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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 2022

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 2022, together with the comparative figures for the corresponding year ended 31 December 2021.

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 54.1% from approximately RMB1,142.9 million for the year ended 31 December 2021 to approximately RMB524.6 million for the year ended 31 December 2022.
- Gross profit decreased by approximately 93.0% from approximately RMB132.0 million for the year ended 31 December 2021 to approximately RMB9.3 million for the year ended 31 December 2022. Gross profit margin decreased by approximately 9.8 percentage point from approximately 11.6% for the year ended 31 December 2021 to approximately 1.8% for the year ended 31 December 2022.
- The Group recognised an impairment loss on property, plant and equipment of approximately RMB93.4 million for the year ended 31 December 2022 (2021: Nil).
- Loss attributable to the equity holders of the Company for the year ended 31 December 2022 was approximately RMB216.1 million (2021: approximately RMB94.0 million).
- Losses per share was approximately RMB0.35 for the year ended 31 December 2022 (2021: approximately RMB0.15 per share).
- The Board does not recommend any declaration and payment of final dividend for the year ended 31 December 2022 (2021: Nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Revenue	3	524,602	1,142,936
Cost of sales		<u>(515,297)</u>	<u>(1,010,923)</u>
Gross profit		9,305	132,013
Other net (loss)/income	4	(56,114)	51,207
Administrative and other expenses		(62,258)	(65,059)
Research and development costs		(20,436)	(62,889)
Impairment losses on trade and other receivables and contract assets	15	<u>(69,954)</u>	<u>(138,344)</u>
Loss from operations		(199,457)	(83,072)
Finance costs	5(a)	<u>(24,853)</u>	<u>(34,898)</u>
Loss before taxation	5	(224,310)	(117,970)
Income tax	6(a)	<u>8,235</u>	<u>24,012</u>
Loss for the year		<u>(216,075)</u>	<u>(93,958)</u>
Loss per share	7		
Basic and diluted (RMB)		<u>(0.35)</u>	<u>(0.15)</u>

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

For the year ended 31 December 2022

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Loss for the year	<u>(216,075)</u>	<u>(93,958)</u>
Other comprehensive income for the year		
<i>Item that is or may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of operations outside mainland China	<u>(461)</u>	<u>(60)</u>
Other comprehensive income for the year	<u>(461)</u>	<u>(60)</u>
Total comprehensive income for the year	<u><u>(216,536)</u></u>	<u><u>(94,018)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		420,913	625,515
Intangible assets		1,842	2,830
Receivables under service concession arrangement	11	21,842	25,407
Deferred tax assets	14(b)	40,716	31,795
Other non-current assets		22,367	36,141
		507,680	721,688
Current assets			
Inventories		4,575	17,277
Contract assets	9(a)	280,659	470,144
Trade and other receivables	10	664,787	781,493
Prepayments		18,982	35,872
Receivables under service concession arrangement	11	9,279	7,410
Restricted bank balances		19,352	52,197
Cash and cash equivalents		149,817	92,973
		1,147,451	1,457,366
Current liabilities			
Trade and other payables	12	549,108	716,648
Contract liabilities	9(b)	377	3,122
Loans and borrowings	13	214,155	256,469
Lease liabilities		209	88
Current taxation	14(a)	9,356	8,928
		773,205	985,255
Net current assets		374,246	472,111

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*At 31 December 2022*

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Non-current liabilities			
Loans and borrowings	13	103,246	185,694
Lease liabilities		203	277
Other non-current liabilities		6,503	19,318
		<u>109,952</u>	<u>205,289</u>
NET ASSETS		<u>771,974</u>	<u>988,510</u>
CAPITAL AND RESERVES			
Share capital		5,671	5,671
Reserves		766,303	982,839
TOTAL EQUITY		<u>771,974</u>	<u>988,510</u>

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 2022, 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 2022 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 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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Revenue from construction service	313,554	854,773
— Revenue from sewage treatment service	5,111	5,170
— Revenue from equipment operation service	43,646	48,912
— Others*	1,665	39,150
	<u>363,976</u>	<u>948,005</u>
Revenue from other sources		
— Revenue from leasing of construction machinery, equipment and tools	160,626	194,931
	<u>524,602</u>	<u>1,142,936</u>
* Others mainly represents sales of construction materials and provision of certain logistic services.		
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Disaggregated by timing of revenue recognition		
— Over time	522,937	1,103,786
— Point in time	1,665	39,150
Total	<u>524,602</u>	<u>1,142,936</u>

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

	2022	2021
	RMB'000	RMB'000
Customer B	249,241	411,255
Customer A	54,206	276,137

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 2022, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB7,596,000 (2021: RMB242,165,000). The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 12 months (2021: next 36 months).

