



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

Interim Report 2020





CONTENTS

Corporate Information	2
Financial Highlights	4
Management Discussion and Analysis	6
Corporate Governance and Other Information	18
Review Report of Interim Financial Report	26
Consolidated Statement of Profit or Loss	28
Consolidated Statement of Profit or Loss and Other Comprehensive Income	29
Consolidated Statement of Financial Position	30
Consolidated Statement of Changes in Equity	32
Condensed Consolidated Cash Flows Statement	34
Notes to the Interim Financial Report	35

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Xun Minghong (*Chairman*)
Mr. He Wenlin
Ms. Zheng Ping

Non-executive Directors

Mr. Yang Kaifa
Mr. Zeng Guohua
Mr. Xun Liangbao

Independent Non-executive Directors

Mr. Sze Irons, B.B.S., J.P.
Mr. Wong Kun Kau
Mr. Zhu Diwu

JOINT COMPANY SECRETARY

Mr. Chan Sun Kwong
Ms. Feng Rongmei
(resigned on 26 August 2020)
Mr. Ma Chun Kei
(appointed on 26 August 2020)

AUDIT COMMITTEE

Mr. Wong Kun Kau (*Chairman*)
Mr. Sze Irons, B.B.S., J.P.
Mr. Zhu Diwu

REMUNERATION COMMITTEE

Mr. Zhu Diwu (*Chairman*)
Mr. Wong Kun Kau
Mr. Sze Irons, B.B.S., J.P.
Mr. Xun Minghong

NOMINATION COMMITTEE

Mr. Sze Irons, B.B.S., J.P. (*Chairman*)
Mr. Wong Kun Kau
Mr. Zhu Diwu
Mr. Xun Minghong

RISK MANAGEMENT REVIEW COMMITTEE

Mr. Xun Minghong (*Chairman*)
Mr. Wong Kun Kau
Mr. Xun Liangbao
Mr. Ma Chun Kei

REGISTERED OFFICE

Suite #4-210, Governors Square
23 Lime Tree Bay Avenue
PO Box 32311, Grand Cayman
KYI-1209, Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

2002, Jinlan Building
No. 33 Zhaoqiang Road
Mawei District, Fuzhou City
Fujian Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANY ORDINANCE

Room No. 1818, 18/F
Beverly Commercial Centre
87-105 Chatham Road South
Tsim Sha Tsui
Kowloon
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Deacons

COMPLIANCE ADVISER

VMS Securities Limited

AUDITOR

KPMG

(Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)

PRINCIPAL BANKS

China Construction Bank

(Fuzhou City North Branch)

Xiamen International Bank

(Fuzhou Branch)

Quanzhou Bank Co., Ltd.

(Fuzhou City Taijiang Branch)

China Everbright Bank

(Fuzhou City Hudong Branch)

Industrial Bank Co., Ltd.

(Pilot Free Trade Zone,
Fuzhou City Branch)

Bank of China

(Fuzhou City Cangshan Branch)

CAYMAN ISLANDS PRINCIPAL SHARE REGISTERED AND TRANSFER OFFICE

Osiris International Cayman Limited

Suite #4-210, Governors Square

23 Lime Tree Bay Avenue

PO Box 32311, Grand Cayman

KYI-1209, Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

STOCK CODE

589

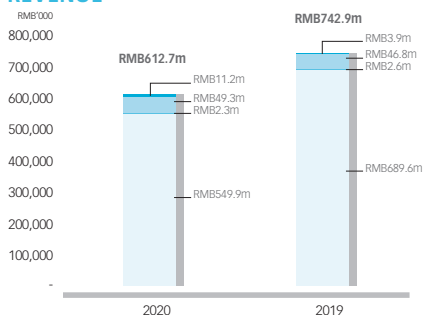
WEBSITE

www.fjjzkj.com

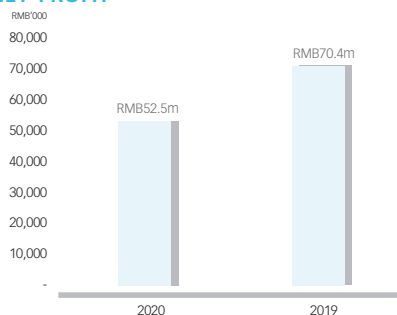
FINANCIAL HIGHLIGHTS

For the six months ended 30 June

REVENUE



NET PROFIT



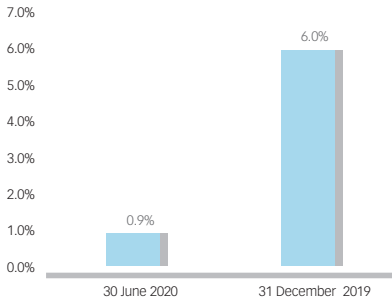
Construction service Sewage treatment operation Leasing of construction machinery, equipment and tools Others

GROSS PROFIT MARGINS

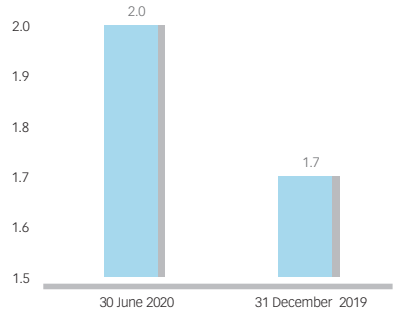
%	2020	2019
Foundation works	21.5	20.4
Formwork & scaffolding works	19.9	16.4
Construction of sewage treatment infrastructure	18.7	—
Other constructions	51.8	32.8
Construction Services	25.7	19.7
Leasing of construction machinery, equipment and tools	40.4	35.5
Sewage Treatment Operation	13.3	26.6
Others	6.5	33.2
Overall	26.5	20.8

