

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.

Zhongtian Construction (Hunan) Group Limited

中天建設（湖南）集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2433)

**RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023**

The board (“**Board**”) of directors (the “**Directors**”) of Zhongtian Construction (Hunan) Group Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2023 (“**FY2023**”) together with the comparative audited figures for the previous year ended 31 December 2022 (“**FY2022**”) as follows:

FINANCIAL HIGHLIGHT

For FY2023, our revenue generated from construction contracts increased by approximately RMB62.8 million or 3.3% from approximately RMB1,881.4 million in FY2022 to approximately RMB1,944.2 million in FY2023.

For FY2023, our overall gross profit margin remained relatively stable at approximately 10.9% for FY2022 and 11.1% for FY2023.

Our net profit decreased by approximately RMB19.5 million in FY2023 as compared to FY2022.

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

	<i>Notes</i>	For the year ended 31 December	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	1,952,122	1,890,660
Cost of sales		(1,735,969)	(1,684,101)
Gross profit		216,153	206,559
Other income and other gains, net	6	978	850
Administrative expenses		(128,982)	(117,546)
Listing expenses		(10,166)	(6,181)
Impairment on financial and contract assets, net		(17,351)	(2,543)
Finance costs	7	(7,785)	(7,408)
Profit before income tax	8	52,847	73,731
Income tax expense	9	(6,857)	(8,243)
Profit and total comprehensive income for the year		<u>45,990</u>	<u>65,488</u>
Profit and total comprehensive income for the year attributable to			
Owners of the Company		45,277	64,471
Non-controlling interests		713	1,017
		<u>45,990</u>	<u>65,488</u>
Earnings per share attributable to owners of the Company			
Basic and diluted (expressed in RMB cents per share)	11	<u>10.04</u>	<u>17.91</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2023	2022
Notes		<i>RMB'000</i>	<i>RMB'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
		21,262	19,566
		6,843	4,107
		41	45
		28,146	23,718
Current assets			
		801	828
	12	453,522	434,116
		1,476,028	1,127,150
		—	8,318
		—	4,352
		19,061	17,599
		59,609	151,661
		2,009,021	1,744,024
Current liabilities			
	13	808,587	788,363
	14	15,000	15,000
		557,309	420,745
		9,497	17,267
		—	8,618
		—	5,806
		—	748
		338	—
		108,362	136,705
		18,121	11,334
		1,517,214	1,404,586
		491,807	339,438
		519,953	363,156

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities		
Lease liabilities	1,464	—
Borrowings	6,029	3,425
	<u>7,493</u>	<u>3,425</u>
NET ASSETS	<u>512,460</u>	<u>359,731</u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	4,245	1
Reserves	497,579	349,807
	<u>501,824</u>	<u>349,808</u>
Non-controlling interests	10,636	9,923
TOTAL EQUITY	<u>512,460</u>	<u>359,731</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

Zhongtian Construction (Hunan) Group Limited (the “**Company**”) is a limited liability company incorporated in the Cayman Islands on 27 March 2020. The Company’s registered office is located at 71 Fort Street, P.O. Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands. The principal place of business of the Company is located in the People’s Republic of China (the “**PRC**”).

The Company, an investment holding company, and its subsidiaries (collectively referred as the “**Group**”) are principally engaged in the provision of construction services in the PRC.

2. BASIS OF PREPARATION

The consolidated financial statements has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The consolidated financial statements also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The consolidated financial statements has been prepared on the historical cost basis and is presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company.

The HKICPA has issued a number of new and amended HKFRSs which are relevant to the Group and became effective during the period. For the purpose of preparing and presenting the consolidated financial statements for the year, the Group has adopted all new and amendments to HKFRSs that are effective during the year and has applied them consistently throughout the year.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new and amendments to HKFRSs — effective 1 January 2023

HKICPA has issued a number of new and amendments to HKFRSs that are first effective for the current accounting period of the Group:

HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules

Other than the amendments to HKAS 1 and HKFRS Practice Statement 2, none of these new or amended HKFRSs has a material impact on the Group’s results and financial position for the current or prior period.

