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Canggang Railway Limited

滄港鐵路有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2169)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

ANNUAL RESULTS

The Board of Directors of Canggang Railway Limited is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue	361,474	376,904
Operating profit	116,815	119,088
Profit before taxation	89,729	94,251
Profit for the year	64,555	69,496
Earnings per share, basic and diluted (RMB)	0.08	0.09

We will not pay or accruals in respect of the final dividend for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(For the year ended 31 December 2020)

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	3	361,474	376,904
Operating expenses:			
Staff costs	5(b)	(53,458)	(63,777)
Outsourcing service charges and other labor costs		(45,191)	(44,291)
Cargo logistics		(31,986)	(39,117)
Depreciation	5(c)	(36,745)	(34,830)
Fuel used		(23,094)	(26,815)
Repairs and maintenance		(20,128)	(17,260)
General and administration expenses		(25,671)	(22,743)
Impairment loss on trade receivables		(3,615)	(595)
Other expenses		(7,957)	(11,130)
		<hr/>	<hr/>
Total operating expenses		(247,845)	(260,558)
		<hr/>	<hr/>
Other income	4	3,186	2,742
		<hr/>	<hr/>
Operating profit		116,815	119,088
Finance costs	5(a)	(26,043)	(24,654)
Share of loss of associates		(1,043)	(183)
		<hr/>	<hr/>
Profit before taxation	5	89,729	94,251
Income tax	6	(25,174)	(24,755)
		<hr/>	<hr/>
Profit for the year		64,555	69,496
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity shareholders of the Company		63,649	70,194
Non-controlling interests		906	(698)
		<hr/>	<hr/>
Profit for the year		64,555	69,496
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share (RMB)			
– Basic and diluted	7	0.08	0.09
		<hr/> <hr/>	<hr/> <hr/>

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	64,555	69,496
Other comprehensive income for the year (after tax):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency of the Group	<u>(4,009)</u>	<u>(272)</u>
Total comprehensive income for the year	<u>60,546</u>	<u>69,224</u>
Attributable to:		
Equity shareholders of the Company	59,640	69,922
Non-controlling interests	<u>906</u>	<u>(698)</u>
Total comprehensive income for the year	<u>60,546</u>	<u>69,224</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(As at 31 December 2020)

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	8	766,727	789,570
Right-of-use assets	9	193,387	197,855
Interests in associates		6,459	3,502
Deferred tax assets		7,421	8,209
Prepayments and other receivables	12	2,734	3,374
Total non-current assets		976,728	1,002,510
Current assets			
Inventories	10	5,904	5,009
Trade and bills receivables	11	96,568	134,858
Prepayments and other receivables	12	12,583	19,649
Cash and cash equivalents		227,143	33,866
Total current assets		342,198	193,382
Current liabilities			
Bank and other loans	16	118,051	290,999
Trade payables	13	26,833	27,700
Other payables	14	55,483	75,745
Contract liabilities	15	2,524	2,630
Current taxation		9,262	8,501
Total current liabilities		212,153	405,575
Net current assets/(liabilities)		130,045	(212,193)
Total assets less current liabilities		1,106,773	790,317
Non-current liabilities			
Bank and other loans	16	337,185	270,332
Total non-current liabilities		337,185	270,332
NET ASSETS		769,588	519,985
CAPITAL AND RESERVES			
Share capital	17	8,607	—*
Reserves		731,650	491,560
Total equity attributable to equity shareholders of the Company		740,257	491,560
Non-controlling interests		29,331	28,425
TOTAL EQUITY		769,588	519,985

* Amount less than RMB1,000

NOTES

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 19 October 2018 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 23 October 2020. The Company and its subsidiaries are principally engaged in the provision of rail freight transportation and related ancillary services by operating freight railway and railway yards in the People’s Republic of China (the “PRC”).

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interests in associates.