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

As at 31 December 2022, total future minimum lease payments under non-cancellable operating leases in place will be receivable by the Group were RMB8,865,000 (2021: RMB11,323,000). 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 (“**Equipment operation service**”);
- Provision of sewage treatment service (“**Sewage treatment operation**”); and
- Sales of construction materials and others (“**Others**”).

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

	Construction service <i>RMB’000</i>	Equipment operation service <i>RMB’000</i>	Sewage treatment operation <i>RMB’000</i>	Others <i>RMB’000</i>	Total <i>RMB’000</i>
Year ended					
31 December 2022					
Revenue	313,554	204,272	5,111	1,665	524,602
Cost of sales	<u>(368,584)</u>	<u>(140,649)</u>	<u>(4,464)</u>	<u>(1,600)</u>	<u>(515,297)</u>
Reportable segment gross (loss)/profit	<u><u>(55,030)</u></u>	<u><u>63,623</u></u>	<u><u>647</u></u>	<u><u>65</u></u>	<u><u>9,305</u></u>
Year ended					
31 December 2021					
Revenue	854,773	243,843	5,170	39,150	1,142,936
Cost of sales	<u>(810,320)</u>	<u>(158,430)</u>	<u>(4,474)</u>	<u>(37,699)</u>	<u>(1,010,923)</u>
Reportable segment gross profit	<u><u>44,453</u></u>	<u><u>85,413</u></u>	<u><u>696</u></u>	<u><u>1,451</u></u>	<u><u>132,013</u></u>

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

4. OTHER NET (LOSS)/INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest income	3,562	3,250
Government grants	882	7,104
Gain on disposal of property, plant and equipment	30,875	40,555
Impairment loss on property, plant and equipment	(93,436)	—
Others	2,003	298
	<u>(56,114)</u>	<u>51,207</u>

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest on bank loans and other borrowings	14,428	22,389
Interest on lease liabilities	32	7
Finance charges on sale and leaseback transactions	6,880	4,505
Interest on acquisition of equipment by instalments	1,787	3,482
Other borrowing costs	1,726	4,515
	<u>24,853</u>	<u>34,898</u>

(b) Staff costs (including directors' emoluments)

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Salaries, wages and other benefits	49,691	88,551
Contributions to defined contribution retirement benefit schemes	1,664	2,302
	<u>51,355</u>	<u>90,853</u>

(c) **Other items**

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Depreciation		
— property, plant and equipment owned	71,580	88,999
— right-of-use assets	227	340
	<u>71,807</u>	<u>89,339</u>
Amortisation of intangible assets	988	981
Expenses relating to short-term leases	22,062	20,542
Auditors' remuneration	2,980	3,380
Labour subcontracting fee	324,121	495,720
Impairment loss on trade and other receivables and contract assets	69,954	138,344
Impairment loss on property, plant and equipment	93,436	—

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current tax — PRC Corporate Income Tax		
Provision for the year	686	9,225
Deferred tax — PRC Corporate Income Tax		
Origination and reversal of temporary differences	<u>(8,921)</u>	<u>(33,237)</u>
	<u>(8,235)</u>	<u>(24,012)</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Loss before taxation	<u>(224,310)</u>	<u>(117,970)</u>
Notional tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	(55,693)	(29,757)
Tax effect of non-deductible expenses	193	159
Tax effect of super deduction for qualified research and development costs	(2,606)	(8,365)
Tax effect of deductible temporary differences or unused tax losses not recognised	29,034	98
Utilisation of previously unrecognised tax losses	(222)	—
Effect on deferred tax balances at 1 January resulting from a change in tax rate	175	—
Tax effect of PRC preferential tax treatments (<i>Note(iii)</i>)	<u>20,884</u>	<u>13,853</u>
Actual tax credit	<u><u>(8,235)</u></u>	<u><u>(24,012)</u></u>

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 2022 (2021: Nil).
- (iii) The Group's subsidiaries in mainland China is subject to PRC corporate income tax at the statutory rate of 25%.

In December 2022, 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 14 December 2022. 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 2022 to 2024 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 PER SHARE

Basic loss per share are calculated by dividing the loss attributable to equity shareholder of the Company of RMB216,075,000 (2021: RMB93,958,000) by the weighted average number of 625,000,000 ordinary shares in issue during the year.

Diluted loss per share is equal to basic loss per share as there were no dilutive potential shares outstanding for the years ended 31 December 2022 and 2021.

