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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the "**Board**") of directors (the "**Directors**") of Jianzhong Construction Development Limited (the "**Company**") wishes to announce the consolidated financial results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2021, together with the comparative figures for the corresponding year ended 31 December 2020.

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 10.6% from approximately RMB1,278.8 million for the year ended 31 December 2020 to approximately RMB1,142.9 million for the year ended 31 December 2021.
- Gross profit decreased by approximately 54.2% from approximately RMB288.4 million for the year ended 31 December 2020 to approximately RMB132.0 million for the year ended 31 December 2021. Gross profit margin decreased by approximately 11.0 percentage point from approximately 22.6% for the year ended 31 December 2020 to approximately 11.6% for the year ended 31 December 2021.
- Loss attributable to the equity holders of the Company for the year ended 31 December 2021 was approximately RMB94.0 million (2020: profit of approximately RMB59.8 million).
- Losses per share was approximately RMB0.15 for the year ended 31 December 2021 (2020: earnings of approximately RMB0.10 per share).
- The Board does not recommend any declaration and payment of final dividend for the year ended 31 December 2021 (2020: HK2.08 cents per share).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021

	Note	**2021** **RMB'000**	2020 *RMB'000*
Revenue	3	**1,142,936**	1,278,769
Cost of sales		**(1,010,923)**	(990,338)
Gross profit		**132,013**	288,431
Other net income	4	**51,207**	10,176
Administrative expenses		**(65,059)**	(55,299)
Research and development costs		**(62,889)**	(41,034)
Impairment losses on assets arising from contracts with customers	15	**(138,344)**	(114,767)
(Loss)/profit from operations		**(83,072)**	87,507
Finance costs	5(a)	**(34,898)**	(18,458)
(Loss)/profit before taxation	5	**(117,970)**	69,049
Income tax	6(a)	**24,012**	(9,299)
(Loss)/profit for the year		**(93,958)**	59,750
(Loss)/earnings per share	7		
Basic and diluted *(RMB)*		**(0.15)**	0.10

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021

	2021	2020
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(93,958)**	59,750
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside Mainland China	**(60)**	(1,122)
Other comprehensive income for the year	**(60)**	(1,122)
Total comprehensive (loss)/income for the year	**(94,018)**	58,628

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2021

	Note	**2021** **RMB'000**	2020 RMB'000
Non-current assets			
Property, plant and equipment		**625,515**	477,276
Intangible assets		**2,830**	3,618
Receivables under service concession arrangement	11	**25,407**	29,201
Deferred tax assets	14(b)	**31,795**	1,219
Other non-current assets		**36,141**	25,108
		721,688	536,422
Current assets			
Inventories		**17,277**	28,268
Contract assets	9(a)	**470,144**	581,612
Trade and other receivables	10	**781,493**	881,427
Prepayments		**35,872**	21,816
Receivables under service concession arrangement	11	**7,410**	6,448
Restricted bank balances		**52,197**	17,042
Cash and cash equivalents		**92,973**	200,884
		1,457,366	1,737,497
Current liabilities			
Trade and other payables	12	**716,648**	753,934
Contract liabilities	9(b)	**3,122**	5,720
Loans and borrowings	13	**256,557**	296,953
Current taxation	14(a)	**8,928**	9,190
		985,255	1,065,797
Net current assets		**472,111**	671,700

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2021

	Note	**2021**	2020
		RMB'000	*RMB'000*
Non-current liabilities			
Loans and borrowings	13	**185,971**	89,541
Deferred tax liabilities	14(b)	**—**	2,661
Other non-current liabilities		**19,318**	22,575
		205,289	114,777
NET ASSETS		**988,510**	1,093,345
CAPITAL AND RESERVES			
Share capital		**5,671**	5,671
Reserves		**982,839**	1,087,674
TOTAL EQUITY		**988,510**	1,093,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi, unless otherwise indicated)

1. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Company has consistently applied all applicable new and revised HKFRSs, which are effective for the accounting period beginning on 1 January 2021, throughout all the periods presented in the Group's financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries.

The Company was incorporated in the Cayman Islands on 5 February 2019 as an exempted company with limited liability under the Cayman Islands Companies Law CAP. 22. The Company is an investment holding company and has not carried on any business since the date of its incorporation. The Company's shares were listed on the Main Board on the Stock Exchange on 18 March 2020. The Group is principally engaged in the provision of construction service, leasing of construction machinery, equipment and tools, and provision of sewage treatment service in Mainland China.

The consolidated financial statements are presented in Renminbi ("**RMB**"), rounded to the nearest thousand. RMB is the functional currency and the reporting currency for the Company's subsidiaries established in the People's Republic of China (the "**PRC**"). The functional currency of the Company is Hong Kong Dollars. The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

3. 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

	2021	2020
	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	**854,773**	1,112,662
— Revenue from sewage treatment service	**5,170**	4,255
— Revenue from equipment operation service	**48,912**	—
— Others*	**39,150**	29,383
	948,005	1,146,300
Revenue from other sources		
— Revenue from leasing of construction machinery, equipment and tools	**194,931**	132,469
	1,142,936	1,278,769

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

	2021	2020
	RMB'000	*RMB'000*
Disaggregated by timing of revenue recognition		
— Over time	**1,103,786**	1,249,386
— Point in time	**39,150**	29,383
Total	**1,142,936**	1,278,769

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

	2021	2020
	RMB'000	*RMB'000*
Customer B	**411,255**	178,080
Customer A	**276,137**	700,646

Details of concentrations of credit risk arising from these customers are set out in Note 15.

