,990	101,803	–	–	493,793
Current assets					
Inventories and other contract costs	30,103	6,090	–	–	36,193
Contract assets	710,406	345,303	–	–	1,055,709
Trade and bills receivables	1,088,353	472,637	(534)	–	1,560,456
Prepayments, deposits and other receivables	77,349	719,608	(2,580)	–	794,377
Restricted bank deposits	22,213	10	–	–	22,223
Cash and cash equivalents	129,899	90,334	–	–	220,233
	2,058,323	1,633,982	(3,114)	–	3,689,191

	As previously reported *RMB'000*	Jilin Modern Zhongqing *RMB'000*	Elimination *RMB'000*	Recognition of non-controlling interests *RMB'000*	Restated *RMB'000*
Current liabilities					
Trade and bills payables	785,538	452,474	(534)	–	1,237,478
Accrued expenses and other payables	263,725	87,145	(2,585)	–	348,285
Contract liabilities	230,471	352,565	–	–	583,036
Bank and other loans	663,200	311,581	–	–	974,781
Lease liabilities	2,240	370	–	–	2,610
Income tax payable	6,494	19,776	–	–	26,270
	1,951,668	1,223,911	(3,119)	–	3,172,460
Non-current liabilities					
Bank loans	–	78,932	–	–	78,932
Lease liabilities	815	–	–	–	815
Deferred tax liabilities	10,880	1,882	–	–	12,762
	11,695	80,814	–	–	92,509
NET ASSETS	486,950	431,060	5	–	918,015
CAPITAL AND RESERVES					
Share capital	230	–	–	–	230
Reserves	479,983	391,455	–	(3,915)	867,523
Total equity attributable to equity shareholders of the Company	480,213	391,455	–	(3,915)	867,753
Non-controlling interests	6,737	39,605	5	3,915	50,262
TOTAL EQUITY	486,950	431,060	5	–	918,015

For the year ended 31 December 2022

	As previously reported *RMB'000*	Jilin Modern Zhongqing *RMB'000*	Elimination *RMB'000*	Restated *RMB'000*
Revenue	653,441	463,001	–	1,116,442
Cost of sales	(519,437)	(403,253)	–	(922,690)
Gross profit	134,004	59,748	–	193,752
Other net income	7,087	1,481	–	8,568
Selling expenses	(13,234)	(5,601)	–	(18,835)
Administrative expenses	(59,515)	(27,295)	–	(86,810)
Impairment losses on trade and other receivables, contract assets	(149,526)	11,043	5	(138,478)
(Loss)/profit from operations	(81,184)	39,376	5	(41,803)
Finance costs	(40,311)	(29,570)	–	(69,881)
Share of profits of associates	(3,928)	–	–	(3,928)
Share of profits of a joint venture	863	–	–	863
(Loss)/profit before taxation	(124,560)	9,806	5	(114,749)
Income tax	18,556	(495)	–	18,061
(Loss)/profit for the year	(106,004)	9,311	5	(96,688)
Attributable to:				
Equity shareholders of the Company	(105,286)	9,032	(89)	(96,343)
Non-controlling interests	(718)	279	94	(345)
(Loss)/profit for the year	(106,004)	9,311	5	(96,688)

The effect of the business combinations of entities under common control described above, on the Group's basic and diluted loss per share for the year ended 31 December 2022 is as follows:

	Impact on loss per share of the Group
	RMB cents (Restated)
Reported figures before restatement	(39)
Restatement arising from business combination under common control	4
	(35)

16 DIVIDENDS

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

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2023 of HKD0.078 (equivalent to RMB0.071) per share, in an aggregate amount of HKD21,450,000 (equivalent to RMB19,474,000) has been proposed by the directors of the Company and is subject to the approval of the shareholders of the Company in the forthcoming annual general meeting.

The directors of the Company did not recommend the payment of a dividend for the year ended 31 December 2022.