KEY FINANCIAL RATIOS

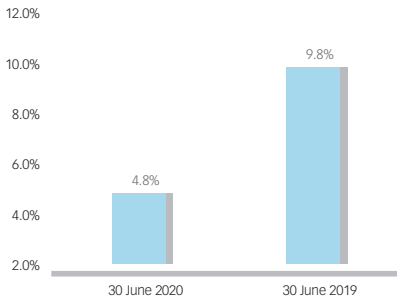
GEARING RATIO



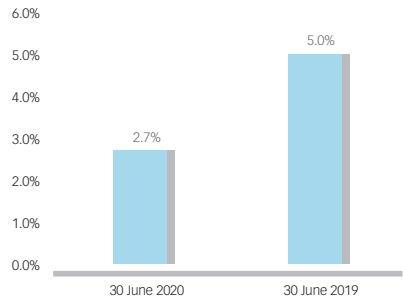
CURRENT RATIO



RETURN ON EQUITY



RETURN ON TOTAL ASSETS



Notes:

- 1) Gearing ratio is 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%.
- 2) Current ratio equals current assets divided by current liabilities.
- 3) Return on equity equals profit for the period divided by the closing balance of total equity and multiplied by 100%.
- 4) Return on total assets equals profit for the period divided by the closing balance of total assets and multiplied by 100%.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Jianzhong Construction Development Limited (the “Company”) and its subsidiaries (collectively the “Group”) is a leading construction services provider based in Fujian Province, the People’s Republic of China (the “PRC”) which is principally engaged in the provision of (i) foundation works; (ii) formwork and scaffolding works (including formwork and falsework design, manufacturing of scaffold and erection services); (iii) construction of sewage treatment infrastructure; and (iv) other construction works (mainly E&M engineering 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 operates a sewage treatment plant and engages in the sales of construction materials and equipment and others.

During the six months ended 30 June 2020, we have been awarded with 43 new construction projects with a total contract sum of approximately RMB489.9 million; and had completed 75 construction works projects with a total contract sum of approximately RMB979.4 million. As at 30 June 2020, the Group had 103 projects on hand (including projects in progress and projects which were awarded to us but have yet to commence) with an outstanding contract value to be completed of approximately RMB917.5 million.

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group’s operating environment and has impacted the Group’s operations and financial position. The Group has been closely monitoring the impact of the developments on the Group’s businesses and has put in place contingency measures. The Group will keep the contingency measures under review as the situation evolves. As far as the Group’s businesses are concerned, the progress of 60 construction projects have been impacted due to containment measures and restrictions taken by relevant government authorities, and the revenue from construction service for the six months ended 30 June 2020 decreased by 20.3% as compared to six months ended 30 June 2019.

PROSPECTS

The shares of the Company were successfully listed (the “Listing”) on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 18 March 2020 (the “Listing Date”). The board (the “Board”) of directors (the “Directors”) believes that the successful Listing marked a significant milestone for the Group and provided a readily accessible capital platform for the Group’s future development.

However, the operating environment of our Group remained challenging due to the prolonged outbreak of coronavirus, and to some extent it has impacted the liquidity position of the construction sector. In view of this, we will exercise due care in managing the existing core business, and continue to look for new business opportunities to bring value to our shareholders.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, major risks are summarised below:

i) **Non-recurrent nature of the projects**

The Group is principally engaged in the provision of construction works service. The construction services are offered on a project-by-project basis with no long-term commitment with any of the customers in this segment. Upon the completion of the ongoing construction works projects, the Group may not be engaged by the customer in subsequent construction works projects. As such, the revenue attributable to the construction works service is not recurring in nature.

In the event that the Group are unable to attract new customers or secure new construction works projects from existing customers, the Group’s revenue or profit may decrease significantly and this would adversely affecting the business, financial condition or results of operations of the Group.

ii) Fluctuation in cost of materials

Since the contract value of each of the construction projects are generally pre-determined when a project is awarded, any substantial increase in the material cost between the time of submission of a tender or quotation and the time when the relevant materials are purchased will substantially increase the material cost and may materially and adversely affect the profitability, results of operations and financial condition of the Group.

iii) Availability and performance of labour subcontractors

The Group has to engage a number of labour subcontractors to provide the Group with a large number of construction workers with different expertise and skill sets to carrying out the construction works. In the event that the labour market conditions result in shortage of labour or material increase in labour costs, the Group may need to offer more competitive labour subcontracting fees so as to attract and maintain a reliable supply of construction workers. Such events could impact the profitability and financial performance of the Group.

iv) Delays and/or defaults of progress payments by the customers

The Group generally receive payment from customers in stages based on the terms of the construction contracts. Significant portions of the operating costs, setting-up expenses associated with a project, including labour and material costs, at the initial stage of a project are incurred before any progress payment made by the customers. As a result, there may be periods during which the Group may experience net cash outflows for a particular project as well as on an overall basis. Therefore, the Group are constantly subject to credit and liquidity risks, which may materially and adversely affect the profitability, result of operations and financial position of the Group.

v) Macroeconomics in the PRC

Any adverse change in the economic condition in the PRC may directly or indirectly affect the demand for the services provided by the Group, and the business operations and financial condition may also be materially and adversely affected as a result.

Should there be an economic downturn or credit crisis in the PRC for any reason, the Group may not be able to borrow new funds, which in turn could materially and adversely affect the results of operations and financial condition of the Group. Moreover, apart from the access to funds, an economic downturn or credit crisis will also affect the liquidity of the customers. As a result, the recoverability of the Group's account receivables may be adversely affected.

SEGMENT INFORMATION

The Group's reportable and operating segments are as follows:

- i) Provision of construction service ("Construction service");
- ii) Provision of leasing services of construction machinery, equipment and tools ("Leasing of construction machinery, equipment and tools");
- iii) Provision of sewage treatment service ("Sewage treatment operation"); and
- iv) Sales of construction materials and equipment and others ("Others").

The Construction service segment continued to be the largest business segment of the Group in terms of revenue for the period under review. Construction services accounted for approximately 89.7% (six months ended 30 June 2019: 92.8%) of the total revenue. Among the sub-segments of the Construction service, the revenue from other construction reported a growth during the six months ended 30 June 2020. As at 30 June 2020, we had 103 projects on hand (including projects in progress and projects which were awarded to us but have yet to commence) with an outstanding contract value to be completed of approximately RMB917.5 million.

The income from other business segments remained stable during the period under review. Leasing of construction machinery, equipment and tools, Sewage treatment operation and Others accounted for approximately 8.0%, 0.4% and 1.8%, respectively, of the total revenue for the period under review (six months ended 30 June 2019: 6.3%, 0.3% and 0.5%).

