# CHANHIGH HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2017)**

## ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of Chanhigh Holdings Limited (the "**Company**"), hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 (the "**Year**") together with comparative figures. The Group's unaudited financial information in this announcement was prepared based on the unaudited consolidated financial statements of the Group for the Year.

The auditing process for the annual results for the Year has not been completed due to travel restrictions and quarantine policies to combat the novel coronavirus outbreak in Zhejiang Province, The People's Republic of China (the "**PRC**"), where certain major subsidiaries of the Group are located. The unaudited annual results for the Year presented herein have not been agreed with the Company's auditors (the "**Auditors**"). The unaudited annual results in this announcement have not been reviewed by the audit committee of the Company. An announcement relating to the audited results will be made when the auditing process is completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

## UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2019*

| | Note | 2019<br>*RMB'000*<br>(Unaudited) | 2018<br>*RMB'000*<br>(Audited) |
|---|---|---|---|
| **Revenue** | 4 | **1,364,150** | 733,430 |
| Cost of services rendered | | **(1,202,545)** | (645,383) |
| Sales related tax and auxiliary charges | | **(6,383)** | (4,507) |
| **Gross profit** | | **155,222** | 83,540 |
| Other income and gains | | **14,186** | 13,161 |
| Administrative and other operating expenses | | **(65,073)** | (61,840) |
| (Impairment loss)/reversal of impairment loss on trade and other receivables and contract assets, net | | **(952)** | 3,445 |
| **Profit from operations** | | **103,383** | 38,306 |
| Finance costs | | **(30,314)** | (10,495) |
| **Profit before tax** | | **73,069** | 27,811 |
| Income tax expense | 5 | **(22,385)** | (10,747) |
| **Profit for the year** | 6 | **50,684** | 17,064 |
| **Other comprehensive income for the year, net of tax** | | **—** | — |
| **Total comprehensive income for the year** | | **50,684** | 17,064 |
| **Profit and total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **50,539** | 17,046 |
| Non-controlling interests | | **145** | 18 |
| | | **50,684** | 17,064 |
| **Earnings per share** | | | |
| Basic and diluted (**RMB cents per share**) | 7 | **8.2** | 2.8 |

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2019*

| | Note | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **21,787** | 9,073 |
| Right-of-use assets | | **337** | – |
| Intangible assets | | **115,198** | 99,833 |
| **Total non-current assets** | | **137,322** | 108,906 |
| **Current assets** | | | |
| Trade, bills and other receivables | 8 | **819,029** | 651,914 |
| Contract assets | | **882,394** | 824,942 |
| Bank and cash equivalents | | **206,964** | 280,086 |
| **Total current assets** | | **1,908,387** | 1,756,942 |
| **TOTAL ASSETS** | | **2,045,709** | 1,865,848 |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 9 | **5,487** | 5,487 |
| Reserves | | **856,402** | 805,895 |
| | | **861,889** | 811,382 |
| Non-controlling interests | | **7,269** | 7,124 |
| **Total equity** | | **869,158** | 818,506 |
| **Non-current liabilities** | | | |
| Borrowings | | **105,483** | 45,102 |
| **Total non-current liabilities** | | **105,483** | 45,102 |
| **Current liabilities** | | | |
| Trade payables | 10 | **331,622** | 410,126 |
| Accruals and other payables | | **102,950** | 88,436 |
| Contract liabilities | | **45,183** | 62,346 |
| Lease liabilities | | **334** | — |
| Borrowings | | **470,619** | 337,085 |
| Current tax liabilities | | **120,360** | 104,247 |
| **Total current liabilities** | | **1,071,068** | 1,002,240 |
| **TOTAL EQUITY AND LIABILITIES** | | **2,045,709** | 1,865,848 |

## NOTES

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is 17th and 18th Floors, Cang Hai Industry Building, No.3388 Cang Hai Road, Yinzhou District, Ningbo City, Zhejiang Province, the PRC.

The Company is an investment holding company. The principal activities of its subsidiaries are provision of municipal work and landscape construction and related services.

In the opinion of the Directors, as at 31 December 2019, the Peng Family, comprising Mr. Peng Daosheng, Ms. Wang Sufen, Mr. Peng Tianbin and Mr. Peng Yonghui, is the ultimate controlling party of the Company.

