CHANHIGH HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2017)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	2019	2018
	RMB'000	*RMB'000*
Revenue	**1,356,089**	733,430
Gross profit	**147,161**	83,540
Profit for the year	**41,404**	17,064
Profit and total comprehensive income for the year attributable to:		
Owners of the Company	**41,262**	17,046
Non-controlling interests	**142**	18

Reference is made to the announcement of Chanhigh Holdings Limited (the "**Company**") dated 27 March 2020 in relation to the unaudited annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 (the "**Year**") (the "**Unaudited Annual Results Announcement**").

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce that the auditing process of the annual results of the Group for the Year has been completed. As certain adjustments have been made to the unaudited annual results of the Group as contained in the Unaudited Annual Results Announcement, the differences between the unaudited annual results and the audited annual results contained in this announcement are set out in the section headed "MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS" in this announcement in accordance with Rule 13.49(3)(ii)(b) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The audited consolidated results for the Year together with the comparative figures extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2018 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019**	2018
		RMB'000	*RMB'000*
Revenue	4	**1,356,089**	733,430
Cost of services rendered		**(1,202,545)**	(645,383)
Sales related tax and auxiliary charges		**(6,383)**	(4,507)
Gross profit		**147,161**	83,540
Other income and gains		**9,805**	13,161
Administrative and other operating expenses		**(65,073)**	(61,840)
(Impairment loss)/reversal of impairment loss on trade, bills and other receivables and contract assets, net		**(900)**	3,445
Profit from operations		**90,993**	38,306
Finance costs		**(30,314)**	(10,495)
Profit before tax		**60,679**	27,811
Income tax expense	5	**(19,275)**	(10,747)
Profit for the year	6	**41,404**	17,064
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**41,404**	17,064
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**41,262**	17,046
Non-controlling interests		**142**	18
		41,404	17,064
Earnings per share			
Basic and diluted **(RMB cents per share)**	7	**6.7**	2.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
ASSETS			
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	**798,975**	651,914
Contract assets		**887,376**	824,942
Bank and cash balances		**206,964**	280,086
Total current assets		**1,893,315**	1,756,942
TOTAL ASSETS		**2,030,637**	1,865,848
EQUITY			
Equity attributable to owners of the Company			
Share capital	9	**5,487**	5,487
Reserves		**847,125**	805,895
		852,612	811,382
Non-controlling interests		**7,266**	7,124
Total equity		**859,878**	818,506
LIABILITIES			
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		**103,297**	88,436
Contract liabilities		**42,501**	62,346
Lease liabilities		**334**	—
Borrowings		**470,619**	337,085
Current tax liabilities		**116,903**	104,247
Total current liabilities		**1,065,276**	1,002,240
TOTAL EQUITY AND LIABILITIES		**2,030,637**	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 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 consolidated financial statements also comply with the applicable disclosure provisions of 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

The IASB has issued a new IFRS, IFRS 16 Leases, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, and the related interpretations, 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 accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 3.96%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

(iii) relied on the assessment of whether leases are onerous by applying IAS 37 as an alternative to an impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as 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)
Present value of remaining lease payments, discounted using the incremental borrowing rate and lease liabilities recognised as at 1 January 2019	1,162
Of which are:	
Current lease liabilities	814
Non-current lease liabilities	348
	1,162

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

The following table summaries the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16	**Carrying amount as at 31 December 2018**	**Effects of adoption of IFRS 16** **Recognition of leases**	**Carrying amount as at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Assets			
Right-of-use assets	–	1,130	1,130
Liabilities			
Lease liabilities	–	1,162	1,162
Equity			
Retained earnings	311,510	(32)	311,478

(c) Impact of the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element. These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the consolidated statement of cash flows.

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16	**Add back: IFRS 16 depreciation and interest expense**	**Deduct: Estimated amounts related to operating lease as if under IAS 17 (note 1)**	**Hypothetical amounts for 2019 as if under IAS 17**	Compared to amounts reported for 2018 under IAS 17
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*
Financial results for year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**90,993**	**798**	**(826)**	**90,965**	38,306
Finance costs	**(30,314)**	**31**	—	**(30,283)**	(10,495)
Profit before tax	**60,679**	**829**	**(826)**	**60,682**	27,811
Profit for the year	**41,404**	**829**	**(826)**	**41,407**	17,064

	2019			2018
	Amounts reported under IFRS 16	**Estimated amounts related to operating leases as if under IAS 17 (note 1)**	**Hypothetical amounts for 2019 as if under IAS 17**	Compared to amounts reported for 2018 under IAS 17
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Line items in the consolidated statement of cash flows for year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash used in operations	**(197,994)**	**(826)**	**(198,820)**	(257,489)
Interest element of lease rentals paid	**(31)**	**31**	**–**	–
Net cash used in operating activities	**(235,526)**	**(795)**	**(236,321)**	(272,548)
Capital element of lease rentals paid	**(795)**	**795**	**–**	–
Net cash generated from financing activities	**193,120**	**795**	**193,915**	278,293