Prior to the incorporation of the Company, the Group’s businesses were conducted through Cangzhou Canggang Railway Company Limited (“Canggang Company”) and its subsidiaries (together, the “Canggang Group”) and the Canggang Group’s interests in associates. Pursuant to a group reorganisation to rationalise the corporate which was completed on 17 June 2019 (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group. All companies now comprising the Group that took part in the Reorganisation were controlled and beneficially owned by Mr. Liu Yongliang (“Mr. Liu”) before and after the Reorganisation. The Reorganisation only involved inserting the newly formed entities with no substantive operations as the new holding companies of the companies now comprising the Group and there were no changes in the economic substance of the ownership and the business of the Group before and after the Reorganisation. Accordingly, the consolidated financial statements for the years ended 31 December 2020 and 2019 have been prepared and presented as a continuation of the financial information of the companies now comprising the Group with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Reorganisation.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for other investments in equity securities which are stated at their fair values.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The Group has applied the following amendments to IFRSs, issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, Definition of a Business
- Amendments to IFRS 16, Covid-19-Related Rent Concessions

None of these developments have had a material effect on the Group's financial performance and financial position for 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.

3 REVENUE

The Group is principally engaged in the provision of rail freight transportation and related ancillary services by operating freight railway and railway yards. All of the revenue of the Group is recognized over time.

- (i) Disaggregation of revenue from contracts with customers by major service lines is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers		
Disaggregated by major service lines:		
– Rail freight transportation	260,585	259,065
– Ancillary services		
– Loading and unloading	59,814	65,654
– Road freight transportation	30,305	32,530
– Construction, maintenance and repair	5,358	15,525
– Others	5,412	4,130
	<u>100,889</u>	<u>117,839</u>
Subtotal	<u>361,474</u>	<u>376,904</u>

- (ii) For the years ended 31 December 2020 and 2019, the Group's customers with whom transactions have exceeded 10% of the Group's revenue in the respective years are set out below:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer A	63,122	*
Customer B	51,166	57,290
Customer C	41,152	58,479
Customer D	*	39,059

- * Transactions with these customers did not exceed 10% of the Group's revenue in the respective years.

Note: Customer A, Customer B and Customer C each includes a group of our customers that are under the common control of the same ultimate shareholder.

4 OTHER INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants	1,432	155
Interest income	1,370	1,097
Net gains on investments in wealth management products	–	142
Net (losses)/gains on disposal of property, plant and equipment	(12)	784
Others	396	564
	<u>3,186</u>	<u>2,742</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Total interest expense on bank and other loans	26,043	27,198
Less: interest expense capitalized into property, plant and equipment*	–	(2,544)
	<u>26,043</u>	<u>24,654</u>

* The borrowing costs were capitalized at a rate of 5.70-6.18% per annum for the year ended 31 December 2019.

(b) Staff costs:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries, wages and other benefits	52,764	56,031
Contributions to defined contribution retirement plans	694	7,746
	<u>53,458</u>	<u>63,777</u>

(c) **Other items:**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Depreciation		
– property, plant and equipment (<i>Note 8</i>)	32,277	30,362
– right-of-use assets (<i>Note 9</i>)	4,468	4,468
	<u>36,745</u>	<u>34,830</u>
Short-term lease charges with remaining lease term of not more than 12 months	323	208
Auditors' remuneration		
– annual audit services	1,260	26
– services in connection with the initial listing of the Company's shares	1,432	3,533
Cost of inventories (<i>Note 10(b)</i>)	25,093	30,265
	<u>25,093</u>	<u>30,265</u>

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax		
Provision for the year	24,386	25,303
Deferred tax		
Origination and reversal of temporary differences	788	(548)
	<u>25,174</u>	<u>24,755</u>

7 EARNINGS PER SHARE

(a) **Basic earnings per share**

The basic earnings per share for the year ended 31 December 2020 is calculated based on the profit attributable to equity shareholders of the Company of RMB63,649,000 (2019: RMB70,194,000) and the weighted average of 797,814,000 ordinary shares in issue during the year (2019: 750,000,000 ordinary shares after adjusting for the capitalization issue in 2020), calculated as follows:

	2020	2019
Issued ordinary shares at 1 January	10,000	10,000
Effect of capitalisation issue on the completion of the initial public offering	749,990,000	749,990,000
Effect of shares issued by initial public offering	47,814,000	–
	<u>797,814,000</u>	<u>750,000,000</u>
Weighted average number of ordinary shares at 31 December	<u>797,814,000</u>	<u>750,000,000</u>

(b) **Diluted earnings per share**

There were no dilutive potential shares outstanding during the years ended 31 December 2020 and 2019.