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

As at 31 December 2021, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB242,165,000 (2020: RMB1,129,357,000). The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 36 months (2020: next 36 months).

The above amount also does not include any amounts of completion bonuses that the Group may earn in the future by meeting the conditions set out in the Group's construction contracts with customers, unless at the reporting date it is highly probable that the Group will satisfy the conditions for earning those bonuses.

(iii) Total future minimum lease payments receivable by the Group

As at 31 December 2021, total future minimum lease payments under non-cancellable operating leases in place will be receivable by the Group were RMB11,323,000 (2020: RMB3,749,000). All these lease payments were receivable within one year.

(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 ("**Leasing of construction machinery, equipment and tools**");

— 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, Leasing of construction machinery, equipment and tools, Sewage treatment operation and Others.

	Construction service *RMB'000*	**Leasing of construction machinery, equipment and tools** *RMB'000*	**Sewage treatment operation** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2021					
Revenue	**854,773**	**243,843**	**5,170**	**39,150**	**1,142,936**
Cost of sales	**(810,320)**	**(158,430)**	**(4,474)**	**(37,699)**	**(1,010,923)**
Reportable segment gross profits	**44,453**	**85,413**	**696**	**1,451**	**132,013**
Year ended 31 December 2020					
Revenue	1,112,662	132,469	4,255	29,383	1,278,769
Cost of sales	(878,481)	(81,280)	(3,897)	(26,680)	(990,338)
Reportable segment gross profits	234,181	51,189	358	2,703	288,431

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.

4. OTHER NET INCOME

	2021 *RMB'000*	2020 *RMB'000*
Interest income	**3,250**	2,870
Government grants*	**7,104**	3,825
Gain on disposal of property, plant and equipment	**40,555**	3,142
Others	**298**	339
	51,207	10,176

* Government grants mainly represented reward for listing and the obtaining of High-tech Enterprise qualification. There were no unfulfilled conditions relating to the grants.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2021 *RMB'000*	2020 *RMB'000*
Interest on bank loans and other borrowings	**22,389**	12,968
Interest on lease liabilities	**7**	35
Finance charges on sale and leaseback transactions	**4,505**	934
Interest on acquisition of equipment by instalments	**3,482**	3,080
Other borrowing costs	**4,515**	1,441
	34,898	18,458

(b) Staff costs (including directors' emoluments)

	2021 *RMB'000*	2020 *RMB'000*
Salaries, wages and other benefits	**88,551**	59,010
Contributions to defined contribution retirement benefit schemes	**2,302**	170
	90,853	59,180

(c) Other items

	2021	2020
	RMB'000	*RMB'000*
Depreciation		
— property, plant and equipment owned	**88,999**	88,946
— right-of-use assets	**340**	655
	89,339	89,601
Amortisation of intangible assets	**981**	384
Expenses relating to short-term leases	**20,542**	23,184
Auditors' remuneration	**3,380**	2,800
Labour subcontracting fee	**495,720**	449,700
Impairment loss on assets arising from contracts with customers	**138,344**	114,767
Listing expenses	**—**	6,948

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2021	2020
	RMB'000	*RMB'000*
Current tax — PRC Corporate Income Tax		
Provision for the year	**9,225**	3,826
Deferred tax — PRC Corporate Income Tax		
Origination and reversal of temporary differences	**(33,237)**	5,473
	(24,012)	9,299

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

	2021	2020
	RMB'000	*RMB'000*
(Loss)/profit before taxation	**(117,970)**	69,049
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the countries concerned	**(29,757)**	18,379
Tax effect of non-deductible expenses	**159**	912
Tax effect of super deduction for qualified research and development costs	**(8,365)**	(4,269)
Tax effect of unused tax losses not recognised	**98**	26
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**—**	(11)
Tax effect of PRC preferential tax treatments *(Note(iii))*	**13,853**	(5,738)
Actual tax (credit)/expense	**(24,012)**	9,299

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 year ended 31 December 2021 (2020: 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.

In December 2020, Fujian Jianzhong Yantu Engineering Co., Ltd. (originally named "Fujian Jinghai Engineering Service 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.

7. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share are calculated by dividing the loss for the year of the Company of RMB93,958,000 (2020: profit of RMB59,750,000) by the weighted average number of ordinary shares in issue during the year.

	2021 **shares** ***'000***	2020 shares *'000*
Issued ordinary shares at 1 January	**625,000**	10
Capitalisation issue	—	468,740
Effect of issue of 156,250,000 ordinary shares upon initial public offering on 18 March 2020	—	123,378
Weighted average number of ordinary shares at 31 December	**625,000**	592,128

Diluted (loss)/earnings per share is equal to basic (loss)/earnings per share as there were no dilutive potential shares outstanding for the years ended 31 December 2021 and 2020.

8. DIVIDENDS

No dividend was declared for the year ended 31 December 2021 (2020: HK2.08 cents per share).

