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河北建設集團股份有限公司

HEBEI CONSTRUCTION GROUP CORPORATION LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1727)

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

The board of directors (the “**Board**”) of Hebei Construction Group Corporation Limited (河北建設集團股份有限公司) (the “**Company**”) hereby announces the audited results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2022 (the “**Reporting Period**”). This announcement is in compliance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) relating to the information to be included in the preliminary annual results announcement.

FINANCIAL HIGHLIGHTS

In 2022, our revenue amounted to RMB40,006 million, representing a decrease of 16% as compared with that of 2021.

In 2022, our net profits amounted to RMB315 million, as compared to net losses of RMB358 million in 2021.

In 2022, our earnings per share amounted to RMB0.19, as compared to losses per share of RMB0.2 in 2021.

I. SELECTED FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

Unit: RMB'000

Assets	Note	31 December 2022	31 December 2021
Current assets			
Currency funds		9,123,019	8,809,963
Financial assets held for trading		3,118	2,472
Accounts receivable	2	7,815,567	7,740,447
Receivables financing		349,485	504,212
Prepayments		733,145	764,030
Other receivables		2,360,433	2,617,864
Inventories		182,032	265,873
Contract assets	3	40,014,033	39,658,331
Current portion of non-current assets	4	43,128	49,386
Other current assets		501,931	414,533
		<u>61,125,891</u>	<u>60,827,111</u>
Total current assets			
Non-current assets			
Long-term receivables	4	170,123	164,226
Long-term equity investments		515,706	522,110
Contract assets	3	2,903,035	2,504,857
Other equity instrument investments		744,459	779,793
Investment property		99,200	137,000
Fixed assets		981,409	954,757
Construction in progress		155,975	163,644
Right-of-use assets		17,969	24,011
Intangible assets		96,332	98,539
Deferred tax assets		821,751	771,205
		<u>6,505,959</u>	<u>6,120,142</u>
Total non-current assets			
		<u>67,631,850</u>	<u>66,947,253</u>
Total assets			

CONSOLIDATED BALANCE SHEET (Continued)*As at 31 December 2022**Unit: RMB'000*

Liabilities and owners' equity	<i>Note</i>	31 December 2022	31 December 2021
Current liabilities			
Short-term borrowings		2,415,411	2,260,771
Bills payable		827,662	915,410
Accounts payable	5	36,587,127	37,936,655
Contract liabilities		6,939,618	6,006,902
Employee benefits payable		202,120	209,025
Taxes payable	6	773,370	858,261
Other payables		6,184,596	6,073,401
Current portion of non-current liabilities		896,633	1,498,619
Other current liabilities		3,943,783	3,571,785
Total current liabilities		58,770,320	59,330,829
Non-current liabilities			
Long-term borrowings		2,684,830	1,729,252
Lease liabilities		9,225	14,580
Total non-current liabilities		2,694,055	1,743,832
Total liabilities		61,464,375	61,074,661
Owners' equity			
Share capital		1,761,384	1,761,384
Capital reserve		1,662,063	1,662,063
Other comprehensive income		152,476	178,092
Surplus reserve		545,068	500,912
Retained profit		1,873,811	1,591,242
Total equity attributable to owners of the Parent		5,994,802	5,693,693
Non-controlling interests		172,673	178,899
Total owners' equity		6,167,475	5,872,592
Total liabilities and owners' equity		67,631,850	66,947,253

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2022

Unit: RMB'000

	Note	2022	2021
Revenue	7	40,006,018	47,828,266
Less: Cost of sales		38,371,416	45,341,436
Taxes and surcharges		116,072	137,598
Selling and distribution expenses		1,542	1,061
General and administrative expenses		570,825	535,823
Research and development costs		150,126	76,417
Finance costs		297,487	308,076
Including: Interest expenses		343,031	326,851
Interest income		39,238	40,926
Add: Other income		2,285	4,982
Investment income		24,740	3,679
Including: Share of profits/(losses) of associates and joint ventures		2,866	(1,274)
Losses on derecognition of financial assets at amortised cost		(14,679)	(64,795)
(Losses)/gains on fair value changes		(37,447)	66
Credit impairment gains/(losses)	8	131,355	(623,156)
Impairment losses on assets		(179,498)	(1,301,616)
Losses from disposal of assets		(85)	(1,624)
Operating profit/(loss)		439,900	(489,814)
Add: Non-operating income		3,512	8,039
Less: Non-operating expenses		14,531	13,522
Profit/(loss) before tax		428,881	(495,297)
Less: Income tax expenses/(gains)	10	113,442	(137,131)
Net profit/(loss)		315,439	(358,166)