The Group has not early applied any amended HKFRSs that is not yet effective for the current accounting period. Impact on the applications of these amendments to HKFRSs are summarised below.

Disclosure of Accounting Policies (Amendments to HKAS 1 Presentation of Financial Statements and HKFRS Practice Statement 2 Making Materiality Judgements)

The HKICPA issued HKFRS Practice Statement 2 Making Materiality Judgements in March 2021 to provide entities with non-mandatory guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with HKFRS. In April 2021, the HKICPA issued amendments to HKAS 1 and HKFRS Practice Statement 2. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose “significant accounting policies” with “material accounting policy information”. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

These amendments have no effect on the measurement or presentation of any items in the consolidated financial statements of the Group but affect the disclosure of accounting policies of the Group.

(b) New and amendments to HKFRSs that have been issued but are not yet effective

The following amendments to HKFRSs have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
HK Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

¹ Effective for annual periods beginning on or after a date to be determined

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

³ Effective for annual periods beginning on or after 1 January 2025

The directors of the Company do not anticipate that the application of the amendments to HKFRSs will have material impact on the Group's consolidated financial statements and/or the disclosures to the Group's consolidated financial statements.

4. SEGMENT INFORMATION

(a) Operating segment information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance.

Management has determined the operating segments based on the reports reviewed by chief operating decision maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in the provision of construction services in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Company regards that there is only one segment which is used to make strategic decisions.

The major operating entities of the Group is domiciled in the PRC. Accordingly, all of the Group's revenue were derived in the PRC during the periods.

As at 31 December 2023 and 2022, all of the non-current assets were located in the PRC.

(b) Information about major customer

Revenue from customers of the corresponding years accounting for 10% or more of the Group's revenue for the year, is set out below:

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	<u>N/A*</u>	<u>265,507</u>

* Transactions did not exceed 10% of the Group's revenue.

5. REVENUE

Revenue represents the revenue from construction contracts and provision of construction machinery and equipment for construction projects.

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue from construction contracts		
Civil building construction	974,816	857,897
Municipal works construction	618,360	735,037
Foundation works	21,200	24,325
Prefabricated steel structure construction works	265,167	257,670
Other specialised contracting works	64,674	6,488
Revenue from provision of construction machinery and equipment service	7,905	9,243
	<u>1,952,122</u>	<u>1,890,660</u>

6. OTHER INCOME AND OTHER GAINS, NET

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Interest income on bank deposits	465	502
Government grants (<i>Note</i>)	255	211
Loss on disposal of property, plant and equipment	(7)	—
Others	265	137
	<u>978</u>	<u>850</u>

Note:

These represented grants to incentivise the development of the Group, of which the entitlement was unconditional and one-off in nature.

7. FINANCE COSTS

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interest charge on lease liabilities	10	5
Interest charge on borrowings	7,775	7,403
	<u>7,785</u>	<u>7,408</u>

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging the followings:

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories	727,921	715,675
Auditors' remuneration	1,300	780
Depreciation of owned property, plant and equipment	4,757	5,043
Depreciation of right-of-use assets	78	398
Amortisation of intangible assets	4	3
Research costs	63,660	61,821
Short-term leases expenses		
— Office premises	338	59
— Machinery and equipment	127,698	143,595
Staff costs (including directors' emoluments):		
— Salaries and wages	19,322	30,098
— Retirement scheme contributions	5,447	6,164
Listing expenses	10,166	6,181

9. INCOME TAX EXPENSE

Provision for the PRC Enterprise Income Tax (“EIT”) for the periods was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
PRC Enterprise Income Tax		
Current year	9,593	8,553
Deferred tax	(2,736)	(310)
	<u>6,857</u>	<u>8,243</u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulations of the EIT Law, the tax rate of the Group is 25% for FY2023 and FY2022, except for the following subsidiaries:

A subsidiary of the Company has been certified as new high technology enterprise in the PRC and enjoyed a preferential enterprise income tax rate of 15% for FY2023 and FY2022.

Two subsidiaries of the Company were qualified as small enterprise and are eligible for preferential enterprise income tax rate of 5% for FY2023 and FY2022.