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

No final dividend in respect of the previous financial year has been approved during the year ended 31 December 2023 (2022: HKDNil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During FY2023, revenue of the Group was approximately RMB2,355.5 million, representing an increase of approximately 111.0% as compared with FY2022. The revenue of the Group was mainly generated from: (i) city renewal construction services, (ii) city operation and maintenance services and; (iii) design and consultancy services, which accounted for approximately 85.9%, 9.3% and 4.8% of the total revenue for FY2023 respectively.

During FY2023, the Group actively integrated its service offerings and resources 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. During FY2023, the Group submitted a total of 635 tenders, representing an increase of 232 tender submissions or approximately 57.6% as compared with FY2022, and the Group recorded a tender success rate of 36.2% for FY2023, representing an increase of approximately 16.6 percentage points on tender success rate when compared with FY2022. The increase in tender success rate was mainly due to the increased tender success rate of Zonbong Ecology Environmental Construction Limited* (中邦生態環境有限公司) ("**Zonbong Ecology Environmental**") and the higher tender success rate of Changchun Chengjianweihu Group Co., Ltd.* (長春市城建維護集團股份有限公司) ("**Changchun Chengjianweihu**").

During FY2023, the Group has won tenders for several sizeable projects, such as:

(i) 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);

(ii) 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);

(iii) 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);

(iv) the Main Contracting for One Bidding Section of the Industrial Ancillary Infrastructure Project (Ancillary Infrastructure for the New Material Area) in Changchun New Area (with a successful bid price of approximately RMB456.27 million);

(v) the Ruyi Lake Area Development Infrastructure Construction Project (EOD Mode) in Shuangyang District of Changchun – Ecological Environment Management Project (Main Contracting) (with a successful bid price of approximately RMB434.48 million);

(vi) the Main Contracting for the Phase III Innovation Industrial Park Infrastructure Project in the Changchun National Regional Innovation Centre (Four Bidding Sections) (with a successful bid price of approximately RMB336.01 million);

(vii) the Changchun Zoo Relocation Phase I Renewal Construction Project (Main Contracting) (with a successful bid price of approximately RMB181.01 million); and

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

Regarding its 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) (with a successful bid price of approximately RMB13.27 million).

In 2023, Jinghe Design Group Limited* (境和設計集團有限公司) ("**Jinghe Design Group**") was awarded "Third Class Award for Science and Technology" in the 2023 Chinese Society of Landscape Architecture Award (2023年度中國風景園林學會科學技術三等獎) for the Comprehensive Service Area Project in the Shenlu Peak Tourist Resort; "National Quality Engineering Award" (國家優質工程獎) for the FAW-Volkswagen Logistics Special Corridor Project; "Third Class Award" in the Seventh Construction Engineering BIM Competition (第七屆建設工程BIM大賽三等獎) for the application of LIM technology in the Changchun Water Culture Ecological Park Project; "China Construction Engineering Decoration Award" (中國建築工程裝飾獎) for the Dongfeng International Sika Deer Industrial Park Project; while 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); Zonbong Ecology Environmental was awarded "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) for 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, and was also awarded 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; Changchun Chengjianweihu was honoured as "2023 Provincial Construction Standardised Model Site" (2023年度省級施工標準化管理示範工地) and "2023 Jilin Province Construction Safety Production Standardised Site" for the Infrastructure Construction Project in the Changchun Dual-Carbon Industrial Demonstration Zone (Zone 1) Park – Shiji Avenue Expressway Project (Ziyou Avenue – Shengtai Square Interchange) (III), respectively; while the engineering construction site of the PPE Project and Supporting Road Infrastructure Construction Project in the Changchun Automotive Economic-Technological Development Area was honoured as "2023 Jilin Province Construction Safety Production Standardised Site"; and Changchun Chengjianweihu was awarded as an "Excellent Construction Enterprise in Jilin Province" by the Jilin Provincial Construction Association.

