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Jianzhong Construction Development Limited

建中建設發展有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 589)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Jianzhong Construction Development Limited (the “**Company**”) wishes to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2022, together with comparative figures for the six months ended 30 June 2021 or other dates/periods, as follows:.

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 58.0% from approximately RMB611.5 million for the six months ended 30 June 2021 to approximately RMB257.1 million for the six months ended 30 June 2022.
- Gross profit decreased by approximately 75.0% from approximately RMB96.3 million for the six months ended 30 June 2021 to approximately RMB24.1 million for the six months ended 30 June 2022. Gross profit margin decreased by approximately 6.4 percentage point from approximately 15.7% for the six months ended 30 June 2021 to approximately 9.4% for the six months ended 30 June 2022.
- Loss attributable to the equity holders of the Company for the six months ended 30 June 2022 was approximately RMB36.8 million (six months ended 30 June 2021: profit of approximately RMB44.2 million).
- Losses per share was approximately RMB0.06 for the six months ended 30 June 2022 (30 June 2021: earnings of approximately RMB0.07 per share).
- The Board does not recommend any declaration of interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the six months ended 30 June 2022 — unaudited**(Expressed in Renminbi)*

		Six months ended 30 June	
		2022	2021
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2	257,146	611,531
Cost of sales		<u>(233,060)</u>	<u>(515,222)</u>
Gross profit		24,086	96,309
Other net income	3	12,980	42,183
Administrative and other expenses		(17,711)	(30,051)
Research and development costs		(11,548)	(26,980)
Impairment losses on assets arising from contracts with customers	13	<u>(36,375)</u>	<u>(10,976)</u>
(Loss)/profit from operations		(28,568)	70,485
Finance costs	4(a)	<u>(11,896)</u>	<u>(19,202)</u>
(Loss)/profit before taxation	4	(40,464)	51,283
Income tax	5	<u>3,640</u>	<u>(7,117)</u>
(Loss)/profit for the period		<u>(36,824)</u>	<u>44,166</u>
(Loss)/earnings per share	6		
Basic and diluted (RMB)		<u>(0.06)</u>	<u>0.07</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

*For the six months ended 30 June 2022 — unaudited
(Expressed in Renminbi)*

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
(Loss)/profit for the period	(36,824)	44,166
Other comprehensive income for the period		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of operations outside Mainland China	<u>(207)</u>	<u>(112)</u>
Other comprehensive income for the period	(207)	(112)
Total comprehensive income for the period	<u>(37,031)</u>	<u>44,054</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 — unaudited

(Expressed in Renminbi)

		At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
	Note		
Non-current assets			
Property, plant and equipment	8	570,795	625,515
Intangible assets		2,336	2,830
Receivables under service concession arrangement	10	23,670	25,407
Deferred tax assets		38,356	31,795
Other non-current assets		27,109	36,141
		<u>662,266</u>	<u>721,688</u>
Current assets			
Inventories		17,035	17,277
Contract assets		401,767	470,144
Trade and other receivables	9	699,472	781,493
Prepayments		29,947	35,872
Receivables under service concession arrangement	10	7,394	7,410
Restricted bank balances		25,467	52,197
Cash and cash equivalents		94,004	92,973
		<u>1,275,086</u>	<u>1,457,366</u>
Current liabilities			
Trade and other payables	11	573,503	716,648
Contract liabilities		4,195	3,122
Loans and borrowings	12	232,229	256,557
Current taxation		11,237	8,928
		<u>821,164</u>	<u>985,255</u>
Net current assets		<u>453,922</u>	<u>472,111</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*At 30 June 2022 — unaudited**(Expressed in Renminbi)*

		At 30 June 2022	At 31 December 2021
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities			
Loans and borrowings	12	152,144	185,971
Other non-current liabilities		12,565	19,318
		<u>164,709</u>	<u>205,289</u>
NET ASSETS		<u>951,479</u>	<u>988,510</u>
CAPITAL AND RESERVES			
Share capital		5,671	5,671
Reserves		945,808	982,839
TOTAL EQUITY		<u>951,479</u>	<u>988,510</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi, unless otherwise indicated)

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). It was authorised for issue on 31 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. The Company’s auditor has expressed an unqualified opinion on those financial statements in its report dated 30 March 2022.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

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

2. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the provision of construction service, leasing of construction machinery, equipment and tools, and provision of sewage treatment service in Mainland China.

(i) Disaggregation of revenue

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Revenue from construction service	146,983	491,950
— Revenue from sewage treatment service	2,579	2,668
— Revenue from equipment operation service	22,987	—
— Others*	1,182	15,675
	<u>173,731</u>	<u>510,293</u>
Revenue from other sources		
— Revenue from leasing of construction machinery, equipment and tools	83,415	101,238
	<u>83,415</u>	<u>101,238</u>
	<u>257,146</u>	<u>611,531</u>

* Others mainly represents sales of construction materials and provision of certain logistic services.

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Disaggregated by timing of revenue recognition		
— Over time	255,964	595,856
— Point in time	1,182	15,675
	<u>1,182</u>	<u>15,675</u>
Total	<u>257,146</u>	<u>611,531</u>

Revenue from major customers which accounts for 10% or more of the Group's revenue are set out below:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Customer B	89,741	253,278
Customer A	45,368	148,842

(b) Segment reporting

The Group manages its businesses by service lines. 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. No geographical segment analysis is presented as substantially all assets, liabilities, revenue and gross profit of the Group are attributable to the operations in the PRC.

The Group has four separate segments as follows:

- Provision of construction service (“**Construction service**”);
- Provision of leasing services of construction machinery, equipment and tools, and equipment operation service (“**Equipment operation service**”);
- Provision of sewage treatment service (“**Sewage treatment operation**”); and
- Sales of construction materials and others (“**Others**”).

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results based on the revenue and gross profits of Construction service, Equipment operation service, Sewage treatment operation and Others.