8 PROPERTY, PLANT AND EQUIPMENT

	Tracks, bridges and other railway assets <i>RMB'000</i>	Buildings and other properties <i>RMB'000</i>	Locomotives and rolling stock <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:							
At 1 January 2019	476,766	152,748	34,444	51,449	93,732	97,254	906,393
Additions	–	3,063	–	1,315	1,238	12,165	17,781
Transfer in/(out)	50,465	30,843	–	176	26,924	(108,408)	–
Disposals	–	(2,980)	–	(491)	(10)	–	(3,481)
At 31 December 2019	527,231	183,674	34,444	52,449	121,884	1,011	920,693
Additions	–	–	3,682	527	1,512	3,760	9,481
Transfer in/(out)	1,032	–	–	–	437	(1,469)	–
Disposals	–	–	–	(38)	(85)	–	(123)
At 31 December 2020	528,263	183,674	38,126	52,938	123,748	3,302	930,051
Accumulated depreciation and impairment losses:							
At 1 January 2019	(22,556)	(17,873)	(10,351)	(15,632)	(34,859)	–	(101,271)
Charge for the year	(7,359)	(5,451)	(2,790)	(5,408)	(9,354)	–	(30,362)
Written back on disposals	–	44	–	457	9	–	510
At 31 December 2019	(29,915)	(23,280)	(13,141)	(20,583)	(44,204)	–	(131,123)
Charge for the year	(6,774)	(6,033)	(2,918)	(5,506)	(11,046)	–	(32,277)
Written back on disposals	–	–	–	14	62	–	76
At 31 December 2020	(36,689)	(29,313)	(16,059)	(26,075)	(55,188)	–	(163,324)
Carrying amount:							
At 31 December 2020	491,574	154,361	22,067	26,863	68,560	3,302	766,727
At 31 December 2019	497,316	160,394	21,303	31,866	77,680	1,011	789,570

Note:

- (i) The Group's property, plant and equipment are all located in the PRC.
- (ii) At 31 December 2020, property certificates of certain items of the Group's properties with carrying amounts of RMB66,855,000 (2019: RMB70,896,000), were not obtained. The directors of the Company consider that there is no legal restriction for the Group to access and use such properties and it should not lead to any significant adverse impact on the operations of the Group.
- (iii) At 31 December 2020, certain amount of the Group's bank loans were secured by buildings of the Group with carrying amount of RMB8,261,000 (2019: RMB8,581,000).
- (iv) At 31 December 2020, certain amount of the Group's other loans were secured by other property, plant and equipment of the Group with carrying amount of RMB138,336,000 (2019: RMB148,751,000).

9 RIGHT-OF-USE ASSETS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost:		
At 1 January and 31 December	223,651	223,651
Accumulated depreciation:		
At 1 January	25,796	21,328
Charge for the year	4,468	4,468
At 31 December	30,264	25,796
Carrying amount:		
At 31 December	193,387	197,855

Notes:

- i. Right-of-use assets represents lump sum considerations paid or payable by the Group to acquire leasehold lands located in the PRC. These leasehold lands are with lease periods of 48–50 years and there are no ongoing payments to be made under the terms of the land leases.
- ii. At 31 December 2020, certain amount of the Group's bank loans were secured by the Group's interests in leasehold land with carrying amount of RMB119,327,000 (2019: RMB91,112,000). At 31 December 2020, one of the Group's other loans was secured by the Group's interests in leasehold land with carrying amount of RMB7,128,000 (2019: RMB7,290,000).
- iii. At 31 December 2020, land use right certificate of certain pieces of land of the Group with carrying amount of RMB32,530,000 (2019: RMB33,209,000), respectively, were yet to be obtained. The directors of the Company consider that there is no legal restriction for the Group to access and use such land and it should not lead to any significant adverse impact on the operations of the Group.