CONSOLIDATED INCOME STATEMENT (continued)

Year ended 31 December 2022

Unit: RMB'000

	<i>Note</i>	2022	2021
Classified by the continuity of operation			
Net profit/(loss) from continuing operations		315,439	(358,166)
Classified by the ownership			
Net profit/(loss) attributable to shareholders of the parent		326,725	(345,975)
Net loss attributable to non-controlling interests		(11,286)	(12,191)
Other comprehensive (loss)/income, net of tax		(25,616)	39,488
Other comprehensive (loss)/income attributable to shareholders of the parent, net of tax		(25,616)	39,488
Other comprehensive income not to be reclassified to profit or loss			
Changes in fair value of other equity instrument investments		<u>(26,501)</u>	<u>17,426</u>
Other comprehensive income to be reclassified to profit or loss			
Changes in fair value of receivables financing		<u>885</u>	<u>22,062</u>
Total comprehensive income/(loss)		<u>289,823</u>	<u>(318,678)</u>
Including:			
Total comprehensive income/(loss) attributable to owners of the Parent		301,109	(306,487)
Total comprehensive loss attributable to non-controlling interests		(11,286)	(12,191)
Earnings/(losses) per share (RMB/share)			
Basic and diluted earnings/(losses) per share	<i>11</i>	<u>0.19</u>	<u>(0.20)</u>

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises – Basic Standards issued by the Ministry of Finance, and the specific accounting standards, application guidance, interpretations and other relevant regulations issued and revised thereafter (hereafter referred to as the “**Accounting Standards for Business Enterprises**”).

The financial statements have been prepared on a going concern basis.

The financial statements are prepared under the historical cost convention, except for certain financial instruments and investment properties. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant rules.

Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises, which truly and completely reflect the financial position of the Group as at 31 December 2022, as well as its operating results and cash flows in 2022.

2. ACCOUNTS RECEIVABLE

The accounts receivable of the Group are mainly receivables for construction contracting business. The credit period of accounts receivable is usually one to three months. All accounts receivable are non-interest-bearing.

The ageing analysis of accounts receivable is as follows:

	<i>Unit: RMB '000</i>	
	2022	2021
Within 1 year	6,342,449	6,740,211
1 to 2 years	1,472,920	1,005,807
2 to 3 years	452,479	602,930
Over 3 years	667,174	649,443
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	8,935,022	8,998,391
Less: Impairment allowance	1,119,455	1,257,944
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	7,815,567	7,740,447

Except for project quality deposits receivable, the ageing of accounts receivable was calculated since the invoice date. The ageing of the project quality deposits receivable is calculated from the later of the invoice date and the expiry of the warranty period.

3. CONTRACT ASSETS

Contract assets are mainly generated by the construction project contracting business of the Group. The Group provides construction services in accordance with the construction contract entered into with customers and recognises revenue based on performance progress over the contract period. According to the contract term, customers of the Group make progress billings with the Group based on the performance progress and make payment for the progress billings within the credit term. Revenue recognised based on performance progress in excess of progress billings is presented as contract asset while progress billings in excess of revenue recognised based on performance progress is presented as contract liabilities.

Unit: RMB'000

	2022			2021		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Completed but unbilled	<u>44,883,409</u>	<u>(1,966,341)</u>	<u>42,917,068</u>	<u>43,950,031</u>	<u>(1,786,843)</u>	<u>42,163,188</u>
Including:						
Non-current assets	<u>2,986,680</u>	<u>(83,645)</u>	<u>2,903,035</u>	<u>2,644,972</u>	<u>(140,115)</u>	<u>2,504,857</u>

4. LONG-TERM RECEIVABLES

The Group's long-term receivables are mainly for provision of build-operate-transfer water supply services. The amounts due to the Group by customers under the construction services for comprehensive renovation projects will be settled in installments during a period from 1 to 25 years.

Unit: RMB'000

	2022	2021
Long-term concession project receivables	<u>213,251</u>	<u>213,612</u>
Less: Long-term receivables due within one year	<u>43,128</u>	<u>49,386</u>
	<u>170,123</u>	<u>164,226</u>

The ageing of long-term receivables shall be calculated since the date upon satisfaction for the completion of concession project and the management of the Group considers that there is no need to provide for bad debts for long-term receivables.

5. ACCOUNTS PAYABLE

Accounts payable are non-interest bearing and are generally settled within an agreed period.