8. DIVIDENDS

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

	2022 RMB'000	2021 RMB'000
No final dividend in respect of the previous financial year, approved and paid during the year (2021: HK2.08 cents per share)	<u>—</u>	<u>10,817</u>

No dividend was declared for the year ended 31 December 2022 and 2021.

9. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2022 RMB'000	2021 RMB'000
Arising from performance under construction contracts	<u>280,659</u>	<u>470,144</u>
Receivables from contracts with customers within the scope of HKFRS 15, which are included in “Trade and other receivables” (<i>Note 10</i>)	<u>421,276</u>	<u>524,645</u>

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 2022, the amount of contract assets that was expected to be recovered after more than one year were RMB173,863,000 (2021: RMB314,127,000).

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

(b) **Contract liabilities**

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Billings in advance for construction contracts	187	2,523
Sales deposits received	190	599
	<u>377</u>	<u>3,122</u>

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 2022, revenue recognised in the year that was included in the contract liabilities balance at the beginning of the year was RMB2,506,000 (2021: RMB2,780,000).

10. TRADE AND OTHER RECEIVABLES

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 month	40,313	102,576
More than 1 month but within 3 months	63,444	127,496
More than 3 months but within 6 months	77,098	152,895
More than 6 months but within 12 months	129,976	118,601
More than 12 months	324,782	236,327
Trade and bills receivables, net of loss allowance	635,613	737,895
Deposits and other receivables	29,174	43,598
	<u>664,787</u>	<u>781,493</u>

- (i) As at 31 December 2022, the amount of trade receivables and deposits expected to be recovered or recognised as expense after more than one year is RMB369,296,000 (2021: RMB3,000,000).
- (ii) 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 2022, trade receivables of RMB28,688,000 (2021: RMB254,908,000) 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.

- (iii) In addition, the Group also entered into certain factoring agreements with recourse with a bank. Under these agreements, the Group may be required to reimburse the bank for loss of interest if any trade receivables have not been fully paid upon due dates. The Group has retained the substantial risks and rewards, which include default risks of the trade receivables after the transfer. Subsequent to the transfer, the Group did not have the rights to transfer or pledge of the trade receivables to any other third parties. As at 31 December 2022, trade receivable of RMB446,000 (2021: Nil) was factored to the bank with recourse and was not derecognised. The associated liability with the same amount was also recognised as a bank loan (Note 13(a)(v)).
- (iv) As at 31 December 2022, outstanding commercial acceptance bills of RMB280,000 (2021: Nil) were discounted to banks with recourse and were not derecognised. The associated liabilities with the same amount were included in bank loans (Note 13(a)(vi)).
- (v) As at 31 December 2022, outstanding commercial bills of RMB1,160,000 (2021: RMB480,000) were endorsed to certain suppliers with recourse and the Group continued to recognise the corresponding receivables. The associated liabilities with the same amount were included in trade and other payables (Note 12).

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 Change 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: <ul style="list-style-type: none"> • 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:

	2022	2021
	RMB'000	RMB'000
Non-current portion	21,842	25,407
Current portion	9,279	7,410
	31,121	32,817
Expected collection schedule is as follows:		
Within 1 year	9,279	7,410
After 1 year but within 5 years	13,976	14,164
After 5 years but within 10 years	7,866	11,243
	31,121	32,817

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

12. TRADE AND OTHER PAYABLES

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

	2022	2021
	RMB'000	RMB'000
Within 1 month	33,760	60,821
More than 1 month but within 3 months	40,679	115,968
More than 3 months but within 6 months	59,523	135,951
More than 6 months but within 12 months	53,828	87,437
More than 12 months	150,202	107,541
Trade and bills payable	337,992	507,718
Suppliers of property, plant and equipment	32,698	50,215
Value added tax and surcharges payables	107,686	87,233
Other payables and accruals	69,286	67,028
Obligation for bills endorsed with recourse (<i>note 10(iv)</i>)	1,160	480
Interest payable	286	3,974
	549,108	716,648

As at 31 December 2022 and 2021, all the other trade and other payables are expected to be settled within one year or are repayable on demand.