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

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	**Municipal works construction**	**Building works**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2019					
External revenue	**482,171**	**488,029**	**339,629**	**46,260**	**1,356,089**
Segment results	**46,069**	**77,867**	**7,812**	**15,413**	**147,161**
2018					
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*
Profit and loss		
Total profits of reportable segments	**147,161**	83,540
Unallocated amounts:		
Interest income	**4,274**	2,661
Government subsidy, incentives and awards	**3,282**	7,234
Depreciation of property, plant and equipment	**(2,865)**	(1,291)
Depreciation of right-of-use assets	**(798)**	–
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	**(900)**	3,445
Others	**(18,984)**	(22,890)
Consolidated profit before tax	**60,679**	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*
Current tax - PRC		
Provision for the year	**19,275**	10,747

PRC Enterprise Income Tax ("**PRC EIT**") has been provided at a rate of 25% (2018: 25%).

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

Under the two-tiered profits tax regime, profits tax rate for the first HK$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%.

For the year ended 31 December 2019, one of the subsidiaries of the Company incorporated in the PRC, 浙江展海實業有限公司 ("Zhejiang Zhanhai Industrial Company Limited) ("**Zhejiang Zhanhai**"), is assessed and paid the PRC EIT on a deemed profit basis which is calculated by first multiplying an applicable percentage determined by the relevant tax authority of 5% (2018: Nil) from the annual taxable income less than RMB1,000,000 and then applying a preferential enterprise income tax rate of 20% on 50% (2018: Nil) reduced assessable profit if the annual taxable income more than RMB1,000,000 but less than RMB3,000,000 as Zhejiang Zhanhai is qualified as a small and low-profit enterprise.

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.

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*
Profit before tax	**60,679**	27,811
Tax at the EIT of 25% (2018: 25%)	**15,169**	6,953
Tax effect of income that is not taxable	**(175)**	(1,636)
Tax effect of expenses that are not deductible	**4,743**	5,430
Preferential tax treatment	**(462)**	—
Income tax expense	**19,275**	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*
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	**900**	(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	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	**41,262**	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	2018
	RMB'000	*RMB'000*
Trade and bills receivables		
Trade receivables	**489,317**	455,189
Allowance for bad and doubtful debts	**(13,561)**	(10,307)
	475,756	444,882
Bills receivables	**7,010**	3,963
Allowance for bad and doubtful debts	**(8)**	(59)
	7,002	3,904
	482,758	448,786
Other receivables		
Construction contracts performance guarantees and deposit for tender	**67,202**	89,793
Retentions receivables	**76,038**	52,656
Receivables for demolition expenses paid in advance	**25,626**	—
Others	**9,828**	2,981
	178,694	145,430
Allowance for bad and doubtful debts	**(1,288)**	(2,404)
	177,406	143,026
Prepayments and deposits	**138,811**	60,102
	798,975	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*
0 to 90 days	**178,937**	121,754
91 to 180 days	**48,497**	43,249
181 to 365 days	**71,556**	69,408
Over 1 year but less than 2 years	**58,089**	98,076
Over 2 years but less than 3 years	**67,999**	58,360
Over 3 years	**57,680**	57,939
	482,758	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	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	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*
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

11. EVENTS AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impact on the Group's operation at the date on which this announcement are authorised for issue.

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Reference is made to the Unaudited Annual Results Announcement. Since subsequent adjustments have been made to the unaudited annual results of the Group contained in the Unaudited Annual Results Announcement upon completion of the auditing process, shareholders and potential investors of the Company are advised to pay attention to the following material differences between the unaudited annual results of the Group contained in the Unaudited Annual Results Announcement and the audited annual results of the Group in this announcement.

Item for the year ended 31 December 2019	*Note*	**Disclosure in this announcement** *RMB'000* *(Audited)*	**Disclosure in the Unaudited Annual Results Announcement** *RMB'000* *(Unaudited)*	**Difference** *RMB'000*
Consolidated Statement of Profit or Loss				
Revenue	(a)	1,356,089	1,364,150	(8,061)
Other income and gains	(b)	9,805	14,186	(4,381)
Impairment loss on trade, bills and other receivables and contract assets, net	(c)	(900)	(952)	52
Income tax expense	(d)	(19,275)	(22,385)	3,110
Profit for the year		41,404	50,684	(9,280)
Consolidated Statement of Financial Position				
Current assets				
Trade, bills and other receivables	(e)	798,975	819,029	(20,054)
Contract assets	(f)	887,376	882,394	4,982
Current liabilities				
Contract liabilities	(g)	42,501	45,183	(2,682)
Current tax liabilities	(h)	116,903	120,360	(3,457)

Notes:

(a) The difference in revenue of RMB8,061,000 was mainly due to adjustments in relation to discount of long term receivable portion of revenue arising from construction contracts.