(i) Reportable segment gross profits

	Construction service <i>RMB'000</i>	Equipment operation service <i>RMB'000</i>	Sewage treatment operation <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended					
30 June 2022					
Revenue	146,983	106,402	2,579	1,182	257,146
Cost of sales	<u>(153,490)</u>	<u>(76,170)</u>	<u>(2,213)</u>	<u>(1,187)</u>	<u>(233,060)</u>
Reportable segment gross profits	<u>(6,507)</u>	<u>30,232</u>	<u>366</u>	<u>(5)</u>	<u>24,086</u>
Six months ended					
30 June 2021					
Revenue	491,950	101,238	2,668	15,675	611,531
Cost of sales	<u>(433,724)</u>	<u>(64,415)</u>	<u>(2,029)</u>	<u>(15,054)</u>	<u>(515,222)</u>
Reportable segment gross profits	<u>58,226</u>	<u>36,823</u>	<u>639</u>	<u>621</u>	<u>96,309</u>

Substantially all of the Group's revenue were arising from Mainland China. The Group does not allocate any specific assets or liabilities to the operating segments as the Group's senior executive management does not use the information to measure the performance of the reportable segments.

(ii) *Reconciliations of reportable segment profit or loss*

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment gross profit	24,086	96,309
Other net income	12,980	42,183
Administrative and other expenses	(17,711)	(30,051)
Research and development costs	(11,548)	(26,980)
Impairment losses on assets arising from contracts with customers	(36,375)	(10,976)
Finance costs	(11,896)	(19,202)
	<u>(40,464)</u>	<u>51,283</u>

3. **OTHER NET INCOME**

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	1,722	1,417
Government grants	19	6,345
Gain on disposal of property, plant and equipment (<i>note 8</i>)	10,058	34,217
Others	1,181	204
	<u>12,980</u>	<u>42,183</u>

4. **(LOSS)/PROFIT BEFORE TAXATION**

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

(a) **Finance costs**

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans and other borrowings	8,007	14,561
Interest on lease liabilities	21	32
Finance charges on sale and leaseback transactions	2,004	1,277
Interest on acquisition of equipment by instalments	1,077	1,838
Other borrowing costs	787	1,494
	<u>11,896</u>	<u>19,202</u>

(b) Staff costs (including directors' emoluments)

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Salaries, wages and other benefits	15,829	42,040
Contributions to defined contribution retirement benefit schemes	880	1,361
	<u>16,709</u>	<u>43,401</u>

(c) Other items

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Depreciation		
— property, plant and equipment	42,774	43,880
— right-of-use assets	192	105
	<u>42,966</u>	<u>43,985</u>
Amortisation of intangible assets	494	484
Expenses relating to short-term leases	12,477	14,287
Impairment loss on assets arising from contracts with customers	36,375	10,976
Labour subcontracting fee	124,663	226,743

5. INCOME TAX

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax	2,921	8,335
Deferred tax	<u>(6,561)</u>	<u>(1,218)</u>
	<u>(3,640)</u>	<u>7,117</u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit that was subject to Hong Kong Profits Tax for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).
- (iii) The Group's subsidiaries in Mainland China is subject to PRC corporate income tax at the statutory rate of 25%.

On 7 January 2020, Fujian Jianzhong Construction Technology Co., Ltd. (“**Jianzhong Construction Technology**”), an indirect wholly-owned subsidiary of the Company, obtained the state-level approval for its application of High-tech Enterprise qualification and was granted the qualification with effect from 2 December 2019. In accordance with the PRC Corporate Income Tax Law (“**CIT Law**”), the High-tech Enterprise qualification will be valid for a period of three years from 2019 to 2021. Jianzhong Construction Technology has lodged application for the renewal of the High-tech Enterprise qualification and expected to obtain the approval by the end of 2022. Accordingly, Jianzhong Construction Technology is subject to PRC income tax at 15% for the six months ended 30 June 2022 on a provisional basis before the renewal of High-tech Enterprise qualification.

On 1 December 2020, Fujian Jianzhong Yantu Engineering Co., Ltd. (“**Jianzhong Yantu**”), another indirect wholly-owned subsidiary of the Company, obtained the state-level approval for its application of High-tech Enterprise qualification and was granted the qualification with effect from 1 December 2020. In accordance with the CIT Law, the High-tech Enterprise qualification will be valid for a period of three years from 2020 to 2022 and entitles Jianzhong Yantu to a reduced tax rate at 15% during this period.

6. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholder of the Company of RMB36,824,000 (six months ended 30 June 2021: profit of RMB44,166,000) and the weighted average number of 625,000,000 ordinary shares in issue during the periods under review.

Diluted (loss)/earnings per share is equal to basic (loss)/earnings per share as there were no dilutive potential shares outstanding for the six months ended 30 June 2022 and 2021.

7. DIVIDENDS

The Board has resolved not to declare any dividends for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period.

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Dividends approved in respect of the previous year (2021: HK2.08 cents per share)	—	10,817
	<u> </u>	<u> </u>

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired items of plant and machinery with a cost of RMB9,161,000 (six months ended 30 June 2021: RMB177,970,000). Items of machinery, equipment and tools with a net book value of RMB20,915,000 were disposed of during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB25,470,000), resulting in a gain on disposal of RMB10,058,000 (six months ended 30 June 2021: RMB34,217,000).

(a) Property, plant and equipment pledged for loans and borrowings

- (i) The Group had obtained specific bank loans to acquire certain machinery and equipment and these machinery and equipment were pledged to the bank until the settlement of the corresponding bank loans. As at 30 June 2022, the carrying amounts of the machinery and equipment pledged for these bank loans were RMB143,866,000 (31 December 2021: RMB147,159,000). Please refer to note 12(a)(ii) for details.
- (ii) The Group sold certain machinery and equipment to external parties and leased them back for a term of 3 to 4 years. The Group determined the transfers to buyer-lessor were not sales under HKFRS15, thus the Group continues to recognise the underlying assets, and recognises financial liabilities for the considerations. As at 30 June 2022, the carrying amounts of the machinery and equipment pledged in respect of the sale and leaseback transactions were RMB179,797,000 (31 December 2021: RMB196,649,000). Please refer to note 12(c) for details.

9. TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on date of progress certificates or date of issuance of bills and net of loss allowance, is as follows:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 1 month	55,206	102,576
More than 1 month but within 3 months	86,159	127,496
More than 3 months but within 6 months	110,610	152,895
More than 6 months but within 12 months	181,286	118,601
More than 12 months	198,833	236,327
	<hr/>	<hr/>
Trade and bills receivables, net of loss allowance	632,094	737,895
Deposits and other receivables	67,378	43,598
	<hr/>	<hr/>
	699,472	781,493

- (i) As part of its normal business, the Group has entered into certain factoring agreements with certain banks and factoring companies. During the six months ended 30 June 2022, trade receivables of RMB31,822,000 (six months ended 30 June 2021: RMB216,546,000) were transferred to certain banks or factoring companies in accordance with non-recourse factoring agreements, and the corresponding trade receivables were derecognised as the directors are of the view that the substantial risks and rewards associated with the trade receivables have been transferred and therefore these receivables were qualified for derecognition.

- (ii) In addition, the Group also entered into certain factoring agreements with recourse with a bank. Under these agreements, the Group may be required to reimburse the bank for loss of interest if any trade receivables have not been fully paid upon due dates. The Group has retained the substantial risks and rewards, which include default risks of the trade receivables after the transfer. Subsequent to the transfer, the Group did not have the rights to transfer or pledge of the trade receivables to any other third parties. As at 30 June 2022, trade receivable of RMB1,700,000 was factored to the bank with recourse and was not derecognised. The associated liability with the same amount was also recognised as a bank loan (Note 12(a)(iii)).
- (iii) As at 30 June 2022, commercial acceptance bills of RMB100,000 (31 December 2021: RMB480,000) were endorsed to certain suppliers with recourse and the Group continued to recognise the corresponding receivables. The associated liabilities with the same amount were included in trade and other payables (Note 11).
- (iv) According to the payment terms in contracts, the Group is entitled to request for progress payments that are usually measured by reference to a prescribed percentage of the certified amount of work completed. Further details on the credit risk arising from trade receivables are set out in Note 13.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENT

The Group's receivables under service concession arrangement in respect of sewage treatment service are as follows:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Non-current portion	23,670	25,407
Current portion	<u>7,394</u>	<u>7,410</u>
	<u>31,064</u>	<u>32,817</u>
Expected collection schedule is as follows:		
Within 1 year	7,394	7,410
After 1 year but within 5 years	14,064	14,164
After 5 years but within 10 years	<u>9,606</u>	<u>11,243</u>
	<u>31,064</u>	<u>32,817</u>

The effective interest rate for the above financial assets was 3.85% per annum.

11. TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 1 month	30,636	60,821
More than 1 month but within 3 months	69,486	115,968
More than 3 months but within 6 months	84,781	135,951
More than 6 months but within 12 months	72,482	87,437
More than 12 months	<u>121,736</u>	<u>107,541</u>
Trade and bills payable	379,121	507,718
Suppliers of property, plant and equipment	37,781	50,215
Value added tax and surcharges payables	104,854	87,233
Other payables and accruals	49,302	67,028
Obligation for bills endorsed with recourse (<i>Note 9(iii)</i>)	100	480
Interest payable	<u>2,345</u>	<u>3,974</u>
	<u><u>573,503</u></u>	<u><u>716,648</u></u>

12. LOANS AND BORROWINGS

	<i>Note</i>	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Non-current			
Bank loans and other borrowings-secured	(a)	71,814	84,610
Lease liabilities	(b)	484	277
Obligations arising from sale and leaseback transactions	(c)	<u>79,846</u>	<u>101,084</u>
		<u>152,144</u>	<u>185,971</u>
Current			
Bank loans and other borrowings-secured	(a)	181,465	207,098
Lease liabilities	(b)	233	88
Obligations arising from sale and leaseback transactions	(c)	<u>50,531</u>	<u>49,371</u>
		<u>232,229</u>	<u>256,557</u>
Total		<u><u>384,373</u></u>	<u><u>442,528</u></u>

(a) **Bank loans and other borrowings**

Bank loans and other borrowings were repayable as follows:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Less than 1 year	181,465	207,098
1 to 2 years	44,092	40,896
2 to 5 years	27,722	43,714
	<u>253,279</u>	<u>291,708</u>

Notes:

- (i) As at 30 June 2022, bank loans of RMB80,705,000 (31 December 2021: RMB75,270,000) were secured by properties of a third party, among which bank loans of RMB50,000,000 (31 December 2021: RMB50,000,000) and RMB30,705,000 (31 December 2021: RMB25,270,000) were guaranteed by an indirect wholly-owned subsidiary of the Company and the controlling shareholder of the Company respectively.
- (ii) As at 30 June 2022, a bank loan of RMB63,407,000 (31 December 2021: RMB75,738,000) was secured by machinery and equipment of the Group (note 8(a)(i)).
- (iii) As at 30 June 2022, a bank loan of RMB1,700,000 (31 December 2021: nil) was secured by the trade receivable of RMB1,700,000 (31 December 2021: nil) as mentioned in Note 9(ii).
- (iv) In December 2021, Jianzhong Construction Technology entered into a credit line agreement, pursuant to which Jianzhong Construction Technology was granted credit amount up to RMB150,000,000. Such bank credit lines were jointly guaranteed by the Company and the controlling shareholder of the Company. As at 30 June 2022, the undrawn credit lines that are available for use was RMB79,600,000 (31 December 2021: RMB50,000,000).
- (v) In June 2021, Jianzhong Construction Technology entered into a credit line agreement with a financial institute to purchase certain equipment on instalment, pursuant to which Jianzhong Construction Technology was granted credit amount up to RMB50,000,000 with maturity in May 2022. In June 2022, the credit line was expired and Jianzhong Construction Technology entered into a new credit line agreement with the financial institute, pursuant to which, a credit line with a term of two years with the amount up to RMB60,000,000 was granted. Such credit line was guaranteed by the controlling shareholder of the Company. As at 30 June 2022, the Company had the borrowing of RMB37,067,000 and unutilised credit amount of RMB22,933,000.