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

	2021 ***RMB'000***	2020 *RMB'000*
Final dividend of HK2.08 cents per share (2020: Nil)	**10,817**	—

9. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2021	2020
	RMB'000	*RMB'000*
Arising from performance under construction contracts	**470,144**	581,612
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" *(Note 10)*	**524,645**	661,513

Contract assets primarily relate to the Group's rights to consideration for work completed but not yet reached the milestones for billing at the reporting date. The Group's construction contracts include payment schedules which require stage payments over the construction period once milestones are reached. The Group also typically agrees to a retention for 3% to 5% of the contract value. The retention period normally ranges from one to two years upon the completion of work. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection.

As at 31 December 2021, the amount of contract assets that was expected to be recovered after more than one year were RMB314,127,000 (31 December 2020: RMB216,390,000).

Contract assets are transferred to trade receivables when the rights become unconditional.

(b) Contract liabilities

	2021	2020
	RMB'000	*RMB'000*
Billings in advance for construction contracts	**2,523**	5,634
Sales deposits received	**599**	86
	3,122	5,720

Contract liabilities primarily relate to the consideration received from customers in advance, for which revenue is recognised based on the progress of the provision of related services.

For the year ended 31 December 2021, revenue recognised in the year that was included in the contract liabilities balance at the beginning of the year was RMB2,780,000 (2020: RMB10,344,000).

10. TRADE AND OTHER RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Trade receivables, net of loss allowance		
— third parties	**698,593**	769,360
— related parties	**—**	3,322
Bills receivable	**39,302**	64,623
Deposits and other receivables	**43,598**	44,122
	781,493	881,427

As at 31 December 2021, the amount of deposits expected to be recovered or recognised as expense after more than one year is RMB3,000,000 (31 December 2020: RMB3,201,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

As part of its normal business, the Group has entered into certain factoring agreements with certain banks and factoring companies. During the year ended 31 December 2021, trade receivables of RMB254,908,000 (2020: RMB46,914,000) 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.

As at 31 December 2021, outstanding commercial bills of RMB480,000 (31 December 2020: RMB18,499,000) 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 12).

Ageing analysis

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:

	2021	2020
	RMB'000	*RMB'000*
Within 1 month	**102,576**	130,223
More than 1 month but within 3 months	**127,496**	192,551
More than 3 months but within 6 months	**152,895**	179,168
More than 6 months but within 12 months	**118,601**	231,328
More than 12 months	**236,327**	104,035
	737,895	837,305

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 Group's credit policy and credit risk arising from trade receivables are set out in Note 15.

11. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENT

In January 2018, the Group entered into a service agreement to provide sewage treatment service in Changle District. Details of the Group's service concession arrangement for providing sewage treatment service are listed below:

Term of concession rights	Till 30 April 2030
Rights to use specific assets	All relevant sewage treatment infrastructure
Pricing	Initial sewage treatment unit tariff price is set out in the relevant service agreement. Non-routine review of sewage treatment unit tariff price is conducted upon change in production costs or additional capital expenditure incurred due to compliance with new environmental requirements
Minimum sewage treatment volume guaranteed	40,000 tonnes per day
Responsibilities	During the concession period, the Group shall: • Maintain the sewage treatment facilities and operation of sewage treatment • Monitor water quality • Disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures
Term of termination	Upon expiry of the concession period
Obligations to deliver specified assets at the end of the concession period	At the end of the concession period, the Group is obliged to deliver all the relevant sewage treatment infrastructure to the Grantor at nil consideration
Term of renewal	Not determined

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

	2021	2020
	RMB'000	*RMB'000*
Non-current portion	**25,407**	29,201
Current portion	**7,410**	6,448
	32,817	35,649
Expected collection schedule is as follows:		
Within 1 year	**7,410**	6,448
After 1 year but within 5 years	**14,164**	14,334
After 5 years but within 10 years	**11,243**	14,867
	32,817	35,649

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

12. TRADE AND OTHER PAYABLES

	2021	2020
	RMB'000	*RMB'000*
Trade payables		
— third parties	**392,770**	405,734
— related parties	**339**	—
Bills payable	**114,609**	127,677
Suppliers of property, plant and equipment	**50,215**	73,204
Value added tax and surcharges payables	**87,233**	86,377
Other payables and accruals	**67,028**	40,314
Obligation for bills endorsed with recourse	**480**	18,499
Interest payable	**3,974**	2,129
	716,648	753,934

As at 31 December 2021 and 2020, all the other trade and other payables are expected to be settled within one year or are repayable on demand.

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:

	2021 *RMB'000*	2020 *RMB'000*
Within 1 month	**60,821**	178,426
More than 1 month but within 3 months	**115,968**	99,529
More than 3 months but within 6 months	**135,951**	88,330
More than 6 months but within 12 months	**87,437**	62,392
More than 12 months	**107,541**	104,734
	507,718	533,411

13. LOANS AND BORROWINGS

	Note	2021 *RMB'000*	2020 *RMB'000*
Non-current			
Bank loans and other borrowings — secured	(a)	**84,610**	56,131
Lease liabilities	(b)	**277**	44
Obligations arising from sale and leaseback transactions	(c)	**101,084**	33,366
		185,971	89,541
Current			
Bank loans and other borrowings — secured	(a)	**207,098**	279,220
Lease liabilities	(b)	**88**	1,099
Obligations arising from sale and lease back transactions	(c)	**49,371**	16,634
		256,557	296,953
Total		**442,528**	386,494

(a) Bank loans and other borrowings

Bank loans and other borrowings were repayable as follows:

	2021	2020
	RMB'000	*RMB'000*
Less than 1 year	**207,098**	279,220
1 to 2 years	**40,896**	19,015
2 to 5 years	**43,714**	37,116
	291,708	335,351

Notes:

(i) As at 31 December 2021, bank loans of RMB75,270,000 (31 December 2020: RMB210,229,000) were all secured by pledged properties, among which bank loan of RMB50,000,000 (31 December 2020: RMB50,000,000) was also guaranteed by an indirect wholly-owned subsidiary of the Company.