RISK MANAGEMENT

The Group believes that risk management is essential to the Group's efficient and effective operation. The Group's management assists the Board in evaluating material risk exposure existing in the Group's business, including investment risk, interest rate risk, liquidity risk, etc., and participates in formulating appropriate risk management and internal control measures and ensuring their implementation in daily operational management. There was no material deficiency in the Group's internal control during FY2023.

PROSPECTS

The Central Economic Work Conference held on 11-12 December 2023 proposed a systematic outline for China's economic work in 2024. The conference underlined that with regards to China's development in the future the favourable factors are stronger than the unfavourable ones, and the basic trend of economic recovery and long-term improvement has not changed, and demanded that "in 2024, we must persist in seeking progress while maintaining stability, promoting stability through progress, and establishing the new before abolishing the old, while pushing ahead with transforming the growth model, making structural adjustments, improving quality, and enhancing performance".

In 2023, a number of domestic construction enterprises were facing survival problems and development difficulties. The construction industry has entered into "second half of its match", with an urgent need to "seek progress while maintaining stability, promote stability through progress, and establish the new before abolishing the old". "Stability" is the key and overall foundation, a prerequisite of survival, while "progress" is the direction and goal, a prerequisite of development. "Seeking progress while maintaining stability" requires construction enterprises to aim for high-quality development, avoid excessive pursuit of large-scale expansion, and to make progress without undermining long-term development stability; "promoting stability through progress" requires construction enterprises to push ahead with transforming their growth model, making structural adjustments, improving quality, and enhancing performance, transform out of their extensive mode of production, adjust and optimise their business portfolio and structure, improve their quality of development in all aspects and elements, and promote the sustained increase of economic and social benefits, so as to achieve an effective enhancement of quality and a reasonable growth of quantity.

In August 2022, the General Office of the CPC Central Committee, the General Office of the State Council and the "Cultural Development Plan for the 14th Five-Year Plan" have included "deep integration of culture and tourism" as one of the main objectives of industry development, carried out pilot integration of the functions of public cultural institutions and tourism service centres, promoted the integrated development of culture with tourism, sports, education, information, construction and manufacturing, and extended the industrial chain.

In July 2023, the State Council executive meeting considered and passed the "Guiding Opinions on Actively and Steadily Promoting the Transformation of Urban Villages in Super-Large and Mega Cities", increasing policy support for the transformation of urban villages, actively innovating the transformation model, and endeavouring to develop a wide range of new business models to achieve sustainable operations.

The Central Treasury plans to issue an additional RMB1 trillion in treasury bonds for 2023 in the fourth quarter of 2023, with the focus on accelerating the dredging of main river channels in the Haihe River Basin, reinforcing important dykes, and strengthening the safe construction and operation and management of flood storage areas.

In early 2024, a subsidiary of the Group obtained the First-Grade Qualification of Main Contractor for Municipal Public Works in Guangdong Province through a merger and acquisition with Guangdong Fengyue Construction Engineering Co., Ltd* (廣東奉粵建設工程有限公司), which provided a solid foundation for the Group to expand into the Guangdong market; also, a subsidiary of the Group entered into a cooperation agreement with Chengdu Edelweiss Animation Production Co., Ltd* (成都雪絨花動漫製作有限公司) to obtain an exclusive licence (within mainland China) for the character images from the animation IP "Year Hare Affair" (《那年那兔那些事》) to be used in the "Motor-less Children's Playground", which included the use for commercial operations, such as the design, production and development of peripheral products of the playground.

