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CHANHIGH HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2017)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

FINANCIAL HIGHLIGHTS

	2020	2019
	RMB'000	RMB'000
Revenue	1,594,568	1,356,089
Gross profit	137,288	147,161
Profit for the year	22,597	41,404
Profit/(loss) and total comprehensive income for the year attributable to:		
Owners of the Company	23,030	41,262
Non-controlling interests	(433)	142

The board (the “**Board**”) of directors (the “**Directors**”) of Chanhigh Holdings Limited (the “**Company**”), hereby presents the consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020 (the “**Year**”) together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Revenue	4	1,594,568	1,356,089
Cost of services rendered		(1,448,696)	(1,202,545)
Sales related tax and auxiliary charges		<u>(8,584)</u>	<u>(6,383)</u>
Gross profit		137,288	147,161
Other income and gains		13,440	9,805
Administrative and other operating expenses		(62,238)	(65,073)
Impairment loss on trade, bills and other receivables and contract assets, net		<u>(32,712)</u>	<u>(900)</u>
Profit from operations		55,778	90,993
Finance costs		<u>(26,081)</u>	<u>(30,314)</u>
Profit before tax		29,697	60,679
Income tax expense	5	<u>(7,100)</u>	<u>(19,275)</u>
Profit for the year	6	<u>22,597</u>	<u>41,404</u>
Other comprehensive income for the year, net of tax		<u>—</u>	<u>—</u>
Total comprehensive income for the year		<u>22,597</u>	<u>41,404</u>
Profit/(loss) and total comprehensive income for the year attributable to:			
Owners of the Company		23,030	41,262
Non-controlling interests		<u>(433)</u>	<u>142</u>
		<u>22,597</u>	<u>41,404</u>
Earnings per share			
Basic and diluted (RMB cents per share)	7	<u>3.7</u>	<u>6.7</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		27,094	21,787
Right-of-use assets		2,623	337
Intangible assets		123,758	115,198
Total non-current assets		153,475	137,322
Current assets			
Trade, bills and other receivables	8	810,121	798,975
Contract assets		954,564	887,376
Bank and cash balances		302,983	206,964
Total current assets		2,067,668	1,893,315
TOTAL ASSETS		2,221,143	2,030,637
EQUITY			
Equity attributable to owners of the Company			
Share capital	9	5,487	5,487
Reserves		870,155	847,125
		875,642	852,612
Non-controlling interests		6,833	7,266
Total equity		882,475	859,878
LIABILITIES			
Non-current liabilities			
Lease liabilities		2,081	–
Borrowings		113,443	105,483
Total non-current liabilities		115,524	105,483
Current liabilities			
Trade payables	10	324,268	331,622
Accruals and other payables		142,793	103,297
Contract liabilities		69,958	42,501
Lease liabilities		1,591	334
Borrowings		566,483	470,619
Current tax liabilities		118,051	116,903
Total current liabilities		1,223,144	1,065,276
TOTAL EQUITY AND LIABILITIES		2,221,143	2,030,637

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, People's Republic of China (the "PRC").

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

In the opinion of the Directors, as at 31 December 2020, 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the consolidated financial statements for the year ended 31 December 2019 except for the adoption of the new/revised IFRSs that are relevant to the Group and effective from the Year as detailed in Note 3.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has applied the Amendments to Reference to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

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

(i) Information about operating segment profit or loss:

	Landscape construction <i>RMB'000</i>	Municipal works construction <i>RMB'000</i>	Building works <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
2020					
External revenue	354,759	552,746	629,647	57,416	1,594,568
Segment results	<u>34,400</u>	<u>64,757</u>	<u>27,036</u>	<u>11,095</u>	<u>137,288</u>
2019					
External revenue	482,171	488,029	339,629	46,260	1,356,089
Segment results	<u>46,069</u>	<u>77,867</u>	<u>7,812</u>	<u>15,413</u>	<u>147,161</u>