(ii) As at 31 December 2021, bank loans of RMB75,738,000 (31 December 2020: RMB75,165,000) were secured by pledged machinery and equipment of the Group with carrying values of approximately RMB147,159,000 (31 December 2020: RMB71,615,000).

(iii) 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. As at 31 December 2021, the borrowings of RMB40,700,000 and unused credit amount that are available for use of RMB9,300,000 were guaranteed by the controlling shareholder of the Company and the equipment supplier.

(iv) In December 2021, Jianzhong Construction Technology entered into a credit line agreement, pursuant to which Jianzhong Construction Technology was granted bank facilities of up to RMB150,000,000. Such banking facilities were guaranteed by the Company and the controlling shareholder of the Company. As at 31 December 2021, the undrawn bank facilities that are available for use was RMB50,000,000 (2020: RMB50,000,000).

(b) Lease liabilities

Maturity analysis-contractual undiscounted cash flows

	2021	2020
	RMB'000	*RMB'000*
Less than 1 year	**99**	1,125
1 to 2 years	**79**	45
2 to 5 years	**252**	—
Total undiscounted lease liabilities	**430**	1,170
Less: total future interest expenses	**(65)**	(27)
Lease liabilities included in the consolidated statements of financial position	**365**	1,143

Maturity analysis-present value of lease liabilities

	2021	2020
	RMB'000	*RMB'000*
Less than 1 year	**88**	1,099
1 to 2 years	**74**	44
2 to 5 years	**203**	—
Present value of lease liabilities	**365**	1,143

(c) Obligations arising from sale and leaseback transactions

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

	2021	2020
	RMB'000	*RMB'000*
Less than 1 year	**56,066**	18,707
1 to 2 years	**53,650**	17,970
2 to 5 years	**53,908**	17,173
Total undiscounted obligations arising from sale and leaseback transactions	**163,624**	53,850
Less: total future interest expenses	**(13,169)**	(3,850)
Obligations arising from sale and leaseback transactions included in the consolidated statements of financial position	**150,455**	50,000

As at 31 December 2021 and 2020, all obligations arising from sale and leaseback transactions were secured by underlying machinery and equipment with carrying values of RMB196,649,000 (31 December 2020: RMB92,585,000), and were guaranteed by the controlling shareholder of the Group.

14. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2021	2020
	RMB'000	*RMB'000*
PRC corporate income tax payable	**8,928**	9,190

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	**Credit loss allowances**	**Construction costs**	**Depreciation**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	7,483	7,125	(11,511)	934	4,031
Effect on deferred tax balances resulting from a change in tax rate *(Note 6(b))*	(120)	—	147	(16)	11
Credited/(charged) to profit or loss	17,773	(3,336)	(19,454)	(467)	(5,484)
At 31 December 2020 and 1 January 2021	25,136	3,789	(30,818)	451	(1,442)
Credited/(charged) to profit or loss	22,525	(4,100)	6,728	8,084	33,237
At 31 December 2021	**47,661**	**(311)**	**(24,090)**	**8,535**	**31,795**

(ii) Reconciliation to the consolidated statement of financial position

	2021	2020
	RMB'000	*RMB'000*
Net deferred tax asset/(liabilities) recognised in the consolidated statement of financial position	**31,795**	(1,442)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB394,000 (2020: RMB104,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses expire within five years under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2021, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in Mainland China amounted to RMB303,160,000 (2020: RMB421,930,000). Deferred tax liabilities were not recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries in Mainland China and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

15. 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, 17.7% (31 December 2020: 66.6%) and 77.9% (31 December 2020: 80.4%) 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:

	31 December 2021			
	Expected loss rate	**Gross carrying amount**	**Loss allowance**	**Carrying amount**
	%	***RMB'000***	***RMB'000***	***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**
		1,413,364	**(217,660)**	**1,195,704**

	31 December 2020			
	Expected loss rate	Gross carrying amount	Loss allowance	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*
Current (not past due)	7.1	626,374	(44,762)	581,612
Less than 12 months past due	10.0	814,365	(81,095)	733,270
More than 12 months past due	26.4	141,257	(37,222)	104,035
		1,581,996	(163,079)	1,418,917

In addition to above provision matrix, the Group has made individual loss allowance for certain customers. As at 31 December 2021, the accumulated individual loss allowance was RMB84,339,000 (31 December 2020: RMB686,000) with the carrying amounts before loss allowance of RMB96,674,000 (31 December 2020: 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, 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, contract assets and receivables under service concession arrangement during the period is as follows:

	2021	2020
	RMB'000	*RMB'000*
Balance at 1 January	**163,765**	49,009
Amounts written off during the year	**(110)**	(11)
Impairment losses recognised during the year	**138,344**	114,767
Balance at 31 December	**301,999**	163,765

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a construction services provider based in Fujian Province, the PRC. The construction services provided by the Group include general construction works as a main contractor and sub-contractor works (such as foundation works, formwork and scaffolding works and other construction 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.