In respect of the Sewage treatment operation, the supplemental sewage treatment infrastructure agreement was officially signed on 23 July 2020. The Directors are of the view that the sewage treatment operation business is beneficial to the Group's development.

Details of the segmental information of the Group is disclosed in note 2 to the interim financial report.

FINANCIAL REVIEW

Revenue

The overall revenue of the Group has decreased by approximately 17.5% as compared to the same period in 2019, from approximately RMB742.9 million to approximately RMB612.7 million. The overall decrease was mainly attributable to the delay in progress of our construction projects due to the outbreak of coronavirus.

Revenue from Construction services amounted to approximately RMB549.9 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB689.6 million), representing a decrease of approximately 20.3% as compared to the same period in 2019. Our Construction service mainly covers foundation works, which accounted for approximately 64.7% (six months ended 30 June 2019: 53.4%) of the total revenue. To complement our foundation works service, we also provide a wide spectrum of other construction services including formwork and scaffolding works, construction of sewage treatment infrastructure, and E&M engineering works.

Revenue from Leasing of construction machinery, equipment and tools and Sewage treatment operation remained stable during the six months ended 30 June 2020 as compared to the same period in 2019.

Cost of sales

Cost of sales mainly comprises of material cost, labour subcontracting fee, depreciation and others. During the six months ended 30 June 2020, the overall cost of sales has decreased by approximately 23.5% as compared to the same period in 2019, from approximately RMB588.3 million to approximately RMB450.2 million. The overall decrease in cost of sales was in line with the decrease in our turnover.

Gross profit and gross profit margin

Set out below is the breakdown of the gross profit and gross profit margins of our Group by business segment and work type during the period under review and the same period in 2019:

	Six months period ended			
	2020		2019	
	RMB'000	GP %	RMB'000	GP %
Foundation works	85,340	21.5	80,797	20.4
Formwork and scaffolding works	13,301	19.9	40,997	16.4
Construction of sewage treatment infrastructure	1,191	18.7	—	—
Other constructions	41,702	51.8	14,215	32.8
Construction services	141,534	25.7	136,009	19.7
Leasing of construction machinery, equipment and tools	19,919	40.4	16,631	35.5
Sewage treatment operation	306	13.3	683	26.6
Others	727	6.5	1,303	33.2
	162,486	26.5	154,626	20.8

The fluctuation of the gross profit margin is generally affected by (i) the change in income mix; and (ii) the variation of construction progress during the period under review.

We recorded a rise of 5.7 percentage points of overall gross profit margin from 20.8% during the six months ended 30 June 2019 to 26.5% during the six months ended 30 June 2020. The rise of the gross profit margin was mainly due to the increase in the gross profit of a sub-segment, other constructions (mainly E&M engineering works), from approximately RMB14.2 million for the six months ended 30 June 2019 to approximately RMB41.7 million for the six months ended 30 June 2020.

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 2020, the other net income has increased from approximately RMB2.4 million to approximately RMB7.8 million, as compared to that of the same period in 2019. The increase in other net income was mainly attributable to the gain on disposal of certain property, plant and equipment during the period.

Administrative expenses

Our administrative expenses mainly include (i) research and development costs; (ii) salaries and other benefits; and (iii) listing expenses. The overall administrative expenses decreased by approximately 6.5% from RMB45.6 million for the six months ended 30 June 2019 to RMB42.6 million for the six months ended 30 June 2020. The decrease was mainly due to the treasury control on costs, in particular, research and development costs, in view of the decrease in income during the period.

Impairment losses on assets arising from contracts with customers

The impact of the coronavirus outbreak included delays in collection from customers. We have reviewed the current conditions as to delay of payments by its customers compared to historical data. Based on such review, the amount of impairment losses on assets arising from contracts with customers increased significantly from approximately RMB5.2 million in the same period in 2019 to approximately RMB54.5 million during the six months ended 30 June 2020.

Finance costs

Our finance costs mainly represented (i) interests on bank loans; and (ii) interest on acquisition of equipment by instalments. Our finance costs decreased by approximately 5.7% to approximately RMB6.9 million for the six months ended 30 June 2020 when comparing with that for the same period in 2019.

Income tax expenses

During the six months ended 30 June 2020, the income tax expenses has decreased by approximately 57.5%, as compared to that of the same period in 2019, from approximately RMB25.5 million in 2019 to approximately RMB10.9 million in 2020. The decrease in income tax expenses was mainly attributable to the different income tax rates applied to Fujian Jianzhong Construction Technology Co., Ltd (“Jianzhong Construction Technology”), one of our major operating subsidiary in the PRC, during the relevant period.

On 7 January 2020, Jianzhong Construction Technology has been granted with the High-tech Enterprise qualification with effect from 2 December 2019. In accordance with the PRC Corporate Income Tax Law, the High-tech Enterprise qualification will be valid for a period of three years from 2019 to 2021 and Jianzhong Construction Technology will be entitled to a reduced tax rate at 15% during this period.

All the other subsidiaries in the PRC are subject to standard corporate income tax rate of 25%.

Net profit

As a result of the foregoing, especially the impairment losses on assets from contracts with customers, the net profit for the year of the Group decreased by approximately RMB17.8 million, or approximately 25.4%, from approximately RMB70.4 million for the six months ended 30 June 2019 to approximately RMB52.5 million for the six months ended 30 June 2020.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group adopts prudent funding and treasury policies to ensure that the Group is well placed to take advantage of future growth opportunities. The Group has principally funded the liquidity and capital requirements through capital contributions from the shareholders, bank borrowings, cash generated from operating activities and proceeds from the Listing.

The shares of the Company were listed on the Main Board of the Stock Exchange on 18 March 2020 with an issue of 156,250,000 new shares. Gross proceeds from such issue amounted to HK\$257,813,000 before deducting underwriting fees, commissions and related expenses. The share capital of the Company only comprises ordinary shares. As at 30 June 2020, the Company had 625,000,000 shares in issue.