10 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Fuel	1,971	2,409
Materials and consumables	3,933	2,600
	5,904	5,009

- (b) The analysis of the amounts of inventories recognized as an expense and included in the profit or loss is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Carrying amount of inventories used	<u>25,093</u>	<u>30,265</u>

11 TRADE AND BILLS RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	50,364	74,055
Bills receivables (<i>Notes (ii) and (iii)</i>)	<u>46,204</u>	<u>60,803</u>
	<u>96,568</u>	<u>134,858</u>

Notes:

- (i) All of the trade and bills receivables, net of loss allowance, are expected to be recovered within one year.
- (ii) At 31 December 2020, the carrying amounts of the Group's bills receivables that have been endorsed to the Group's suppliers and other creditors to settle the Group's trade and other payables towards these suppliers but have not been derecognized in the consolidated financial statements were RMB9,903,000 (2019: RMB10,302,000).
- (iii) At 31 December 2020, the carrying amounts of the Group's bills receivables that have been factored to banks but have not been derecognized in the consolidated financial statements were RMB5,000,000 (2019: RMB14,620,000).

Aging Analysis

At the end of the Reporting Period, the aging analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 month	26,858	39,887
1-6 months	15,722	30,437
6-12 months	2,873	3,731
more than 12 months	<u>4,911</u>	<u>–</u>
	<u>50,364</u>	<u>74,055</u>

Trade receivables are mainly due within 30 days from the date of billing. Bills receivables are with maturity of 180 to 360 days.

12 PREPAYMENTS AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Receivables relating to disposal of property, plant and equipment	<u>10,142</u>	<u>11,451</u>
Financial assets measured at amortized cost	----- 10,142	----- 11,451
Value-added tax recoverable	1,830	2,208
Deposits	1,179	1,454
Prepayments for purchase of inventories and prepaid expenses	2,166	2,688
Prepayments in connection with the initial listing of the Company's shares	<u>—</u>	<u>5,222</u>
	----- 15,317	----- 23,023
Less: Non-current portion		
– Receivables relating to disposal of property, plant and equipment	<u>(2,734)</u>	<u>(3,374)</u>
Current portion of prepayments and other receivables	<u><u>12,583</u></u>	<u><u>19,649</u></u>

13 TRADE PAYABLES

All of the trade payables are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the aging analysis of the Group's trade payables, based on the invoice date, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 month	8,851	10,189
1 to 3 months	6,254	5,323
3 to 6 months	4,454	5,451
6 to 12 months	3,367	2,886
Over 12 months	<u>3,907</u>	<u>3,851</u>
	<u><u>26,833</u></u>	<u><u>27,700</u></u>

14 OTHER PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Payables for acquisitions of property, plant and equipment	7,265	14,057
Payables for acquisitions of right-of-use assets		
– related parties	–	8,032
– third parties	29,484	24,484
Payables for staff costs	12,636	15,861
Payables for other labor costs	1,634	2,411
Payables for expenditures incurred in connection with the initial listing of the Company's shares	400	6,810
Others	4,064	4,090
	<u>55,483</u>	<u>75,745</u>
Financial liabilities measured at amortized cost	<u>55,483</u>	<u>75,745</u>

15 CONTRACT LIABILITIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Prepayments received from customers for rail freight transportation and related ancillary services	2,524	2,630
	<u>2,524</u>	<u>2,630</u>

16 BANK AND OTHER LOANS**(a) The Group's bank and other loans comprise:**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank loans:		
– Secured	369,086	251,002
– Unsecured	30,045	60,094
	<u>399,131</u>	<u>311,096</u>
Other loans:		
– Secured	37,028	72,782
– Unsecured	19,077	177,453
	<u>56,105</u>	<u>250,235</u>
	<u>455,236</u>	<u>561,331</u>

All of the bank and other loans are carried at amortized costs.

