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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)

PROFIT WARNING

This announcement is made by Jianzhong Construction Development Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Reference is made to the profit warning announcement of the Company dated 15 November 2021. The board (the "**Board**") of directors (the "**Directors**") of the Company wishes to update the shareholders (the "**Shareholders**") and potential investors of the Company that, based on the preliminary review by the Board of the unaudited consolidated management accounts of the Group for the year ended 31 December 2021, which have not been reviewed or audited by the independent auditors and/or audit committee of the Company, and the information currently available to the Board, the Board expects that the Group's net loss for the year ended 31 December 2021 is in a range from RMB80.0 million to RMB100.0 million (2020: net profit of approximately RMB59.8 million). The Board considers that the said expected net loss for the year ended 31 December 2021 was primarily attributable to:

i) the increase in individual loss allowance and expected credit losses ("ECLs") on trade receivables, bills receivable and contract assets

<u>Increase in individual loss allowance of certain real estate developers</u>

During the years ended 31 December 2017 to 2021, the Group has performed construction services and leasing of equipment services to certain projects of several real estate developers in the PRC, and generate an aggregate revenue of approximately RMB285.2 million. As at 31 December 2021, the gross carrying amount of trade receivables, bills receivable and contract assets in respect of these projects was approximately RMB96.0 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 RMB81.6 million on the trade receivables, bills receivable and contract assets of the construction projects related to these real estate developers as at 31 December 2021.

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 one of the real estate developers to recover the remaining balances.

Increase in loss allowance for ECLs

The amount of loss allowance for ECLs on assets arising from contracts with customers increased by approximately RMB68.7 million (2020: approximately RMB114.8 million) during the year ended 31 December 2021, which was primarily due to the following reasons:

— the increase in expected loss rate for trade receivables. The expected loss rate incorporated the historical observed default rates, and the trend of certain economic data. Considered the recently published news over the property market, and the continued decline in total sales (including January 2022 data) of the major property developers in the PRC, a higher expected loss rate for trade receivables was adopted as at 31 December 2021, to reflect the weakened liquidity conditions of the property developers; and

— more long-aged trade and bills receivables were recorded as at 31 December 2021 as compared to that as at 31 December 2020, the balance of more than 12 months past due increased from approximately RMB141.3 million as at 31 December 2020 to approximately RMB353.3 million as at 31 December 2021.

Based on the above, the total impairment losses on trade receivables and contract assets recognised in profit or loss during the year ended 31 December 2021 was approximately RMB150.3 million (2020: approximately RMB114.8 million), which comprise of the individual loss allowance of approximately RMB81.6 million (2020: nil) and the net increase in loss allowance for ECLs of approximately RMB68.7 million (2020: approximately RMB114.8 million) disclosed above.

ii) 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 year ended 31 December 2021, a relatively high portion of sub-contractor projects of the Group, as compared to the corresponding period in 2020, 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. Coupled with the general lower profit margin of main contractor business than sub-contractor business, it led to a lower overall gross profit margin.

However, the decrease in gross profit of construction service was partially offset by the increase in gross profit of leasing of construction machinery, equipment and tools, which shared a higher proportion of revenue during the year ended 31 December 2021, as compared to the corresponding period in 2020.

iii) the increase in research and development costs

The research and development costs mainly include staff costs and raw materials costs. The Group obtained a second class license of main contractor in general construction works in September 2020. To support the general construction works business, the Group has made more investments in research and development of new techniques to specifically cater for certain construction situations, which led to an increase in research and development costs during the year ended 31 December 2021.

iv) the increase in staff costs and finance costs

In order to balance the source of revenue, the Group has secured more main contractor works and leasing contracts during the year ended 31 December 2021. To support the expansion of these businesses, the Group has employed more staff and acquired additional construction machinery and equipment. As a result, more staff costs were incurred and the balance of loans and borrowings increased as at 31 December 2021 to finance the Group's operation and capital investment, as compared to the corresponding date of 2020, and thus more staff costs and finance costs were incurred during the year ended 31 December 2021.

The Company is in the process of preparing the annual results of the Group for the year ended 31 December 2021. The actual annual results of the Group for the year ended 31 December 2021 may differ from what is disclosed in this announcement.

Further announcement in respect of this matter will be made by the Company as when appropriate in accordance with the Listing Rules. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company and to read carefully the announcement of annual results of the Group for the year ended 31 December 2021, which is expected to be published in March 2022 in accordance with the requirements of the Listing Rules.

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

Fuzhou, 3 March 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.