10. DIVIDENDS

No dividends were paid or declared by the Company during the year (2022:Nil).

11. EARNINGS PER SHARE

	2023	2022
Profit for the year attributable to owners of the Company (<i>RMB'000</i>)	45,277	64,471
Weighted average number of shares in issue (<i>Note</i>)	<u>451,068,000</u>	<u>360,000,000</u>
Basic earnings per share (<i>RMB cents</i>)	<u><u>10.04</u></u>	<u><u>17.91</u></u>

Note:

The weighted average of 360,000,000 ordinary shares derived for calculation of basic earnings per share for the year ended 31 December 2022, assumed the capitalisation issue completed in March 2023 has occurred at the beginning of the year ended 31 December 2022.

Diluted earnings per share presented is the same as the basic earnings per share as the Group has no dilutive potential ordinary share outstanding during the year (2022: Same).

12. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
— Related parties	17,421	21,794
— Third parties	366,606	341,233
	<u>384,027</u>	<u>363,027</u>
Bills receivables	1,700	300
Impairment provision for		
— Trade receivables	(17,867)	(8,654)
— Bills receivables	(19)	(3)
	<u>(17,886)</u>	<u>(8,657)</u>
Trade and bills receivables, net	367,841	354,670
Deposits and other receivables	69,642	53,092
Prepayments	26,041	33,608
Impairment provision for deposits and other receivables	(10,002)	(7,254)
Other receivables, prepayments and deposits, net	<u>85,681</u>	<u>79,446</u>
	<u><u>453,522</u></u>	<u><u>434,116</u></u>

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of each reporting period:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables, aged		
0–90 days	85,709	180,116
91–180 days	40,055	17,477
181–365 days	79,264	66,231
1–2 years	107,112	70,153
2–3 years	35,554	3,729
Over 3 years	18,466	16,667
	<u>366,160</u>	<u>354,373</u>

Trade receivables are generally due within 10 to 90 days from the date of billing.

13. TRADE PAYABLES

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables		
— Third parties	759,239	767,508
— Related parties	49,348	20,855
	<u>808,587</u>	<u>788,363</u>

A credit period of up to 3 months from the date of billing is generally granted by the Group's trade suppliers. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade payables as at the end of each of the reporting period is as follows:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
0–90 days	180,297	223,588
91–180 days	105,303	116,288
181–365 days	96,191	252,924
1–2 years	318,410	92,018
Over 2 years	108,386	103,545
	<u>808,587</u>	<u>788,363</u>

14. BILLS PAYABLES

As at 31 December 2023, the Group's bill payables were secured by the Group's bank deposits of RMB4,500,000 (2022:RMB4,500,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a general contracting construction group in Hunan Province with over 40 years of operating history. In the year ended 31 December 2023 (“FY2023”), we derived all of our revenue from our customers located in the PRC.

Currently, we primarily focus on the provision of construction services comprising (i) civil building construction services, provision of construction contracting mainly as general contractor for residential, industrial and commercial construction projects; (ii) municipal works construction services, which mainly consist of construction of urban roads, education institutions, sports stadiums and water supply works; (iii) foundation works services which include foundation construction as well as earthwork construction; (iv) prefabricated steel structure construction services; and (v) other specialised contracting works which includes building renovation and decoration construction specialised contracting. We provide comprehensive construction services to customers throughout the construction process from project procurement, management, construction to supervision and to a lesser extent, we also engage in the provision of construction machinery and equipment service.

For FY2023, the Group’s revenue amounted to approximately RMB1,952.1 million, representing an increase of approximately RMB61.5 million or 3.3% from approximately RMB1,890.7 million in the year ended 31 December 2022 (“FY2022”). We recorded an increase in our gross profit from approximately RMB206.6 million in FY2022 to approximately RMB216.2 million in FY2023, representing a year-on-year growth of approximately 4.4%. For FY2023, our gross profit margin and our net profit margin was approximately 11.1% and 2.4%, respectively.