As at 30 June 2020, the Group had cash and cash equivalent of approximately RMB156.5 million (31 December 2019: approximately RMB103.0 million) in which approximately RMB17.8 million (31 December 2019: approximately RMB79,000) equivalent cash were denominated in Hong Kong dollar. The remaining balance of cash and cash equivalent were denominated in Renminbi. As at 30 June 2020, the Group had net current asset of approximately RMB719.6 million, representing an increase of approximately RMB267.4 million as compared to that of approximately RMB452.2 million as at 31 December 2019.

As at 30 June 2020, 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 0.9% (31 December 2019: approximately 6.0%).

All the Group's loans and borrowings were denominated in Renminbi. As of 30 June 2020, included in loans and borrowings and other payables of approximately RMB102,675,000 were fixed rate borrowings (31 December 2019: approximately RMB81,210,000). Particulars of loans and borrowings of the Group are set out in note 11 to the interim financial report.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group had capital commitments in respect of purchase of property, plant and equipment, which had been contracted but not provided for in the financial statements, in the total amount of approximately RMB48.0 million (31 December 2019: approximately RMB8.1 million).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2020 (31 December 2019: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group has a total of 430 full-time employees (30 June 2019: 453). 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 were 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 2020 was approximately RMB22.8 million (six months ended 30 June 2019: approximately RMB21.4 million).

FOREIGN EXCHANGE EXPOSURE

During the six months periods ended 30 June 2020 and 2019, 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 2020, bank deposits of RMB2,464,000 (31 December 2019: RMB2,727,000) were pledged to banks as security for bills payable.

As at 30 June 2020, the carrying amounts of the machinery and equipment pledged for the sale and leaseback transactions was nil (31 December 2019: RMB14,789,000).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES 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 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as those disclosed in the prospectus dated 29 February 2020 (the "Prospectus") or otherwise in this interim report, the Group currently has no other plan for material investments and capital assets.

DIVIDEND

The Board does not recommend any payment of dividend for the six months period ended 30 June 2020.

USE OF PROCEEDS

The shares of the Company were listed on the Stock Exchange on 18 March 2020. The actual net proceeds from the Listing, after deducting the listing-related expenses, were RMB182.7 million (the “Actual Net Proceeds”). The table below sets out an adjusted allocation as adjusted in the same manner and same proportions as shown in the Prospectus and the progress of the actual use of the Actual Net Proceeds as at 30 June 2020:

	Planned use of Actual Net Proceeds RMB'000	Actual use of Actual Net Proceeds from the Listing Date to 30 June 2020 RMB'000	Remaining balance of Actual Net Proceeds RMB'000	Expected timeline of utilisation of the remaining net proceeds
1) to fund construction projects	127,892	(51,215)	76,677	On or before December 2020
2) to expand fleet of construction machinery and equipment	36,541	(5,715)	30,826	On or before December 2020
3) for working capital and general corporate purposes	18,270	(18,123)	147	On or before August 2020
	<u>182,703</u>	<u>(75,053)</u>	<u>107,650</u>	

The prolonged coronavirus outbreak led to delay in the progress of our construction projects. Hence, the progress of the actual use of the Actual Net Proceeds as at 30 June 2020 in relation to fund construction projects and expand fleet of construction machinery and equipment was slower than planned. Save for the above, the utilisation of the Actual Net Proceeds as at 30 June 2020 is consistent with proposed allocation in the Prospectus. The remaining balance of Actual Net Proceeds is intended to be utilised in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” in the Prospectus and the adjusted expected timeline as stated above.



CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

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 2020 and up to the date of this report, save as disclosed below in relation to Code Provision A.2.1 that the roles of Chairman and chief executive officer should be separate and should not be performed 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.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.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 TRANSACTIONS 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 2020.

BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group’s overall strategies, the setting of management targets and supervision of management performance. Some functions including the monitoring and approval of material transactions, matters involving a conflict of interest for a substantial shareholder or Director of the Company, the approval of interim and annual results, declaration of interim dividends and proposal of final dividends and other disclosures to the public or regulators are reserved by the Board for consideration and approval. Matters not specifically reserved to the Board and necessary for the daily management and operation of the Company are delegated to the executive Directors and the management of the Company.

Composition

The Board of Directors consists of three Executive Directors, three Non-executive Directors and three Independent Non-executive Directors.

In compliance with the requirements set out in Rule 3.10(2) of the Listing Rules, the Board consists of three Independent Non-executive Directors, one of them, namely Mr. Wong Kun Kau, possesses of appropriate professional qualifications or accounting or related financial management expertise. After the Listing and up to the date of this report, the number of Independent Non-executive Directors represents at least one-third of the Board which is in compliance with Rule 3.10A. As such, the Company believes that there is a sufficient independence element in the Board to safeguard the interests of the shareholders of the Company.

AUDIT COMMITTEE

The Company has established an Audit Committee on 18 February 2020 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, Mr. Wong Kun Kau, Mr. Zhu Diwu and Mr. Sze Irons B.B.S., JP. Mr. Wong Kun Kau is the chairman of the Audit Committee.

SHARE OPTIONS SCHEME

The Company has adopted the Share Option Scheme on 18 February 2020. No share option has been granted, exercised, expired, cancelled or lapsed under the share option scheme since its adoption date and up to the date of this interim report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares.

EVENTS AFTER THE END OF THE REPORTING PERIOD

In July 2020, Jianzhong Construction Technology entered into a credit line agreement with Industrial Bank Co., Ltd., pursuant to which Jianzhong Construction Technology was granted bank facilities of up to RMB150,000,000. Such bank facilities were guaranteed by the Company, the controlling shareholder of the Company and an independent property developer with a guarantee fee based on the drawdown amount.

