

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 nine months ended 30 September 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 is expected to record a net loss for the Relevant Period of approximately RMB8.8 million (nine months ended 30 September 2020: net profit of approximately RMB54.9 million). The Board considers that the said expected net loss for the Relevant Period was primarily attributable to:

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

During the period from 1 January 2017 to the end of the Relevant Period, the Group has performed construction services and leasing of equipment services to certain projects of a real estate developer in the PRC, and generate an aggregate revenue of approximately RMB266.1 million. As at 30 September 2021, the gross carrying

amount of trade receivables, bills receivable and contract assets in respect of these projects was approximately RMB88.2 million, of which ECLs of approximately RMB23.4 million has been made.

The management are aware of a series of negative news and announcements over the financial conditions of the real estate developer. In this regard, and taking into account the recent repayment records, the management decided to reverse loss allowance of ECLs of approximately RMB23.4 million and make individual loss allowance of approximately RMB74.9 million on the trade receivables, bills receivable and contract assets of the construction projects related to the real estate developer. To reduce the exposure of credit risk, the Group has ceased tendering for construction project with the real estate developer, and has taken legal actions against certain subsidiaries of the real estate developer to recover the remaining balances.

Moreover, as more long-aged trade and bills receivables were recorded as at 30 September 2021 as compared to that as at 31 December 2020, the amount of loss allowance for ECLs on assets arising from contracts with customers, after reversal of the loss allowance of ECLs of approximately RMB23.4 million for the real estate developer as mentioned above, increased by approximately RMB14.0 million during the Relevant Period. The increase in long-aged trade and bills receivables was primarily due to the following reasons:

- tightened credit policy towards the property developers, which led to the delay in payment made by the customers to the Group; and
- the final contract amounts of certain completed projects were pending for verification by customers. The remaining balance will be settled upon completion of verification of final contract sum.

Based on the above, the total impairment losses on trade receivables and contract assets recognised in profit or loss during the Relevant Period was approximately RMB88.9 million, which comprise of the individual loss allowance of approximately RMB74.9 million and the net increase in loss allowance for ECLs of approximately RMB14.0 million disclosed above.

ii) the decrease in gross profit margin of construction service

Pursuant to relevant accounting standards and policies adopted by the Group, construction revenue is recognised progressively over time using the output method, based on direct measurements of the value of contract work performed, whilst costs for construction services are expensed in the period in which they are incurred. During the nine months ended 30 September 2021, a relatively high portion of

sub-contractor projects of the Group, as compared to the corresponding period in 2020, went through completion phases, in which a relatively lower gross profit margin is generally recorded since revenue has been recognised in earlier stage of the projects according to the progress certificates issued by customers while certain unbillable costs, such as inspection costs and costs to make good of defects in relation to works done by the Group in such projects, were incurred in the completion phases. Coupled with the general lower profit margin of main contractor business than sub-contractor business, it led to a lower overall gross profit margin.

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

iii) the increase in research and development costs

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

iv) the increase in staff costs and finance costs

In order to balance the source of revenue, the Group has secured more leasing contracts during the Relevant Period. To support the expansion of the leasing business, the Group has employed more staff and acquired additional construction machinery and equipment. As a result, more staff costs were incurred and the balance of loans and borrowings increased as at 30 September 2021 to finance the Group's operation and capital investment, as compared to the corresponding date of 2020, and thus more staff costs and finance costs were incurred during the Relevant Period.

Based on the information currently available to the Company, the aforesaid adverse factors are expected to continue to affect the Group and the operating environment of the Group in the year ending 31 December 2021. Accordingly, the Board expects that the Group's operating results for the year ending 31 December 2021 will substantially deteriorated as compared to that for the year ended 31 December 2020.

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.

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

Fuzhou, 15 November 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.