The ageing analysis of accounts payable is as follows:

Unit: RMB'000

	2022	2021
Within 1 year	<u>24,767,196</u>	<u>23,059,261</u>
1 to 2 years	<u>7,595,664</u>	<u>12,459,296</u>
2 to 3 years	<u>2,799,728</u>	<u>1,616,528</u>
Over 3 years	<u>1,424,539</u>	<u>801,570</u>
	<u>36,587,127</u>	<u>37,936,655</u>

The ageing of accounts payable was calculated since the date the procurement was made.

6. TAXES PAYABLE*Unit: RMB'000*

	2022	2021
Enterprise income tax	709,929	815,530
Value-added tax	37,557	26,750
City maintenance and construction tax	14,599	7,968
Educational surcharge	10,583	6,120
Others	702	1,893
	<u>773,370</u>	<u>858,261</u>

7. REVENUE

The revenue is as follows:

Unit: RMB'000

	2022	2021
Revenue from primary business	39,134,786	47,006,296
Revenue from other business	871,232	821,970
	<u>40,006,018</u>	<u>47,828,266</u>

The revenue is as follows:

Unit: RMB'000

	2022	2021
Revenue from contracts with customers	39,969,607	47,796,921
Rental income	36,411	31,345
	<u>40,006,018</u>	<u>47,828,266</u>

The disaggregation of revenue from contracts with customers is set out as follows:

2022

Unit: RMB'000

Reporting segment	Construction	Others	Total
Major operating regions			
Mainland China (excluding Hong Kong, Macau and Taiwan)	38,602,763	1,281,878	39,884,641
Other countries and regions	84,966	–	84,966
	<u>38,687,729</u>	<u>1,281,878</u>	<u>39,969,607</u>
Major products			
Building construction	26,203,970	–	26,203,970
Infrastructure construction	8,992,822	1,036,330	10,029,152
Specialized and other construction	2,901,664	–	2,901,664
Sewage and reclaimed water treatment	–	45,915	45,915
Sales of goods and others	589,273	199,633	788,906
	<u>38,687,729</u>	<u>1,281,878</u>	<u>39,969,607</u>
Timing of revenue recognition			
At a point of time			
Sales of goods and others	589,273	199,633	788,906
Within a period of time			
Building construction	26,203,970	–	26,203,970
Infrastructure construction	8,992,822	1,036,330	10,029,152
Specialized and other construction	2,901,664	–	2,901,664
Sewage and reclaimed water treatment	–	45,915	45,915
	<u>38,687,729</u>	<u>1,281,878</u>	<u>39,969,607</u>

2021

Unit: RMB'000

Reporting segment	Construction	Others	Total
Major operating regions			
Mainland China (excluding Hong Kong, Macau and Taiwan)	46,168,502	1,479,476	47,647,978
Other countries and regions	148,943	–	148,943
	<u>46,317,445</u>	<u>1,479,476</u>	<u>47,796,921</u>
Major products			
Building construction	30,482,753	–	30,482,753
Infrastructure construction	10,762,510	1,245,734	12,008,244
Specialized and other construction	4,515,299	–	4,415,229
Sewage and reclaimed water treatment	–	40,341	40,341
Sales of goods and others	556,883	193,401	750,284
	<u>46,317,445</u>	<u>1,479,476</u>	<u>47,796,921</u>
Timing of revenue recognition			
At a point of time			
Sales of goods and others	556,883	193,401	750,284
Within a period of time			
Building construction	30,482,753	–	30,482,753
Infrastructure construction	10,762,510	1,245,734	12,008,244
Specialized and other construction	4,515,299	–	4,515,299
Sewage and reclaimed water treatment	–	40,341	40,341
	<u>46,317,445</u>	<u>1,479,476</u>	<u>47,796,921</u>

The revenue recognized this year included in the carrying amounts of the contract liabilities at the beginning of the year is as follows:

	<i>Unit: RMB'000</i>	
	2022	2021
Building construction	3,276,391	2,798,898
Infrastructure construction	1,025,819	1,585,969
Specialized and other construction	291,980	453,654
	<u>4,594,190</u>	<u>4,838,521</u>

The information related to performance obligations of the Group is as follows:

Construction services

The performance obligation is fulfilled within the time when the service is provided, and the contract price is usually settled within 90 days after the project payment is invoiced. Generally, the customer retains a certain percentage as the warranty money. The warranty money is usually settled after the warranty period expires, because according to the contract, the Group's right to receive the final payment depends on the customer's satisfaction with the service quality over a period of time.

Sale of goods

The performance obligation is fulfilled when the goods is delivered to the customer. For recurring customers, the contract price is usually settled within 90 days of delivery; for new customers, advance payment is usually required.