DISCLOSURE OF INTERESTS

Directors' Interest in the Company and Associated Corporation

As at 30 June 2020, interests or short positions the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required (i) pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or (ii) pursuant to Model Code contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in ordinary shares of the Company

Name of Director	Capacity/Nature of Interest	Number of ordinary shares held/interested	Percentage of shareholding*
Mr. Xun MH	Interest in a controlled corporation ⁽¹⁾	318,984,375	51.04%
Mr. Xun LB	Interest in a controlled corporation ⁽²⁾	46,828,125	7.49%

Notes:

- The Company is directly held as to 299,156,250 shares and 19,828,125 shares by MHX Investment Limited ("MHX Investment BVI") and JingH Investment Limited ("JingH Investment BVI"), respectively. MHX Investment BVI is wholly-owned by Mr. Xun MH. JingH Investment BVI is owned as to 36.99% by Mr. Xun MH. Mr. Xun MH is deemed to be interested in the aggregate number of shares that are held by MHX Investment BVI and JingH Investment BVI under the SFO.

2. The Company is directly held as to 46,828,125 shares by Furi Investment Limited (“Furi Investment BVI”). Furi Investment BVI is owned as to 42.01% by Mr. Xun LB. Mr. Xun LB is deemed to be interested in the number of Shares that are held by Furi Investment BVI under the SFO.

- * The percentage represents the number of shares of the Company interested divided by the number of the Company’s issued shares as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in Shares in the Company other than Director

As at 30 June 2020, so far as our Directors or chief executive of our Company are aware, the following persons (other than a Director or chief executive of the Company) had interests or a short positions in shares or underlying shares of the Company, as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Name of Shareholder	Capacity/ Nature of Interest	Number of ordinary shares held/ interested	Percentage of shareholding*
MHX Investment BVI	Beneficial owner ⁽¹⁾	299,156,250	47.87%
Ms. Song Dongling	Interest of spouse ⁽¹⁾	318,984,375	51.04%
CV Construction Capital Limited	Beneficial owner ⁽²⁾	102,937,500	16.47%
Conch Venture Development Limited	Interest in a controlled corporation ⁽²⁾	102,937,500	16.47%
Yijiang International Limited	Interest in a controlled corporation ⁽²⁾	102,937,500	16.47%
Shanghai Yijiang Investment Limited	Interest in a controlled corporation ⁽²⁾	102,937,500	16.47%
Anhui Conch Venture Investment	Interest in a controlled corporation ⁽²⁾	102,937,500	16.47%
Furi Investment BVI	Beneficial owner ⁽³⁾	46,828,125	7.49%
Ms. Leng Yan	Interest of spouse ⁽³⁾	46,828,125	7.49%

Notes:

1. The Company is directly held as to 299,156,250 shares and 19,828,125 shares by MHX Investment BVI and JingH Investment BVI, respectively. MHX Investment BVI is wholly-owned by Mr. Xun MH. JingH Investment BVI is owned as to 36.99% by Mr. Xun MH. Mr. Xun MH is deemed to be interested in the same number of shares that are held by MHX Investment BVI and JingH Investment BVI under the SFO. Ms. Song Dongling is the spouse of Mr. Xun MH and is therefore deemed to be interested in the same number of shares in which Mr. Xun MH is interested under the SFO.
 2. The Company is directly held as to 102,937,500 shares by CV Construction Capital Limited ("CV Construction BVI"). CV Construction BVI is wholly-owned by Conch Venture Development Limited ("Conch Venture Development"). Conch Venture Development is wholly-owned by Yijiang International Limited. Yijiang International Limited is wholly-owned by Shanghai Yijiang Investment Limited, which in turn is wholly-owned by Anhui Conch Venture Investment. Accordingly, each of Conch Venture Development, Yijiang International Limited, Shanghai Yijiang Investment Limited and Anhui Conch Venture Investment is deemed to be interested in the same number of shares that are held by CV Construction BVI under the SFO.
 3. The Company is directly held as to 46,828,125 shares by Furi Investment BVI. Furi Investment BVI is owned as to 42.01% by Mr. Xun LB. Mr. Xun LB is deemed to be interested in the number of shares that are held by Furi Investment BVI under the SFO. Ms. Leng Yan is the spouse of Mr. Xun LB and is therefore deemed to be interested in the same number of shares in which Mr. Xun LB is interested under the SFO.
- * The percentage represents the number of shares of the Company interested divided by the number of the Company's issued shares as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, no person, other than the Directors, whose interests are set out in the section headed "Directors' Interest in the Company and Associated Corporation" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company. It has also been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on pages 26 to 27.

REVIEW REPORT OF INTERIM FINANCIAL REPORT



**Review report to the Board of Directors of
Jianzhong Construction Development Limited**
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 28 to 60 which comprises the consolidated statement of financial position of Jianzhong Construction Development Limited (the “Company”) and its subsidiaries (together the “Group”) as of 30 June 2020 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020 — unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Revenue	2	612,706	742,891
Cost of sales		(450,220)	(588,265)
Gross profit		162,486	154,626
Other net income	3	7,838	2,401
Administrative expenses		(42,613)	(45,562)
Impairment losses on assets arising from contracts with customers	13	(54,494)	(5,183)
Other operating expenses		(2,908)	(3,030)
Profit from operations		70,309	103,252
Finance costs	4(a)	(6,902)	(7,321)
Profit before taxation	4	63,407	95,931
Income tax	5	(10,865)	(25,545)
Profit for the period		52,542	70,386
Earnings per share	6		
Basic and diluted (RMB)		0.09	0.15

The notes on pages 35 to 60 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in Note 12(a).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 — unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Profit for the period	52,542	70,386
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	(153)	—
Other comprehensive income for the period	(153)	—
Total comprehensive income for the period	52,389	70,386

The notes on pages 35 to 60 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 — unaudited

(Expressed in Renminbi)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	7	391,090	397,232
Intangible assets		657	702
Receivables under service concession arrangement	9	31,055	32,909
Deferred tax assets		8,921	4,031
Other non-current assets		6,299	10,724
		438,022	445,598
Current assets			
Inventories		33,280	26,561
Contract assets		489,324	490,201
Trade and other receivables	8	772,514	476,509
Receivables under service concession arrangement	9	21,238	17,436
Restricted bank balances		2,464	2,727
Cash and cash equivalents		156,466	102,968
		1,475,286	1,116,402
Current liabilities			
Trade and other payables	10	664,170	581,359
Contract liabilities		8,432	13,322
Loans and borrowings	11	58,261	57,256
Current taxation		24,811	12,238
		755,674	664,175
Net current assets		719,612	452,227
Total assets less current liabilities		1,157,634	897,825

Consolidated Statement of Financial Position

*At 30 June 2020 — unaudited
(Expressed in Renminbi)*

	<i>Note</i>	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current liabilities			
Loans and borrowings	11	56,895	64,492
Other non-current liabilities		13,801	9,201
		70,696	73,693
NET ASSETS		1,086,938	824,132
CAPITAL AND RESERVES			
Share capital	12(b)	5,671	—*
Reserves		1,081,267	824,132
TOTAL EQUITY		1,086,938	824,132

* The balance represents an amount less than RMB1,000.