### 2. BASIS OF PREPARATION

The unaudited consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"). IFRSs comprise International Financial Reporting Standards ("**IFRS**"); International Accounting Standards ("**IAS**"); and Interpretations. The unaudited consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

### 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the Year, the Group has adopted all the new and revised IFRSs issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's unaudited consolidated financial statements.

**IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

***(a) Definition of a lease***

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

***(b) As a lessee***

The Group leases several properties.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The recognised right-of-use assets relate to the following types of assets:

| | **Balance as at** | |
|---|---|---|
| | **31 December 2019** | 1 January 2019 |
| | ***RMB'000*** | *RMB'000* |
| Properties | **337** | 1,130 |

*Significant accounting policies*

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

*Transition*

Previously, the Group classified property leases as operating leases under IAS 17. These include mainly office premises. The leases typically run for a period from 1 to 3 years.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

– Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

– Excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

***(c) Impacts of financial statements***

*Impact on transition*

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The change in accounting policy affected the following items on the condensed consolidated statement of financial position (increase/(decrease)) as at 1 January 2019 is summarised below.

| | **At 1 January 2019** ***RMB'000*** |
|---|---|
| **Assets** | |
| Right-of-use assets | **1,130** |
| **Liabilities** | |
| Current lease liabilities | **814** |
| Non-current lease liabilities | **348** |
| | **1,162** |
| **Equity** | |
| Retained earnings | **(32)** |

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 3.96%.

| | At 1 January 2019 *RMB'000* |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | **3,306** |
| Less: commitments relating to lease exempt from capitalisation: | |
| – short-term leases and other leases with remaining lease term ending on or before 31 December 2019 | **(2,095)** |
| – leases of low-value assets | **(17)** |
| | **1,194** |
| Less: total future interest expenses | **(32)** |
| Lease liabilities recognised as at 1 January 2019, representing present value of remaining lease payments discounted using the incremental borrowing rate | **1,162** |
| Of which are: | |
| Current lease liabilities | **814** |
| Non-current lease liabilities | **348** |
| | **1,162** |

*Impact for the Year*

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RMB337,000 of right-of-use assets and RMB334,000 of lease liabilities as at 31 December 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and finance costs, instead of operating lease expense. During the Year, the Group recognised RMB798,000 of depreciation charges and RMB31,000 of finance costs from these leases.

## 4. REVENUE AND SEGMENT INFORMATION

The Group's revenue is derived from contracts with customers.

***(i) Information about operating segment profit or loss:***

| | Landscape construction *RMB'000* | Municipal works construction *RMB'000* | Building works *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **2019 (Unaudited)** | | | | | |
| **External revenue** | **486,413** | **490,125** | **339,994** | **47,618** | **1,364,150** |
| **Segment results** | **50,310** | **79,962** | **8,179** | **16,771** | **155,222** |
| **2018 (Audited)** | | | | | |
| External revenue | 278,636 | 266,952 | 163,834 | 24,008 | 733,430 |
| Segment results | 30,830 | 39,052 | 10,444 | 3,214 | 83,540 |

*(ii) Reconciliation of operating segment profit or loss:*

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| **Profit and loss** | | |
| Total profits of reportable segments | **155,222** | 83,540 |
| Unallocated amounts: | | |
| Interest income | **5,988** | 2,661 |
| Government subsidy, incentives and awards | **3,282** | 7,234 |
| Depreciation | **(2,865)** | (1,291) |
| Amortisation of intangible assets | **(4,134)** | (3,267) |
| Finance costs | **(30,314)** | (10,495) |
| Operating lease charges | **(2,708)** | (3,239) |
| Net exchange gain | **347** | 2,974 |
| Staff costs | **(33,682)** | (30,700) |
| Bad debts written off | **—** | (161) |
| (Impairment loss)/reversal of impairment loss on trade, bills and other receivables and contract assets, net | **(952)** | 3,445 |
| Others | **(17,115)** | (22,890) |
| Consolidated profit before tax | **73,069** | 27,811 |

*(iii) Geographical information*

Based on the locations of the customers, all revenue is earned in the PRC.

## 5. INCOME TAX EXPENSE

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Current tax - PRC | | |
| Provision for the year | **22,385** | 10,747 |

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the Year (2018: Nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

As at 31 December 2019, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB21,235,000 (2018: RMB17,557,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing for reversal of the temporary differences and it is probable that such differences will not reverse in foreseeable future.

