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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 inform 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 (the “**Management Accounts**”) of the Group for the five months ended 31 May 2021 (the “**Relevant Period**”), 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 Group’s consolidated revenue for the Relevant Period is expected to increase by approximately 6% but the corresponding profit after tax for the Relevant Period is expected to decrease by approximately 60%, as compared to the corresponding period of 2020. The Board considers that the said expected decrease in profit after taxation was primarily because the Group is more cautious in assessing expected credit losses in respect of trade receivables, bill receivables and contract assets given current economic environment and tightening credit policy toward property developers. Therefore, during the Relevant Period, the Group has tendered for new construction projects with customers that the management consider to have good financial standing, and thus led to the decline in sub-contractor business, a business which generally records higher gross profit margin. On the other hand, the Group has

obtained second class license of main contractor in general construction works since September 2020. As a result, the Group has secured new contracts in this area. Although this new business offered a lower gross profit margin, the Directors believe these businesses is beneficial to the Group as it allows the Group to establish direct business relationship with property developers and is part of the management's plan to better control credit risk when doing business with property developers. The Group has also seek to balance the source of revenue and increased the proportion of leasing business for construction machinery, equipment and tools. The Directors consider that the above approaches led to the following:

i) the decrease in gross profit margin of construction service

Pursuant to relevant accounting standards and policies adopted by the Group, 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 Relevant Period, a relatively high portion of sub-contractor projects of the Group, as compared to the corresponding period of 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 as mentioned above, it led to a lower overall gross profit margin.

ii) the increase in administrative expenses due to the expansion of general construction works business

The Group obtained a second class license of main contractor in general construction works in September 2020. To support the expansion of the general construction works business, the Group incurred additional costs, such as staff costs and research and development costs, which led to an increase in administrative expenses during the Relevant Period.

iii) the increase in finance costs

As mentioned above, with an aim to balance the income mix 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. As a result, the balance of loans and borrowings increased as at 31 May 2021 to finance the Group's operation and capital investment, as compared to the corresponding date of 2020, and thus more finance costs were incurred during the Relevant Period.

Based on the information currently available to the Company, the aforesaid adverse factors continued to affect the Group and the operating environment of the Group remained challenging in June 2021. Having considered the Group's liquidity position and the utilisation rate of the fixed assets, the Group disposed of certain unutilised tools (mainly H-piles and Larssen sheet piles) in June 2021. Accordingly, a gain on disposal of approximately RMB30 million is expected to be recognised in the profit or loss during the six months ended 30 June 2021. The Company is still finalising the unaudited consolidated management accounts for June 2021, the Board expects that the Group's profit after tax for the six months ended 30 June 2021 is in a range from RMB40 million to RMB60 million as compared to the Group's profit after tax of approximately RMB52.5 million for the six months ended 30 June 2020.

The Company is in the process of preparing the interim results of the Group for the six months ended 30 June 2021. 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 Management Accounts for the Relevant Period, which have not been reviewed by the independent auditors and/or the audit committee of the Company. The actual interim results of the Group for the six months ended 30 June 2021 may differ from what is disclosed in this announcement.

Further announcement in respect of this matter will be made by the Company as when appropriate in accordance with the Listing Rules.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company and to read carefully the announcement of interim results of the Group for the six months ended 30 June 2021, which is expected to be published in August 2021 in accordance with the requirements of the Listing Rules.

By order of the Board
Jianzhong Construction Development Limited
Xun Minghong
Chairman and executive Director

Hong Kong, 29 July 2021

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.