The notes on pages 35 to 60 form part of these financial statements.

Approved and authorised for issue by the board of directors on 26 August 2020.

Xun Minghong
Director

He Wenlin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 — unaudited

(Expressed in Renminbi)

	Share capital	Capital reserve	Statutory reserve	Special reserve	Exchange reserve	Other reserve	Retained profits	Total
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2019	148,000	184,825	23,768	6,903	—	—	193,492	556,988
Changes in equity for the six months ended 30 June 2019:								
Profit for the period	—	—	—	—	—	—	70,386	70,386
Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	—	70,386	70,386
Transfer to special reserve	—	—	—	2,309	—	—	(2,309)	—
Capital injection from equity shareholders	20,450	71,575	—	—	—	—	—	92,025
Issuance of new shares	12(b) —*	—	—	—	—	—	—	—*
Elimination of capital upon reorganisation	(168,450)	—	—	—	—	164,325	—	(4,125)
Balance at 30 June 2019 and 1 July 2019	—*	256,400	23,768	9,212	—	164,325	261,569	715,274
Changes in equity for the six months ended 31 December 2019:								
Profit for the period	—	—	—	—	—	—	108,854	108,854
Other comprehensive income	—	—	—	—	4	—	—	4
Total comprehensive income	—	—	—	—	4	—	108,854	108,858
Appropriation to statutory reserve	—	—	21,296	—	—	—	(21,296)	—
Transfer to special reserve	—	—	—	2,524	—	—	(2,524)	—
Balance at 31 December 2019	—*	256,400	45,064	11,736	4	164,325	346,603	824,132

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020 — unaudited

(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Special reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 31 December 2019 and 1 January 2020		—*	—	256,400	45,064	11,736	4	164,325	346,603	824,132
Changes in equity for the six months ended 30 June 2020:										
Profit for the period		—	—	—	—	—	—	—	52,542	52,542
Other comprehensive income		—	—	—	—	—	(153)	—	—	(153)
Total comprehensive income		—	—	—	—	—	(153)	—	52,542	52,389
Transfer to special reserve		—	—	—	—	3,044	—	—	(3,044)	—
Capitalisation issue	12(b)	4,246	(4,246)	—	—	—	—	—	—	—
Issuance of ordinary shares upon initial public offering, net of listing expenses	12(b)	1,425	208,992	—	—	—	—	—	—	210,417
Balance at 30 June 2020		5,671	204,746	256,400	45,064	14,780	(149)	164,325	396,101	1,086,938

* The balances represent amounts less than RMB1,000.

The notes on pages 35 to 60 form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020 — unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Operating activities		
Cash used in operations	(104,363)	(57,833)
Income tax paid	(3,182)	(2,876)
Net cash used in operating activities	(107,545)	(60,709)
Investing activities		
Payment for the purchase of property, plant and equipment	(40,264)	(77,515)
Proceeds from disposal of property, plant and equipment	4,779	2,032
Net cash used in investing activities	(35,485)	(75,483)
Financing activities		
Proceeds from new bank loans	6,000	25,000
Repayment of bank loans	(7,420)	(20,317)
Payments of lease liabilities	(636)	(134)
Payment for acquisition of equipment by instalments	(9,135)	(16,335)
Payments for capital element of obligations arising from sale and leaseback transactions	(2,411)	(4,694)
Interests paid	(6,256)	(6,667)
Capital injections from equity shareholders	—	92,025
Gross proceeds from initial public offering	235,041	—
Payment of listing expenses	(18,655)	(1,102)
Transactions with shareholders during the reorganisation	—	(3,219)
Advances from related parties	—	25,252
Repayments to related parties	—	(37,400)
Net cash generated from financing activities	196,528	52,409
Net increase/(decrease) in cash and cash equivalents	53,498	(83,783)
Cash and cash equivalents at 1 January	102,968	93,772
Cash and cash equivalents at 30 June	156,466	9,989

The notes on pages 35 to 60 form part of these financial statements.

NOTES TO THE 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 on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 26 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 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 Jianzhong Construction Development Limited (the “Company”) and its subsidiaries (together the “Group”) since the 2019 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 HKFRSs.

1 BASIS OF PREPARATION (CONTINUED)

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. KPMG's independent review report to the Board of Directors is included on pages 26–27.

The financial information relating to the financial year ended 31 December 2019 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 26 March 2020.

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	
	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Revenue from construction service	549,870	689,573
— Revenue from sewage treatment service	2,297	2,569
— Others*	11,245	3,923
	563,412	696,065
Revenue from other sources		
— Revenue from leasing of construction machinery, equipment and tools	49,294	46,826
	612,706	742,891

* Others mainly represented sales of construction materials and equipment.

2 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (Continued)

(i) Disaggregation of revenue (Continued)

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Disaggregated by timing of revenue recognition		
— Over time	601,461	738,968
— Point in time	11,245	3,923
Total	612,706	742,891

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Customer A	336,128	481,345
Customer B	61,722	N/A*

* Less than 10% of the Group's revenue for the period.

2 REVENUE AND SEGMENT REPORTING (CONTINUED)

(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 ("Leasing of construction machinery, equipment and tools");
- Provision of sewage treatment service ("Sewage treatment operation"); and
- Sales of construction materials and equipment 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, Leasing of construction machinery, equipment and tools, Sewage treatment operation and Others.