(b) Lease liabilities

Maturity analysis-contractual undiscounted cash flows

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Less than 1 year	266	99
1 to 2 years	278	79
2 to 5 years	<u>235</u>	<u>252</u>
Total undiscounted lease liabilities	779	430
Less: total future interest expenses	<u>(62)</u>	<u>(65)</u>
Lease liabilities included in the consolidated statements of financial position	<u>717</u>	<u>365</u>

Maturity analysis-present value of lease liabilities

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Less than 1 year	233	88
1 to 2 years	259	74
2 to 5 years	<u>225</u>	<u>203</u>
Present value of lease liabilities	<u>717</u>	<u>365</u>

(c) **Obligations arising from sale and leaseback transactions**

Obligations arising from sale and leaseback transactions were repayable as below:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Less than 1 year	56,162	56,066
1 to 2 years	45,845	53,650
2 to 3 years	<u>38,343</u>	<u>53,908</u>
Total undiscounted obligations arising from sale and leaseback transactions	140,350	163,624
Less: total future interest expenses	<u>(9,973)</u>	<u>(13,169)</u>
Obligations arising from sale and leaseback transactions included in the consolidated statement of financial position	<u>130,377</u>	<u>150,455</u>

All obligations arising from sale and leaseback transactions were secured by underlying machinery and equipment as mentioned in Note 8(a)(ii) and were guaranteed by the Controlling Shareholder of the Company as at 30 June 2022 and 31 December 2021.

13. CREDIT RISK

The Group's credit risk is primarily attributable to trade receivables, bills receivable, contract assets and receivables under service concession arrangement. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers. These evaluations focus on the customer's history of making payments and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

The Group's customers are concentrated in real estate companies or main contractors in Mainland China. At the end of the reporting period, 18.1% (31 December 2021: 17.7%) and 72.5% (31 December 2021: 77.9%) of the total trade receivables and contract assets were due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables, bills receivable and contract assets at an amount equal to lifetime expected credit losses ("ECLs"), which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance is not further distinguished between the Group's different customer bases. The Group has considered that the expected loss rates for trade receivables are a reasonable approximation of the loss rate for the contract assets.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables, bills receivable and contract assets:

	At 30 June 2022			
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Carrying amount RMB'000
Current (not past due)	11.3	502,613	(56,637)	445,976
Less than 12 months past due	13.6	442,155	(60,225)	381,930
More than 12 months past due	33.2	308,522	(102,567)	205,955
		<u>1,253,290</u>	<u>(219,429)</u>	<u>1,033,861</u>
	At 31 December 2021			
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Carrying amount RMB'000
Current (not past due)	11.5	569,843	(65,658)	504,185
Less than 12 months past due	11.8	518,736	(61,029)	457,707
More than 12 months past due	28.0	324,785	(90,973)	233,812
		<u>1,413,364</u>	<u>(217,660)</u>	<u>1,195,704</u>

In addition to above provision matrix, the Group has made individual loss allowance for certain customers. As at 30 June 2022, the accumulated individual loss allowance was RMB118,945,000 (31 December 2021: RMB84,339,000) with the carrying amounts before loss allowance of RMB118,945,000 (31 December 2021: RMB96,674,000).

Expected loss rates are based on historical credit loss experience over the past years. These rates are adjusted for factors that are specific to the debtors, current conditions and the Group's view of economic conditions over the expected lives of the trade receivables, bills receivable and contract assets.

For receivables under service concession arrangement, as the receivables are mainly due from an entity designated by local government with no history of default, the Group considered the loss allowances for receivables under service concession arrangement to be immaterial.

Movement in the loss allowance account in respect of trade receivables, bills receivables, contract assets and receivables under service concession arrangement during the period is as follows:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January	301,999	163,765
Impairment losses recognised during the period	36,375	10,976
Amounts written off during the period	<u>—</u>	<u>(15)</u>
Balance at 30 June	<u>338,374</u>	<u>174,726</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a construction services provider based in Fujian Province, the People's Republic of China (the "PRC"). The construction services provided by the Group include general construction works as a main contractor and sub-contractor works. The Group also has an extensive fleet of construction machinery and equipment, which enables itself to handle complicated and/or sizable construction works, thus allowing itself to capture more opportunities in the construction market and engage in construction machinery, equipment and tools leasing services. The Group also engages in provision of equipment operation service, sales of construction materials, and operates a sewage treatment plant in the PRC. The Group has developed as a regional construction works service provider in Fujian and has further extended the footprint across a number of other provinces in the PRC.

In view of the current economic condition, the primary focus of the Group is to improve liquidity position and to retain more cash to cope with the challenging operating environment. During the six months ended 30 June 2022, the Group became more cautious in tendering new construction projects, which led to a decline in revenue from Construction service. The revenue from Construction service decreased by approximately RMB345.0 million, or approximately 70.1%, as compared to the corresponding period in 2021, from approximately RMB492.0 million to approximately RMB147.0 million.

Moreover, during the six months ended 30 June 2022, the Group has adopted certain cost reduction measures to reduce administrative and other expenses. Comparing to the corresponding period in 2021, the research and development costs was reduced by approximately 57.4%, from approximately RMB27.0 million to approximately RMB11.5 million. On the other hand, the administrative and other expenses was decreased by approximately 41.2%, from approximately RMB30.1 million to approximately RMB17.7 million.