13. LOANS AND BORROWINGS

	<i>Note</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Non-current			
Bank loans and other borrowings — secured	(a)	49,013	84,610
Obligations arising from sale and leaseback transactions	(b)	54,233	101,084
		<u>103,246</u>	<u>185,694</u>
Current			
Bank loans and other borrowings — secured	(a)	163,455	207,098
Obligations arising from sale and lease back transactions	(b)	50,700	49,371
		<u>214,155</u>	<u>256,469</u>
Total		<u>317,401</u>	<u>442,163</u>

(a) Bank loans and other borrowings

Bank loans and other borrowings were repayable as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Less than 1 year	163,455	207,098
1 to 2 years	37,809	40,896
2 to 5 years	11,204	43,714
	<u>212,468</u>	<u>291,708</u>

Notes:

- (i) As at 31 December 2022, bank loans of RMB28,281,000 (2021: RMB25,270,000) were secured by properties of a third party and also guaranteed by the controlling shareholder of the Company.
- (ii) As at 31 December 2022, a bank loan of RMB51,076,000 (2021: RMB75,738,000) was secured by machinery and equipment of the Group.

- (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 with maturity in May 2022. In June 2022, the credit line was expired and Jianzhong Construction Technology entered into a new credit line agreement with the financial institute, pursuant to which, a credit line with a term of two years with the amount up to RMB60,000,000 was granted. Such credit line was guaranteed by the controlling shareholder of the Company. As at 31 December 2022, the Company had the borrowing of RMB35,185,000 and unutilised credit amount of RMB24,815,000.
- (iv) As at 31 December 2022, bank loans of RMB97,200,000 (2021: RMB100,000,000) were guaranteed by the controlling shareholder of the Company.
- (v) As at 31 December 2022, bank loans of RMB446,000 (2021: Nil) were secured by trade receivables of RMB446,000 (2021: Nil) as set out in Note 10(iii).
- (vi) As at 31 December 2022, bank loans of RMB280,000 (2021: Nil) were related to the outstanding commercial acceptance bills discounted to banks with recourse as set out in Note 10(iv).

(b) Obligations arising from sale and leaseback transactions

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Less than 1 year	55,038	56,066
1 to 2 years	35,599	53,650
2 to 5 years	<u>21,138</u>	<u>53,908</u>
Total undiscounted obligations arising from sale and leaseback transactions	111,775	163,624
Less: total future interest expenses	<u>(6,842)</u>	<u>(13,169)</u>
Obligations arising from sale and leaseback transactions included in the consolidated statements of financial position	<u>104,933</u>	<u>150,455</u>

Maturity analysis — present value of obligations arising from sale and leaseback transactions

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Less than 1 year	50,700	49,371
1 to 2 years	33,561	49,484
2 to 3 years	<u>20,672</u>	<u>51,600</u>
Present value of obligations arising from sale and leaseback transactions	<u>104,933</u>	<u>150,455</u>

As at 31 December 2022 and 2021, all obligations arising from sale and leaseback transactions were secured by underlying machinery and equipment with carrying values of RMB127,527,000 (2021: RMB196,649,000), 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
PRC corporate income tax payable	<u>9,356</u>	<u>8,928</u>

(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 <i>RMB'000</i>	Construction costs <i>RMB'000</i>	Depreciation <i>RMB'000</i>	Impairment loss for property, plant and equipment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2021	25,136	3,789	(30,818)	—	451	(1,442)
Credited/(charged) to profit or loss	<u>22,525</u>	<u>(4,100)</u>	<u>6,728</u>	<u>—</u>	<u>8,084</u>	<u>33,237</u>
At 31 December 2021 and 1 January 2022	47,661	(311)	(24,090)	—	8,535	31,795
Credited/(charged) to profit or loss	<u>2,018</u>	<u>311</u>	<u>4,082</u>	<u>2,578</u>	<u>(68)</u>	<u>8,921</u>
At 31 December 2022	<u>49,679</u>	<u>—</u>	<u>(20,008)</u>	<u>2,578</u>	<u>8,467</u>	<u>40,716</u>

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB29,034,000 (2021: RMB394,000) 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 2022, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in mainland China amounted to RMB88,674,000 (2021: RMB298,740,000). 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. Based on the evaluation, customers are categorised into different groups based on their risk characteristic. When analysed the credit risk arisen, the Group also considered the credit terms granted to customers. 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. Accordingly, the Group categorised trade receivables into three time bands in accordance with the ageing report, 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". Normally, the Group does not obtain collateral from customers.

