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中國建築興業集團有限公司

CHINA STATE CONSTRUCTION DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 830)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

FINANCIAL HIGHLIGHTS

	2022	2021	Change
RESULTS (HK\$'000)			
Revenue	7,668,983	6,294,827	21.8%
Profit attributable to owners of the Company	421,852	291,976	44.5%
FINANCIAL INFORMATION PER SHARE			
Earnings – basic (HK cents)	19.11	13.55	41.0%

The board of directors (the “Board”) of China State Construction Development Holdings Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2022, together with the comparative figures for 2021 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
Revenue	3	7,668,983	6,294,827
Costs of sales	5	<u>(6,843,678)</u>	<u>(5,617,973)</u>
Gross profit		825,305	676,854
Other income and gains, net	4	25,432	22,622
Administrative, selling and other operating expenses	5	(291,422)	(273,993)
Share of profit of an associate		116	44
Finance costs	6	<u>(51,217)</u>	<u>(29,554)</u>
Profit before tax		508,214	395,973
Income tax charge	7	<u>(98,254)</u>	<u>(112,066)</u>
Profit for the year		<u>409,960</u>	<u>283,907</u>
Profit/(loss) for the year attributable to:			
Owners of the Company		421,852	291,976
Non-controlling interests		<u>(11,892)</u>	<u>(8,069)</u>
		<u>409,960</u>	<u>283,907</u>
Earnings per share attributable to owners of the Company			
Earnings per share			
Basic and diluted	9	<u>HK19.11 cents</u>	<u>HK13.55 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 HK\$'000	2021 HK\$'000
Profit for the year	409,960	283,907
Other comprehensive income/(loss)		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(106,297)	99,172
Exchange differences arising on translation of an associate	222	(211)
Net other comprehensive (loss)/income that may be reclassified to profit or loss	(106,075)	98,961
<i>Items that will not be reclassified to profit or loss:</i>		
Gain on fair value changes of investment properties transferred from property, plant and equipment, net of tax	10,943	-
Other comprehensive income that will not be reclassified to profit or loss	10,943	-
Other comprehensive (loss)/income for the year, net of tax of nil	(95,132)	98,961
Total comprehensive income for the year, net of tax	314,828	382,868
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	327,791	390,402
Non-controlling interests	(12,963)	(7,534)
	314,828	382,868

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current Assets			
Property, plant and equipment		2,019,759	2,269,207
Investment properties		18,864	-
Interests in infrastructure project investments	<i>10</i>	40,075	64,539
Interests in an associate		8,900	5,375
Goodwill		87,649	112,649
Deferred tax assets		110,497	169,302
		2,285,744	2,621,072
Current Assets			
Interests in infrastructure project investments	<i>10</i>	24,440	68,390
Inventories		173,255	154,153
Contract assets		3,998,389	2,449,554
Trade and other receivables	<i>11</i>	1,798,611	1,499,030
Deposits and prepayments		153,095	210,356
Tax recoverable		12,908	1,190
Amounts due from fellow subsidiaries		878,582	877,780
Cash and cash equivalents		974,838	928,104
		8,014,118	6,188,557
Current Liabilities			
Bank borrowings	<i>12</i>	419,794	824,563
Contract liabilities		839,819	911,443
Trade payables, other payables and accruals	<i>13</i>	3,486,177	2,072,159
Lease liabilities		23,364	24,786
Deposits received		31,823	41,480
Current tax payables		135,565	178,775
Amount due to an intermediate holding company		-	6,992
Amounts due to fellow subsidiaries		1,775,248	1,690,967
Loan from an intermediate holding company		-	170,000
		6,711,790	5,921,165
Net current assets		1,302,328	267,392
Total Assets less Current Liabilities		3,588,072	2,888,464

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Capital and Reserves			
Share capital	14	22,555	21,555
Share premium and reserves		<u>2,069,770</u>	<u>1,649,180</u>
Equity attributable to owners of the Company		2,092,325	1,670,735
Non-controlling interests		<u>(98,640)</u>	<u>(85,677)</u>
		<u>1,993,685</u>	<u>1,585,058</u>
Non-current Liabilities			
Contract liabilities		661,084	766,736
Bank borrowings	12	906,012	508,593
Lease liabilities		23,771	24,557
Deferred tax liabilities		<u>3,520</u>	<u>3,520</u>
		<u>1,594,387</u>	<u>1,303,406</u>
		<u>3,588,072</u>	<u>2,888,464</u>

NOTES

(1) BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all 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. They have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(2.1) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

(2.1) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that is applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

(2.2) ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ²
HKFRS 17	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{1,5}
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 - Comparative Information</i> ⁶
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")</i> ^{2,4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i> ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

The Group will adopt the above new standards and amendments to existing standards as and when they become effective. None of the above is expected to have a significant effect on the consolidated financial statements of the Group.