FINANCIAL REVIEW

Revenue

Construction contracts

For FY2023, our revenue generated from construction contracts increased by approximately RMB62.8 million or 3.3% from approximately RMB1,881.4 million in FY2022 to approximately RMB1,944.2 million in FY2023. The increment was mainly due to the increase in revenue generated from other specialised construction works, which grew by approximately RMB58.2 million or 896.5% and revenue generated from prefabricated steel structure construction works of approximately RMB7.5 million or 2.9%.

Civil building construction

For FY2023, our revenue generated from civil building construction increased substantially by approximately RMB116.9 million or 13.6% from approximately RMB857.9 million in FY2022 to RMB974.8 million in FY2023, which was mainly attributable to the increase in revenue generated from Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) project by approximately RMB162.6 million from FY2022 to FY2023 as the project has resumed construction upon the completion of clearance of the relevant construction site during late 2022. The increment was partially net-off by the decrement of revenue contributed by the project namely Kairuisi Phase I* (凱睿思(一期)) project by approximately RMB39.4 million as the project is approaching its final stage of construction.

Municipal works construction

Our revenue generated from municipal works construction significantly decreased by approximately RMB116.7 million or 15.9% from approximately RMB735.0 million in FY2022 to RMB618.4 million in FY2023, which was mainly due to decrement in revenue contributed by Xupu County Chengbei School Supporting Facilities Construction* (濼浦縣城北學校配套設施建設工程) project and a road construction project in Haikou by approximately RMB59.1 million and RMB37.6 million, respectively compared to FY2022 due to completion of substantial parts in FY2023.

Foundation works

Our revenue generated from foundation works stayed relatively stable and decreased by approximately RMB3.1 million or 12.8% from approximately RMB24.3 million in FY2022 to approximately RMB21.2 million in FY2023, mainly due to the net-off effects of (i) a new project commenced in late 2022 which contributed approximately RMB13.5 million of revenue in FY2023 while only RMB6.8 million was recognised in FY2022; and (ii) decrement in revenue contributed from foundation works which was mainly contributed by Chaling Pioneering Park* (茶陵創業園) project by approximately RMB4.1 million compared to FY2022.

Prefabricated steel structure construction works

For FY2023, our revenue generated from prefabricated steel structure construction works slightly increased from approximately RMB257.7 million for FY2022 to approximately RMB265.2 million for FY2023, mainly due to the net-off effects of (i) increment of revenue generated from a new project of approximately RMB43.6 million; and (ii) decrement of revenue generated from Zhongtian Lutai* (中天•麓台) project by approximately RMB24.1 million compared with FY2022 as the project is approaching its later stage of construction.

Other specialised contracting works

For FY2023, our revenue from other specialised contracting works substantially increased from approximately RMB6.5 million in FY2022 to approximately RMB64.7 million in FY2023 mainly due to commencement of a new refurbishment project and generated revenue of approximately RMB58.5 million.

Provision of construction machinery and equipment service

For FY2023, our revenue from this sub-segment stayed relatively stable at approximately RMB7.9 million compared to approximately RMB9.2 million for FY2022.

Cost of sales

Our cost of sales increased from approximately RMB1,684.1 million in FY2022 to approximately RMB1,736.0 million in FY2023 by approximately 3.1%, which is generally in line with the revenue growth of approximately 3.3%. Among the cost of sales items, raw material costs remains relatively stable and accounted for approximately 42.5% and 41.9% for FY2022 and FY2023 respectively. On the other hand, the aggregate labour costs and labour subcontracting costs increased by approximately 12.3% in FY2023 as compared to FY2022, mainly attributable to the major works of a number of projects required more labour works and less raw materials for the later stage of development.

Gross profit and gross profit margin

Our overall gross profit margin remained relatively stable at approximately 10.9% for FY2022 and 11.1% for FY2023. Such improvement is mainly attributable to the increment of gross profit margins of civil building construction of approximately 1.0% from approximately 10.8% in FY2022 to approximately 11.8% in FY2023 as a result of we recognised a larger portion of revenue in FY2023 than FY2022 from one of our construction projects which recorded higher gross profit margin.