The Group's customers are concentrated in real estate companies or main contractors in mainland China. At the end of the reporting period, 18.1% (2021: 17.7%), 50.6% (2021: 51.6%) and 71.3% (2021: 77.9%) of the total trade receivables and contract assets were due from the Group's largest customer, the second 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 2022			
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Carrying amount RMB'000
Current (not past due)	11.5	324,692	(37,406)	287,286
Less than 12 months past due	17.9	370,706	(66,501)	304,205
More than 12 months past due	26.8	443,690	(118,909)	324,781
		<u>1,139,088</u>	<u>(222,816)</u>	<u>916,272</u>
	31 December 2021			
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Carrying amount RMB'000
Current (not past due)	11.5	569,843	(65,658)	504,185
Less than 12 months past due	11.8	518,736	(61,029)	457,707
More than 12 months past due	28.0	324,785	(90,973)	233,812
		<u>1,413,364</u>	<u>(217,660)</u>	<u>1,195,704</u>

In addition to above provision matrix, the Group has made individual loss allowance for certain trade and other receivables. As at 31 December 2022, the accumulated individual loss allowance was RMB149,137,000 (2021: RMB84,339,000) with the carrying amounts before loss allowance of RMB149,137,000 (2021: RMB96,674,000).

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

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

Movement in the loss allowance account in respect of trade and other receivables and contract assets during the year is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Balance at 1 January	301,999	163,765
Amounts written off during the year	—	(110)
Impairment losses recognised during the year	69,954	138,344
	<hr/>	<hr/>
Balance at 31 December	371,953	301,999
	<hr/> <hr/>	<hr/> <hr/>

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. The Group also has an extensive fleet of construction machinery and equipment, which enables itself to handle complicated and/or sizable construction works, thus allowing itself to capture more opportunities in the construction market and engage in construction machinery, equipment and tools leasing services. The Group also engages in provision of equipment operation service, sales of construction materials, and operates a sewage treatment plant in the PRC. The Group has developed as a regional construction works service provider in Fujian and has further extended the footprint across a number of other provinces in the PRC.

In view of the current economic condition, the primary focus of the Group is to improve liquidity position and to retain more cash to cope with the challenging operating environment. During the year ended 31 December 2022, the Group became more cautious in tendering new construction projects, which led to a decline in revenue from construction service. The revenue from construction service decreased by approximately RMB541.2 million, or approximately 63.3%, as compared to the year ended 31 December 2021, from approximately RMB854.8 million to approximately RMB313.6 million.

Moreover, during the year ended 31 December 2022, the Group has adopted certain cost reduction measures to reduce administrative and other expenses. Comparing to the year ended 31 December 2021, the research and development costs reduced by approximately 67.6%, from approximately RMB62.9 million to approximately RMB20.4 million. On the other hand, the administrative and other expenses decreased by approximately 4.3%, from approximately RMB65.1 million to approximately RMB62.3 million.

In addition, the Group has reduced the capital expenditure during the year ended 31 December 2022. The payments for purchase of property, plant and equipment reduced from approximately RMB290.4 million during the year ended 31 December 2021 to approximately RMB28.7 million during the year ended 31 December 2022.

PROSPECTS

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

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

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

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2022, the overall revenue of the Group has decreased by approximately RMB618.3 million, or approximately 54.1%, as compared to the year ended 31 December 2021, from approximately RMB1,142.9 million to approximately RMB524.6 million.

To preserve more cash under current economic environment, the Group became more cautious in tendering new construction projects, which led to a decline in revenue from Construction service. The revenue from Construction service decreased by approximately RMB541.2 million, or approximately 63.3%, as compared to the year ended 31 December 2021, from approximately RMB854.8 million to approximately RMB313.6 million.

Revenue from Equipment operation service decreased by approximately RMB39.5 million, or approximately 16.2%, from approximately RMB243.8 million in the year ended 31 December 2021, to approximately RMB204.3 million in the year ended 31 December 2022.

In terms of percentage of total revenue, the revenue from Sewage treatment operation and Others remained stable during the year ended 31 December 2022.

Cost of sales

Cost of sales mainly comprises of material cost, labour subcontracting fee, depreciation and others. During the year ended 31 December 2022, as a result of the decline in revenue, the overall cost of sales of the Group has decreased by approximately RMB495.6 million, or approximately 49.0% compared to the year ended 31 December 2021, from approximately RMB1,010.9 million to approximately RMB515.3 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 2021:

	For the year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	<i>GP%</i>	<i>RMB'000</i>	<i>GP%</i>
Construction services	(55,030)	(17.6)	44,453	5.2
Equipment operation service	63,623	31.1	85,413	35.0
Sewage treatment operation	647	12.7	696	13.5
Others	65	3.9	1,451	3.7
	<u>9,305</u>	<u>1.8</u>	<u>132,013</u>	<u>11.6</u>

During the year ended 31 December 2022, the Group's overall gross profit margin decreased by 9.8 percentage point, from 11.6% for the year ended 31 December 2021 to 1.8% for the year ended 31 December 2022. The decrease in overall gross profit margin was mainly due to the decrease in gross profit margin of Construction service, as a result of the combined effect of the following:

- due to significant decrease in revenue for Construction service in the year ended 31 December 2022, the gross profit margin was significantly impacted by fixed costs, mainly depreciation. Despite having similar sized machinery and equipment compared to the previous year, the depreciation for idle machinery and equipment recognised in the cost of sales had larger impact on the gross profit margin in the year ended 31 December 2022. The Group is disposing off idle machinery and equipment to improve operation efficiency;
- certain customers demanded reduction in final contract sum for certain construction projects, to compensate for delays in construction works or any extra costs incurred; and
- 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.