During the year ended 31 December 2021, the Group is more cautious in assessing the expected credit losses in respect of trade receivables, bills receivable and contract assets given current economic environment and tightened credit policy towards property developers. The Group has tendered for new construction projects from customers that the management considers to have good financial standing, which led to a decline in sub-contractor business. On the other hand, the Group has secured new contracts in main contractor business after obtaining a second class license of main contractor in general construction works in September 2020. Despite a lower gross profit margin, the new business provided an opportunity to the Group to establish direct business relationship with property developers and to better manage the corresponding credit risk arising from the business transactions with property developers. The aforementioned developments led to the decrease in revenue from Construction service by approximately RMB253.5 million, or approximately 23.2%, as compared to the corresponding period in 2020, from approximately RMB1,112.7 million to approximately RMB854.8 million.

Moreover, with the aim to balance the source of revenue, the Group has secured more leasing contracts during the year ended 31 December 2021, which led to the increase in revenue from Leasing of construction machinery, equipment and tools by approximately RMB111.3 million, or approximately 84.0%, as compared to the corresponding period in 2020, from approximately RMB132.5 million to approximately RMB243.8 million.

To improve the Group's liquidity position and the utilisation rate of the fixed assets, the Group has disposed of certain unutilised tools (mainly H-piles and Larssen sheet piles) in the year ended 31 December 2021, which led to the increase in other net income by approximately RMB41.0 million, as compared to the corresponding period in 2020, from approximately RMB10.2 million to approximately RMB51.2 million.

The Board are aware of a series of negative news over the financial conditions of certain real estate developers in the PRC. In this regard, the Board decided to make individual loss allowance of approximately RMB83.7 million on the trade receivables, bills receivable and contract assets of the construction projects related to certain real estate developers as at 31 December 2021.

In addition, considered the recently published news over the property market, and the continued decline in total sales 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. As a result, the amount of loss allowance for ECLs on assets arising from contracts with customers increased by approximately RMB54.6 million (2020: approximately RMB114.8 million) during the year ended 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 RMB138.3 million (2020: approximately RMB114.8 million), which comprise of the individual loss allowance of approximately RMB83.7 million (2020: RMB Nil) and the net increase in loss allowance for ECLs of approximately RMB54.6 million (2020: approximately RMB114.8 million) as mentioned above.

PROSPECTS

The construction industry in the PRC is highly fragmented, hence there are opportunities for the Group to further develop its businesses. However, given current economic environment and tightened credit policy towards property developers, the operating environment of the Group remains challenging. The Group will continue to manage credit risk and balance the source of revenue in order to develop a more sustainable business, with the view to create long term value for the interests of shareholders.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Save as disclosed in this announcement, there was no significant subsequent event took place.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2021, the overall revenue of the Group has decreased by approximately RMB135.9 million, or approximately 10.6%, as compared to the corresponding period in 2020, from approximately RMB1,278.8 million to approximately RMB1,142.9 million.

The Construction service segment continued to be the largest business segment of the Group in terms of revenue during the years under review, which accounted for approximately 74.8% (2020: approximately 87.0%) of the Group's total revenue. The revenue from Construction service decreased by approximately RMB257.9 million, or approximately 23.2%, as compared to the corresponding period in 2020, from approximately RMB1,112.7 million to approximately RMB854.8 million. The decrease in revenue from Construction service was primarily due to the decline in sub-contractor business. As mentioned above, with the aim to better manage the associated credit risks, the Group has tendered for new construction projects from customers that the management considers to have good financial standing. The decline in sub-contractor business was partially offset by the increase in revenue from the main contractor business, as the Group obtained the second-class license of main contractor in general construction works in September 2020.

In order to balance the source of revenue, the Group has secured more leasing contracts during the year ended 31 December 2021, which led to the increase in revenue from Leasing of construction machinery, equipment and tools by approximately RMB111.3 million, or approximately 84.0%, as compared to the corresponding period in 2020, from approximately RMB132.5 million to approximately RMB243.8 million.

Revenue from Sewage treatment operation and Others remained relatively stable during the year ended 31 December 2021.

Cost of sales

Cost of sales mainly comprises of material cost, labour subcontracting fee, depreciation and others. During the year ended 31 December 2021, the overall cost of sales of the Group has increased by approximately RMB20.6 million, or approximately 2.1% compared to the year ended 31 December 2020, from approximately RMB990.3 million to approximately RMB1,010.9 million.

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 year under review and the corresponding year in 2020:

	For the year ended 31 December			
	2021		2020	
	RMB'000	***GP%***	*RMB'000*	*GP%*
Construction services	**44,453**	**5.2**	234,181	21.0
Leasing of construction machinery, equipment and tools	**85,413**	**35.0**	51,189	38.6
Sewage treatment operation	**696**	**13.5**	358	8.4
Others	**1,451**	**3.7**	2,703	9.2
	132,013	**11.6**	288,431	22.6

During the year ended 31 December 2021, the Group's overall gross profit margin decreased by 11.0 percentage point, from 22.6% in the year ended 31 December 2020 to 11.6% in the year ended 31 December 2021. 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 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, 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.