(Expressed in Renminbi unless otherwise indicated)

2 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

	Construction service RMB'000	Leasing of construction machinery, equipment and tools RMB'000	Sewage treatment operation RMB'000	Others RMB'000	Total RMB'000
For the six months ended 30 June 2020					
Revenue	549,870	49,294	2,297	11,245	612,706
Cost of sales	(408,336)	(29,375)	(1,991)	(10,518)	(450,220)
Reportable segment gross profits	<u>141,534</u>	<u>19,919</u>	<u>306</u>	<u>727</u>	<u>162,486</u>
For the six months ended 30 June 2019					
Revenue	689,573	46,826	2,569	3,923	742,891
Cost of sales	(553,564)	(30,195)	(1,886)	(2,620)	(588,265)
Reportable segment gross profits	<u>136,009</u>	<u>16,631</u>	<u>683</u>	<u>1,303</u>	<u>154,626</u>

Substantially all of the Group's revenue were arising from mainland China. The Group does not allocate any specific assets or expenditure for property, plant and equipment to the operating segments as the Group's senior executive management does not use the information to measure the performance of the reportable segments.

3 OTHER NET INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Interest income	1,912	881
Government grants*	1,335	785
Gain on disposal of property, plant and equipment	3,897	735
Others	694	—
	7,838	2,401

- * Government grants mainly represented reward for listing and subsidies for the costs incurred by the Group in conducting research and development activities. There were no unfulfilled conditions relating to the grants.

Notes to the Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
(a) Finance costs		
Interest on bank loans	4,597	4,665
Interest on lease liabilities	27	109
Finance charges on sale and leaseback transactions	184	579
Interest on acquisition of equipment by instalments	1,047	1,410
Other borrowing costs	1,047	558
	6,902	7,321

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	22,954	20,941
Contributions to defined contribution retirement benefit schemes	155	706
	23,109	21,647

4 PROFIT BEFORE TAXATION (CONTINUED)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
(c) Other items		
Depreciation		
— property plant and equipment owned	45,104	50,435
— right-of-use assets	493	1,149
	45,597	51,584
Amortisation of intangible assets	45	45
Expenses relating to short-term leases	11,345	29,743
Research and development costs	16,845	21,009
Labour subcontracting fee	160,893	230,597
Listing expenses	7,453	7,958

5 INCOME TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax	15,755	26,426
Deferred tax	(4,890)	(881)
	10,865	25,545

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and 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 2020 (six months ended 30 June 2019: 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 and entitles Jianzhong Construction Technology to a reduced tax rate at 15% during this period.

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholder of the Company of RMB52,542,000 (six months ended 30 June 2019: RMB70,386,000) and the weighted average of 558,894,000 ordinary shares (six months ended 30 June 2019: 468,750,000 shares) in issue as if the reorganisation and capitalisation issue had been effective throughout the periods presented), calculated as follows:

Weighted average number of ordinary shares

	2020 shares '000
Issued ordinary shares at 1 January	10
Capitalisation issue	468,740
Effect of issue of 156,250,000 ordinary shares upon initial public offering on 18 March 2020 <i>(Note 12(b)(ii))</i>	<u>90,144</u>
Weighted average number of ordinary shares at 30 June	<u><u>558,894</u></u>

Diluted earnings per share is equal to basic earnings per share as there were no dilutive potential shares outstanding for the six months ended 30 June 2020 and 2019.

(Expressed in Renminbi unless otherwise indicated)

7 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of plant and machinery with a cost of RMB59,560,000 (six months ended 30 June 2019: RMB49,093,000). Items of machinery and equipment with a net book value of RMB20,106,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB1,715,000), resulting in a gain on disposal of RMB3,897,000 (six months ended 30 June 2019: RMB735,000).

8 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 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 month	228,162	93,800
More than 1 month but within 3 months	175,130	106,109
More than 3 months but within 6 months	86,295	109,068
More than 6 months but within 12 months	157,190	100,055
More than 12 months	58,302	18,810
Trade and bills receivables, net of loss allowance	705,079	427,842
Prepayments to suppliers	30,050	29,010
Deposits, prepayments and other receivables	37,385	19,657
	772,514	476,509

8 TRADE AND OTHER RECEIVABLES (CONTINUED)

As part of its normal business, the Group has entered into certain factoring agreements with certain banks and factoring companies. As at 30 June 2020, outstanding trade receivables of RMB382,242,000 (31 December 2019: RMB556,249,000) 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 opinion that the substantial risks and rewards associated with the trade receivables have been transferred and therefore these receivables were qualified for derecognition.

As at 30 June 2020, outstanding commercial bills of RMB33,158,000 (31 December 2019: RMB52,477,000) 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 10).

Trade receivables are practically due within 90 or 180 days from the date of progress certificates.

9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENT

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current portion	31,055	32,909
Current portion	21,238	17,436
	52,293	50,345
Expected collection schedule is as follows:		
Within 1 year	21,238	17,436
After 1 year but within 5 years	14,405	14,478
After 5 years but within 10 years	16,650	17,326
After 10 years	—	1,105
	52,293	50,345

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

10 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/transaction date, is as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 month	95,151	78,095
More than 1 month but within 3 months	109,108	90,964
More than 3 months but within 6 months	110,493	99,036
More than 6 months but within 12 months	89,986	47,579
More than 12 months	50,429	42,984
Total creditors and bills payable	455,167	358,658
Payables to suppliers of property, plant and equipment	28,386	39,813
Payables for acquisition of equipment by instalments — current portion	37,508	21,471
Other payables and accruals	108,889	108,523
Obligation for bills endorsed with recourse	33,158	52,477
Interest payable	1,062	417
	664,170	581,359

Notes to the Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

11 LOANS AND BORROWINGS

		At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
	<i>Note</i>		
Non-current			
Bank loans — secured	(a)	56,669	64,089
Lease liabilities	(b)	226	403
		56,895	64,492
Current			
Bank loans — secured	(a)	57,121	51,121
Lease liabilities	(b)	1,140	1,599
Obligations arising from sale and lease back transactions	(c)	—	4,536
		58,261	57,256
Total		115,156	121,748

11 LOANS AND BORROWINGS (CONTINUED)**(a) Bank loans**

Bank loans were repayable as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Less than 1 year	57,121	51,121
1 to 2 years	56,669	64,089
	113,790	115,210

As at 30 June 2020, bank loans of RMB113,790,000 (31 December 2019: RMB115,210,000) were all secured by pledged properties of an independent property developer, among which bank loan of RMB50,000,000 (31 December 2019: RMB44,000,000) was also guaranteed by an indirect wholly-owned subsidiary of the Company.