Other net (loss)/income

During the year ended 31 December 2022, the Group recorded other net loss of approximately RMB56.1 million (2021: net gain of approximately 51.2 million). The other net loss recorded for the year ended 31 December 2022 was mainly attributable to the recognition of impairment loss on property, plant and equipment of approximately RMB93.4 million (2021: Nil), offset by the gain on disposal of property, plant and equipment of approximately RMB30.9 million (2021: approximately RMB40.6 million).

In view of the weak sentiment of the real estate sector in the PRC, and the slowdown of repayment from the Group's customers in the second half of 2022, the Group expects that less construction revenue will be generated in the future. This indicates that the property, plant and equipment of the Group may be impaired. As a result, the Group assessed the recoverable amount of the property, plant and equipment, which mainly includes machinery and equipment, and tools, 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 of approximately RMB420.5 million.

The recoverable amount of these assets were estimated based on value in use calculations. The calculations were carried out by an independent valuer using cash flow projections based on financial budgets approved by management, which cover the estimated remaining useful life of the assets. To account for the expected reduction in construction revenue, these cash flow projections use sales growth rate of -63% and 3% for the first two years, respectively, and 0% for the next three years. Other key assumptions for the value in use calculations include gross profit margins estimated on the basis of historical performance and management's expectation of the market development. Cash flows beyond the five-year period are extrapolated using a 0% sale growth rate. These sales growth rates are based on the Group's budget, future business plan and forecasts of relevant industries, and do not exceed the average long-term sales growth rate for the relevant industries. The cash flows are discounted using a 14.5% pre-tax discount rate, which was determined by the weighted average cost of capital.

Administrative and other expenses

The administrative and other expenses mainly include staff cost, professional fees and office expenses. The administrative and other expenses decreased by approximately RMB2.8 million from RMB65.1 million for the year ended 31 December 2021 to RMB62.3 million for the year ended 31 December 2022. During the year ended 31 December 2022, the Group has adopted certain cost reduction measures, such as streamlining headcount and restructuring of remuneration packages, to reduce the administrative and other expenses.

Research and development costs

The research and development costs mainly include (i) staff costs; (ii) and raw materials costs. In view of recent market condition, the Group has kept the research and development activities at minimum level, which led to a decrease in research and development costs by approximately RMB42.5 million from RMB62.9 million for the year ended 31 December 2021 to RMB20.4 million for the year ended 31 December 2022.

Impairment losses on trade and other receivables and contract assets

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

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

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Contract assets (<i>as disclosed in the consolidated statement of financial position</i>)	280,659	470,144
Trade and bills receivables, net of loss allowance (<i>as disclosed in note 10</i>)	<u>635,613</u>	<u>737,895</u>
Net carrying amount of trade receivables, bills receivable and contract assets	916,272	1,208,039
Add: loss allowance for ECLs (as disclosed in note 15)	<u>222,816</u>	<u>217,660</u>
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	1,139,088	1,425,699
Add: individual loss allowance for customers	<u>136,895</u>	<u>84,339</u>
Gross carrying amount of trade receivables, bills receivable and contract assets	<u>1,275,983</u>	<u>1,510,038</u>

As indicated below, among the gross carrying amount of trade receivables, bills receivable and contract assets of approximately RMB1,276.0 million (2021: approximately RMB1,510.0 million), approximately RMB814.4 million (2021: approximately RMB843.5 million) was past due. In particular, two of the Group's major customers, namely Customer A and Customer B, contributed approximately 58.6% and 11.0% (2021: approximately 53.6% and 12.5%) of the total gross carrying amount of trade receivables, bills receivable and contract assets which was past due, respectively.