(ii) Reconciliation of operating segment profit or loss:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit and loss		
Total profits of reportable segments	137,288	147,161
Unallocated amounts:		
Interest income	5,936	4,274
Government subsidy, incentives and awards	1,717	3,282
Depreciation of property, plant and equipment	(3,342)	(2,865)
Depreciation of right-of-use assets	(760)	(798)
Amortisation of intangible assets	(4,404)	(4,134)
Finance costs	(26,081)	(30,314)
Operating lease charges	(2,716)	(2,708)
Net exchange (loss)/gain	(731)	347
Staff costs	(30,392)	(33,682)
Research and development expenditure	(2,745)	(1,559)
Impairment loss on trade, bills and other receivables and contract assets, net	(32,712)	(900)
Others	<u>(11,361)</u>	<u>(17,425)</u>
Consolidated profit before tax	<u>29,697</u>	<u>60,679</u>

(iii) Geographical information

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

5. INCOME TAX EXPENSE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax – PRC		
Provision for the year	<u>7,100</u>	<u>19,275</u>

The PRC Enterprise Income Tax (“**PRC EIT**”) of all the PRC subsidiaries have been provided at a rate of 25% (2019: 25%).

Under the two-tiered profits tax regime, profits tax rate for the first HK\$2.0 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%.

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the Year (2019: Nil).

For the Year and last year, one of the subsidiaries of the Company, Zhejiang Zhanhai Industrial Company Limited (浙江展海實業有限公司) (“**Zhejiang Zhanhai**”), is qualified as a small and low profit enterprise in the PRC. Zhejiang Zhanhai is assessed the PRC EIT on the following basis: if its annual taxable income is less than RMB1.0 million, the applicable enterprise income tax rate determined by the relevant authority is 5%; if its annual taxable income is more than RMB1.0 million but less than RMB3.0 million, the applicable enterprise income tax rate is 20% with preferential concession by 50%.

For the Year, one of the subsidiaries of the Company incorporated in the PRC, Zhejiang Chanhigh Construction Limited (浙江滄海建設有限公司) (“**Chanhigh Construction**”) had obtained the qualification of High and New Technology Enterprise with a validation period of three years starting from 2020. The applicable income tax rate for Chanhigh Construction was 15% for the year ended 31 December 2020 (2019: 25%).

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before tax	<u>29,697</u>	<u>60,679</u>
Tax at the EIT of 25% (2019: 25%)	7,424	15,169
Tax effect of different tax rates	(4,491)	–
Tax effect of income that is not taxable	(50)	(175)
Tax effect of expenses that are not deductible	4,604	4,743
Preferential tax treatment	<u>(387)</u>	<u>(462)</u>
Income tax expense	<u>7,100</u>	<u>19,275</u>

6. PROFIT FOR THE YEAR

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Auditors' remuneration	1,239	1,325
Amortisation of intangible assets	4,404	4,134
Cost of services rendered	1,448,696	1,202,545
Depreciation of property, plant and equipment	3,342	2,865
Depreciation of right-of-use assets	760	798
Loss on disposal of property, plant and equipment	404	473
Net exchange loss/(gain)	731	(347)
Impairment loss on trade, bills and other receivables and contract assets, net	32,712	900
Operating lease charges – land and buildings	2,716	2,708
	<u>2,716</u>	<u>2,708</u>

Cost of services rendered includes staff costs and depreciation of approximately RMB11,623,000 for the Year (2019: RMB11,996,000) 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	<u>23,030</u>	<u>41,262</u>
Number of shares		
Weighted average number of ordinary shares used in basic and diluted earnings per share calculation (thousand shares)	<u>618,502</u>	<u>618,502</u>

The weighted average numbers of ordinary shares used as denominators in calculating the basic and diluted earnings per share are the same. As at 31 December 2020, the Company had no dilutive potential ordinary shares (2019: Nil).