In addition, the Group has reduced the capital expenditure during the six months ended 30 June 2022. The net cash used in investing activities was reduced from approximately RMB107.6 million during the six months ended 30 June 2021 to approximately RMB10.0 million during the six months ended 30 June 2022.

PROSPECTS

The construction industry in the PRC is highly fragmented and there are opportunities for the Group to further develop its businesses. However, given current economic environment, the Group will continue to focus on improving its liquidity condition whilst developing new business opportunities, with the view to create long term value for the shareholders.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

No significant event took place subsequent to 30 June 2022 and up to the date of this results announcement.

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2022, the overall revenue of the Group has decreased by approximately RMB354.4 million, or approximately 58.0%, as compared to the corresponding period in 2021, from approximately RMB611.5 million to approximately RMB257.1 million.

To preserve more cash under current economic environment, the Group became more cautious in tendering new construction projects, which led to a decline in revenue from Construction service. The revenue from Construction service decreased by approximately RMB345.0 million, or approximately 70.1%, as compared to the corresponding period in 2021, from approximately RMB492.0 million to approximately RMB147.0 million.

Revenue from Equipment operation service slightly increased by approximately RMB5.2 million, or approximately 5.1%, from approximately RMB101.2 million in the six months ended 30 June 2021, to approximately RMB106.4 million in the six months ended 30 June 2022.

As a percentage of total revenue, the revenue from Sewage treatment operation and Others remained stable during the six months ended 30 June 2022.

Cost of sales

Cost of sales mainly comprises of material cost, labour subcontracting fee, depreciation and others. During the six months ended 30 June 2022, the overall cost of sales of the Group has decreased by approximately RMB282.1 million, or approximately 54.8% compared to the six months ended 30 June 2021, from approximately RMB515.2 million to approximately RMB233.1 million.

Gross profit and gross profit margin

Set out below is the breakdown of the gross profit and gross profit margins of the Group by business segment and work type during the period under review and the corresponding period in 2021:

	Six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	<i>GP%</i>	<i>RMB'000</i>	<i>GP%</i>
Construction service	(6,507)	(4.4)	58,226	11.8
Equipment operation service	30,232	28.4	36,823	36.4
Sewage treatment operation	366	14.2	639	24.0
Others	(5)	(0.4)	621	4.0
	<u>24,086</u>	<u>9.4</u>	<u>96,309</u>	<u>15.7</u>

During the six months ended 30 June 2022, the Group's overall gross profit margin decreased by 6.4 percentage point, from 15.7% in the six months ended 30 June 2021 to 9.4% in the six months ended 30 June 2022. The decrease in overall gross profit margin was mainly due to the decrease in gross profit margin of Construction service.

Pursuant to relevant accounting standards and policies adopted by the Group, construction revenue is recognised progressively over time using the output method, based on direct measurements of the value of contract work performed, whilst costs for construction services are expensed in the period in which they are incurred. During the six months ended 30 June 2022, a relatively high portion of construction projects of the Group, as compared to the corresponding period in 2021, went through completion phases, in which a relatively lower gross profit margin is generally recorded since revenue has been recognised in earlier stage of the projects according to the progress certificates issued by customers while certain unbillable costs, such as inspection costs and costs to make good of defects in relation to works done by the Group in such projects, were incurred in the completion phases.

Other net income

The other net income mainly represented government grants, interest income and gain on disposal of property, plant and equipment. During the six months ended 30 June 2022, the other net income has decreased by approximately RMB29.2 million, compared to the corresponding period in 2021, from approximately RMB42.2 million to approximately RMB13.0 million. The decrease in other net income was mainly attributable to the decrease in gain on disposal of property, plant and equipment and certain unutilised tools during the six months ended 30 June 2022.

Administrative and other expenses

The administrative and other expenses decreased by approximately RMB12.4 million from RMB30.1 million for the six months ended 30 June 2021 to RMB17.7 million for the six months ended 30 June 2022. During the six months ended 30 June 2022, the Group has adopted certain cost reduction measures, such as streamlining headcount and restructuring of remuneration packages, to reduce the administrative and other expenses.

Research and development costs

The research and development costs mainly include (i) staff costs; (ii) and raw materials costs. In view of recent market condition, the Group has kept the research and development activities at minimum level, which led to a decrease in research and development costs by approximately RMB15.5 million from RMB27.0 million for the six months ended 30 June 2021 to RMB11.5 million for the six months ended 30 June 2022.

Impairment losses on assets arising from contracts with customers

As part of the ordinary course of business, the Group enters into contracts with its customers in connection to (a) Construction service; and (b) Equipment operation service. Such customers are mainly real estate companies or main contractors in the PRC. According to the payment terms in the contracts, the Group is entitled to request for progress payments that are usually measured by reference to a prescribed percentage of the certified amount of work completed. Retention money may be retained by the customers in order to secure the due performance under the contract. Accordingly, the Group's credit risk is primarily attributable to trade receivables, bills receivable and contract assets.

The following table sets out the breakdown of trade receivables, bills receivable and contract assets of the Group as at the dates indicated, respectively:

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Contract assets <i>(as disclosed in the consolidated statement of financial position)</i>	401,767	470,144
Trade and bills receivables, net of loss allowance <i>(as disclosed in note 9)</i>	632,094	737,895
Net carrying amount of trade receivables, bills receivable and contract assets	1,033,861	1,208,039
Add: loss allowance for ECLs	219,429	217,660
Gross carrying amount of trade receivables, bills receivable and contract assets used under the provision matrix in relation to the calculation of the loss allowance for ECL	1,253,290	1,425,699
Add: individual loss allowance	118,945	84,339
Gross carrying amount of trade receivables, bills receivable and contract assets	1,372,235	1,510,038

As indicated below, among the gross carrying amount of trade receivables, bills receivable and contract assets of approximately RMB1,372.2 million (31 December 2021: approximately RMB1,510.0 million), approximately RMB750.7 million (31 December 2021: approximately RMB843.5 million) was past due. In particular, two of the Group's major customers, namely Customer A and Customer B, contributed approximately 59.1% and 10.0% (31 December 2021: approximately 53.6% and 12.5%) of the total gross carrying amount of trade receivables, bills receivable and contract assets which was past due, respectively.