(3) REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the facade contracting business, general contracting business and operating management business. The Group's revenue represents revenue from construction and management contracts.

The Group has classified the reportable segments into three operating segments, principally based on reportable business units as well as the reporting organisation hierarchy, which are determined as follows:

- Facade Contracting Works
- General Contracting Works
- Operating Management

Operating management segment includes the Group's urban planning management and consultation services, engineering consultancy services, thermoelectricity business and funding to infrastructure projects.

The executive directors of the Company are the Group's chief operating decision-maker ("CODM"). The CODM assesses the performance of the operating segments based on a measure of adjusted profit or loss before interest and tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, if any, such as restructuring costs, legal expenses and impairment of goodwill. The measurement also excludes the effects of share-based payments and unrealised gains/losses on financial instruments. Interest income and expenses resulting from the central treasury function are not allocated to segments.

Segment results for the years ended 31 December 2022 and 2021 are as follows:

	Revenue		Gross profit		Segment result	
	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Facade Contracting Works	5,784,122	4,478,100	695,819	356,339	589,143	249,345
General Contracting Works	894,992	806,592	4,211	99,161	1,743	96,659
Operating Management	989,869	1,010,135	125,275	221,354	63,749	181,442
Total	<u>7,668,983</u>	<u>6,294,827</u>	<u>825,305</u>	<u>676,854</u>	<u>654,635</u>	<u>527,446</u>
Unallocated corporate expenses					(108,765)	(106,014)
Other income and gains, net					13,445	4,051
Share of profit of an associate					116	44
Finance costs					<u>(51,217)</u>	<u>(29,554)</u>
Profit before tax					<u>508,214</u>	<u>395,973</u>

Segment revenue of Facade Contracting Works comprises revenue from Hong Kong, Mainland China and other region amounting to HK\$5,263,887,000 (2021: HK\$3,956,043,000) and revenue from North America region amounting to HK\$520,235,000 (2021: HK\$522,057,000). Segment revenue of General Contracting Works and Operating Management represent revenue from Hong Kong and Mainland China.

(3) REVENUE AND SEGMENT INFORMATION (continued)

Amounts of administrative, selling and other operating expenses included in the measurement of segment result:

	Depreciation of property, plant and equipment		Loss/(gain) on disposal of items of property, plant and equipment	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Facade Contracting Works	15,927	16,154	(26)	(214)
General Contracting Works	24	117	-	-
Operating Management	10,034	3,385	107	(60)
	<u>25,985</u>	<u>19,656</u>	<u>81</u>	<u>(274)</u>

An analysis of the Group's financial position by territory is as follows:

	Non-current assets*		Addition to property, plant and equipment	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Hong Kong, Mainland China and Others	1,566,333	1,746,180	89,924	68,868
North America	568,839	641,051	444	162,020
	<u>2,135,172</u>	<u>2,387,231</u>	<u>90,368</u>	<u>230,888</u>

* Other than deferred tax assets and interests in infrastructure project investments.

Segment assets and liabilities

No assets and liabilities are included in the measurements of the Group's segment reporting that are used by the CODM for performance assessment and resource allocation. Accordingly, no segment assets and liabilities are presented.

Major customer information

For the year ended 31 December 2022, two customers in Facade Contracting Works each contributed revenue more than 10 per cent of the Group's total revenue (2021: two customers each contributed revenue more than 10 per cent of the Group's total revenue).