Other net income

The other net income mainly represented government grants, interest income and gain on disposal of property, plant and equipment. During the year ended 31 December 2021, the other net income has increased by approximately RMB41.0 million, compared to the corresponding period in 2020, from approximately RMB10.2 million to approximately RMB51.2 million. The increase in other net income was mainly attributable to the recognition of gain on disposal of property, plant and equipment and certain unutilised tools (mainly H-piles and Larssen sheet piles) of approximately RMB40.6 during the year ended 31 December 2021 (2020: RMB3.1 million).

Administrative expenses

The administrative expenses increased by approximately RMB9.8 million from RMB55.3 million for the year ended 31 December 2020 to RMB65.1 million for the year ended 31 December 2021. The increase in administrative expenses was mainly due to the increase in staff costs as a result of the expansion of leasing business and main contractor business. However, considered the recent operating environment, the Group has started adopting certain cost reduction measures since the last quarter of 2021, such as streamlining headcount and restructuring of renumeration packages, to reduce administrative expenses.

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.

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) Leasing services of construction machinery, equipment and tools. 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 31 December 2021	As at 31 December 2020
	RMB'000	*RMB'000*
Contract assets *(as disclosed in the consolidated statement of financial position)*	**470,144**	581,612
Trade and bills receivables, net of loss allowance *(as disclosed in note 10)*	**737,895**	837,305
Net carrying amount of trade receivables, bills receivable and contract assets	**1,208,039**	1,418,917
Add: loss allowance for ECLs (as disclosed in note 15)	**217,660**	163,079
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	**1,425,699**	1,581,996
Add: individual loss allowance for customers (as disclosed in note 15)	**84,339**	686
Gross carrying amount of trade receivables, bills receivable and contract assets	**1,510,038**	1,582,682

As indicated below, among the gross carrying amount of trade receivables, bills receivable and contract assets of approximately RMB1,510.0 million (31 December 2020: approximately RMB1,582.7 million), approximately RMB843.5 million (31 December 2020: approximately RMB955.6 million) was past due. In particular, two of the Group's major customers, namely Customer A and Customer B, contributed approximately 53.6% and 12.5% (31 December 2020: approximately 68.4% and 8.9%) 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 31 December 2021**		As at 31 December 2020	
		RMB'000	*%*	*RMB'000*	*%*
State-owned enterprises					
Customer A	Y	**452,174**	**53.6**	653,950	68.4
Other state-owned customers(1)		**107,042**	**12.7**	67,697	7.1
Sub-total		**559,216**	**66.3**	721,647	75.5
Non-state-owned enterprises					
Customer B	Y	**105,853**	**12.5**	85,050	8.9
Other non-state owned customers(2)		**178,452**	**21.2**	148,925	15.6
Sub-total		**284,305**	**33.7**	233,975	24.5
Total		**843,521**	**100.0**	955,622	100.0

Notes:

(1) Other state-owned customers included a total of 26 entities (31 December 2020: 33 entities), each of which accounted for less than 3.5% (31 December 2020: 3.1%) of the above total amount as at 31 December 2021.

(2) Other non-state owned customers included a total of 238 entities (31 December 2020: 135 entities), each of which accounted for less than 5.0% (31 December 2020: 2.5%) of the above total amount as at 31 December 2021.

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 six months ended 30 June 2021, Customer A's Principal Operating Subsidiary recorded a total revenue and net profit attributable to equity owners which amounted to approximately RMB936.7 billion and RMB25.6 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 six months ended 30 June 2021, such parent company recorded a total revenue and net profit amounting to approximately RMB4.2 billion and RMB243.5 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 construction sector, which reflected the increased credit risk of the construction sector, 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:

	31 December 2021			
	Expected loss rate	**Gross carrying amount**	**Loss allowance**	**Carrying amount**
	%	***RMB'000***	***RMB'000***	***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**
		1,413,364	**(217,660)**	**1,195,704**

	31 December 2020			
	Expected loss rate	Gross carrying amount	Loss allowance	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*
Current (not past due)	7.1	626,374	(44,762)	581,612
Less than 12 months past due	10.0	814,365	(81,095)	733,270
More than 12 months past due	26.4	141,257	(37,222)	104,035
		1,581,996	(163,079)	1,418,917

In particular, the loss allowance for ECLs made in respect of Customer A and Customer B as at 31 December 2021 amounted to approximately RMB149.9 million and RMB0.8 million (31 December 2020: approximately RMB85.1 million and RMB8.9 million), respectively, representing approximately 68.9% and 0.3% (31 December 2020: approximately 52.2% and 5.5%) of the total loss allowance made, respectively.

In addition to above provision matrix, the Group has made individual loss allowance for certain customers. As at 31 December 2021, the accumulated individual loss allowance was RMB84,339,000 (31 December 2020: RMB686,000) with the carrying amounts before loss allowance of RMB96,674,000 (31 December 2020: RMB686,000).

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 RMB83.7 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.