Administrative expenses

Our administrative expenses mainly consisted of research expenses, salaries and other benefits, depreciation and amortisation, repair and maintenance expenses, office administration expenses and other expenses. For FY2023, our administrative expenses increased from approximately RMB117.5 million to approximately RMB129.0 million mainly due to the increment in research expenses of approximately RMB1.8 million, and other administrative expenses in relation to establishment and operation of know-how centre according to our use of proceeds in the prospectus of the Company dated 20 March 2023 (the “**Prospectus**”).

Listing expenses

Listing expenses represented professional services fees incurred for the purpose of Listing. We incurred Listing expenses of approximately RMB6.2 million and RMB10.2 million for FY2022 and FY2023, respectively.

Impairment on financial and contract assets, net

Our impairment on financial and contract assets (net) represents the expected credit losses (“**ECL**”) on our trade and bills receivables, other receivables and contract assets. We conducted impairment analysis at the end of each year using a provision matrix to measure expected credit losses based on historical observed default rates, adjusted for forward-looking factors specific to the debtors and the economic environment. For FY2022 and FY2023, our impairment on financial and contract assets was RMB2.5 million and RMB17.4 million, respectively.

For FY2023, impairment losses on financial and contract assets substantially increased by approximately RMB14.8 million or 582.3% as compared to FY2022. Resulting from, our overall ECL rates as at 31 December 2023 for trade and bills receivables and contract assets increased comparing to 2022. The increase in expected loss rates was mainly due to the increase in the historical observed default rates and the forward-looking adjustment that may impact the customer’s ability to repay the outstanding balances for prudence sake with response to the overall market conditions in the PRC.

Finance costs

Our finance cost in FY2023 stayed relatively stable and slightly increased by approximately RMB0.4 million as compared to FY2022, which was due to the repayment of bank borrowing made nearly at year end.

Income tax expenses

Our income tax expenses consist principally of enterprise income tax and movements in deferred tax assets. For FY2022 and FY2023, our income tax was RMB8.2 million and RMB6.9 million, respectively, and our effective tax rates for the corresponding years were 11.2% and 13.0%, respectively. Hunan Zhongtian Construction Group Corporation* (湖南中天建設集團股份有限公司) (“**Zhongtian Construction**”), our principal operating subsidiary has been accredited as a High and New Technology Enterprise (高新技術企業) under the relevant PRC laws and regulation and was entitled to a preferential tax treatment of 15% for FY2022 and FY2023, which is lower than the statutory rate of 25.0%.

Net profit

Our net profit decreased by approximately RMB19.5 million in FY2023 as compared to FY2022 mainly attributable to the increment in impairment on financial and contract assets of approximately RMB14.8 million, increase in Listing expenses of approximately RMB4.0 million and administrative expenses of approximately RMB11.4 million, while partially offset by the increment in gross profits of approximately RMB9.6 million.

Analysis of key items of financial position

Trade, bills and other receivables

Our trade, bills and other receivables comprised (i) net trade and bills receivables of approximately RMB367.8 million as at 31 December 2023 (2022: RMB354.7 million); and (ii) net other receivables, prepayment and deposits of approximately RMB85.7 million as at 31 December 2023 (2022: RMB79.4 million). Due to the delayed repayment of certain debtors in 2023, our trade receivable aging position worsened, with the trade receivables (net of impairment losses) that aged over one year (based on due dates) increased significantly from approximately RMB36.4 million as at 31 December 2022 to approximately RMB94.8 million as at 31 December 2023. The increase in expected loss rates was mainly due to the increase in the historical observed default rates and the forward-looking adjustment that may impact the customer’s ability to repay the outstanding balances. Due to the above, our impairment provision for trade and bills receivables increased considerably from approximately RMB8.7 million as at 31 December 2022 to approximately RMB17.9 million as at 31 December 2023.

Contract assets

Our contract assets grew from approximately RMB1,127.2 million as at 31 December 2022 to approximately RMB1,476.0 million as at 31 December 2023. The change in contract asset between 31 December 2022 and 31 December 2023 was primarily because of (i) the increase in our business volume from the year ended 31 December 2022 to the year ended 31 December 2023; and (ii) the difference between the amounts of work performed and the amounts billed to customers during the performance of the construction works, which is to be recognised as contract assets, and we experienced a longer settlement period for certain projects in the year.