Looking forward to 2024, it is expected that the PRC's macro-economy will still face certain downward pressure, infrastructure investment will still act as a "ballast stone" for stable growth, and infrastructure investment is expected to see continuous growth, while overall growth may slow further. In view of this, the Group will vigorously expand the synergistic integrated business of culture, commerce, tourism and industry, continue to take advantage on its existing strengths of possessing a wide range of qualifications, and plan to jointly bid for contracts with various partners and develop the national market to realise complementary strengths and extend its business to the whole process of consultancy. The Group will solidify its stronghold in Changchun, firm up its national development strategy, deepen the creation of customer value, and expand the business of its subsidiaries in Shenzhen, Guangzhou, Tianjin and Chongqing. It will continue to improve its operation and management level through digitalisation, endeavour to open up new markets for city maintenance and new intellectual property (IP) sources for cultural and tourism operations, and strive to achieve greater breakthroughs across the country with the philosophy of engineering business driven by cultural, commercial and tourism projects.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased by approximately 111.0% or approximately RMB1,239.1 million from approximately RMB1,116.4 million (Restated) for FY2022 to approximately RMB2,355.5 million for FY2023. The increased in revenue was mainly due to the increase of newly awarded contracts value in FY2023.

City renewal construction services

The Group recorded an increase in revenue from the city renewal construction services segment, from approximately RMB863.7 million (Restated) for FY2022 to approximately RMB2,024.2 million for FY2023, representing an increase of approximately 134.4% or approximately RMB1,160.5 million, which was mainly due to the increase of newly awarded contracts value during FY2023.

City operation and maintenance services

The Group recorded an increase in revenue from the city operation and maintenance services segment, from approximately RMB148.4 million (Restated) for FY2022 to approximately RMB219.0 million for FY2023, representing an increase of approximately 47.5% or approximately RMB70.6 million, which was mainly due to the increase of newly awarded contracts value during FY2023.

Design and consultancy services

The Group recorded an increase in revenue from the design and consultancy services segment, from approximately RMB104.4 million (Restated) for FY2022 to approximately RMB112.3 million for FY2023, representing an increase of approximately 7.6% or approximately RMB7.9 million, which was mainly attributable to the increase of newly awarded contracts value in FY2023.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 132.6% or approximately RMB257.0 million from approximately RMB193.8 million (Restated) for FY2022 to approximately RMB450.8 million for FY2023. The increase in gross profit was mainly due to the increase in overall revenue. Gross profit margin of the Group increased from approximately 17.4% (Restated) for FY2022 to approximately 19.1% for FY2023. The increase in gross profit margin was mainly due to an improvement in engineering and construction technique and method utilized by the Group during FY2023.

Other net income

The Group's other income increased by approximately 23.2% or approximately RMB2.0 million from approximately RMB8.6 million (Restated) for FY2022 to approximately RMB10.6 million for FY2023, which was mainly due to a decrease in net foreign exchange loss.

Selling expenses

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

The Group's selling expenses remains stable at approximately RMB18.8 million and approximately RMB18.8 million in FY2023 and FY2022, respectively.

Administrative expenses

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

The administrative expenses increased from approximately RMB86.8 million (Restated) for FY2022 to approximately RMB91.7 million for FY2023, representing an increase of approximately 5.6% or approximately RMB4.9 million. The increase in administrative expenses was due to an increase in operating revenue which increased tax expense.

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

The impairment losses on trade and other receivables and contract assets under the ECL model for FY2023 was approximately RMB110.1 million (FY2022: approximately RMB138.5 million (Restated)). The decreased was mainly due to (i) the proactive implementation of debt cancellation policy by the government during FY2023, which increased recovery of loans and lowered the impairment loss on trade and other receivables and (ii) the focus on pursuing the measurement/settlement of contract assets with long ageing during FY2023 , which lowered the impairment loss on contract assets.

Finance costs

The Group's finance costs mainly represented interest expenses on bank loans, and it decreased by approximately 6.7% or approximately RMB4.7 million from approximately RMB69.9 million (Restated) for FY2022 to approximately RMB65.1 million for FY2023, which was mainly due to the decrease in interest expenses and supplemental net foreign exchange loss as compared with FY2022.