The following table (as disclosed in note 15) sets out the movement in the loss allowance account in respect of trade receivables, bills receivable and contract assets during the year:

	Year ended 31 December	
	2021	2020
	RMB'000	***RMB'000***
Balance at 1 January	**163,765**	49,009
Amounts written off during the year*	**(110)**	(11)
Impairment losses recognised in profit or loss during the year:		
— individual loss allowance	**83,653**	—
— loss allowance for ECLs	**54,691**	114,767
Balance at 31 December	**301,999**	163,765

* An amount of RMB110,000 (2020: RMB11,000) of trade receivables were written off during the year ended 31 December 2021. Such write off was made for certain of the Group's customers as they failed to settle the outstanding amount in respect of certain construction services contracts. Having considered the legal costs to recover the amount would be proportionally higher, the Directors considered that the Group should not take any legal action to recover the amount and accordingly the Group has no reasonable expectations of recovering the amount.

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 RMB163.1 million as at 31 December 2020 to approximately RMB217.7 million as at 31 December 2021, which was mainly due to 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, 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.

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

During the period from 1 January 2022 to 20 March 2022, there was settlement of the trade and bills receivables that amounted to approximately RMB254.7 million, which represented approximately 27.2% of the gross trade and bills receivables balance as at 31 December 2021. All of the subsequent settlements were in cash.

In particular, in respect of Customer A and Customer B, approximately RMB83.5 million and RMB48.3 million, representing approximately 18.5% and 45.6% of their respective gross trade and bills receivables balance as at 31 December 2021 was settled during the period from 1 January 2022 to 20 March 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 increased by RMB16.4 million from RMB18.5 million to RMB34.9 million for the year ended 31 December 2021 when comparing with that for the year ended 31 December 2020. As mentioned above, with an aim to balance the source of revenue of the Group, the Group has secured more contracts on Leasing of construction machinery, equipment and tools. To support the expansion of the leasing business, the Group has acquired additional construction machinery and equipment, and obtained more borrowings. As a result, the balance of loans and borrowings increased during the year ended 31 December 2021 to finance the Group's operation and capital investment, as compared to the corresponding period in 2020, and thus more finance costs were incurred in the year ended 31 December 2021.

Income tax in the consolidated statement of profit or loss

As a result of the recognition of deferred tax assets for credit loss allowances, the Group recognised income tax credit of approximately RMB24.0 million during the year ended 31 December 2021 (2020: income tax expenses of approximately RMB9.3 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 and entitles Jianzhong Construction Technology to a reduced tax rate at 15% during this period.

In December 2020, Fujian Yantu (originally named "Fujian Jinghai Engineering Service Co., Ltd."), 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 year and loss per share

As a result of the foregoing, the Group incurred net loss for the year of approximately RMB94.0 million (2020: net profit of approximately RMB59.8 million).

Basic and diluted loss per share for the year ended 31 December 2021 were RMB0.15 (2020: earnings of RMB0.10 per share).

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The shares of the Company were listed on the Stock Exchange on 18 March 2020.

The Group maintained a solid financial position as at 31 December 2021. During the year ended 31 December 2021, 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 31 December 2021, the Group had cash and cash equivalent of approximately RMB93.0 million (31 December 2020: approximately RMB200.9 million) in which approximately RMB0.1 million (31 December 2020: RMB14.8 million) equivalent cash were denominated in Hong Kong dollar. The remaining balance of cash and cash equivalent were denominated in Renminbi. As at 31 December 2021, the Group had net current asset of approximately RMB472.1 million, representing an decrease of approximately RMB199.6 million as compared to that of approximately RMB671.7 million as at 31 December 2020.

As at 31 December 2021, 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 40.6% (31 December 2020: approximately 23.4%).

All the Group's loans and borrowings were denominated in Renminbi. As of 31 December 2021, included in loans and borrowings and other payables of approximately RMB368.3 million were fixed rate borrowings (31 December 2020: approximately RMB321.1 million). Particulars of loans and borrowings of the Group are set out in note 13.

TREASURY MANAGEMENT

The Group has a sufficient level of cash and banking facilities for the conduct of its trade in the normal course of business. The management of the Group closely reviews trade receivable balances and any overdue balances on an ongoing basis and only trade with creditworthy parties. The management of the Group closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements to manage liquidity risk.

CAPITAL EXPENDITURE

During the year ended 31 December 2021, the Group acquired items of property, plant and equipment with a cost of RMB295.4 million (2020: RMB204.9 million).

CAPITAL COMMITMENTS

As at 31 December 2021, 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 RMB12.4 million (31 December 2020: approximately RMB10.0 million).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2021 (31 December 2020: nil).

MATERIAL INVESTMENT HELD BY THE GROUP

There was no significant investment held by the Group for the year ended 31 December 2021.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in section "Capital Commitments", as of the date of this announcement, the Group did not have plans for material investments and capital assets in the coming year.

CHARGE OF ASSETS

As at 31 December 2021, the carrying amounts of the machinery and equipment pledged for the sale and leaseback transactions were RMB196.7 million (31 December 2020: RMB92.6 million); machinery and equipment of RMB147.2 million (31 December 2020: RMB71.6 million) were pledged for bank loans and other borrowings; and bank deposits of RMB52.2 million (31 December 2020: RMB17.0 million) were pledged to banks as security for bank loans and other borrowings, litigation and bills payable.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group has a total of 483 full-time employees (31 December 2020: 554). 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 year ended 31 December 2021 was approximately RMB89.0 million (2020: approximately RMB57.3 million).

FOREIGN EXCHANGE EXPOSURE

During the years ended 31 December 2021 and 2020, 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.