PRC Enterprise Income Tax ("**PRC EIT**") has been provided at a rate of 25% (2018: 25%) by all the PRC subsidiaries, except Zhejiang Zhanhai Industrial Co., Ltd. ("**Zhanhai Industrial**") (浙江展海實業有限公司), applying a preferential enterprise income tax rate of 20% on 50% reduced assessable profit as Zhanhai Industrial is qualified as a small and low-profit enterprise.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC EIT rate is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Profit before tax | **73,069** | 27,811 |
| Tax at the EIT of 25% (2018: 25%) | **18,267** | 6,953 |
| Tax effect of income that is not taxable | **(176)** | (1,636) |
| Tax effect of expenses that are not deductible | **4,756** | 5,430 |
| Preferential tax treatment | **(462)** | — |
| Income tax expense | **22,385** | 10,747 |

## 6. PROFIT FOR THE YEAR

The Group's profit for the year is arrived at after charging/(crediting) the following:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Auditors' remuneration | **1,325** | 1,265 |
| Amortisation of intangible assets | **4,134** | 3,267 |
| Cost of services rendered | **1,202,545** | 645,383 |
| Bad debts written off | — | 161 |
| Depreciation of property, plant and equipment | **2,865** | 1,291 |
| Depreciation of right-of-use assets | **798** | — |
| Loss on disposal of property, plant and equipment | **473** | 167 |
| Net exchange gain | **(347)** | (2,974) |
| Impairment loss/(reversal of impairment loss) on trade, bills and other receivables and contract assets, net | **952** | (3,445) |
| Operating lease charges - land and buildings | **2,708** | 3,239 |

Cost of services rendered includes staff costs and depreciation of approximately RMB11,996,000 for the Year (2018: RMB9,120,000) which are included in the amounts disclosed separately.

## 7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

| | 2019<br>*RMB'000*<br>(Unaudited) | 2018<br>*RMB'000*<br>(Audited) |
|---|---|---|
| **Earnings** | | |
| Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation | **50,539** | 17,046 |
| **Number of shares** | | |
| Weighted average number of ordinary shares used in basic and diluted earnings per share calculation (thousand shares) | **618,502** | 618,502 |

## 8. TRADE, BILLS AND OTHER RECEIVABLES

| | 2019<br>*RMB'000*<br>(Unaudited) | 2018<br>*RMB'000*<br>(Audited) |
|---|---|---|
| **Trade and bills receivables** | | |
| Trade receivables | **498,489** | 455,189 |
| Allowance for bad and doubtful debts | **(10,049)** | (10,307) |
| | **488,440** | 444,882 |
| Bills receivables | **7,010** | 3,963 |
| Allowance for bad and doubtful debts | **(40)** | (59) |
| | **6,970** | 3,904 |
| | **495,410** | 448,786 |
| **Other receivables** | | |
| Construction contracts performance guarantees and deposit for tender | **67,202** | 89,793 |
| Retentions receivables | **78,497** | 52,656 |
| Interest receivables | **4,806** | — |
| Others | **35,455** | 2,981 |
| | **185,960** | 145,430 |
| Allowance for bad and doubtful debts | **(1,151)** | (2,404) |
| | **184,809** | 143,026 |
| Prepayments and deposits | **138,810** | 60,102 |
| | **819,029** | 651,914 |

Trade and bills receivables represented the construction contracts and rendering of services receivables from the customers at each of the reporting dates. The Group's trading terms with its customers are mainly based on the contract terms. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by the Directors.

The aging analysis of trade and bills receivables, net of allowance for impairment of trade and bills receivables, based on the contract terms for the works certified is as follow:

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| 0 to 90 days | **177,069** | 121,754 |
| 91 to 180 days | **47,701** | 43,249 |
| 181 to 365 days | **70,684** | 69,408 |
| Over 1 year but less than 2 years | **58,087** | 98,076 |
| Over 2 years but less than 3 years | **69,318** | 58,360 |
| Over 3 years | **72,551** | 57,939 |
| | **495,410** | 448,786 |

## 9. SHARE CAPITAL

| | Number of shares | Amount | |
|---|---|---|---|
| | ***'000*** | ***HK$'000*** | ***RMB'000*** |
| **Authorised:** | | | |
| *Ordinary shares of HK$0.01 per share* | | | |
| At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019 (Unaudited) | 2,000,000 | 20,000 | 17,733 |
| **Issued and fully paid:** | | | |
| *Ordinary shares of HK$0.01 per share* | | | |
| At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019 (Unaudited) | 618,502 | 6,185 | 5,487 |