As some of our major construction projects lasted for many years, our contract assets accumulated. In particular, as the work of our largest on-going project in terms of revenue recognised during the year ended 31 December 2023, i.e. Dongfang Xin' an Homeland (Phase II)* (東方市新安家園 (二期)) project, commenced more than seven years ago in 2016 and continued throughout the year ended 31 December 2023, the contract assets accumulated and increased from approximately RMB88.8 million as at 31 December 2022 to RMB130.6 million as at 31 December 2023. The anticipated completion date of this project is updated to be completed on December 2024. Our another major project, Zhongtian Lutai* (中天·麓台), a residential complex construction in Zhuzhou, commenced in 2020 and continued throughout the year ended 31 December 2023, the contract assets accumulated and increased from approximately RMB78.9 million as at 31 December 2022 to RMB121.6 million as at 31 December 2023. The anticipated completion date of this project is updated to be completed on December 2026. Such accumulated balances (other than the retention money which normally represents 5% of the final settlement value) will only become unconditional for billing after completion of the project and upon the completion of the settlement audit.

Due to (i) the growing contract assets balance; and (ii) the higher ECL rate for contract assets as explained in the paragraph headed “Trade, bills and other receivables” above, our loss allowance provision for contract assets has also increased from approximately RMB10.5 million as at 31 December 2022 to approximately RMB17.1 million as at 31 December 2023.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The shares of the Company were listed on the Main Board of the Stock Exchange on 30 March 2023 (the “**Listing Date**”) (the “**Listing**”). Our sources of funds are a combination of internal generated funds, bank and other borrowings as well as net proceeds from the Listing. There has been no change in the capital structure of the Company since the Listing Date up to the date of this announcement. As at 31 December 2023, the capital structure of the Company comprised mainly issued share capital and reserves.

As at 31 December 2023, the Group had net current assets of approximately RMB491.8 million (31 December 2022: RMB339.4 million). The Group’s current ratio improved from approximately 1.24 as at 31 December 2022 to approximately 1.32 as at 31 December 2023 due to the increase in contract assets by approximately RMB348.9 million, partially offset by the increase in accruals and other payables by approximately RMB136.6 million. Our increase in contract assets was mainly due to accumulated for some major sizable projects with long project duration remained on-going as at 31 December 2023.

We had lower cash and cash equivalents of approximately RMB59.6 million as at 31 December 2023 as compared with cash and cash equivalents of RMB151.7 million as at 31 December 2022. Cash and cash equivalents are mainly denominated in Renminbi. Our cash and cash equivalents dropped mainly because the increase in contract assets by approximately RMB348.9 million due to reasons stated above.

Our aggregate indebtedness (total interest-bearing borrowings and lease liabilities) dropped slightly from approximately RMB140.1 million as at 31 December 2022 to approximately RMB116.2 million as at 31 December 2023. As at 31 December 2023, the Group’s total bank and other borrowings amounted to RMB114.4 million comprising RMB108.4 million repayable within one year, RMB3.2 million repayable within one to two years and RMB2.8 million repayable within two to five years. The Group’s bank borrowings carried interest rates ranging from 3.7% to 18% per annum. All the bank borrowings were denominated in Renminbi. Our gearing ratio, which is calculated as total interest-bearing debt divided by total equity, dropped from approximately 39.0% as at 31 December 2022 to approximately 22.7% as at 31 December 2023, mainly because our equity grew significantly by approximately 42.5% between 31 December 2022 and 31 December 2023 due to the Listing while we lowered our indebtedness.

FUNDING AND TREASURY POLICY

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with licensed banks. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirement from time to time.

CAPITAL COMMITMENTS

As at 31 December 2023, the Group had approximately RMB14.5 million (31 December 2022: RMB14.5 million) of capital commitments in respect of the acquisition of property, plant and equipment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group employed 324 employees in the PRC (31 December 2022: 338 employees). The total staff costs incurred by the Group for FY2023 was approximately RMB24.8 million compared to approximately RMB36.3 million for FY2022. Our Group's employees may be remunerated by way of fixed salary, hourly wage or on project-by-project basis, depending on their job nature. Our Group utilises an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary review and determining the amount of bonuses. Our employees are also entitled to a number of fringe benefits and welfare, including transportation allowance, health care allowance and paid leave. Our Group provides trainings to our employees, which includes induction training which is held by our human resources department, on-the-board training, and sometimes education opportunities depending on the job function of the employees. Our Group will hold seminars and events occasionally for our employees, in order for them to catch up with market trends.