(b) The difference in other income and gains of RMB4,381,000 was mainly due to reclassification of certain recovered bad debts from account of other gains to account of reversal of impairment loss.

(c) The difference in impairment loss on trade, bills and other receivables and contract assets, net of RMB52,000 was mainly due to net effect of reclassification mentioned in note (b) and adjustments upon finalization of impairment assessment of trade, bills and other receivables and contract assets by independent valuer.

(d) The difference in income tax expense of RMB3,110,000 was mainly due to abovementioned adjustments.

(e) The difference in trade, bills and other receivables of RMB20,054,000 was mainly due to cumulated effect of (i) adjustments in relation to discount of long term receivable portion of revenue arising from construction contracts; (ii) adjustments upon finalization of impairment assessment of trade, bills and other receivables and contract assets by independent valuer; and (iii) reclassification of certain balances to account of contract assets.

(f) The difference in contract assets of RMB4,982,000 was mainly due to reclassification of certain balances from account of trade, bills and other receivables and account of contract liabilities to account of contract assets.

(g) The difference in contract liabilities of RMB2,682,000 was mainly due to reclassification of certain balances to account of contract assets.

(h) The difference in current tax liabilities of RMB3,457,000 was mainly due to abovementioned adjustments in relation to profit and loss.

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 RMB1,356.1 million, representing an increase of approximately 84.9% 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 35.6%, 36.0%, 25.0% and 3.4%, 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 Housing 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 (奉化溪口鎮武岭廣場改造工程) 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.

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impact on the Group's operation at the date on which this announcement are authorised for issue.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased by 84.9% or RMB622.7 million from RMB733.4 million for last year to RMB1,356.1 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*	**No. of projects completed during the year**	**No. of projects in progress as at the year end**	Revenue *RMB'000*	No. of projects completed during the year	No. of projects in progress as at the year end
Landscape construction	**482,171**	**34**	**82**	278,636	18	36
Municipal works construction	**488,029**	**35**	**90**	266,952	17	41
Building works	**339,629**	**12**	**28**	163,834	6	18
Others	**46,260**	**9**	**23**	24,008	17	15
Total	**1,356,089**	**90**	**223**	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 RMB482.2 million for the Year, representing an increase of 73.1% or RMB203.6 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 RMB488.0 million for the Year, representing an increase of 82.8% or RMB221.0 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 RMB339.6 million for the Year, representing an increase of 107.3% or RMB175.8 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 RMB46.3 million for the Year, representing an increase of 92.9% or RMB22.3 million. The increase was mainly due to the increase in average contract value of decoration projects 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 76.3% or RMB63.7 million from RMB83.5 million for last year to RMB147.2 million for the Year. Gross profit margin of the Group decreased from 11.4% for last year to 10.9% for the 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 decreased by 25.8% or RMB3.4 million from RMB13.2 million for last year to RMB9.8 million for the Year. The decrease was mainly due to decrease in government incentives and awards.

Administrative and other operating expenses

The Group's administrative expenses increased by 5.3% 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 80.4% or RMB8.6 million from RMB10.7 million for last year to RMB19.3 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	2018
	RMB'000	*RMB'000*
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 and the lease liabilities of RMB334,000, 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.

ANNUAL GENERAL MEETING

The annual general meeting of the Company is tentatively scheduled to be held on Monday, 22 June 2020. Notice of the annual general meeting will be published and issued to shareholders in due course.

BOOK CLOSURE

The transfer books and register of members of the Company will be closed from Monday, 15 June 2020 to Monday, 22 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 12 June 2020.

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, internal controls and financial reporting matters including a review of the consolidated results of the Group for the Year.

FINANCIAL INFORMATION

The financial information set out in this announcement does not constitute the Group's audited consolidated financial statements for the Year, but represents an extract from those accounts. The financial information has been reviewed by the Audit Committee, approved by the Board and agreed by the Group's external auditors, RSM Hong Kong.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk as well as the website of the Company at www.chanhigh.com.hk. The Company's annual report for the Year will be despatched to shareholders of the Company and published on the aforementioned websites in due course.

APPRECIATION

The Board would like to take this opportunity to express its gratitude to the customers and shareholders for their continuing support as well as the employees for their dedication and contribution.

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

Hong Kong, 8 May 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.