## 10. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follow:

| | 2019 | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| 0 to 90 days | **107,388** | 76,488 |
| 91 to 180 days | **30,234** | 10,614 |
| 181 to 365 days | **26,477** | 28,999 |
| Over 1 year but less than 2 years | **21,557** | 121,703 |
| Over 2 years but less than 3 years | **63,588** | 96,931 |
| Over 3 years | **82,378** | 75,391 |
| | **331,622** | 410,126 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

In the Year, the PRC economy was under downside pressure, through adjusting macroeconomic policies, the overall economy was stable with an upward trend during the year. The construction industry was facing both opportunities and challenges, the adjustments of various national policies increased the capacity of the construction market and competition was more intensified, and mainly including:

1. Changes will occur in the content and structure of infrastructural investments. In future, the number of conventional infrastructure construction projects represented by "railway, highway and airport" will decrease gradually, and the market share of construction in new infrastructure facilities represented by "artificial intelligence, internet of things and industrial internet", upgraded industries (such as ultra-high voltage, urban rail transit and underground space construction, etc.) required for digitization and transformation of conventional infrastructural facilities, and construction of new style cities may be expanding gradually.

2. Industrialized development for construction projects. According to the "13th Five-year" Action Plan for Prefabricated Building issued by the Ministry of Housing and Urban-Rural Development of the PRC, it is expected that by 2020, prefabricated buildings in China will account for more than 15% of newly constructed buildings, and may exceed 20% in key promotion regions. According to the goal of this plan, all provinces and cities have started implementing the plan for prefabricated building. The extensive development of prefabricated buildings may (1) increase the efficiency of the industry to alleviate the problem of shortage in construction workers; (2) save energy and reduce emissions to protect the environment; and (3) enhance the quality of projects to lengthen the useful life of the buildings.

3. Regional development of urban agglomerations brings new opportunities to transportation infrastructure and ecological environment markets. Yangtze River Delta Integration has been elevated to the level of national strategy, under the top-level design, implementation of the regional development strategy will be accelerated, developments of transportation infrastructure and ecological environment construction will be speeded up. Considering from the two dimensions of location and professionalism, as the Group is headquartered in Ningbo City, Zhejiang Province, Yangtze River Delta Integration will directly benefit from the increase in demand arising in the region where it is located. Moreover, since the Group has a number of First-Grade qualifications and extensive construction experience, it will have stronger competitive edge when undertaking large-scale projects. Meanwhile, under the high standard policies of targeted poverty alleviation and rural revitalization, the infrastructure facilities in poverty-stricken regions and rural villages are badly in need of improvements, the big era of rural infrastructure has arrived.

## BUSINESS REVIEW

In the Year, the annual revenue of the Group was approximately RMB1,364.2 million, representing an increase of approximately 86.0% over last year. The revenue was mainly generated from: i) landscape construction, ii) municipal works construction, iii) building works, and iv) others, and accounted for 35.7%, 35.9%, 24.9% and 3.5%, respectively.

In the Year, the Group actively consolidated its enterprise qualification resources and completed the relocation of First-Grade General Contractor for Water Works and Hydropower Projects Qualification (水利水電工程施工總承包壹級資質), it is capable of bidding tender now and has started undertaking external water works projects. In addition, the consolidation of other qualifications such as the First-Grade General Contractor for Construction Projects Qualification (建築工程施工總承包壹級資質) were also completed.

Meanwhile, the Group has obtained three new qualifications, including A-Grade Landscape Construction Design Qualification (風景園林工程設計專項甲級資質), First-Grade National Qualification in Cleaning and Cleansing Industry in China (中國清潔清洗行業國家一級資質) and Third-Grade Professional Contractor for Foundation Construction Projects Qualification (地基基礎工程專業承包三級資質). As the Group has gradually completed consolidating its qualifications, this will be greatly helpful for undertaking business in 2020.

In the Year, the Group has successively won several large projects, including the Project of Landscape Construction of One River Road (Thirty-Mile River – Hang Ying Road) of Fuyang (阜陽市一道河路(三十里河-航穎路)道路景觀綠化施工工程) with a bid price of RMB322 million, the Project of Municipal Landscape Construction of New Town Happy Harbour Bay Head Park of Yinzhou District, Ningbo City, Zhejiang Province of the PRC (中國浙江省寧波市鄞州區新城區歡樂海岸頭公園市政景觀承包工程) with a bid price of RMB113 million, and the Construction Project of Central Park in Zhoushan (舟山中央公園建設施工工程) with a bid price of RMB166 million, representing an increase in both the number and the value of winning bids.