(4) OTHER INCOME AND GAINS, NET

	For the year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Bank interest income	5,581	4,760
Exchange gain, net	3,946	8,990
Insurance claim received	16	305
Gain on disposal of items of property, plant and equipment	-	274
Rental income	644	284
Service income	4,620	5,477
Sundry income	6,269	2,532
Gain on fair value changes of investment properties	4,356	-
	<u>25,432</u>	<u>22,622</u>

(5) EXPENSES BY NATURE

	For the year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging/(crediting):		
Costs of sales		
Costs of contracting works performed	6,210,459	5,030,810
Costs of supply of heat, steam and electricity	611,419	569,138
Warranty provisions, net	21,800	18,025
	6,843,678	5,617,973
Administrative, selling and other operating expenses		
Staff costs, including directors' emoluments:		
Salaries, bonuses and allowances *	1,128,192	1,042,858
Retirement benefits scheme contributions **	93,265	74,703
Less: Amounts included in costs of sales	(1,082,979)	(945,880)
	138,478	171,681
Depreciation of property, plant and equipment, excluding right-of-use assets	118,583	146,370
Less: Amounts included in costs of sales	(101,767)	(137,094)
	16,816	9,276
Depreciation of right-of-use assets	33,910	28,486
Less: Amounts included in costs of sales	(23,641)	(18,106)
	10,269	10,380
Expenses relating to short-term leases	19,542	24,925
Less: Amounts included in costs of sales	(18,409)	(23,767)
	1,133	1,158
Auditor's remuneration		
Audit services	2,711	2,614
Non-audit services	604	291
	3,315	2,905
Provision of trade and other receivables, net	38,272	628
Impairment of goodwill	25,000	17,000
Loss on disposal on items of property, plant and equipment	81	-
Others	58,058	60,965
	291,422	273,993

Note:

* Wage subsidies of HK\$7,535,000 and HK\$Nil granted from the Employment Support Scheme under Anti-Epidemic Fund in Hong Kong and the "Canada Emergency Wage Subsidy", respectively, had been received during the year ended 31 December 2022 (2021: Wage subsidies of HK\$Nil and HK\$3,163,000 granted from the Employment Support Scheme under Anti-Epidemic Fund in Hong Kong and the "Canada Emergency Wage Subsidy", respectively, had been received). The amounts were recognised in costs of sales and administrative, selling and other operating expenses and had been offset against the employee benefit expenses. There are no unfulfilled conditions or contingencies relating to these grants.

** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

(6) FINANCE COSTS

	For the year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Interest on bank loans and overdrafts	47,315	25,920
Interest on lease liabilities	2,639	1,920
Interest on loan from an intermediate holding company	1,263	4,205
	<u>51,217</u>	<u>32,045</u>
Less: Amounts capitalised in property, plant and equipment	-	(2,491)
	<u>51,217</u>	<u>29,554</u>

(7) INCOME TAX CHARGE

	For the year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
The amount of taxation charged to the consolidated income statement represents:		
Current tax — Hong Kong profits tax		
Provision for the year	41,057	43,846
(Over)/under-provision in prior years	(107)	85
	<u>40,950</u>	<u>43,931</u>
Current tax — Mainland China and overseas		
Provision for the year	<u>7,750</u>	<u>58,575</u>
Deferred tax		
Write-down of deferred tax assets	50,000	13,000
Credit for the year	(446)	(3,440)
	<u>49,554</u>	<u>9,560</u>
Income tax charge for the year	<u>98,254</u>	<u>112,066</u>

Hong Kong profits tax has been provided at 16.5% of the estimated assessable profit for both years.

The tax charge on estimated assessable profits elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices.

(8) DIVIDENDS

	For the year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Interim dividend paid of HK4.1 cents per ordinary share (2021: HK3 cents per ordinary share)	92,477	64,666
Proposed final dividend of HK2.4 cents per ordinary share (2021: HK1.7 cents per ordinary share)	54,133	36,644
	146,610	101,310

The final dividend proposed after 31 December 2022 was not recognised as a liability at 31 December 2022 and is subject to approval by shareholders in the forthcoming annual general meeting.

(9) EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following:

	For the year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	421,852	291,976
	'000	'000
Number of shares		
Weighted average number of ordinary shares used in basic and diluted earnings per share calculation	2,207,874	2,155,545
Basic and diluted earnings per share (HK cents)	19.11	13.55

The Company did not have any dilutive potential ordinary shares during the year ended 31 December 2022 (2021: Nil).