Sewage and reclaimed water treatment

The performance obligation is fulfilled within the period of provision of relevant services. The contract period for sewage and reclaimed water treatment is 25 years. The contract sum is normally paid within 90 days after settlement.

8. CREDIT IMPAIRMENT GAINS/(LOSSES)

	<i>Unit: RMB'000</i>	
	2022	2021
Gains/(losses) from impairment of account receivable	138,489	(594,295)
Losses from impairment of other receivables	(5,148)	(33,732)
Impairment (losses)/gains on financial guarantee contracts	(1,986)	4,871
	<u>131,355</u>	<u>(623,156)</u>

9. EXPENSES BY NATURE

The supplemental information of the Group's operating costs, selling expenses, administrative expenses and research and development costs by nature is as follows:

	<i>Unit: RMB'000</i>	
	2022	2021
Construction costs	38,371,416	45,341,436
Employee benefits included in administrative expenses and selling expenses	363,575	327,899
Research and development costs	150,126	76,417
Depreciation and amortization included in administrative expenses and selling expenses	26,658	24,637
Audit fees	6,000	5,700
Others	176,134	178,648
	<u>39,093,909</u>	<u>45,954,737</u>

10. INCOME TAX EXPENSES/(GAINS)

	<i>Unit: RMB'000</i>	
	2022	2021
Current income tax	155,767	378,888
Deferred income tax	(42,325)	(516,019)
	<u>113,442</u>	<u>(137,131)</u>

The relationship between income tax expenses and the total profit/(loss) is as follows:

	<i>Unit: RMB'000</i>	
	2022	2021
Profit/(loss) before tax	428,881	(495,297)
Income tax expenses at the statutory tax rate (<i>Note</i>)	107,220	(123,824)
Tax effect of share of profits and losses of joint ventures and associates	3,054	7,502
Effect of non-taxable income	(9,593)	(18,590)
Effect of non-deductible expenses	4,434	4,887
Effect of utilisation of unrecognised deductible tax losses	(20,689)	(26,589)
Effect of unrecognized deductible temporary differences and deductible tax losses	33,394	27,932
Adjustments on the income tax of previous periods	(4,378)	(8,449)
Income tax expenses/(gains) at the Group's effective rate	<u>113,442</u>	<u>(137,131)</u>

Note: Provision for income tax of the Group has been made at 25% on the estimated taxable profit generated in the PRC.

11. EARNINGS/(LOSSES) PER SHARE

Unit: RMB'000

	2022	2021
	<i>RMB per share</i>	<i>RMB per share</i>
Basic earnings/(losses) per share		
Continuing operations	<u>0.19</u>	<u>(0.20)</u>

Basic earnings/(losses) per share are calculated by dividing the net profit/(loss) for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue. The number of newly issued ordinary shares is determined according to the specific terms of the issue contract and calculated from the date of consideration receivable (normally the stock issue date).

The calculation of the basic earnings/(losses) per share and diluted earnings/(losses) per share is as follows:

Unit: RMB'000

	2022	2021
Earnings/(losses)		
Net profit/(loss) for the year attributable to owners of the Company		
Continuing operations	<u>326,725</u>	<u>(345,975)</u>
Shares		
Weighted average number of ordinary shares in issue of the Company	<u>1,761,383,500</u>	<u>1,761,383,500</u>

The Company had no dilutive potential ordinary shares, therefore diluted earnings/(losses) per share equals to basic earnings/(losses) per share.

II. MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading non-state-owned construction group in China and are principally engaged in the following businesses:

- Construction contracting business. The Group provides construction project contracting services mainly as a general contractor for building construction projects and infrastructure construction projects.
- Other businesses. The Group is also engaged in service concession arrangements and other businesses.

A substantial majority of the Group's revenue is generated from the construction contracting business, which mainly comprises of building construction business, infrastructure construction business and specialized and other construction contracting business. In 2022, the Group's new contract value amounted to RMB43,732 million, as compared with RMB48,183 million for last year. Our outstanding contract value was RMB69,722 million, as compared with RMB73,274 million for last year.