8. TRADE, BILLS AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade and bills receivables		
Trade receivables	491,898	489,317
Allowance for bad and doubtful debts	(33,515)	(13,561)
	<u>458,383</u>	<u>475,756</u>
Bills receivables	6,000	7,010
Allowance for bad and doubtful debts	(6)	(8)
	<u>5,994</u>	<u>7,002</u>
	<u>464,377</u>	<u>482,758</u>
Other receivables		
Construction contracts performance guarantees and deposit for tender	56,840	67,202
Retentions receivables	52,746	76,038
Receivables for demolition expenses paid in advance	29,070	25,626
Others	11,626	9,828
	<u>150,282</u>	<u>178,694</u>
Allowance for bad and doubtful debts	(798)	(1,288)
	<u>149,484</u>	<u>177,406</u>
Prepayments and deposits		
Other deposits	5,000	5,250
Advance of suppliers	189,960	130,930
Administrative and operating expenses	1,300	2,631
	<u>196,260</u>	<u>138,811</u>
	<u>810,121</u>	<u>798,975</u>

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 to 90 days	224,064	178,937
91 to 180 days	38,895	48,497
181 to 365 days	49,685	71,556
Over 1 year but less than 2 years	73,774	58,089
Over 2 years but less than 3 years	22,046	67,999
Over 3 years	55,913	57,680
	<u>464,377</u>	<u>482,758</u>

9. SHARE CAPITAL

	Number of shares '000	Amount	
		HK\$'000	RMB'000
Authorised:			
<i>Ordinary shares of HK\$0.01 per share</i>			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	2,000,000	20,000	17,733
	<u>2,000,000</u>	<u>20,000</u>	<u>17,733</u>
Issued and fully paid:			
<i>Ordinary shares of HK\$0.01 per share</i>			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	618,502	6,185	5,487
	<u>618,502</u>	<u>6,185</u>	<u>5,487</u>

10. TRADE PAYABLES

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

	2020 RMB'000	2019 RMB'000
0 to 90 days	139,836	107,388
91 to 180 days	55,010	30,234
181 to 365 days	31,519	26,477
Over 1 year but less than 2 years	28,257	21,557
Over 2 years but less than 3 years	13,597	63,588
Over 3 years	56,049	82,378
	<u>324,268</u>	<u>331,622</u>

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 has no significant impact on the Group's financial position, cash flows and operating results at the date on which this announcement is authorised for issue.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2020, China experienced challenges posed by COVID-19 and unprecedented pressure on the economy, as such, the development of the construction industry presented new characteristics, which mainly reflected in:

- I. Since the third quarter, the growth rate of the total output value of the construction industry has turned from negative to positive, and the operation of the industry has stabilized.

According to the data of the National Bureau of Statistics, in the first nine months of 2020, China's construction industry achieved a total output value of RMB16,792.7 billion, a year-on-year increase of 3.4%. Although the growth rate was still 3.3 percentage points lower than the same period last year, the growth rate turned from negative to positive for the first time since the COVID-19 pandemic in 2020. In general, the construction industry had overcome tough challenges posed by the COVID-19 pandemic in 2020 and maintained steady growth.

- II. There were obvious differences in different fields. The performance of infrastructure construction and housing construction was relatively stable, but the growth rate of housing construction showed a greater decline.

There are many sub-sectors in the construction industry. According to the main business types of listed companies, they can be divided into infrastructure works, housing construction, decoration, landscape works, chemical works, steel structure, international works, etc. In the first three quarters of 2020, although the operating income of the housing construction sub-sector increased by 10.3% year-on-year, the annual revenue and profit growth rate showed a downward trend compared with 2019, such trend was related to the adjustment made to the real estate industry.

- III. Top enterprises always maintained strong capabilities, and as the market concentration continued to increase, private enterprises were facing severe market challenges.

The development of the construction industry had entered a mature period, and market competition had become increasingly fierce. Under the impact of the COVID-19 pandemic, with the elimination of backward production capacity, the market share of leading enterprises continued to increase. In 2020, the value of newly signed contracts of the top eight central enterprises accounted for 36.8% of the value of newly signed contracts in the construction industry, an increase of 4.3 percentage points from 2019, setting a record high, hence, private enterprises were facing severe market pressure.

The analysis of the industry policies in 2020 showed that such policies mainly guided the high-quality development of the construction industry in three aspects.

Firstly, the reform of the organization model of project construction was promoted. Based on the Management Measures for EPC Projects and the Guiding Opinions on Full-process Engineering Consultation issued in 2019, through the improvement of the technical standards of the full-process engineering consultation service, the model text of the EPC project contracts and other supporting documents in 2020, EPC projects and the full-process consultation were further promoted. Meanwhile, an architect responsibility system was also piloted in some key cities.