Share of profits/(losses) of associates

The Group's share of (losses)/profits of associates represented (losses)/profits 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) (formerly known as Sipoke (Tianjin) Industrial Services Company Limited* (斯泊克(天津)產業服務有限公司)) ("**Tianjin Nangang**").

Changchun Xianbang was established in Changchun, the PRC, in 2017 as a project company responsible for financing, developing, operating and maintaining our Public-Private-Partnership ("**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 our associate 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 FY2023, results of associates attributable to the Group increased by approximately RMB5.3 million from share of losses of approximately RMB3.9 million for FY2022 to share of profit of approximately RMB1.4 million for FY2023. Such increase was mainly due to the increase in revenue of the associates.

Share of (losses)/profits of a joint venture

The Group's share of profits of a joint venture represents profits shared from our 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 our 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 our joint venture given that the power to control its financial and operating policies was jointly held by the Group and another shareholder.

During FY2023, profits of Tianjun Tourism attributable to the Group decreased by approximately RMB5.3 million from a profit of approximately RMB0.9 million for FY2022 to a loss of approximately RMB4.4 million for FY2023. Such decrease in profit was mainly due to the increased ECL allowance for FY2023 allowance for FY2023.

Income tax

The Group is subject to taxation on profit earning in or derived from the tax jurisdictions where our subsidiaries are domiciled and operated in the PRC. The subsidiaries of the Group established in the PRC are subject to corporate income tax in the PRC at 25% according to the Corporate Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and the Implementation Regulation for the Corporate Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法實施條例).

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 for the calendar years from 2018 to 2023, 2022 to 2024 or from 2023 to 2025, and therefore enjoy a preferential PRC Corporate Income Tax rate of 15% for FY2023 (2022: 15%). In addition to the preferential PRC Corporate Income Tax rate, these subsidiaries are also entitled to additional tax deductible allowance amounted to 100% of qualified research and development costs for FY2023 (2022: 75%).

The Group's income tax changed from approximately RMB-18.1 million (Restated) for FY2022 to approximately RMB19.4 million for FY2023, which was mainly due to the Group's turnaround from loss for FY2022 to profit for FY2023.

Net current assets

The Group's net current assets decreased by approximately 26.9% or approximately RMB139.5 million from approximately RMB516.7 million (Restated) as at 31 December 2022 to approximately RMB377.2 million as at 31 December 2023. The decrease was mainly attributable to settlement of the acquisition during FY2023.

Inventories and other contract costs

The following table sets out a breakdown of inventories and other contract costs of the Group as at 31 December 2023 and 2022:

	2023 ***RMB'000***	2022 *RMB'000* (Restated)
Inventories – construction materials	**26,769**	25,058
Other contract costs	**27,155**	11,135
	53,924	36,193

The Group's inventories principally consisted of construction materials and other contract costs, including costs that the Group incurred in relation to fulfilling a contract or an identifiable anticipated contract. Such costs include direct labour costs, direct material costs and subcontracting fees, etc..

The balance of inventories and contract costs increased by approximately RMB17.7 million as at 31 December 2023 as compared with 31 December 2022 which was mainly due to the expansion in business scale of the Group.

Contract assets

The Group's contract assets increased by approximately 5.9% or approximately RMB62.8 million from approximately RMB1,055.7 million (Restated) as at 31 December 2022 to approximately RMB1,118.5 million as at 31 December 2023. The increase in contract assets corresponds to the increase in income scale of the Group.

Trade and bills receivables

The Group's trade and bills receivables increased by approximately 11.8% or approximately RMB185.7 million from approximately RMB1,579.4 million (Restated) as at 31 December 2022 to approximately RMB1,765.1 million as at 31 December 2023. The increase was primarily due to the increased income scale and an improved cycle of the collection of trade receivables.