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, associated companies and joint ventures during the year ended 31 December 2021.

DIVIDEND

No dividend was declared for the year ended 31 December 2021 (2020: HK2.08 cents per share).

ANNUAL GENERAL MEETING

The annual general meeting (the "**AGM**") of the Company for the year ended 31 December 2021 is scheduled to be held on Thursday, 16 June 2022. A notice convening the AGM will be issued and despatched to the shareholders according to the applicable law, the articles of association of the Company and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on Thursday, 16 June 2022, the register of members of the Company will be closed from Monday, 13 June 2022 to Thursday, 16 June 2022, both days inclusive, during which no transfer of Shares will be effected. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 10 June 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries redeemed, purchased or sold any of the listed securities of the Company.

CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**") during the year ended 31 December 2021, except for the deviation as mention below.

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 currently holds both positions. Mr. Xun Minghong 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 CG Code and code provisions specified above refer to the CG Code and code provisions prior to their amendments effective on 1 January 2022.

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.

UPDATE ON DIRECTORS' INFORMATION

On 30 March 2021, Mr. Zeng Guohua has tendered his resignation as a non-executive Director with effect from 30 March 2021 due to his other business commitments.

Mr. Wang Wei was appointed as a non-executive Director for an initial period of three years commencing from 30 March 2021. Mr. Wang is responsible for providing strategic advice to the business and operation of the Group.

Mr. Wong Kun Kau has been an independent non-executive director of Huaxin Cement Co., Ltd. (stock code: SH600801 and HK06655), a company listed on the Shanghai Stock Exchange and the main board of the Stock Exchange, since 28 April 2021.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct governing securities transactions by the Directors. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required dealing standards set out in the Model Code during the year ended 31 December 2021, except for the event as mentioned below.

On 4 August 2021, Furi Investment Limited, a company owned as to 42.01% by Mr. Xun Liangbao who is an non-executive director of the Company ("**Mr. Xun LB**") and 26 other shareholders, disposed of 70,000 shares of the Company in an aggregate amount of HK$70,200 (the "**Disposal**"). The Disposal took place during the blackout period for directors' securities dealings in respect of the Company's interim results for the six months ended 30 June 2021, which was from 28 July 2021 to 27 August 2021 (the "**Blackout Period**").

The Company notified Mr. Xun LB of the Blackout Period before the commencement thereof. To the best knowledge of the directors of the Company after reasonable enquiries, the Disposal was requested by one of the 26 other shareholders of Furi Investment Limited in respect of shares of his own, and the responsible staff inadvertently completed the Disposal without notifying and obtaining the approval of Mr. Xun LB and the board of directors of the Company in advance as required under the relevant internal control policies.

Since Furi Investment Limited is beneficially owned as to 42.01% by Mr. Xun LB, Mr. Xun LB is deemed to be interested in the number of shares in the Company that are held by Furi Investment Limited under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**").

Under paragraph A.3(a)(ii) of the Model Code, a director must not deal in any securities of the listed issuer on any day on which its financial results are published and during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

Under paragraph B.8 of the Model Code, a director must not deal in any securities of the issuer without first notifying in writing the chairman or a director (otherwise than himself) designated by the board for the specific purpose and receiving a dated written acknowledgement.

Based on the above, as (i) Mr. Xun LB is deemed to be interested in the number of shares in the Company that are held by Furi Investment Limited under the SFO; (ii) the Disposal took place during the Blackout Period; and (iii) Mr. Xun LB did not notify the chairman or the Board and obtain his or their approval before the Disposal was undertaken, the Directors are of the view that Mr. Xun LB breached paragraphs A.3(a)(ii) and B.8 of the Model Code.

However, based on the facts that (i) the Disposal was initiated by one of the 26 other shareholders in respect of shares beneficially held by himself; and (ii) Mr. Xun LB was not notified of the Disposal in advance due to inadvertence of the responsible staff, which in turn not allowing him to further notify the chairman or the Board and obtain the approval before the Disposal was undertaken. The Company has adopted certain measures to improve relevant internal control procedures. The Directors are of the view that the adopted measures should be able to ensure any future Directors' securities dealings will comply with the Listing Rules.

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 annual results of the Group for the year ended 31 December 2021 have been reviewed by the Audit Committee.

SCOPE OF WORK OF THE GROUP'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

USE OF PROCEEDS

The shares of the Company were listed on the Stock Exchange on 18 March 2020. The net proceeds from the listing, after deducting the listing-related expenses, were RMB182.7 million (the "**Net Proceeds**"). The table below sets out the progress of the actual use of the Net Proceeds from the Listing Date to 31 December 2021:

	Planned use of Net Proceeds *RMB'000*	**Actual use of Net Proceeds from the Listing Date to 31 December 2021** *RMB'000*	**Remaining balance of Net Proceeds** *RMB'000*
1) to fund construction projects	**127,892**	**(127,892)**	—
2) to expand fleet of construction machinery and equipment	**36,541**	**(36,541)**	—
3) for working capital and general corporate purposes	**18,270**	**(18,270)**	—
	182,703	**(182,703)**	—

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at *www.hkexnews.hk* and on the website of the Company at *www.fjjzkj.com*. The annual report of the Company for the year ended 31 December 2021 will be despatched to the shareholders and published on the above websites according to the Listing Rules.

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

Fuzhou, 30 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.