Secondly, the reform of qualification management was promoted. Through vigorously streamlining the types of enterprise qualifications, merging level settings, simplifying qualification standards and optimizing approval methods, market access restrictions were further relaxed and full competition was encouraged, thereby stimulating the vitality of market players, promoting the survival of the fittest and the optimization and adjustment of industrial structure.

Thirdly, the direction of transformation and upgrading of the construction industry was clarified. While the comprehensive transformation and upgrading of the construction industry was driven by the industrialization of new-type buildings, technological innovation was strengthened and the level of informatization was enhanced in a bid to cultivate the industrial system and actively promote green construction and intelligent construction, thereby creating an internationally competitive “China’s construction” brand.

BUSINESS REVIEW

In 2020, the annual revenue of the Group was approximately RMB1,594.6 million, representing an increase of approximately 17.6% over 2019. The revenue was mainly generated from: i) landscape construction, ii) municipal works construction, iii) building works, and iv) others, and accounted for 22.2%, 34.7%, 39.5% and 3.6%, respectively.

In 2020, both the scale and number of bids won for infrastructure projects hit new highs in recent years, and the overall competitive edges of the principal business gradually increased. The scope of business expanded from Ningbo to various cities in the province, and continued to deepen the markets outside the province such as Shandong, Anhui, Sichuan, and Jiangxi. Successfully won the bid for the construction of “Yichuang Anshan” Beautiful Village Complex (Phase I) (“藝創鞍山”美麗鄉村綜合體建設(一期)) in Jiangbei District, Ningbo, the Company achieved a breakthrough in the design business. On the basis of the traditional construction general contracting business, the Group continued to expand the EPC project market, and the scale of winning bids had a certain degree of increase compared with last year.

In respect of corporate honors, the Group had successively won more than 10 awards, including Leading Construction Enterprise in Ningbo, National High-tech Enterprise, Top 100 Service Industry Enterprises in Ningbo, Survey and Design Integrity Unit in Ningbo and Zhejiang Province Excellent Landscape Management Award.

In respect of project honors, the Group had won numerous national, provincial and municipal awards regarding its projects, for instance, the project of Zhoushan Science Park (North) (Phase I) Green Landscape Project (舟山科技公園(北面)一期工程—綠化景觀工程) won the Science and Technology Award (Landscape Works Award) of Chinese Society of Landscape Architecture (中國風景園林學會科學技術獎(園林工程獎)); the Road Landscape Greening Construction Project of Yidaohe Road (Sanshilihe Hangying Road) in Fuyang City (阜陽市一道河路(三十裏河—航穎路)道路景觀綠化施工工程) won the “Huangshan Cup” Award of Anhui Province Construction Project (安徽省建設工程「黃山杯」獎), which is another provincial-level highest construction project quality award obtained by the Company following the “Qianjiang Cup (錢江杯)” and the “Yangtze Cup (揚子杯)”. The Group’s projects also won eight awards, including “Excellent Landscape Project (優秀園林工程)” in Zhejiang Province and “Camellia Cup (茶花杯)” in Ningbo.

In respect of patent construction methods, four invention patents and six utility model patents were authorized. Two QC (Quality Control (品質控制)) results won the First Prize of Anhui Construction Quality Management Group (安徽省工程建設質量管理小組一等獎), and one piece won the First Prize of Excellent Quality Management Group of Ningbo Municipal Industry Association (寧波市市政行業協會優秀質量管理小組一等獎). The Group also participated in the compilation of provincial construction standards and group standards and successfully released the same.

For the Year, even though the Group made some achievements in respect of business development, the pressure of economic downturn still caused negative impact on the Group's overall business results. As impacted by the pressure of economic downturn, the Group's management concluded that recoverability of certain long aged account receivables became uncertain, and full/partial impairment provision was therefore made in respect of such receivables for the sake of prudence. As compared with that of last year, impairment loss on trade and other receivables and contract assets for the Year increased by RMB31.8 million.

PROSPECTS

2021 is a year of special importance in China's modernization process and is the first year of the "14th Five-year Plan". Under the influence of economic recovery, base effect and other factors, China's economic growth is likely to fluctuate significantly in 2021, showing a trend of "starting high and ending low". It is expected that the annual GDP growth in 2021 will be about 8.8%, and real estate investment will increase by 6% while infrastructure investment will increase by 5% in 2021.