The following sets out the breakdown of the gross carrying amount of trade receivables, bills receivable and contract assets which was past due by customers:

	Listing status (Y/N)	As at 30 June 2022		As at 31 December 2021	
		<i>RMB'000</i>	%	<i>RMB'000</i>	%
State-owned enterprises					
Customer A	Y	443,889	59.1	452,174	53.6
Other state-owned customers ⁽¹⁾		93,912	12.5	107,042	12.7
Sub-total		537,801	71.6	559,216	66.3
Non-state-owned enterprises					
Customer B	Y	75,207	10.0	105,853	12.5
Other non-state owned customers ⁽²⁾		137,669	18.4	178,452	21.2
Sub-total		212,876	28.4	284,305	33.7
Total		750,677	100.0	843,521	100.0

Notes:

- (1) Other state-owned customers included a total of 29 enterprises (31 December 2021: 26 enterprises), each of which accounted for less than 4.0% (31 December 2021: 3.5%) of the above total amount as at 30 June 2022.
- (2) Other non-state owned customers included a total of 244 enterprises (31 December 2021: 238 enterprises), each of which accounted for less than 2.5% (31 December 2021: 5.0%) of the above total amount as at 30 June 2022.

The following sets out the background information of Customer A and Customer B:

Customer A A state-owned enterprise which mainly carries out business management activities through a company listed on the Shanghai Stock Exchange (“**Customer A’s Principal Operating Subsidiary**”), which in turn has seven subsidiaries which are listed on the Hong Kong Stock Exchange or Shenzhen Stock Exchange, as well as more than 100 investment-holding subsidiaries. To the best knowledge of the Directors after making reasonable enquiries, for the year ended 31 December 2021, Customer A’s Principal Operating Subsidiary recorded a total revenue and net profit attributable to equity owners which amounted to approximately RMB1.9 trillion and RMB51.4 billion, respectively.

Customer B A group of companies which are subsidiaries of a company listed on the Shanghai Stock Exchange which is engaged in real estate development, property management and construction of public infrastructure. To the best knowledge of the Directors after making reasonable enquiries, for the year ended 31 December 2021, such parent company recorded a total revenue and net loss amounting to approximately RMB7.7 billion and RMB329.0 million, respectively.

Loss allowance for ECLs

The Group measures loss allowances for trade receivables, bills receivable and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. Such loss allowances on trade and bills receivables, and contract assets only reflect the Group’s credit risk as at the reporting date, and were subject to subsequent remeasurement reflecting the developments thereafter.

As at the reporting date, the expected credit losses for bills receivable and contract assets were calculated by applying the expected loss rate of trade receivables within the extended payment period to the outstanding balances of bills receivables and contract assets, as they have similar credit risk characteristics.

The following briefly illustrates the Group's calculation of the loss allowance for ECLs:

Step 1 — Categorisation of customers based on risk characteristic

The Group categorises customers based on their risk characteristic. In addition, based on the ageing report as at the reporting date, the Group's trade receivables were categorised into three time bands, i.e. "trade receivables within the extended payment period", "trade receivables exceeding the extended payment period by less than 1 year" and "trade receivables exceeding the extended payment period by more than 1 year".

Note: The Group is entitled to request for progress payments that are usually measured by reference to a prescribed percentage of the certified amount of work completed according to the payment terms in the contracts. However, in practice, it normally takes months to complete the settlement of trade receivables due to the administrative process of different customers. Therefore, the Group generally grants an extended payment period based on the background of its customers — for stated-owned enterprises, 6 months from the issuance of progress certificates; for private entities, 3 months from the issuance of progress certificates.

Step 2 — Determination of expected loss rate for trade receivables

The Group first determined the expected loss rates for customers with different backgrounds and credit rating (if any), which was derived from historical observed default rates, adjusted by the growth rate of non-performing loans in the PRC, which reflected the increased credit risk, as published by the China Banking and Insurance Regulatory Commission (中國銀行保險業監督管理委員會).

The expected loss rates for trade receivables in the other time bands were further determined based on the expected loss rate for the trade receivables exceeding the extended payment period by more than one year and roll rates. The Group derived roll rates based on historical ageing data, which represented the percentages of trade receivables that are not received in a time band and thus have rolled to the next time band, and reflected the probability of loss for trade receivables in each time band.

Step 3 — Construct the provision matrix to calculate the loss allowance for ECLs

With all parameters fixed, the Group constructed a provision matrix by applying the expected loss rate of each time band to the respective outstanding balances of trade receivables to compute the loss allowance for ECL for trade receivables as at the reporting date.

The following tables sets out information about the Group's exposure to credit risk and ECLs for trade receivables, bills receivable and contract assets as at the dates indicated:

	As at 30 June 2022			
	Expected loss rate %	Gross carrying amount <i>RMB'000</i>	Loss allowance <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Current (not past due)	11.3	502,613	(56,637)	445,976
Less than 12 months past due	13.6	442,155	(60,225)	381,930
More than 12 months past due	33.2	308,522	(102,567)	205,955
		<u>1,253,290</u>	<u>(219,429)</u>	<u>1,033,861</u>
		As at 31 December 2021		
	Expected loss rate %	Gross carrying amount <i>RMB'000</i>	Loss allowance <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Current (not past due)	11.5	569,843	(65,658)	504,185
Less than 12 months past due	11.8	518,736	(61,029)	457,707
More than 12 months past due	28.0	324,785	(90,973)	233,812
		<u>1,413,364</u>	<u>(217,660)</u>	<u>1,195,704</u>

In particular, the loss allowance for ECL made in respect of Customer A and Customer B as at 30 June 2022 amounted to approximately RMB142.2 million and RMB0.1 million (31 December 2021: approximately RMB149.9 million and RMB0.8 million), respectively, representing approximately 64.8% and 0.1% (31 December 2021: approximately 68.9% and 0.3%) of the total loss allowance made, respectively.