New contract value (by region):

Year	2022		2021	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	437.32	100%	481.83	100%
Beijing-Tianjin-Hebei	332.90	76.12%	293.66	60.95%
Other	104.42	23.88%	188.17	39.05%

New contract value (by product):

Year	2022		2021	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	437.32	100%	481.83	100%
Building construction	282.95	64.70%	306.64	63.64%
Infrastructure construction	116.93	26.74%	125.95	26.14%
Specialized and other construction	37.44	8.56%	49.24	10.22%

Building Construction Business

The Group provides construction contracting services for residential, public works, industrial and commercial construction projects. The Group undertakes most of such construction projects as a general contractor. As a general contractor, the Group undertakes all main aspects of construction projects, including building construction, foundation work, curtain wall construction, building decoration and fire engineering. The Group is also responsible for engaging subcontractors in providing construction services and the labor force for construction projects, coordinating the works of all parties, providing the major equipment and machinery, procuring raw materials and ensuring that construction projects are carried out on schedule. In 2022, the new contract value from the building construction business was RMB28,295 million, compared with RMB30,664 million for last year.

New contract value of the building construction business (by product):

Year	2022		2021	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	282.95	100%	306.64	100%
Residential construction	90.80	32.09%	120.81	39.40%
Public building construction	141.98	50.18%	118.17	39.53%
Industrial building construction	43.24	15.28%	54.52	17.78%
Commercial building construction	6.93	2.45%	13.15	4.29%

Infrastructure Construction Business

The Group provides construction contracting services for municipal and transportation infrastructure projects, including facilities for wedged and reclaimed water treatment, gas and heating, urban pipelines, landscaping, roads, bridges and airport runways. The Group undertakes most of such construction projects as general contractor. The Group's infrastructure construction customers are primarily local governments. In 2022, the new contract value from the infrastructure construction business was RMB11,693 million, compared with RMB12,595 million for last year.

New contract value of the infrastructure construction business (by product):

Year	2022		2021	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	116.93	100%	125.95	100%
Municipal infrastructure construction	105.54	90.26%	78.40	62.25%
Transportation infrastructure construction	11.39	9.74%	47.55	37.75%

Specialized and Other Construction Contracting Business

The Group also undertakes construction contracting projects by leveraging our qualifications and experience in specialized areas such as electrical and mechanical installation and construction of steel structures. The Group's electrical and mechanical installation works generally cover the supply, installation and maintenance of equipment for power plants, pipelines for heating and natural gas, as well as air-conditioning, mechanical ventilation and exhaust air systems. Steel structure construction generally refers to the building of the structural supporting elements comprising steel columns, girders and beams of a construction project. In 2022, new contracts from the specialized and other construction contracting business were valued at RMB3,744 million, compared with RMB4,924 million for last year.

New contract value of the specialized and other construction contracting business (by product):

Year	2022		2021	
	Amount (RMB100 million)	Percentage	Amount (RMB100 million)	Percentage
Total	37.44	100%	49.24	100%
Mechanical and electrical installation	3.39	9.06%	14.60	29.66%
Steel structures	1.37	3.66%	2.24	4.54%
Decoration	7.90	21.10%	10.30	20.92%
Other construction business	24.78	66.18%	22.10	44.88%

FINANCIAL REVIEW

Revenue, Cost of Sales and Gross Profit

The revenue of the Group for 2022 amounted to RMB40,006 million, representing a decrease of approximately RMB7,822 million as compared with last year, which was mainly due to the decrease in revenue from construction contracting segment of RMB7,871 million.

In particular:

(1) Operating Results of Construction Contracting Business By Product

	As at 31 December 2022				As at 31 December 2021			
	Revenue	Cost	Gross profit		Revenue	Cost	Gross profit	
	<i>RMB100</i>	<i>RMB100</i>	rate	Percentage	<i>RMB100</i>	<i>RMB100</i>	rate	Percentage
	<i>million</i>	<i>million</i>	%	%	<i>million</i>	<i>million</i>	%	%
Building construction business	262.04	253.76	3.2	67.0	304.83	291.82	4.3	64.8
Infrastructure construction business	100.29	94.71	5.6	25.6	120.08	112.05	6.7	25.5
Specialized and other construction business	29.02	28.08	3.2	7.4	45.15	42.68	5.5	9.7
Total	<u>391.35</u>	<u>376.55</u>	3.8		<u>470.06</u>	<u>446.55</u>	5.0	

The revenue from construction contracting segment for 2022 decreased by RMB7,871 million, which was mainly due to (i) the completion of certain large-scale projects of the Group during the year as compared to last year; and (ii) the decrease in contract value and number of contracts for new projects undertaken by the Group in 2022 as compared to last year.

Detail analysis is as follows:

- (1) Building construction business, being the largest revenue contributor to construction contracting business, completed certain large-scale projects such as the construction contract of Sichuan Tourism Investment Group – Jinjiang Mansion and the project of General Contracting of Design and Construction of Songshan Lake (Ecological Park) Robot Intelligent Equipment Manufacturing Industry Accelerator during the Reporting Period, which resulted in a decrease in revenue from building construction business of RMB4,279 million as compared to last year. During the Reporting Period, many projects were suspended due to the pandemic during the year, which resulted in increase in fixed costs and thus the decrease in gross profit rate of the building construction business as compared to last year.