Restricted bank deposits

The Group's restricted bank deposits decreased by approximately 8.6% or approximately RMB1.9 million from approximately RMB22.2 million (Restated) as at 31 December 2022 to approximately RMB20.3 million as at 31 December 2023, which was mainly due to the decrease of restriction on deposits which release after the payment of bills or repayment of loans.

Trade and bills payables

The Group's trade and bills payables increased by approximately 12.3% or approximately RMB151.7 million from approximately RMB1,237.5 million (Restated) as at 31 December 2022 to approximately RMB1,389.2 million as at 31 December 2023, which was due to the increase in business scale for FY2023.

Capital commitments

The table below sets out the amount of the capital commitments of the Group as at 31 December 2023 and 2022:

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Authorised but not contracted for	**14,448**	4,908

As at 31 December 2023, the capital commitments authorised but not contracted for are mainly used for information technology systems and construction equipment and office equipment.

Indebtedness

As at 31 December 2023, the Group had borrowings of approximately RMB806.2 million (31 December 2022: approximately RMB1,053.7 million (Restated). Based on the scheduled repayment terms set out in the loan agreements, approximately RMB726.3 million (31 December 2022: approximately RMB974.8 million (Restated)) of the borrowings are payable within 1 year. Some of the borrowings were secured and guaranteed by trade and bills receivables and contract assets and bank deposits of the Group, related parties or third-party guarantee companies.

As at 31 December 2023, the Group had utilised all of the banking facilities.

As at 31 December 2023, none of the covenants relating to the bank loans had been breached.

KEY FINANCIAL RATIOS

The following table sets forth key financial ratios for the years/as at each of the dates indicated:

	Year ended 31 December	
	2023	2022 (Restated)
Gross profit margin (%) [(1)]	**19.1**	17.4
Net profit/(loss) margin (%) [(2)]	**6.5**	-8.7
Return on equity (%) [(3)]	**18.1**	(10.0)
Return on total assets (%) [(4)]	**3.8**	(2.3)

	As at 31 December	
	2023	2022 (Restated)
Current ratio [(5)]	**1.1**	1.2
Gearing ratio [(6)]	**1.0**	1.1
Net debt to equity ratio [(7)]	**0.7**	0.9

Notes:

(1) Gross profit margin for the year was calculated based on gross profit divided by total revenue for the respective year and multiplied by 100%.

(2) Net profit/(loss) margin for the year was calculated based on profit/(loss) for the year divided by total revenue for the respective year and multiplied by 100%.

(3) Return on equity for the year was calculated based on the profit/(loss) for the year attributable to equity shareholders of the Company for the respective year divided by the average of the beginning and ending balance of total equity attributable to equity shareholders of the Company as at the respective year end and multiplied by 100%.

(4) Return on total assets for the year was calculated based on the net (loss)/profit for the year divided by the average of the beginning and ending balance of total assets as at the respective year end and multiplied by 100%.

(5) Current ratio was calculated based on the total current assets as at the respective year end divided by the total current liabilities as at the respective year end.

(6) Gearing ratio was calculated based on the total borrowings as at the respective year end divided by total equity as at the respective year end.

(7) Net debt to equity ratio was calculated based on net borrowings (being total borrowings net of cash and cash equivalents) as at the respective year end divided by total equity as at the respective year end.

Return on equity

The return on equity increased from -10.0% (Restated) for FY2022 to 18.1% for FY2023, primarily due to increase in profit for FY2023.

Return on total assets

The return on total assets increase from -2.3% (Restated) for FY2022 to 3.8% for FY2023, primarily due to increase in profit for FY2023.

Current ratio

The current ratio decreased from 1.2 for FY2022 (Restated) to 1.1 for FY2023.

Gearing ratio

The gearing ratio increased from 1.1 (Restated) as at 31 December 2022 to 1.0 as at 31 December 2023 due to the decrease in bank and other loans.

Net debt to equity ratio

The net debt to equity ratio increased from 0.9 (Restated) as at 31 December 2022 to 0.7 as at 31 December 2023 due to the decrease in bank and other loans.