In addition to above provision matrix, the Group has made individual loss allowance for certain customers. During the period from 1 January 2017 to 30 June 2022, the Group has performed construction services and equipment operation services to certain projects of several real estate developers in the PRC, and generate an aggregate revenue of approximately RMB344.1 million. As at 30 June 2022, the gross carrying amount of trade receivables, bills receivable and contract assets in respect of these projects was approximately RMB118.3 million. The Board are aware of a series of negative news and announcements over the financial conditions of these real estate developers. In this regard, and taking into account the recent repayment records, the Board decided to make individual loss allowance of approximately RMB118.3 million on the trade receivables, bills receivable and contract assets of the construction projects related to these real estate developers as at 30 June 2022 (31 December 2021: RMB83.7 million).

As at 30 June 2022, the accumulated individual loss allowance was RMB118.9 million (31 December 2021: RMB84.3 million) with the carrying amounts before loss allowance of RMB118.9 million (31 December 2021: RMB96.7 million).

To reduce the exposure of credit risk, the Group has ceased tendering for construction project with these real estate developers, and has taken legal actions against certain subsidiaries of certain of the real estate developers to recover the remaining balances.

The following table (as disclosed in note 13) sets out the movement in the loss allowance account in respect of trade receivables, bills receivable and contract assets during the period:

	Six months ended 30 June	
	2022	2021
	RMB'000	<i>RMB'000</i>
Balance at 1 January	301,999	163,765
Amounts written off during the period	—	(15)
Impairment losses recognised in profit or loss during the period:		
— individual loss allowance	34,606	—
— loss allowance for ECLs	1,769	10,976
	338,374	174,726
Balance at 30 June	338,374	174,726

Factors, events and circumstances leading to the recognition of ECLs

The amount of impairment losses on assets arising from contracts with customers increased from approximately RMB10.9 million in the six months ended 30 June 2021 to approximately RMB36.4 million in the six months ended 30 June 2022, which was particularly due to that more individual loss allowance was made during the period.

Subsequent settlement in respect of trade receivables, bill receivable and contract assets

During the period from 1 July 2022 to 29 August 2022, there was settlement of the trade and bills receivables that amounted to approximately RMB142.3 million, which represented approximately 16.4% of the gross trade and bills receivables balance as at 30 June 2022. All of the subsequent settlements were in cash.

In particular, in respect of Customer A and Customer B, approximately RMB9.4 million and RMB107.7 million, representing approximately 2.1% and 98.9% of their respective gross trade and bills receivables balance as at 30 June 2022 was settled during the period from 1 July 2022 to 29 August 2022, respectively.

Measures taken by the Group in respect of the matter

After the Directors became aware of the increasing exposure of the Group to ECLs, when the Group entered into agreements with customers during the ordinary course of business, the Group has adopted a more prudent approach in tendering for new construction projects. The Group has established a credit risk management policy under which credit evaluations are performed on each of the customers. These evaluations focus on the customer's history of making payments and current ability to pay. The Group's customers are mainly real estate companies or main contractors in the PRC. Before tendering for contracts with new customers, the Group performed background check (e.g. shareholders' background) and credit assessment (e.g. financial information of publicly listed companies) to evaluate the creditworthiness of the new customers.

In addition, the Group has its debt collection policy, under which it is the responsibility of the finance and accounts department, the business administration department and the respective project management units to confirm and follow up the outstanding debts with the customers. The amounts of construction work performed are assessed and confirmed by the business administration department and respective project management units on a monthly basis. Taking into account the progress payment, if any, made by each of the individual customers, a written payment request and official invoice are issued to each customer to request for payment of the remaining balance. The business administration department and respective project management units will continue to follow up the outstanding debts. If the debt is outstanding for 90 days or more, the project manager of the relevant project management unit is advised for review and follow up. If payment is not received after 180 days past due, the following factors will be considered before proceeding with any legal action:

- financial position of the debtor;
- alternative to legal action;
- time and legal cost to recover the amount; and
- long-term relationship with the customer.

Finance costs

Our finance costs mainly represented (i) interests on bank loans and other borrowings; (ii) interest on acquisition of equipment by instalments; and (iii) finance charges on sale and leaseback transactions.

Our finance costs decreased by RMB7.3 million from RMB19.2 million to RMB11.9 million for the six months ended 30 June 2022 when comparing with that for the six months ended 30 June 2021.

Income tax expenses

As a result of the recognition of deferred tax assets for credit loss allowances, the Group recognised income tax credit of approximately RMB3.6 million during the six months ended 30 June 2022 (six months ended 30 June 2021: income tax expenses of approximately RMB7.1 million).

On 7 January 2020, Jianzhong Construction Technology, an indirect wholly-owned subsidiary of the Company, obtained the state-level approval for its application of High-tech Enterprise qualification and was granted the qualification with effect from 2 December 2019. In accordance with the CIT Law, the High-tech Enterprise qualification will be valid for a period of three years from 2019 to 2021. Jianzhong Construction Technology has lodged application for the renewal of the High-tech Enterprise qualification and expected to obtain the approval by the end of 2022. Accordingly, Jianzhong Construction Technology is subject to PRC income tax at 15% for the six months ended 30 June 2022 on a provisional basis before the renewal of High-tech Enterprise qualification.

On 1 December 2020, Jianzhong Yantu, another indirect wholly-owned subsidiary of the Company, obtained the state-level approval for its application of High-tech Enterprise qualification and was granted the qualification with effect from 1 December 2020. In accordance with the CIT Law, the High-tech Enterprise qualification will be valid for a period of three years from 2020 to 2022 and entitles Jianzhong Yantu to a reduced tax rate at 15% during this period.

The Group's other subsidiaries in the PRC is subject to PRC statutory corporate income tax of 25%.