(10) INTERESTS IN INFRASTRUCTURE PROJECT INVESTMENTS

	At 31 December	
	2022	2021
	HK\$'000	HK\$'000
Interests in infrastructure project investments	64,515	132,929
Less: Portion due within one year included in current assets	<u>(24,440)</u>	<u>(68,390)</u>
Portion due after one year	<u>40,075</u>	<u>64,539</u>

On 7 January 2019, the Group acquired 100% of equity interests in and shareholder's loan to Fuller Sky Enterprises Limited ("Fuller Sky") and Value Idea Investments Limited ("Value Idea") from Ever Power Group Limited, a wholly-owned subsidiary of China State Construction International Holdings Limited at a total consideration of HK\$295,000,000.

Interests in infrastructure project investments represent funding denominated in Renminbi ("RMB") for infrastructure projects located in Mainland China. The Group is responsible to provide finance for the construction of the infrastructure of these projects, whereby the Group's return is predetermined in accordance with the provisions of the relevant agreements.

The yield on the infrastructure project investments ranged from 10.2% to 10.7% (2021: 10.2% to 10.7%) per annum. The interests in infrastructure project investments were not past due as at 31 December 2022.

The directors of the Company reviewed individually the infrastructure projects' operations and financial positions as at 31 December 2022 based on the present values of estimated future cash flows from those investments, discounted at their respective original effective interest rates.

(11) TRADE AND OTHER RECEIVABLES

The analysis of trade and other receivables, including the ageing analysis of trade receivables, based on invoice date, and net of provisions, is as follows:

	At 31 December	
	2022	2021
	HK\$'000	HK\$'000
Trade receivables:		
0 to 30 days	347,438	379,758
31 to 60 days	138,530	100,951
61 to 90 days	37,370	17,082
More than 90 days	<u>489,328</u>	<u>307,254</u>
	1,012,666	805,045
Retention receivables	<u>719,844</u>	<u>608,145</u>
	1,732,510	1,413,190
Other receivables	<u>66,101</u>	<u>85,840</u>
Trade and other receivables	<u>1,798,611</u>	<u>1,499,030</u>

Except for the receivables arising from construction contracts which are billed and immediately payable in accordance with the terms of the relevant agreement, the Group generally allows an average credit period not exceeding 90 days (2021: 90 days) to its customers and the retention receivables are repayable approximately one year after the expiry of the defect liability period of construction projects.

(12) BANK BORROWINGS

	At 31 December	
	2022	2021
	HK\$'000	HK\$'000
Bank loan, secured	375,404	11,561
Bank loans, unsecured	950,402	1,321,595
	<u>1,325,806</u>	<u>1,333,156</u>
The borrowings are repayable as follows:		
On demand or within one year	419,794	824,563
In the second year	508,340	551
In the third to fifth years, inclusive	397,672	508,042
	<u>1,325,806</u>	<u>1,333,156</u>
Less: Current portion	<u>(419,794)</u>	<u>(824,563)</u>
Non-current portion	<u>906,012</u>	<u>508,593</u>

At 31 December 2022, bank loans of HK\$10,346,000 (31 December 2021: HK\$11,561,000) are secured by a mortgage on the Group's land and buildings of HK\$14,952,000 (31 December 2021: HK\$16,418,000) and banking facilities of HK\$365,058,000 (31 December 2021: Nil) was secured by a charge over the Group's land and buildings of HK\$401,585,000 (31 December 2021: Nil) and construction in progress of HK\$16,623,000 (31 December 2021: Nil) respectively.

(13) TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

The analysis of trade payables, other payables and accruals, including the ageing analysis of trade payables, based on invoice date, is as follows:

	At 31 December	
	2022	2021
	HK\$'000	HK\$'000
Trade payables:		
0 to 30 days	2,543,342	1,206,687
31 to 60 days	95,621	53,254
More than 60 days	275,478	209,390
	<u>2,914,441</u>	<u>1,469,331</u>
Retention payables	<u>293,971</u>	<u>323,384</u>
	<u>3,208,412</u>	<u>1,792,715</u>
Other payables and accruals	<u>277,765</u>	<u>279,444</u>
Trade payables, other payables and accruals	<u>3,486,177</u>	<u>2,072,159</u>

(14) SHARE CAPITAL

	Issued and fully paid	
	Number of	Share capital
	shares	Amount
	'000	HK\$'000
Ordinary shares of HK\$0.01 each At 1 January 2021, 31 December 2021 and 1 January 2022	2,155,545	21,555
Issue of ordinary shares (Note)	<u>100,000</u>	<u>1,000</u>
Ordinary shares of HK\$0.01 each At 31 December 2022	<u>2,255,545</u>	<u>22,555</u>

Note: On 24 June 2022, an aggregate of 100,000,000 ordinary shares were issued at the price of HK\$2.20 per share pursuant to the placing and subscription agreement dated 20 June 2022 and net proceeds of approximately HK\$219,000,000 (after deducting relevant expenses) were raised.