- (2) The revenue from infrastructure construction business decreased by RMB1,979 million as compared to last year. During the Reporting Period, certain large infrastructure construction projects with high gross profit, such as the project of In-depth Treatment for Yindingzhuang Wastewater Treatment Plant in Baoding, were completed during the year, resulting in lower revenue and gross profit rate of the infrastructure business for the year as compared to last year.
- (3) The revenue from specialized and other construction business decreased by RMB1,613 million in 2022 as compared to last year. Such business mainly comprises other construction businesses such as electrical and mechanical installation and steel structures, which have shorter construction periods. During the Reporting Period, the number of new projects of specialized and other construction business undertaken decreased as compared to last year, resulting in decreased revenue as compared to the same period of last year. Meanwhile, during the Reporting Period, labor costs, raw material costs, and indirect expenses such as machinery costs increased accordingly due to the impact of the pandemic during the year, resulting in a decrease in the gross profit rate of specialized and other construction business as compared to last year.

Administrative Expenses

Administrative expenses amounted to RMB571 million in 2022, representing an increase of RMB35 million as compared with that of 2021, which remained stable with a relatively small change from last year.

Research and Development Costs

Research and development costs amounted to RMB150 million in 2022, representing an increase of RMB74 million as compared with that of 2021. The research and development costs mainly include the Group's costs incurred for research of special projects or production process. During the year, the Group increased its investment in research and development, resulting in an increase in research and development costs.

Credit Impairment Gains/(Losses)

Credit impairment gains amounted to RMB131 million in 2022, representing a reversal of RMB754 million as compared to the credit impairment losses of RMB623 million of 2021, which was mainly due to the decrease in individual bad debt provision for customers with significant risk of default based on the Group's assessment on customer's operating conditions and payment collection.

Asset Impairment Losses

Asset impairment losses amounted to RMB179 million in 2022, representing a decrease of RMB1,122 million as compared with that of 2021, which was mainly due to the decrease in number of new defaulting customers during the year as compared to last year, resulting in a decrease in the provision for bad debts on contract assets during the year as compared to last year.

Investment Income

Investment income amounted to RMB25 million in 2022, representing an increase of RMB21 million as compared with that of 2021, which was mainly due to the decrease in number of non-recourse factoring during the year, resulting in a decrease in the loss on derecognition of financial assets measured at amortized cost.

Income Tax Expenses/(Gains)

Income tax expenses amounted to RMB113 million in 2022, representing an increase of RMB251 million from 2021, which was mainly due to the increase in net profit generated during the year.

Net Profit

Based on the above factors, net profit amounted to RMB315 million in 2022, representing an increase of approximately RMB674 million from last year.

Liquidity, Financial Sources and Capital Structure

The Group finances operations primarily through cash generated from operating activities and interest-bearing borrowings. As at 31 December 2022 and 31 December 2021, the Group had cash and cash equivalents of approximately RMB8,488 million and approximately RMB8,307 million, respectively. For the liquidity and capital structure of the funds of the Group, please refer to the financial ratios below.

Currency Funds

As at 31 December 2022, the Group's currency funds of the Group were RMB9,123 million, representing an increase of RMB313 million as compared to that of 2021, which was mainly due to the net cash inflows from operating activities and financing activities.

Financial Policy

The Group regularly monitors cash flow and cash balances. Furthermore, it is dedicated to maintaining the optimal liquidity level required for working capital and keeping its business and multiple growth strategies at a stable and healthy level during the Reporting Period. In the future, the Group intends to finance operations through cash generated from operating activities and interest-bearing borrowings.

Long-term Equity Investments

As at 31 December 2022, the long-term equity investment was RMB516 million, representing a decrease of RMB6 million compared with that of 2021, which was mainly due to the change in profit or loss of the Group's investments under the equity method.

Receivables Financing

As at 31 December 2022, the receivables financing of the Group were RMB349 million, representing a decrease of RMB155 million compared with the end of 2021, which was mainly due to decrease in bank acceptance bills accepted by the Group during the year.

Accounts Receivable and Long-term Receivables

As at 31 December 2022, the net value of accounts receivable was RMB7,816 million, representing an increase of approximately RMB75 million as compared with that of 2021 without significant overall change.

The net value of long-term receivables (including the portion due within one year) was RMB213 million, representing a decrease of RMB0.36 million as compared with that of 2021 without significant change.