Loss for the period and loss per share

As a result of the foregoing, the Group incurred net loss for the period of approximately RMB36.8 million (six months ended 30 June 2021: net profit of approximately RMB44.2 million).

Basic and diluted loss per share for the six months ended 30 June 2022 were RMB0.06 (30 June 2021: earnings per share of RMB0.07).

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group maintained a solid financial position as at 30 June 2022. During the six months ended 30 June 2022, the Group's operation and capital requirements were financed principally through a combination of cash flows generated from the operating activities and bank and other borrowings. As at 30 June 2022, the Group had cash and cash equivalent of approximately RMB94.0 million (31 December 2021: approximately RMB93.0 million) in which approximately RMB1.2 million (31 December 2021: RMB0.1 million) equivalent cash were denominated in Hong Kong dollar. The remaining balance of cash and cash equivalent were denominated in Renminbi. As at 30 June 2022, the Group had net current asset of approximately RMB453.9 million, representing an decrease of approximately RMB18.2 million as compared to that of approximately RMB472.1 million as at 31 December 2021.

As at 30 June 2022, the gearing ratio of the Group, calculated based on the net debts (including interest-bearing loans and borrowings, and payables for acquisition of equipment by instalments, less cash and cash equivalents) divided by the equity as at the end of reporting period and multiplied by 100%, was approximately 34.2% (31 December 2021: approximately 40.6%).

All the Group's loans and borrowings were denominated in Renminbi. As of 30 June 2022, included in loans and borrowings and other payables of approximately RMB345.1 million were fixed rate borrowings (31 December 2021: approximately RMB368.3 million). Particulars of loans and borrowings of the Group are set out in note 12 to this results announcement.

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had capital commitments in respect of purchase of property, plant and equipment, which had been contracted but not provided for in the interim financial report, in the total amount of approximately RMB8.2 million (31 December 2021: approximately RMB12.4 million).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2022 (31 December 2021: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the Group has a total of 379 full-time employees (31 December 2021: 483). The Group has developed its human resources policies and procedures to determine the individual remuneration with reference to factors such as performance, qualification, responsibilities of each individual, market conditions, etc. Remuneration packages are normally reviewed on a regular basis. Apart from salary payments, other staff benefits including provident fund contributions, medical insurance coverage, annual leave and options which may be granted under the share option scheme adopted by the Company on 18 February 2020. The total staff costs (excluding Directors' remuneration) incurred by the Group during the six months ended 30 June 2022 was approximately RMB15.9 million (six months ended 30 June 2021: approximately RMB42.9 million).

FOREIGN EXCHANGE EXPOSURE

During the six months ended 30 June 2022 and 2021, the Group had a minimal exposure to foreign currency risk as most of its business transactions were conducted in the PRC in RMB. Moreover, the Group's assets and liabilities are principally denominated in RMB. As such, the Directors believe that the Group's risk in foreign exchange is insignificant.

PLEDGE OF ASSETS

As at 30 June 2022, the carrying amounts of the machinery and equipment pledged for the sale and leaseback transactions were RMB179.8 million (31 December 2021: RMB196.7 million); machinery and equipment of RMB143.9 million (31 December 2021: 147.2 million) was pledged as security of certain bank borrowings; and bank deposits of RMB25.5 million (31 December 2021: RMB52.2 million) were pledged to banks as security for bank loans and other borrowings, litigation and bills payable.

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

There were no significant investments held, material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2022.

DIVIDEND

The Board does not recommend any payment of dividend for the six months ended 30 June 2022.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining the highest standard of corporate governance as the Board recognises the importance of corporate governance to the long-term development of the Group. The corporate governance principles of the Group emphasis transparency, accountability and independence. The Board commits to continuously review and enhance the Group's corporate governance practices and procedures for the best interest of the Company's shareholders.

During the six months ended 30 June 2022, save as disclosed below in relation to Code Provision C.2.1 that the roles of Chairman and chief executive officer should be separate and should not be perform by the same individual, the Company has complied with all applicable code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**").

Chairman and Chief Executive Officer

Code Provision C.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Xun Minghong ("**Mr. Xun MH**") currently holds both positions. Mr. Xun MH is the founder of the Group. He has diversified knowledge and experience in the construction industry as well as a variety of business connection with a network of reputable construction enterprises and contractors in Fujian. The Board believes that vesting the roles of both Chairman of the Board and chief executive officer in the same person will provide strong and consistent leadership to the Company and allow the Company to be more effective and efficient in developing long term business strategies and execution of business plans that are in the best interests of the Company.

In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive Directors offering independent perspectives, the Board is of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board.

The Board will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries to each of the Director and all Directors have confirmed that they have fully complied with the required standard set out in the Model Code during the six months ended 30 June 2022.

REVIEW BY THE AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Board (the “**Audit Committee**”) comprises all the independent non-executive Directors, namely Mr. Sze Irons, Mr. Wong Kun Kau and Mr. Zhu Diwu. Mr. Wong Kun Kau currently serves as the chairman of the Audit Committee.

The interim results of the Group for the six months ended 30 June 2022 and this results announcement have been reviewed and approved by the Audit Committee. In addition, the interim financial report for the six months ended 30 June 2022 is unaudited, but has been reviewed by KPMG, the Company’s auditor, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange and the Company. The interim report of the Company for the six months ended 30 June 2022 will be dispatched to the shareholders and published on the above websites in due course.

By order of the Board
Jianzhong Construction Development Limited
Mr. Xun Minghong
Chairman and Chief Executive Officer

Fuzhou, PRC, 31 August 2022

As at the date of this announcement, the board of Directors of the Company comprises Mr. Xun Minghong, Mr. He Wenlin and Ms. Zheng Ping as Executive Directors; Mr. Yang Kaifa, Mr. Wang Wei and Mr. Xun Liangbao as Non-executive Directors; and Mr. Sze Irons, Mr. Wong Kun Kau and Mr. Zhu Diwu as Independent Non-executive Directors.