MATERIAL ACQUISITIONS AND DISPOSALS

With a view to enhance the Group's overall strength, the Group has been exploring opportunities to expand and diversify its business portfolios by acquisition if any appropriate acquisition target is identified. In determining the appropriate acquisition target, the Group would consider various factors, such as the target company's operating history, development potential of the target company, the qualifications possessed by the target company, etc. Save as aforesaid, the Group has no specific plan for any major investment or acquisition for major capital assets or other businesses.

Save as the acquisition of 87.5% equity interests in Jilin Modern Zhongqing City Construction Co. Ltd. ("**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 during FY2023. 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 31 December 2023 and 31 December 2022, except for the associate and joint venture of the Group as disclosed 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/(losses) of associates" and "Share of (losses)/profits of a joint venture" in this announcement above.

CONTINGENT LIABILITIES AND FINANCIAL GUARANTEES ISSUED

As at 31 December 2023, the Group has issued a guarantee in respect of a bank loan of Tianjun Tourism, a joint venture of the Group. In May 2019, Tianjun Tourism signed a long-term bank loan contract with the principal amounting to RMB410,000,000, among which RMB310,000,000 (including principal and interest) is to be guaranteed by the Group. As at 31 December 2023, the balance of the bank loan was RMB315,000,000 (31 December 2022: 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. For the year ended 31 December 2023, the ECLs of financial guarantee issued amounted to RMB5,289,000 was recognised as "accrued expenses and other payables – financial guarantees issued". 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 31 December 2023, the unamortised balance of financial guarantee issued by the Group included in "accrued expenses and other payables" amounted to RMB24,500,000 (31 December 2022: RMB21,131,000).

As at 31 December 2023, the Group has issued a guarantee in respect of a bank loan of Changchun Xianbang, an associate of the Group. In November 2019, Changchun Xianbang signed a long-term bank loan contract with the principal amounting to RMB300,000,000, among which RMB330,000,000 (including principal and interest) is to be guaranteed by the Group. As at 31 December 2023, the balance of the bank loan was RMB136,150,000 (31 December 2022: RMB180,000,000). The fair value of the financial guarantee provided by the Group was initially estimated as RMB12,685,000 and RMB2,692,000 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 an associate and recognised as part of the cost of investment in an associate during the year ended 31 December 2019 and 2020. For the year ended 31 December 2023, the ECLs of financial guarantee issued amounted to RMB3,412,000 was recognised as "accrued expenses and other payables – financial guarantees issued". 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 31 December 2023, the unamortised balance of financial guarantee issued by the Group included in "accrued expenses and other payables" amounted to RMB12,500,000 (31 December 2022: RMB10,670,000). The directors do not believe it probable that Tianjun Tourism and Changchun Xianbang will default on the contract and fail to make payment when due, and the Group will make specified payments to reimburse the beneficiary of the guarantee for a loss the bank incurs.

The Group has issued guarantees in respect of bank loans and bills payable of ZIHG and its subsidiaries, joint ventures and associates and third parties, and the balance of loans and bills payable guaranteed or counter-guaranteed by the Group amounted to RMB300,000,000 as at 31 December 2023 (31 December 2022: RMB630,000,000). All such financial guarantees issued by the Group have been released as at the date of this announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the parts headed "MATERIAL ACQUISITIONS AND DISPOSALS" in this announcement, the Group has no future plan for material investments or capital assets.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Group is exposed to various types of financial risks including credit risk, liquidity risk, interest rate risk and foreign exchange risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Given the Group's operation is mainly conducted in the PRC with most of the Group's transactions denominated and settled in RMB, the currency risk is insignificant.

Credit risk

The Group's credit risk is primarily attributable to the carrying amounts of trade receivables and contract assets, and financial guarantees issued by the Group.