Other Receivables

As at 31 December 2022, balance of other receivables of the Group was RMB2,360 million, representing a decrease of approximately RMB257 million as compared with that of last year, which was mainly due to the decrease in the number of new projects during the year as compared to last year.

Contract Assets and Construction Services Contract Liabilities

The net value of contract assets as at 31 December 2022 was RMB42,917 million, representing an increase of approximately RMB754 million as compared with that of 2021, which was mainly due to the increase in completed but unsettled long-term contract assets of project companies. Contract liabilities as at 31 December 2022 were RMB6,940 million, representing an increase of approximately RMB933 million as compared with that of 2021, which was mainly because the Group received prepayment for certain new projects started during the year, resulting in an increase in contract liabilities.

Other Equity Instrument Investment

The carrying value of other equity instrument investment as at 31 December 2022 was RMB744 million, representing a decrease of approximately RMB35 million as compared with that of 2021, which was mainly due to the decrease in fair value of the Group's investment in other equity instruments.

Borrowings

The bank borrowings of the Group mainly include long-term and short-term borrowings from financial institutions.

As at 31 December 2022, the Group's interest-bearing borrowings were approximately RMB5,989 million (31 December 2021: approximately RMB5,479 million).

Bills and Accounts Payable

The balance of accounts payable as at 31 December 2022 was RMB36,587 million, representing a decrease of RMB1,350 million or 4% compared with that of 2021, which was mainly due to the decrease in project volume during the year, resulting in lower procurement volume. The balance of bills payable decreased by RMB88 million compared with that of last year, which was mainly due to the decreased proportion of bill payments during the year.

Capital Expenditures

Capital expenditures in 2022 were approximately RMB81 million, representing a decrease of RMB173 million as compared to that of 2021, which was mainly because there was no significant expenditure for purchase of fixed assets during the Reporting Period.

Capital Commitment

As at 31 December 2022, the Group did not have any material capital commitment.

Financial Ratios

	31 December 2022	31 December 2021
Current ratio (times) ⁽¹⁾	1.0	1.0
Quick ratio (times) ⁽²⁾	1.0	1.0
Gearing ratio ⁽³⁾	97.1%	93.3%
Return on assets ⁽⁴⁾	0.5%	-0.6%
Return on equity ⁽⁵⁾	5.2%	-5.8%

Notes:

- (1) Current ratio (times) represents total current assets divided by total current liabilities as at the relevant date.
- (2) Quick ratio (times) represents total current assets minus inventory divided by total current liabilities as at the relevant date.
- (3) Gearing ratio represents total interest-bearing liabilities divided by equity as at the relevant date and multiplied by 100%.
- (4) Return on assets represents profit for the year divided by the average of total assets at the beginning and end of the year and multiplied by 100%.
- (5) Return on equity represents profit for the year divided by the average of total equity at the beginning and end of the year and multiplied by 100%.

Significant Acquisition or Disposal

During the Reporting Period, the Group did not have any significant acquisition or disposal.

Contingent Liabilities

As at 31 December 2022, the Group had contingent liabilities arising from external guarantees amounting to RMB719 million and contingent liabilities arising from pending litigation or arbitration amounting to RMB21.36 million.

RMB Exchange Rate Fluctuations and Exchange Risk

Most of the Group's businesses and all bank loans have been traded in RMB so there is no significant foreign exchange fluctuation risk. The Board does not expect that fluctuations in the RMB exchange rate and exchange fluctuations of other foreign currencies will have a significant impact on the Group's business or performance. The Group currently has no relevant foreign exchange risk hedging policies and therefore it has not carried out any hedging transactions to manage the potential risks of foreign currency fluctuations.

Employee and Remuneration Policies

As at 31 December 2022, the Group had a total of 9,104 full-time employees (31 December 2021: 9,064).

As confirmed by the Directors of the Group, in previous period, the Group did not use any forfeited contributions under the defined contribution schemes to reduce the existing level of contributions as set out in paragraph 26(2) of Appendix 16 to the Listing Rules, and such matter will not have a material impact on the financial position and operating results of the Group.

Significant Subsequent Events

The Group has no significant subsequent events as at the date of this announcement.

OUTLOOK

In 2023, after crossing an important historical milestone of the 70th anniversary of the founding of the Company, the Company will vigorously embark on a new journey of high-quality development towards a century-old company during such a critical year. In the new year, we will continue to adhere to the strategy of "consolidating our strength, upgrading our standards, pioneering and innovating to achieve sustainable development", hold ourselves to the standards of a listed company, with exceptional performance as our primary goal, prioritize profitability, facilitate talent development, and adopt a digital and innovation driven approach. By encouraging competition among companies, we will facilitate project implementation through joint inspection and supervision, promote quality and efficiency enhancement through in-depth operation, fully support the national strategies of supply-side structural reform and domestic demand expansion, create demand and empower partners by providing high-quality services, maintain stable operation while seeking progress, and strive to complete all planned targets.

