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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).

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 2022, 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 2022 is in a range from RMB200.0 million to RMB250.0 million (2021: net loss of approximately RMB94.0 million). The Board considers that the said expected net loss for the year ended 31 December 2022 was primarily attributable to:

- i) the recognition of impairment losses on property, plant and equipment

Due to the weak market sentiment of the real estate sector in the PRC, the Group assessed the recoverable amount of the property, plant and equipment, which mainly include machinery and equipment, as at 31 December 2022. An impairment loss was recognised for the year ended 31 December 2022 to reduce the value of the property, plant and equipment to their recoverable amount, which was determined based on the discounted cash flow projection.

ii) the decrease in revenue and gross profit from construction service

In view of the current economic condition, the primary focus of the Group is to improve liquidity position and to retain more cash to cope with the challenging operating environment. As a result, the Group has adopted a more prudent approach to tender for new construction projects, which led to a decline in revenue from construction service during the year ended 31 December 2022.

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 2022, a relatively high portion of construction projects of the Group, as compared to the corresponding period in 2021, went through completion phases, in which a relatively lower gross profit margin is generally recorded since revenue has been recognised in earlier stage of the projects according to the progress certificates issued by customers while certain unbillable costs, such as inspection costs and costs to make good of defects in relation to works done by the Group in such projects, were incurred in the completion phases.

iii) the recognition of impairment losses on assets arising from contracts with customers

The Group decided to make additional impairment on the trade receivables, bills receivable and contract assets during the year ended 31 December 2022, to reflect the increased credit risk of the Group's debtors.

The Company is in the process of preparing the annual results of the Group for the year ended 31 December 2022. The information contained in this announcement is only based on the information currently available to the Company and the preliminary review by the Board of the unaudited consolidated management accounts of the Group for the year ended 31 December 2022, which have not been reviewed by the independent auditors and/or the audit committee of the Company. The actual annual results of the Group for the year ended 31 December 2022 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 2022, which is expected to be published in March 2023 in accordance with the requirements of the Listing Rules.

By Order of the Board
Jianzhong Construction Development Limited
Xun Minghong
Chairman and Executive Director

Fuzhou, PRC, 3 March 2023

As at the date of this announcement, the Board comprised executive Directors Mr. Xun Minghong (chairman of the Board), Mr. He Wenlin and Ms. Zheng Ping; non-executive Director Mr. Yang Kaifa, Mr. Wang Wei and Mr. Xun Liangbao; and independent non-executive Directors Mr. Sze Irons, Mr. Wong Kun Kau and Mr. Zhu Diwu.