SHARE OPTION SCHEME

The share option scheme (the "**Share Option Scheme**") was conditionally adopted by written resolutions of the Company's shareholders passed on 10 March 2023. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in the report of the Directors in the annual report of the Company for the year ended 31 December 2023.

As at the Listing Date and 31 December 2023, no Share option has been granted by the Company and the outstanding number of Share options available for grant under the Share Option Scheme is 48,000,000 Share options to subscribe for the Shares, representing 10% of the issued share capital of the Company, out of which the outstanding number of Share options available for grant under the Service Provider Sublimit is 4,800,000 Shares options to subscribe for the Shares, representing 1% of the issued share capital of the Company.

Since the adoption of the Share Option Scheme, no option has been granted under the Share Option Scheme. Therefore, no option was exercised or cancelled or has lapsed during FY2023 and there was no outstanding option as at 31 December 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the section headed “Future Plans and Use of Proceeds” of the Prospectus, the Group does not have other plans for material investments and capital assets as at 31 December 2023.

CONTINGENT LIABILITIES

Other than a number of lawsuits and claims arising from the normal course of business were lodged against our Group which remained outstanding as at 31 December 2023, the Group had no material contingent liability as at 31 December 2023.

PLEDGE OF ASSETS

As at 31 December 2023, fixed deposits of approximately RMB5.0 million (31 December 2022: approximately RMB2.0 million), certain plant and machinery with carrying amount of approximately RMB9.0 million (31 December 2022: approximately RMB7.5 million), intangible assets with carrying amount of approximately RMB0.04 million (31 December 2022: nil) and nil trade and bills receivables arising from provision of construction services (31 December 2022: approximately RMB1.9 million) were pledged as securities for the Group’s borrowings.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company has been listed on the Stock Exchange since the Listing Date following the completion of the global offering (the “**Global Offering**”) of 120,000,000 new ordinary shares of the Company. The amount of net proceeds from the Global Offering amounted to approximately RMB76.6 million (equivalent to approximately HK\$84.1 million), after deduction of the underwriting commission and other expenses. The Company applied the proceeds from the Global Offering in accordance with the purposes as set out in the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in the Prospectus which is also set out below. During FY2023, net proceeds of approximately RMB58.4 million (equivalent to approximately HK\$64.1 million) were used.

The following table sets out the breakdown of the use of proceeds from the Global Offering:

Purpose	Intended use of proceeds RMB' million	Net proceeds	Utilised	Unutilised	Estimated timeline for utilising the unutilised net proceeds (Note 1)
		utilised during FY2023 RMB' million	amount as at 31 December 2023 RMB' million	amount as at 31 December 2023 RMB' million	
To fund our upfront expenditure of three projects on hand (Note 2)	38.3	38.3	38.3	—	N/A
To acquire and/or replace our construction machinery and equipment	15.3	—	—	15.3	Before December 2024 (Note 3)
To fund the establishment and operation of our know-how centre	15.3	12.4	12.4	2.9	Before December 2024
Working capital and general corporate purposes	7.7	7.7	7.7	—	N/A
Total	<u>76.6</u>	<u>58.4</u>	<u>58.4</u>	<u>18.2</u>	

Notes:

1. The expected timeline for utilizing the unutilized amount is based on the best estimation of the future market condition made by the Group. It is subject to change based on the current and future development of the market condition.
2. As the commencement of the Sharing Lease Housing* (共享租賃住房) project has been delayed from April 2023 to December 2023 because the site preparation work is not ready for commencement of the construction works, part of the proceeds of approximately RMB8.9 million utilised was used for Old Village Revampment* (花垣縣移動公司宿舍片區老舊社區配套基礎設施改造項目) project.
3. The use of proceeds for acquiring and/or replacing our construction machinery and equipment is expected to be behind the original schedule of December 2023, which is mainly because of a delay in the time required for ordering the construction machinery and equipment due to changes in schedules of some projects.