BUSINESS REVIEW

In 2022, the Group continuously focused on the principal business of facade contracting, adhered to the business strategy of “Expanding Hong Kong and Macau, Developing Mainland China and Shrinking Overseas”, leveraged the brand advantages of “Far East Facade”, fully seized the market opportunities, empowered business development with innovative technologies, reduced cost and increased efficiency through refined management, and achieved rapid growth in the core performance indicators.

Market Conditions

In 2022, geopolitical divergence was intensified and the Russian-Ukraine conflict triggered energy and food crises and supply chain blockades, and global inflation remained high. In order to curb inflation, the United States raised interest rates seven times during the year, which continuously triggered a wave of global interest rate hikes and slowed down the global economic growth. By upholding giving priority to stability and seeking growth in stability and adopting a loose monetary policy of cutting interest rate and reserve requirements, China achieved steady economic growth. Rooted in Hong Kong and Macau, and facing Mainland China, the Group adhered to the marketing strategy of “big markets, big landlords, big projects”, as well as the prudent bidding strategy, fully leveraged the internal synergies, and proactively explored high-end facade projects with brand effect. In 2022, the newly signed contract amounted to HK\$10,127 million, exceeding HK\$10,000 million for the first time. During the year, the Company continued to maintain its leading position in the facade market in Hong Kong, won the bidding for Phase IV of Galaxy project in Macau, the world’s largest contract value of stand-alone building facade, and hit a record high in the newly awarded contract value of the facade business in Hong Kong and Mainland China. Moreover, the Company maintained steady growth in its general contracting business as well as high-quality development in its mainland business operations.

1. Contracting Engineering Business

Facade contracting Business

Hong Kong and Macau regions are the long-established key markets of the Group. The Group continued to strengthen its brand effect, competitive edge and performance capabilities, and further enhanced its leading position in the facade market of Hong Kong. As a recognised premium provider of overall high-end facade solutions in Hong Kong and Macau, the Group focused on deepening the strategic cooperation with existing major clients, actively expanding its strategic client base and enhancing synergies within the Group. The Group achieved outstanding performance in the Hong Kong and Macau markets and successively secured large-scale residential and commercial projects. In 2022, the Group’s newly awarded facade projects in Hong Kong and Macau included Phase 4 of Galaxy project in Macau, Kai Tak No. 6551, 6554 and 6577 of the large-scale residential projects, Chinese Medicine Hospital project in Tseung Kwan O and Kai Tak Acute Hospital project in Hong Kong. The Group carefully organized the internal design, procurement, production and installation resources, vigorously implemented the project incentive mechanism and strengthened safety control to ensure construction period, quality, safety and efficiency of the projects.

There is huge potential in the facade market in Mainland China, but the price competition in the industry is severe. In 2022, the Group continued to adhere to the competitive strategy of differentiation. Relying on its high-end brand, high-end technologies, experience accumulated in challenging projects and the influence of reliable quality established by “Far East Facade”, the Group focused on “big markets, big landlords, and big projects”, and hit a record high in the newly awarded contract value. During the year, the Group won the bid for a number of iconic facade projects in Mainland China, including No. 2&5 building of OPPO’s Chang’an R&D Centre, Lailai Nanping Times Square, ByteDance’s office building in Chengdu and Huawei’s R&D and Production building in Qingpu District, Shanghai.

The Group attaches great importance to technological innovation empowering its principal facade business and continues to enhance its core competitiveness. Boasting the world’s leading technologies in the facade of super-tall skyscrapers and the complex hyperbolic special-shaped facade, the Group has industry-leading automated production lines and equipment, as well as the intelligent manufacturing information system of the entire industry chain, which greatly enhances the Group’s capabilities in refined management, and continuously improves the project efficiency and performance quality. During the year, the Group successfully launched the photovoltaic facade product – Light S, continued to develop new photovoltaic facade products, explored the blue ocean field of photovoltaic facade, and led the development of green buildings in the industry.