The construction industry is the bedrock of the Company and the cornerstone of our business. Without a solid foundation, we cannot achieve lasting success. We are committed to weathering any challenges that come our way and adhering to our strategic policy of “building a large-scale corporation, consolidating our workforce, operating effective systems, and expanding our brand”. We will leverage the advantages of the Group in large-scale operation and continuously improve our core competitiveness in the construction industry.

For market development, we will seize the strategic opportunities brought about by the coordinated development of the Beijing-Tianjin-Hebei region, make full use of the Company’s excellent reputation and comprehensive management capabilities in this region, continue to optimize our organization and pursue meticulous project development, thereby demonstrating our good reputation by developing high-quality projects. We will maintain our presence in provincial capitals and municipalities outside of the Beijing-Tianjin-Hebei region and use this as a foundation to radiate to surrounding areas. We will also steadily expand into international markets while ensuring effective risk control.

For technological innovation, we will focus on the development direction of green building and intelligent construction, keep abreast of the cutting-edge technology in the industry, enhance our knowledge and technology reserves, and explore and nurture new economic growth drivers.

At the front line of project production, we will firmly hold the bottom line of safety, continuously enhance project quality, persistently improve our standardized management capabilities and capture market shares through implementation of high-quality projects.

For internal control and management, we will continue to deepen our operational management and continuously improve the profitability of our output value. We will continue to strengthen the three lines of defense of internal control, enhance the accountability mechanism, and prevent various risks in a more effective manner.

In 2023, the Company will stay true to its original mission of “ensuring the well-being of employees, promoting development of enterprises and making contribution to the society”, work diligently and persistently, remain true to our core value while embracing innovation, march forward with perseverance, determination and courage, and strive to become “a happy enterprise that accomplishes the purposes of its own and others and a century-old company with an ever-lasting business”.

III. OTHER INFORMATION

DIVIDEND

The Board does not recommend the declaration of dividend to the Shareholders for the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high level of corporate governance to meet business needs and Shareholders' requirements. To ensure that the Company is able to fully fulfill its obligations under the Listing Rules, the Company has established an effective corporate supervision structure and is committed to continually improving its internal control and corporate governance mechanisms. The Company also operates in strict accordance with the Articles of Association, the Working Rules of the Committees under the Board of Directors, the Company Law, and the relevant laws, regulations and regulatory documents, as well as the relevant provisions of the Hong Kong Stock Exchange, so as to do a good job in corporate information disclosure and investment relationship management and service.

During the year ended 31 December 2022, the Company had complied with all the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Appendix 14 to the Listing Rules and had adopted most of the recommended best practices as set out therein.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company 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 code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they have complied with the standards specified in the Model Code during the year ended 31 December 2022.

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

During the Reporting Period, the Group did not purchase, sell or redeem any of the Company's listed securities.

AUDITORS

The Company has appointed Ernst & Young Hua Ming LLP (“**EY Hua Ming**”) as the auditor of the Company for the audit of annual financial report for the year ended 31 December 2022 under the Chinese Accounting Standards for Business Enterprises. The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Company's auditor, EY Hua Ming, as consistent with the amounts set out in the Group's consolidated financial statements. The work performed by EY Hua Ming 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 EY Hua Ming on the results announcement.

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the annual results of the Group for 2022 and the audited consolidated financial report for the year ended 31 December 2022 prepared under the Chinese Accounting Standards for Business Enterprises.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the HKEXnews website of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) at www.hkexnews.hk and the website of the Company at www.hebjs.com.cn. The annual report of the Company for 2022 will be published and dispatched to the Company’s H shareholders in due course and will be published on the aforesaid website of the HKEXnews of the Hong Kong Stock Exchange as well as the website of the Company.

By order of the Board

Hebei Construction Group Corporation Limited

LI Baozhong

Chairman and Executive Director

Hebei, the PRC

27 March 2023

As of the date of this announcement, the executive directors are Mr. LI Baozhong, Mr. SHANG Jinfeng, Mr. LIU Yongjian and Mr. ZHAO Wensheng; the non-executive director is Mr. LI Baoyuan; and the independent non-executive directors are Ms. SHEN Lifeng, Ms. CHEN Xin and Mr. CHAN Ngai Sang Kenny.