In the Year, another project of the Group has won the Grand Prize for Provincial Construction Projects, namely, the Wuling Square Renovation Project in Xikou Town of Fenghua (奉化溪口鎮武嶺廣場改造工程) won the Qianjiang Cup Award (錢江杯), being the Grand Prize on Quality for Construction Projects in Zhejiang Province. In addition, we also won a number of quality awards in projects of municipal and district levels.

## PROSPECTS

Currently, international economies are adversely affected by the novel coronavirus outbreak, there are uncertainties in development conditions, and the global economies are facing downside risk.

Under the circumstances of greater economic downside pressure, and a notable increase in the sources of global fluctuations and spots of risks, the Political Bureau of the CPC Central Committee expressed clearly at the economic meeting for planning in 2020 that the objectives for this year are "maintaining stability with priority", ensuring the comprehensive establishment of a moderately prosperous society and the fruitful completion of the "13th Five-year Plan".

In terms of macroeconomic adjustments, the financial deleveraging policy is over for the time being. Under the joint effects of the State's increased anti-cyclical adjustments, reforms and open efforts, it is expected that infrastructure and manufacturing investments will recover and record a slight growth in 2020.

In terms of fiscal policies, more efforts will be used to enhance quality and effectiveness. Through expenditure on protective measures to "maintain basic level wages, ensure circulation and assure basic necessities for living", more fiscal funds will be input into areas such as advanced manufacturing, construction for livelihood and infrastructure where both supply and demand sides will be benefited with multiplier effect, upgrading in both industries and consumption will be facilitated, and by consolidating and extending the effectiveness of tax cuts and fee reduction, the effect and quality of the fiscal policies will be enhanced.

In terms of new infrastructure, China will accelerate the progress of major projects and infrastructure construction expressly stated in the national plans. On one hand, the construction progress of new infrastructure such as 5G network, data centers, etc. will be accelerated, on the other hand, infrastructure development in advance will be considered to a suitable extent for metropolitan circles and urban agglomerations with population inflows. This will not only stimulate short-term demand, but will also generate a driving force for high quality transformation and development of the national economy.

Facing the prevailing external environment, the Group will consider our own actual conditions, ascertain our line of thought and implement practical work in order to have a successful foothold in the intensely competitive market environment. In future, the overall strategy for our Group's development will be: focus closely on economic benefits as center, revitalize assets and incentivize talents, develop our projects with technology and innovation as guidance on our existing industrial base, connect with upstream and downstream segments along the industrial chain, further push forward cross-industry cooperation to maximize synergies and realize sustainable, healthy and green development in our enterprise.

## FINANCIAL REVIEW

### Revenue

Revenue of the Group increased by 86.0% or RMB630.8 million from RMB733.4 million for last year to RMB1,364.2 million for the Year. The increase was attributable to the increase in segment revenue of all business segments of the Group which was in turn led by the increase in the overall number of projects during the Year.

The revenue recognised during the Year for projects completed during the Year and in progress as at 31 December 2019 as compared with that of last year is tabulated as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Business segments** | **Revenue** *RMB'000* **(Unaudited)** | **No. of projects completed during the year** | **No. of projects in progress as at the year end** | **Revenue** *RMB'000* (Audited) | **No. of projects completed during the year** | **No. of projects in progress as at the year end** |
| Landscape construction | **486,413** | **34** | **55** | 278,636 | 18 | 36 |
| Municipal works construction | **490,125** | **35** | **72** | 266,952 | 17 | 41 |
| Building works | **339,994** | **12** | **19** | 163,834 | 6 | 18 |
| Others | **47,618** | **9** | **18** | 24,008 | 17 | 15 |
| Total | **1,364,150** | **90** | **164** | 733,430 | 58 | 110 |

Increase in the overall number of projects for the Year was mainly due to the following reasons:

(i) the number of new projects in the Year increased as compared with that of last year, and the commencement of certain projects obtained in previous years was deferred to 2019; and

(ii) the business of building works segment and the number of projects under this segment grew up as a result of the Group's obtaining of the First-Grade General Contractor for Housing Construction Projects Qualification.