General Contracting Business

The general contracting business has been developing steadily. The Group actively participated in the bidding of small and medium-sized housing construction projects in Hong Kong and deepened the internal collaboration. Moreover, its projects in progress had been carried out smoothly, with the residential project at 128 Wong Ma Kok Road, Stanley being implemented in an orderly manner.

2. Operating Management Business

While reinforcing and optimising the existing supervision business, China Overseas Supervision under the Group proactively transformed into a full-process consultation business, and successfully won the bid for the first municipal whole-process consulting project, Longlan Avenue North Extension Project.

While proactively expanding its heat supply market, Huanggu Thermoelectricity, a subsidiary of the Group, deeply explored the possibilities for energy saving and consumption reduction. During the year, it accurately regulated the heat supply parameters through the intelligent control systems, sharply reduced the consumption of coal-fired and hydropower and achieved significant emission reduction effect.

Overall Results

Our facade contracting business in Hong Kong continued to benefit from the good progress on existing projects and achieved record-high revenue and profit. Capitalising on its strong order book and proven execution capabilities, the Group recorded aggregate revenue of HK\$7,669 million (2021: HK\$6,295 million) the year ended 31 December 2022, an increase of 21.8% as compared to last year. The profit attributable to owners of the Company was HK\$422 million (2021: HK\$292 million), an increase of 44.5% as compared to last year. The basic earnings per share was HK19.11 cents which was calculated based on diluted weighted average number of shares (2021: HK13.55 cents), an increase of 41.0% as compared to last year. In consideration of the Company’s profitability, cash flow level and capital requirements for future development, the Board recommends a final dividend of HK2.4 cents per share.

Segment analysis

Facade Contracting Business

As a result of good progress on curtain wall projects in Hong Kong and Mainland China, the segment's revenue increased to HK\$5,784 million for the year ended 31 December 2022 (2021: HK\$4,478 million), representing an increase of 29.2% as compared to last year. The gross profit increased to HK\$696 million for the year ended 31 December 2022 (2021: HK\$356 million), representing an increase of 95.5% as compared to last year. The operating profit increased by 1.4 times to HK\$589 million for the year ended 31 December 2022 (2021: HK\$249 million) as compared to last year.

General Contracting Business

As a result of the commencement of construction works of the new project awarded in 2021, the segment's revenue recorded an increase to HK\$895 million for the year ended 31 December 2022 (2021: HK\$807 million). The operating profit decreased to HK\$2 million for the year ended 31 December 2022 (2021: HK\$97 million) due to the fact that the certain profitable projects substantially completed in 2021 have made less contribution in 2022.

Operating Management Business

Affected by the depreciation of the Renminbi on revenue and the increase of cost of coal of the thermoelectric plant in mainland China, the segment's revenue decreased to HK\$990 million for the year ended 31 December 2022 (2021: HK\$1,010 million) and the operating profit decreased to HK\$64 million for the year ended 31 December 2022 (2021: HK\$181 million) respectively.

Administrative, selling and other operating expenses

With the expansion of facade contracting business, administrative, selling and other operating expenses increased by 6.2% to HK\$291 million for the year ended 31 December 2022 (2021: HK\$274 million).

Finance costs

For the year ended 31 December 2022, the Group's finance costs increased to HK\$51 million (2021: HK\$30 million) as a result of the reduction in interest capitalisation of a certain property and the interbank offered rate rising in the second half of the year. Excluding the effect of interest capitalization, the finance costs increased by 21%.

New Contracts Awarded and Project in Progress

The Group recorded an accumulated new contract value of HK\$10,127 million for the year ended 31 December 2022 and achieved the full year target of 2022.

As of 31 December 2022, the on-hand contract value amounted to approximately HK\$26,108 million, among which the backlog was approximately HK\$13,403 million.

Business Segments	New Contract Awarded (HK\$ million)	Project in Progress	
		Total Value (HK\$ million)	Backlog (HK\$ million)
Facade Contracting	8,594	20,358	10,996
General Contracting	524	4,110	1,713
Operating Management	1,009	1,640	694
Total	10,127	26,108	13,403

Financial Management

The Group generally finances its operation with internally generated cash flow and credit facilities provided by its principal bankers. At 31 December 2022, the Group had cash and cash equivalents of HK\$975 million (31 December 2021: HK\$928 million), total borrowings of the Group were HK\$1,326 million (31 December 2021: HK\$1,333 million). The Group's net gearing ratio (net debt to total net assets) as at 31 December 2022 was approximately 17.6% (31 December 2021: 25.6%). Furthermore, the Group had unutilised banking facilities (including performance guarantee facilities, working capital facilities and loan facilities) of approximately HK\$2,030 million, the Group had sufficient financial resources to meet the business development and expansion. The Group's borrowings are principally on a floating rate basis and have not been hedged by any interest rate financial instruments.