At 31 December 2023, 16.7% (31 December 2022: 16.9% (Restated)) of the total trade receivables and contract assets, were due from the Group's largest debtor, and 54.1% (31 December 2022: 44.4% (Restated)) of the total trade receivables and contract assets, were due from the Group's five largest debtors. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group has limited credit risk on cash and cash equivalents because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Our customers are primarily entities in the public sector. The Group generally requires customers to settle progress billings in accordance with the relevant contracted terms and other debts in accordance with their relevant agreements. Thus, we believe that the Group has limited exposure to credit risk.

The Group has issued a guarantee in respect of a bank loan of Tianjun Tourism, i.e. a joint venture of the Group, and Changchun Xianbang i.e. an associate of the Group, respectively. The Directors do not believe it to be probable that Tianjun Tourism and Changchun Xianbang will default on the contract and fail to make payment when due, such that the Group will have to make specified payments to reimburse the beneficiary of the guarantee for losses that the bank incurs.

Liquidity risk

The liquidity of the Group depends primarily on our ability to maintain adequate cash inflows from business operations to meet debt repayment obligations as they fall due and our ability to obtain external financing to meet committed future capital expenditures. Our policy is to regularly monitor our liquidity status and compliance with lending covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and long term.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. As at 31 December 2023, fixed rate borrowings accounted for 100.0% of total borrowings of the Group whereas variable rate borrowings accounted for 0.0% of total borrowings of the Group.

OTHER INFORMATION

Dividend

The Board resolved to declare the payment of a final dividend of RMB0.071 per share of the Company (the "**Share**") (equivalent to HK$0.078 per Share) for the year ended 31 December 2023, representing a dividend payout ratio of approximately 14.5% which was calculated based on dividends per share divided by earning per share. The Board recommended the payment of a final dividend, on or around Friday, 19 July 2024 to the shareholders of the Company (the "**Shareholder(s)**") whose names appear on the register of members of the Company on Monday, 8 July 2024. The final dividend shall be declared in RMB and paid in Hong Kong dollars. The final dividend payable in Hong Kong dollars will be converted from RMB base on the rate at the date of 22 March 2024.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed Thursday, 4 July 2024 to Monday, 8 July 2024, both days inclusive, in order to determine the entitlement of the Shareholders to the final dividend (if approved by the Shareholders in the AGM), during which period no share transfers will be registered. To qualify for the final dividend, all transfers forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong before 4:30 p.m. on Wednesday, 3 July 2024.

Employees and remuneration policies

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. We have established a systematic and effective talent training mechanism to enhance employees' sense of belonging through diversified employee activities and provide competitive remuneration and fringe benefits to our employees. We would ensure our employees are awarded on a performance related basis within the general framework of the Group's Remuneration Management System.

As at 31 December 2023, the Group has 899 employees. 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, 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 FY2023.

Securities transactions by 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 with 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 for FY2023.

Events after the reporting period

No significant events have taken place subsequent to 31 December 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 C1 to the Listing Rules as its own code of corporate governance. The Company will continue to review and enhance its corporate governance to ensure compliance with the CG Code.

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Lee Kwok Tung Louis (chairman of the Audit Committee), Mr. Gao Xiangnong and Mr. Yin Jun. The Audit Committee has reviewed and discussed with management the accounting standards and practices adopted by the Group, risk and internal controls and financial reporting matters and has reviewed the unaudited consolidated financial statements for FY2023 as set out in this announcement.

Scope of work of the auditors

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by KPMG on the preliminary announcement.

Annual general meeting

The date of the annual general meeting of the Company (the "**AGM**") will be announced in due course. Shareholders of the Company should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

Publication of results announcement and annual report

This announcement will be published on the website of the Company at www.zonqing.net and the website of the Stock Exchange at www.hkexnews.hk. The annual report will be dispatched to the Shareholders upon their request, and 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, 28 March 2024

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

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

* *For identification purpose only*