SIGNIFICANT INVESTMENTS HELD, ACQUISITION AND DISPOSALS

Except for investment in subsidiaries, there were no significant investments held by the Group during FY2023. The Group did not have any material acquisitions or disposal of subsidiaries, associates or joint ventures during FY2023.

FOREIGN EXCHANGE RISK

The assets, liabilities and transactions of the Group are principally denominated in Renminbi. As at 31 December 2023, the Group has not entered into any foreign exchange contracts to hedge against the fluctuation in exchange rates and the Group did not have any foreign currency investments which have been hedged by currency borrowing and other hedging instruments. The Directors consider the impact of foreign exchange exposure to the Group is minimal.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our shareholders.

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Since the Listing Date up to 31 December 2023, the Group has adopted and complied with the Corporate Governance Code (“**CG Code**”) as set out in Appendix C1 to the Listing Rules as its own code of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company’s securities for relevant employees (as defined in the Listing Rules).

As the Company was listed on the Stock Exchange since the Listing Date, related rules under the Listing Rules concerning the Model Code that Directors shall observe applied to the Company since the Listing Date.

Having made specific enquiry with all the Directors, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code since the Listing Date.

AUDIT COMMITTEE

The Company has established the audit committee (“**Audit Committee**”) on 10 March 2023 with written terms of reference. The composition of the Audit Committee meets the requirement of Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and provide material advice in respect of financial reporting, oversee the financial reporting process, internal control, risk management systems and audit process of the Company and perform other duties and responsibilities assigned by the Board. The Audit Committee, comprising the three independent non-executive Directors, namely Mr. Lau Kwok Fai Patrick (Chairperson), Dr. Liu Jianlong and Ms. Deng Jianhua.

REVIEW OF FINANCIAL RESULTS BY AUDIT COMMITTEE

The Group’s consolidated financial statements for the year ended 31 December 2023 have been reviewed and approved by the Audit Committee. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosure has been made.

SCOPE OF WORK OF THE AUDITOR

The financial figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2023 as set out in this announcement have been agreed by the Group’s auditor, BDO Limited, Certified Public Accountants, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited 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 assurance has been expressed by BDO Limited on the preliminary announcement.

PURCHASE, SALES OR REDEMPTION OF OUR SHARES

There has been no purchase, sale or redemption of the Company’s shares by the Company or any of its subsidiaries during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company maintained a sufficient amount of public float for its shares as required under the Listing Rules during FY2023 and up to the date of this announcement.

COMPETING INTERESTS

The Directors confirm that neither the controlling shareholders of the Company nor their respective close associates (as defined in the Listing Rules) is interested in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business for the year ended 31 December 2023 and up to the date of this announcement, and is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

DIVIDENDS

The Board proposed not to declare any final dividend for the year ended 31 December 2023.

SIGNIFICANT EVENT AFTER REPORTING PERIOD

There was no significant event relevant to the business or financial performance of the Group that has come to the attention of the Directors subsequent to 31 December 2023.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The AGM is scheduled to be held on 28 May 2024. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 23 May 2024 to 28 May 2024 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21st Floor 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on 22 May 2024.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.ztcon.com. The annual report of the Company for the year ended 31 December 2023 containing all information required by the Listing Rules will be despatched to the Shareholders and will be published on the websites of both the Stock Exchange and the Company in due course.

By order of the Board
Zhongtian Construction (Hunan) Group Limited
Mr. Yang Zhongjie
Chairman and Executive Director

Hong Kong, 28 March 2024

As at the date of this announcement, the Board comprises Mr. Yang Zhongjie as Chairman of the Board and executive Director; Mr. Liu Xiaohong, Mr. Min Shixiong, Mr. Shen Qiang and Mr. Chen Weiwu as executive Directors; and Dr. Liu Jianlong, Ms. Deng Jianhua and Mr. Lau Kwok Fai Patrick as independent non-executive Directors.