The maturities of the Group's total bank borrowings as at 31 December 2022 and 31 December 2021 are set out as follows:

	31 December 2022 HK\$'000	31 December 2021 HK\$'000
On demand or within one year	419,794	824,563
In the second year	508,340	551
In the third to fifth years, inclusive	397,672	508,042
	<u>1,325,806</u>	<u>1,333,156</u>

Top-up placing of shares of the Company

In order to raise further capital for the Company, on 20 June 2022, China International Capital Corporation Hong Kong Securities Limited, Haitong International Securities Company Limited (together, the "Placing Agents"), Add Treasure Holdings Limited ("Add Treasure") and the Company entered into a placing and subscription agreement pursuant to which the Placing Agents agreed to place, up to 100,000,000 ordinary shares of the Company held by Add Treasure to six or more independent placees, being professional, institutional and/or other investors, at a price of HK\$2.20 per share (the "Placing") and Add Treasure agreed to subscribe for, and the Company agreed to allot and issue to Add Treasure, ordinary shares of the Company at a price of HK\$2.20 per share, in the same amount as the total number of ordinary shares actually placed (the "Subscription"). The Placing was completed on 22 June 2022 and an aggregate of 100,000,000 ordinary shares were issued to Add Treasure at the price of HK\$2.20 per share on 24 June 2022. The closing price of the shares was HK\$2.16 per share as quoted on the Stock Exchange on 17 June 2022, being the date of the last trading day immediately prior to the date of the placing and subscription agreement. The net proceeds from the Subscription (after deducting related expenses) were approximately HK\$219,000,000, representing a net price of HK\$2.19 per share and approximately 70.78% and 29.22% of which would be used as general working capital for material and contracting payments for facade projects in Macau and Hong Kong, respectively. The net proceeds were fully utilised as at 31 December 2022.

As at 31 December 2022, the Group's equity attributable to owners of the Company amounted to HK\$2,092 million (31 December 2021: HK\$1,671 million), comprising issued capital of HK\$23 million (31 December 2021: HK\$22 million) and reserves of HK\$2,069 million (31 December 2021: HK\$1,649 million).

Treasury Policy

The Group adopts a conservative treasury policy in cash and financial management. The Group's treasury activities are centralized in order to achieve better risk control and minimize funding cost. Cash is generally placed in short-term deposits mostly denominated in Hong Kong dollar or Renminbi. The Group's liquidity and financing requirements are frequently reviewed. In anticipating new investments or maturity of bank loans, the Group will consider new financing while maintaining an appropriate level of gearing.

In 2022, the net cash inflow from operating activities was HK\$246 million.

Human Resource Management

At 31 December 2022, the Group employed a total of 4,964 (31 December 2021: 4,434) employees. The Group has sound policies of management incentives and competitive remuneration, which align the interests of management, employees and shareholders' alike. The Group sets its remuneration policy by reference to the prevailing market conditions and the performance of the individuals concerned, subject to review from time to time. The components of the remuneration package consist of base salary, allowances, fringe benefits including medical insurance and contributions to pension funds as well as incentives such as discretionary bonus.

PROSPECTS

Looking ahead to 2023, due to various uncertain factors such as geopolitical conflicts, high inflation, and repeated epidemics, it is expected that the global economic growth will continue to slow down and the growth of developed economies such as the United States and the European Union will weaken significantly. However, China's economy is expected to grow rapidly as it further optimizes epidemic prevention and control measures and vigorously implements favorable policies to expand domestic demand. With the reopening of Hong Kong, Macau, mainland China and other countries, the economy is expected to recover strongly, which will further release the demand for construction in Hong Kong and Macau. Meanwhile, the deepening of the construction of the Guangdong-Hong Kong-Macau Greater Bay Area will also bring significant development opportunities to the construction industry in Hong Kong and Macau.