At the Central Economic Work Conference just concluded in December 2020, Premier Li Keqiang made specific arrangements for economic work in 2021.

The conference specified the key tasks for next year, which were to increase investment in new infrastructure, carry out urban renewal actions and promote the transformation of old communities in cities and towns. Other key tasks included thoroughly implementing the three-year reform of state-owned enterprises, optimizing the environment for the private economy development and improving the modern enterprise system, with a view to improving corporate governance and stimulating the vitality of various market players.

The conference emphasized that continuing to stimulate the vitality of market players, improving the tax and fee reduction policies, strengthening inclusive financial services, making greater efforts to promote reform and innovation, and relying on innovation to enhance the development of the real economy were necessary. In addition, fully tapping the potential of the domestic market, expanding effective investment to improve people's livelihood, perfecting the mechanisms and policies that supported social capital participation, paying more attention to infrastructure concerning people's livelihood to improve weaknesses, and promoting new urbanization and coordinated regional development were also essential.

As 2021 marks the 20th anniversary of the Group's establishment, the Group shall firmly seize the bonus of the national policies by setting business assessment goals that focus on "corporate benefits" and shall pay close attention to the implementation of work tasks. On the basis of the infrastructure industry and with the support of "technological innovation and project development" as well as the reliance on the "two important platforms" (i.e. enterprise qualification platform and listed capital platform), the Group shall make use of the resource advantages of cooperation with large state-owned enterprises to build an enterprise development ecology and realize leap-forward development in respect of industrial scale.

In 2021, the Group will focus on the four aspects of “projects, capital, talents, and management and control”.

Under the guidance of the goal of “One Hundred in Three Aspects (三個一百)” (i.e. 10 billion output value, 10 billion market value, and to be a centennial enterprise), in 2021, the Group will be driven by the mission of increasing its output value, therefore, it will continue to strengthen and expand its principal business by increasing investment in technological research and development projects, adjusting the business structure of financial and trade projects in a bid to further revitalize the operational efficiency of corporate assets.

Capital is an important guarantee for the operation and business development of an enterprise. In this regard, the Group further innovated financing methods, broadened funding channels, adjusted capital structure, and reduced capital cost. At the same time, the Group reasonably arranges daily capital, and conducts the factoring and arbitrage business properly, so as to ensure the Group’s operating capital needs are satisfied.

Talent is a key factor for the sustainable and healthy development of the Group. In 2021, the Group will continue to strengthen the work of attracting and cultivating talents, optimize the corporate environment for using and retaining talents, with a view to truly building a team of staff members with excellent work style, business proficiency, pragmatism and accountability.

In light of the global economic recession and increasing financial risks, the Group has to strengthen its basic management, while comprehensively inspects the risks existing in the operation process and plugs the loopholes in a timely manner, such that its risk-resisting capability can be continuously enhanced.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased by 17.6% or RMB238.5 million from RMB1,356.1 million for last year to RMB1,594.6 million for the Year. This is mainly due to the fact that for the Year the increase in revenue of municipal works construction segment and building works segment offset the decrease in revenue of landscape construction segment and led to the increase in the Group's total revenue.

The revenue recognised during the Year for projects completed during the Year and in progress as at 31 December 2020 as compared with that of last year is tabulated as follows:

Business segments	Revenue <i>RMB'000</i>	2020	No. of	No. of	2019	No. of	No. of
		No. of projects completed during the year	projects in progress as at the year end	Revenue <i>RMB'000</i>	projects completed during the year	projects in progress as at the year end	
Landscape construction	354,759	27	59	482,171	34	82	
Municipal works construction	552,746	31	89	488,029	35	90	
Building works	629,647	8	22	339,629	12	28	
Others	57,416	12	22	46,260	9	23	
Total	<u>1,594,568</u>	<u>78</u>	<u>192</u>	<u>1,356,089</u>	<u>90</u>	<u>223</u>	

As compared with that of last year, the revenue for the Year increased by 17.6% while the overall number of projects for the Year decreased by 13.7%. This is mainly due to the fact that the Group gradually penetrated into building works segment for projects with higher contract value after integrated the First-Grade General Contractor for Housing Construction Projects Qualification (建築工程施工總承包壹級資質) in October 2019. This resulted in increase in revenue even though the overall number of projects decreased.