### Landscape construction

The Group recorded an increase in revenue from the landscape construction segment, from RMB278.6 million for last year to RMB486.4 million for the Year, representing an increase of 74.6% or RMB207.8 million. The increase was mainly due to the increase in overall number of landscape construction projects for the Year as compared with that of last year.

**Municipal works construction**

The Group recorded an increase in revenue from the municipal works construction segment, from RMB267.0 million for last year to RMB490.1 million for the Year, representing an increase of 83.6% or RMB223.1 million. The increase was mainly due to the increase in overall number of municipal works construction projects for the Year as compared with that of last year.

**Building works**

The Group recorded an increase in revenue from the building works segment, from RMB163.8 million for last year to RMB340.0 million for the Year, representing an increase of 107.6% or RMB176.2 million. The increase was mainly due to the increase in overall number of building works projects for the Year as compared with that of last year following the Group's obtaining of the First-Grade General Contractor for Housing Construction Projects Qualification.

**Others**

The Group recorded an increase in revenue from the others segment, from RMB24.0 million for last year to RMB47.6 million for the Year, representing an increase of 98.3% or RMB23.6 million. The increase was mainly due to the increase in overall number of other projects, mainly including decoration projects, lighting projects and landscape maintenance services, for the Year as compared with that of last year, and the revenue of RMB3.3 million derived from agency business which commenced operation in 2019.

**Cost of services rendered**

Cost of service rendered increased by 86.3% or RMB557.1 million from RMB645.4 million for last year to RMB1,202.5 million for the Year. Generally, the increase in cost of service rendered was in line with the increase in revenue for the Year.

**Gross profit and gross profit margin**

As a result of the foregoing, the Group's gross profit increased by 85.8% or RMB71.7 million from RMB83.5 million for last year to RMB155.2 million for the Year. Gross profit margin of the Group remained unchanged as compared with 11.4% of last year. The increase in gross profit was mainly due to the increase in revenue for the Year as compared with that of last year.

**Other income and gains**

Other income and gains mainly represented finance gains and government subsidy income, and increased by 7.8% or RMB1.0 million from RMB13.2 million for last year to RMB14.2 million for the Year.

### Administrative and other operating expenses

The Group's administrative expenses increased by 5.2% or RMB3.3 million from RMB61.8 million for last year to RMB65.1 million for the Year, which was mainly due to the increase in staff costs.

### Finance costs

The Group's finance costs increased by 188.6% or RMB19.8 million from RMB10.5 million for last year to RMB30.3 million for the Year, which was mainly due to the increase in average monthly balance of bank borrowings for the purpose of construction project funding.

### Income tax expense

The Group's income tax expense increased by 109.3% or RMB11.7 million from RMB10.7 million for last year to RMB22.4 million for the Year, which was mainly due to the effect of increase in taxable profit.

## LIQUIDITY AND CAPITAL RESOURCES

| | **2019** | 2018 |
|---|---|---|
| Cash and cash equivalents (excluding deposits with initial term of over three months) (RMB'000) | **161,903** | 272,198 |
| Current ratio | **1.8** | 1.8 |
| Gearing ratio | **0.7** | 0.5 |

As at 31 December 2019, the Group's current ratio (based on the total current assets as at the respective year ends divided by the total current liabilities as at the respective year ends) was 1.8.

As at 31 December 2019, the Group's gearing ratio (based on the total debts as at the respective year ends divided by total equity as at the respective year ends) was 0.7.

The increase in gearing ratio was mainly attributable to increase in borrowings for working capital purposes.

## CAPITAL EXPENDITURES AND COMMITMENTS

### Capital expenditures

For the Year, the Group incurred capital expenditures totalling RMB32.5 million in relation to property, plant and equipment and intangible assets, including a consideration of RMB6.7 million (HK$7.5 million) for the acquisition of an A-Grade Landscape Construction Design Qualification.

### Capital commitments

As at 31 December 2019, the Group had no significant capital commitments.

## INDEBTEDNESS

### Borrowings

The following table sets forth the Group's total debts as at year end:

| | **2019**<br>***RMB'000***<br>**(Unaudited)** | 2018<br>*RMB'000*<br>(Audited) |
|---|---|---|
| Bank borrowings | **531,000** | 330,900 |
| Factoring loan with recourse | **45,102** | 51,287 |
| | **576,102** | 382,187 |

The average interest rates for bank loans and factoring loan with recourse as at 31 December 2019 were 5.21% and 5.94% per annum respectively.