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

	Listing status (Y/N)	As at 31 December 2022		As at 31 December 2021	
		RMB'000	%	RMB'000	%
State-owned enterprises					
Customer A	Y	476,840	58.6	452,174	53.6
Other state-owned customers ⁽¹⁾		<u>94,721</u>	<u>11.6</u>	<u>107,042</u>	<u>12.7</u>
Sub-total		571,561	70.2	559,216	66.3
Non-state-owned enterprises					
Customer B	Y	89,801	11.0	105,853	12.5
Other non-state owned customers ⁽²⁾		<u>153,033</u>	<u>18.8</u>	<u>178,452</u>	<u>21.2</u>
Sub-total		<u>242,834</u>	<u>29.8</u>	<u>284,305</u>	<u>33.7</u>
Total		<u>814,395</u>	<u>100.0</u>	<u>843,521</u>	<u>100.0</u>

Notes:

- (1) Other state-owned customers included a total of 34 entities (2021: 26 entities), each of which accounted for less than 4.0% (2021: 3.5%) of the above total amount as at 31 December 2022.
- (2) Other non-state owned customers included a total of 280 entities (2021: 244 entities), each of which accounted for less than 3.0% (2021: 5.0%) of the above total amount as at 31 December 2022.

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

Customer A A state-owned enterprise which mainly carries out business management activities through a company listed on the Shanghai Stock Exchange (“**Customer A’s Principal Operating Subsidiary**”), which in turn has seven subsidiaries which are listed on the Hong Kong Stock Exchange or Shenzhen Stock Exchange, as well as more than 100 investment-holding subsidiaries. To the best knowledge of the Directors after making reasonable enquiries, for the six months ended 30 June 2022, Customer A’s Principal Operating Subsidiary recorded a total revenue and net profit attributable to equity owners which amounted to approximately RMB1,060.8 billion and RMB28.5 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 2022, such parent company recorded a total revenue and net profit amounting to approximately RMB2.1 billion and RMB37.7 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 2022			
	Expected	Gross	Loss	Carrying
	loss rate	carrying	allowance	amount
	%	amount	RMB'000	RMB'000
		RMB'000	RMB'000	RMB'000
Current (not past due)	11.5	324,692	(37,406)	287,286
Less than 12 months past due	17.9	370,706	(66,501)	304,205
More than 12 months past due	26.8	443,690	(118,909)	324,781
		<u>1,139,088</u>	<u>(222,816)</u>	<u>916,272</u>
	31 December 2021			
	Expected	Gross	Loss	Carrying
	loss rate	carrying	allowance	amount
	%	amount	RMB'000	RMB'000
		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
		<u>1,413,364</u>	<u>(217,660)</u>	<u>1,195,704</u>

In particular, the loss allowance for ECLs made in respect of Customer A and Customer B as at 31 December 2022 amounted to approximately RMB142.0 million and RMB Nil (2021: approximately RMB149.9 million and RMB0.8 million), respectively, representing approximately 63.7% and 0.0% (2021: approximately 68.9% and 0.3%) of the total loss allowance made, respectively.

In addition to above provision matrix, the Group has made individual loss allowance for certain real estate developers in the PRC. As at 31 December 2022, the gross carrying amount of trade receivables, bills receivable and contract assets in respect of these real estate developers was approximately RMB136.9 million (2021: approximately RMB96.7 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 full individual loss allowance on the trade receivables, bills receivable and contract assets of the construction projects related to these real estate developers.

Together with the individual loss allowance made to certain other receivable balances of approximately RMB12.2 million (2021: Nil), as at 31 December 2022, the accumulated individual loss allowance was RMB149.1 million (2021: RMB84.3 million).

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

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

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January	301,999	163,765
Amounts written off during the year	—	(110)
Impairment losses recognised in profit or loss during the year:		
— individual loss allowance	64,798	83,653
— loss allowance for ECLs	5,156	54,691
	<u>371,953</u>	<u>301,999</u>
Balance at 31 December	<u>371,953</u>	<u>301,999</u>

Factors, events and circumstances leading to the recognition of ECLs

The amount of loss allowance for ECLs increased from approximately RMB217.7 million as at 31 December 2021 to approximately RMB222.8 million as at 31 December 2022, which was particularly due to that more long aged debtors were recorded as at 31 December 2022.

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

During the period from 1 January 2023 to 20 March 2023, there was settlement of the trade and bills receivables that amounted to approximately RMB87.2 million, which represented approximately 9.6% of the gross trade and bills receivables balance as at 31 December 2022. All of the subsequent settlements were in cash.

In particular, in respect of Customer A and Customer B, approximately RMB28.8 million and RMB16.5 million, representing approximately 5.8% and 18.4% of their respective gross trade and bills receivables balance as at 31 December 2022 was settled during the period from 1 January 2023 to 20 March 2023, 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.