Business and Development Strategies

The facade contracting business is the Group's core business. With the business philosophy of "closely focusing on high-end markets and providing high-quality services", the Group will integrate advantage of resources, improve its operational and management and control models by taking into consideration the features of various markets, and optimise business deployment. It will further develop the Hong Kong and Macau markets and steadily explore the Mainland China market, and reduce the proportion of overseas markets in an orderly manner. The Group will further utilise and integrate existing resources and production capacity, continue to strengthen the construction period, quality, safety, capital and cost management of projects, improve the synergies created during the design, production and installation processes, strengthen its capabilities in research and development as well as innovation, and enhance its comprehensive competitiveness in the facade business. To maintain the desired level profitability, the Group will further increase its brand promotion and market expansion, strengthen the management of projects on hand, consolidate its core competitiveness in design, procurement, production and construction, and strictly control the project risks.

Committed to building its design teams, the Group will strengthen such function in Hong Kong and North America while expanding the design team in Mainland China, and will continuously recruit professional talents to meet the personnel demand at the peak time. Meanwhile, the Group will provide stronger support to its overseas staff members through measures such as setting up an overseas core management team and establishing a basic welfare system for the remuneration and benefits of its employees working overseas, so as to maintain the stability of overseas teams and enhance its cohesiveness and performance capability.

Through continuous exploration and practices, the Board and the management aim to establish and maintain a healthy system where various stakeholders, including shareholders, the Board, the management, employees, customers and suppliers, facilitate each other and contribute to the sustainable growth of the Group's profitability and capacity.

FINAL DIVIDEND

The Board recommends a final dividend of HK2.4 cents per share (2021 final dividend: HK1.7 cents per share), payable on Thursday, 6 July 2023, to shareholders whose names appear on the register of members of the Company on Friday, 16 June 2023. Together with the interim dividend of HK4.1 cents per share, the full year dividend will amount to HK6.5 cents per share (2021 full year dividend: HK4.7 cents per share). The proposed final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The 2023 annual general meeting of the Company ("AGM") will be held on Tuesday, 6 June 2023. The notice of the AGM, which constitutes part of the circular to the shareholders of the Company, will be sent together with the 2022 Annual Report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

- (a) For the purpose of determining shareholders' right to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 1 June 2023 to Tuesday, 6 June 2023 (both days inclusive). In order to qualify for attending and voting at the AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 31 May 2023.
- (b) For the purpose of determining shareholders' entitlement to the final dividend, the register of members of the Company will be closed on Thursday, 15 June 2023 and Friday, 16 June 2023 (both days inclusive). In order to qualify for the proposed final dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 14 June 2023.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries has made any purchase, sale or redemption of any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2022 with all applicable code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

IMPORTANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

Save as disclosed herein, there is no material subsequent event undertaken by the Company or the Group since the end of the financial year and up to the date of this announcement.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding Directors’ securities transactions. All Directors have confirmed that they have complied with the Model Code in their securities transactions throughout the year ended 31 December 2022.

REVIEW OF ACCOUNTS

The audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2022 have been reviewed by the Audit Committee which comprises three Independent Non-executive Directors.

SCOPE OF WORK OF ERNST & YOUNG

The financial figures on page 2 to page 15 of this announcement have been agreed by the Company’s external auditor, Ernst & Young, to the amounts set out in the Group’s consolidated financial statements for the year ended 31 December 2022. The work performed by Ernst & Young in this respect did not constitute an 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 opinion or assurance conclusion has been expressed by Ernst & Young on this announcement.

APPRECIATION

I would like to take this opportunity to express my heartfelt gratitude to all shareholders, customers and suppliers for their strong support, and to all employees for their hard work and commitment.

By Order of the Board
**China State Construction Development
Holdings Limited**
Zhang Haipeng
Chairman and Non-executive Director

Hong Kong, 20 March 2023

As at the date of this announcement, the Board comprises Mr. Zhang Haipeng as Chairman and Non-executive Director; Mr. Wu Mingqing (Vice Chairman and Chief Executive Officer), Mr. Wang Hai and Mr. Wong Man Cheung as Executive Directors; Mr. Huang Jiang as Non-executive Director; and Mr. Zhou Jinsong, Ms. Chan Man Ki Maggie and Mr. Zhang Xinyu as Independent Non-executive Directors.