11 LOANS AND BORROWINGS (CONTINUED)**(b) Lease liabilities****Maturity analysis — contractual undiscounted cash flows**

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Less than 1 year	1,195	1,649
1 to 2 years	233	375
2 to 5 years	—	45
Total undiscounted lease liabilities	1,428	2,069
Less: total future interest expenses	(62)	(67)
Lease liabilities included in the consolidated statements of financial position	1,366	2,002

Maturity analysis — present value of lease liabilities

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Less than 1 year	1,140	1,599
1 to 2 years	226	359
2 to 5 years	—	44
Present value of lease liabilities	1,366	2,002

11 LOANS AND BORROWINGS (CONTINUED)**(c) Obligations arising from sale and leaseback transactions**

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Less than 1 year	—	4,951
Total undiscounted obligations arising from sale and leaseback transactions	—	4,951
Less: total future interest expenses	—	(415)
Obligations arising from sale and leaseback transactions included in the consolidated statements of financial position	—	4,536

12 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board has resolved not to propose any dividend for the six months ended 30 June 2020 (2019: Nil).

(b) Share capital

Issued share capital

Issued and fully paid:	<i>Note</i>	Number of shares		
		'000	ordinary shares	
			HK\$'000	RMB'000
At 1 January 2020		10	—*	—*
Capitalisation issue	(i)	468,740	4,687	4,246
Issuance of ordinary shares upon initial public offering	(ii)	156,250	1,563	1,425
At 30 June 2020		625,000	6,250	5,671

* The balances represent amounts less than RMB1,000.

(i) Capitalisation issue

In accordance with the shareholders' resolution of the Company dated 18 February 2020, the Company allotted and issued 468,740,000 shares on 18 March 2020, credited as fully paid, at par to the shareholders whose names were on the register of member of the Company as of the close of business on 13 March 2020. This resolution was conditional on the share premium account being credited as a result of the Company's initial public offering and pursuant to the written resolution; the existing issued shares shall rank *pari passu* in all respects.

12 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Share capital (Continued)

Issued share capital (Continued)

(ii) Issuance of ordinary shares upon initial public offering

On 18 March 2020, the Company issued 156,250,000 shares with par value of HK\$0.01 each, at a price of HK\$1.65 per share by initial public offering. Net proceeds (after offsetting listing expenses of RMB24,624,000) from such issue amounted to RMB210,417,000, out of which RMB1,425,000 and RMB208,992,000 were recorded in share capital and share premium respectively.

(c) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

13 CREDIT RISK

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 63.2% (31 December 2019: 62.2%) and 79.6% (31 December 2019: 85.2%) of the total trade receivables and contract assets was due from the Group's largest customer and the five largest customers respectively.

Trade receivables are practically due within 90 or 180 days from the issuance of progress certificates. Normally, the Group does not obtain collateral from customers.

*(Expressed in Renminbi unless otherwise indicated)***13 CREDIT RISK (CONTINUED)**

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime 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 following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets:

	30 June 2020		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	6.1	1,047,886	(63,749)
Less than 12 months past due	13.8	229,575	(31,744)
More than 12 months past due	38.6	17,543	(6,778)
		1,295,004	(102,271)
	31 December 2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	3.5	816,746	(28,913)
Less than 12 months past due	12.1	143,505	(17,345)
More than 12 months past due	33.8	6,115	(2,065)
		966,366	(48,323)

13 CREDIT RISK (CONTINUED)

In addition to above provision matrix, the Group has made individual loss allowance for a customer. As at 30 June 2020, the accumulated individual loss allowance was RMB686,000 (31 December 2019: RMB686,000) with the carrying amounts before loss allowance of RMB686,000 (31 December 2019: RMB686,000).

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, and contract assets.

For receivables under service concession arrangement as at 30 June 2020, the Group made loss allowances of approximately RMB546,000 (31 December 2019: nil), based on expected cash short falls calculated by discounting using the corresponding effective interest rate.

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Balance at 1 January	49,009	28,201
Impairment losses recognised during the period	54,494	5,183
Balance at 30 June	103,503	33,384

14 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for in the financial statements were as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Contracted for	48,000	8,110

15 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Short-term employee benefits	1,358	522
Contributions to retirement benefit scheme	9	10
	1,367	532

Total remuneration is included in "staff costs" (see Note 4(b)).

15 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other transactions with related parties

For the six months ended 30 June 2020, the Group provided construction service to an entity controlled by the controlling shareholder. Revenue generated from such service during the period was RMB729,000 (six months ended 30 June 2019: RMB2,363,000).

For the six months ended 30 June 2020, the Group had short-term leases of factory and office premise from two related companies. The aggregate rental expenses incurred during the period amounted to RMB2,323,000 (six months ended 30 June 2019: RMB824,000).

Save as disclosed above, the Group did not have any other material transactions with related parties during the period.

16 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

In July 2020, Jianzhong Construction Technology entered into a credit line agreement with Industrial Bank Co., Ltd., pursuant to which Jianzhong Construction Technology was granted bank facilities of up to RMB150,000,000. Such bank facilities were guaranteed by the Company, the controlling shareholder of the Company and an independent property developer with a guarantee fee based on the drawdown amount.

17 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include: negotiating with major customers, suppliers and subcontractors about the arrangements for resumption of construction works and cutting unnecessary operating expenses. The Group will keep the contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, the progress of 60 construction projects have been impacted due to containment measures and restrictions taken by relevant government authorities, and the revenue from construction service for the six months ended 30 June 2020 decreased by 20.3% as compared to six months ended 30 June 2019.

The impact of the COVID-19 pandemic on the Group's expected credit losses was mainly reflected in the delays in collection from customers. The Group reviewed the current conditions as to delay of payments by its customers compared to historical data. Based on such review, the loss allowance for expected credit losses as at 30 June 2020 increased significantly as compared to 31 December 2019.