The finance costs decreased by RMB10.0 million from RMB34.9 million for the year ended 31 December 2021 to RMB24.9 million for the year ended 31 December 2022.

Income tax in the consolidated statement of profit or loss

As a result of the recognition of deferred tax assets/liabilities for depreciation, impairment loss for property, plant and equipment and credit loss allowances, the Group recognised income tax credit of approximately RMB8.2 million during the year ended 31 December 2022 (2021: approximately RMB24.0 million).

In December 2022, 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 14 December 2022. In accordance with the CIT Law, the High-tech Enterprise qualification will be valid for a period of three years from 2022 to 2024 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 RMB216.1 million (2021: approximately RMB94.0 million).

Basic and diluted loss per share for the year ended 31 December 2022 were RMB0.35 (2021: RMB0.15 per share).

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group maintained a solid financial position as at 31 December 2022. During the year ended 31 December 2022, the Group’s operation and capital requirements were financed principally through a combination of cash flows generated from the operating activities and bank and other borrowings. As at 31 December 2022, the Group had cash and cash equivalent of approximately RMB149.8 million (2021: approximately RMB93.0 million) in which approximately RMB1.5 million (2021: RMB0.1 million) equivalent cash were denominated in Hong Kong dollar. The remaining balance of cash and cash equivalent were denominated in Renminbi. As at 31 December 2022, the Group had net current asset of approximately RMB374.2 million, representing an decrease of approximately RMB97.9 million as compared to that of approximately RMB472.1 million as at 31 December 2021.

As at 31 December 2022, the gearing ratio of the Group, calculated based on the net debts (including interest-bearing loans and borrowings, lease liabilities 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 24.6% (2021: approximately 40.6%).

All the Group's loans and borrowings were denominated in Renminbi. As at 31 December 2022, loans and borrowings, lease liabilities and payables for acquisition of equipment by instalments of approximately RMB280.7 million were fixed rate borrowings (2021: approximately RMB368.3 million). Particulars of loans and borrowings of the Group are set out in note 13 of this result announcement.

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 2022, the Group acquired items of property, plant and equipment with a cost of RMB13.5 million (2021: RMB295.4 million).

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had no capital commitments, which had been contracted but not provided for in the financial statements (2021: approximately RMB12.4 million).

CONTINGENT LIABILITIES

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

MATERIAL INVESTMENT HELD BY THE GROUP

There was no significant investment held by the Group for the year ended 31 December 2022.

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 2022, the carrying amounts of the machinery and equipment pledged for the sale and leaseback transactions were RMB127.5 million (2021: RMB196.7 million); machinery and equipment of RMB118.6 million (2021: RMB147.2 million) were pledged for bank loans and other borrowings; and bank deposits of RMB19.4 million (31 December 2021: RMB52.2 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 2022, the Group has a total of 256 full-time employees (2021: 483). The Group has developed its human resources policies and procedures to determine the individual remuneration with reference to factors such as performance, qualification, responsibilities of each individual, market conditions, etc. Remuneration packages are normally reviewed on a regular basis. Apart from salary payments, other staff benefits including provident fund contributions, medical insurance coverage, annual leave and options which may be granted under the share option scheme 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 2022 was approximately RMB49.5 million (2021: approximately RMB89.0 million).

FOREIGN EXCHANGE EXPOSURE

During the years ended 31 December 2022 and 2021, the Group had a minimal exposure to foreign currency risk as most of its business transactions were conducted in the PRC in RMB. Moreover, the Group's assets and liabilities are principally denominated in RMB. As such, the Directors believe that the Group's risk in foreign exchange is insignificant.

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 2022.

DIVIDEND

No dividend was declared for the years ended 31 December 2022 and 2021.

ANNUAL GENERAL MEETING

The annual general meeting (the “AGM”) of the Company for the year ended 31 December 2022 is scheduled to be held on Tuesday, 27 June 2023. 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 Tuesday, 27 June 2023, the register of members of the Company will be closed from Wednesday, 21 June 2023 to Tuesday, 27 June 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 20 June 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2022, 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 2022, 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 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

Mr. Sze Irons has been an independent non-executive director of:

- Redco Healthy Living Company Limited (stock code: 2370), a company listed on the main board of the Stock Exchange, since 14 March 2022; and
- Forward Fashion (International) Holdings Company Limited (stock code: 2528), a company listed on the main board of the Stock Exchange, since 1 July 2022.

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 2022.

REVIEW BY THE AUDIT COMMITTEE

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

The annual results of the Group for the year ended 31 December 2022 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 2022 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.

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 2022 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, 31 March 2023

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.