Landscape construction

The Group recorded a decrease in revenue from the landscape construction segment, from RMB482.2 million for last year to RMB354.8 million for the Year, representing a decrease of 26.4% or RMB127.4 million. The decrease was mainly due to the decrease 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 RMB488.0 million for last year to RMB552.8 million for the Year, representing an increase of 13.3% or RMB64.8 million. The increase was mainly due to the increase in average contract value 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 RMB339.6 million for last year to RMB629.6 million for the Year, representing an increase of 85.4% or RMB290.0 million. The increase was mainly due to the increase in average contract value of building works projects for the Year as compared with that of last year as a result of integration of the First-Grade General Contractor for Housing Construction Projects Qualification by the Group in October 2019.

Others

The Group recorded an increase in revenue from the others segment, from RMB46.3 million for last year to RMB57.4 million for the Year, representing an increase of 24.1% or RMB11.1 million. The increase was mainly due to the increase in revenue of decoration projects and maintenance projects for the Year as compared with that of last year.

Cost of services rendered

Cost of service rendered increased by 20.5% or RMB246.2 million from RMB1,202.5 million for last year to RMB1,448.7 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 decreased by 6.7% or RMB9.9 million from RMB147.2 million for last year to RMB137.3 million for the Year. Gross profit margin of the Group decreased from 10.9% for last year to 8.6% for the Year because of the increase in proportion of revenue contributed by building works segment which is in general with higher contract value but lower gross profit margin as compared with other business segment. The decrease in gross profit was mainly due to the decrease in gross profit margin for the Year as compared with that of last year.

Other income and gains

Other income and gains increased by 36.7% or RMB3.6 million from RMB9.8 million for last year to RMB13.4 million for the Year. The increase was mainly due to a compensation income of RMB5.2 million received from the government for expropriation of a piece of land.

Administrative and other operating expenses

The Group's administrative expenses decreased by 4.5% or RMB2.9 million from RMB65.1 million for last year to RMB62.2 million for the Year, which was mainly due to the cost saving measures imposed.

Finance costs

The Group's finance costs decreased by 13.9% or RMB4.2 million from RMB30.3 million for last year to RMB26.1 million for the Year, which was mainly due to the fact that finance costs amounting to RMB6.5 million was capitalised as internally generated concession rights for the Year as compared with RMB0.6 million for last year even though average monthly balance of bank borrowing increased for the Year.

Income tax expense

The Group's income tax expense decreased by 63.2% or RMB12.2 million from RMB19.3 million for last year to RMB7.1 million for the Year, which was mainly due to the overall effect of the decrease in taxable profit and the decrease in income tax rate of Chanhigh Construction from 25% to 15%.

LIQUIDITY AND CAPITAL RESOURCES

	2020	2019
Cash and cash equivalents (excluding deposits with initial term of over three months) (RMB'000)	281,483	161,903
Current ratio	1.7	1.8
Gearing ratio	0.8	0.7

As at 31 December 2020, 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 1.7.

As at 31 December 2020, 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 0.8.

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 RMB23.5 million in relation to property, plant and equipment and intangible assets.

Capital commitments

As at 31 December 2020, the Group had no significant capital commitments.

INDEBTEDNESS

Borrowings

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank borrowings	654,443	531,000
Factoring loan with recourse	25,483	45,102
	<u>679,926</u>	<u>576,102</u>

The average interest rates for bank loans and factoring loan with recourse as at 31 December 2020 were 4.69% and 5.94% per annum respectively.

Except as disclosed above and the lease liabilities of RMB3,672,000, as at 31 December 2020 and 2019, 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:

- 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).
- 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 2022.

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 2019.

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 Director, Mr. Peng Tianbin (chairman of the Board and chairman of the Strategy Committee), did not attend the annual general meeting on 22 June 2020 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, 7 June 2021. 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, 31 May 2021 to Monday, 7 June 2021, 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, 28 May 2021.

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, 30 March 2021

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.