Except as disclosed above, as at 31 December 2019 and 2018, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

## USE OF NET PROCEEDS FROM THE LISTING

In line with the change in use of net proceeds as described in the Company's announcement dated 8 December 2017, the following table sets forth the Group's use of net proceeds up to the date of this announcement:

| | **Adjusted allocation of use of proceeds** *(HK$ million)* | **Utilised amount up to the date of this announcement** *(HK$ million)* | **Remaining amount as at the date of this announcement** *(HK$ million)* |
|---|---|---|---|
| Acquisition of construction companies possessing first-grade qualification and certificates in municipal projects, including but not limited to highway projects and water projects | 195.8 | 120.2 (Note 1) | 75.6 |
| Acquisition of or strategic investment in architectural design firm(s) in the Yangtze River Delta possessing first-grade qualification in architectural design | 91.4 | 7.5 (Note 2) | 83.9 |
| Acquisition or establishment of a new inspection centre accredited with the qualification(s) to carry out inspection, analysis and testing on the incoming materials to be used for construction, and/or inspection and supervision of construction works | 7.9 | — | 7.9 |
| General working capital | 20.2 | 20.2 | — |
| **Total** | **315.3** | **147.9** | **167.4** |

*Notes:*

1. The Group acquired several construction licenses including a First-Grade General Contractor for Water Works and Hydropower Projects Qualification, a Second-Grade General Contractor for Highway Construction Projects Qualification along with a Second-Grade General Contractor for Water Works and Hydropower Projects Qualification and a First-Grade General Contractor for Housing Construction Projects Qualification in the PRC at a consideration of RMB76,000,000, RMB13,600,000 and RMB13,500,000 respectively, totaling RMB103.1 million (HK$120.2 million).

2. In 2019, the Group acquired an A-Grade Landscape Construction Design Qualification with a consideration of RMB6.7 million (HK$7.5 million).

The remaining net proceeds of approximately HK$167.4 million are currently held in bank deposits and it is intended to apply in the manner consistent with the proposed allocation in the Company's announcement dated 8 December 2017. These remaining net proceeds are expected to be utilised by the end of 2020.

## FINAL DIVIDENDS

The Board does not recommend the payment of any dividend for the Year.

## NO MATERIAL CHANGE

During the Year, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 December 2018.

## CORPORATE GOVERNANCE HIGHLIGHTS

The Company is committed to achieving and maintaining high standards of corporate governance. The Board believes that effective corporate governance and disclosure practices are not only crucial to the enhancement of the Company's accountability and transparency and investors' confidence, but also critical to the Group's long-term success. The Company has adopted the code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code on corporate governance.

The Company has complied with the code provisions set out in the CG Code for the Year, except that the Directors, Mr. Peng Tianbin (chairman of the Board and chairman of the Strategy Committee), Mr. Shi Weixing (chairman of the Nomination Committee) and Mr. Yang Zhongkai (chairman of the Remuneration Committee), did not attend the annual general meeting on 10 June 2019 due to unexpected business engagements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the Year, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiries to all Directors, all Directors have confirmed that they had complied with the required standards as set out in the Model Code during the Year.

## AUDIT COMMITTEE

In compliance with the Listing Rules, the Company has an audit committee comprising three independent non-executive Directors, namely Mr. Fan Rong, Mr. Shi Weixing and Mr. Yang Zhongkai (the "**Audit Committee**"). The Audit Committee has reviewed the accounting policies adopted by the Group and discussed auditing, risk management and internal controls matters. However the Audit Committee has not reviewed the unaudited consolidated results of the Group for the Year.

## FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited annual results for the Year as agreed by the Auditors, and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the Register of Members of the Company will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting. In addition, the Company will issue further announcement as and when necessary if there are other material developments in the progress of the completion of the auditing process. The Company expects the auditing process will be completed and the annual results will be agreed with the Auditors on or before 30 April 2020.

**The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the Auditors, and have not been reviewed by the Audit Committee. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

By order of the Board
**Chanhigh Holdings Limited**
**Peng Tianbin**
*Chairman and Executive Director*

Hong Kong, 27 March 2020

*As at the date of this announcement, the Board consists of Mr. Peng Tianbin, Mr. Peng Yonghui and Mr. Peng Daosheng as executive Directors; Ms. Wang Sufen as non-executive Director; and Mr. Fan Rong, Mr. Shi Weixing and Mr. Yang Zhongkai as independent non-executive Directors.*