(b) The bank and other loans were repayable as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year or on demand	<u>118,051</u>	<u>290,999</u>
After 1 year but within 2 years	163,085	57,147
After 2 years but within 5 years	<u>174,100</u>	<u>213,185</u>
	<u>337,185</u>	<u>270,332</u>
	455,236	561,331

(c) At 31 December 2020, the Group's secured bank loans of RMB369,086,000 (2019: RMB251,002,000) were secured by the following assets of the Group:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Carrying amount:		
Right-of-use assets(Note 9(ii))	119,327	91,112
Property, plant and equipment(Note 8(iii))	8,261	8,581
Bills receivables(Note 11(iii))	<u>5,000</u>	<u>14,620</u>
	132,588	114,313

Included in the Group's secured bank loans as at 31 December 2020, RMB85,115,000 were also guaranteed by Cangzhou Logistics (2019: RMB34,054,000 were also guaranteed by Cangzhou Logistics and secured by the future rail transportation revenue of the Group).

- (d) At 31 December 2020, the Group's secured other loans of RMB37,028,000 (2019: RMB72,782,000) were secured by the following assets of the Group:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Carrying amount:		
Property, plant and equipment (Note 8(iv))	138,336	148,751
Right-of-use assets (Note 9(ii))	<u>7,128</u>	<u>7,290</u>
	<u>145,464</u>	<u>156,041</u>

Included in the Group's secured other loans as at 31 December 2020, RMB16,563,000 (2019: RMB42,636,000) were also guaranteed by Cangzhou Logistics and secured by equity interests of Canggang Company held by Cangzhou Logistics.

- (e) Included in the Group's unsecured other loans as at 31 December 2020, RMB16,407,000 (2019: RMB172,287,000) are unsecured, interest-bearing at 1% per annum and repayable in 2022. The remaining other loans are unsecured, interest-bearing at 4.75% per annum and repayable in 2021.

The following table details the interest rate profile of the Group's borrowings at the end of each reporting period:

	2020		2019	
	Effective interest rate %	<i>RMB'000</i>	Effective interest rate %	<i>RMB'000</i>
Fixed rate borrowings				
Bank loans	3.00%-6.18%	399,131	3.00%-6.18%	311,096
Other loans	1.00%-4.75%	<u>19,077</u>	1.00%-4.75%	<u>177,453</u>
		<u>418,208</u>		<u>488,549</u>
Variable rate borrowings				
Other loans	6.01%-6.92%	<u>37,028</u>	6.01%-6.92%	<u>72,782</u>
Total borrowings		<u>455,236</u>		<u>561,331</u>
Fixed rate borrowings as a percentage of total borrowings		<u>92%</u>		<u>87%</u>

17 SHARE CAPITAL

(i) Authorised share capital

On 19 October 2018, the Company's date of incorporation, the Company's authorized share capital was HK\$380,000, comprising 38,000,000 ordinary shares of HK\$0.01 each.

On 16 June 2020, the Company passed resolutions to increase the authorized share capital of the Company from HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each.

(ii) Issue of shares

On 19 October 2018, one share in the Company was allotted and issued. On the same date, 9,071 shares and 478 shares were allotted and issued, respectively, at par value.

On 21 December 2018, 450 shares were allotted and issued at par value.

On 23 October 2020, 250,000,000 ordinary shares with par value of HK\$0.01 each were issued at a price of HK\$0.95 each by initial public offering. The proceeds of HK\$2,500,000 (equivalent to approximately RMB2,152,000), representing the par value, were credited to the Company's share capital. The remaining proceeds, net of share issuance expenses, of approximately HK\$217,580,000 (equivalent to approximately RMB186,905,000) were credited to the share premium account.

(iii) Capitalisation issue

Pursuant to the resolutions of the equity shareholders of the Company passed on 16 June 2020, the Company allotted and issued a total of 749,990,000 shares credited as fully to the equity shareholders whose names appeared on the register of members of the Company at the close of business on 16 June 2020 by way of capitalisation of the sum of HK\$7,500,000 (equivalent to approximately RMB6,455,000) standing to the credit of the share premium account of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is an established and expanding local railway operator based in Hebei Province. During the Reporting Period, we listed on the Main Board of the Stock Exchange. With our Canggang Railway Line, we continued to provide our customers with comprehensive services and one-stop solutions of our freight transportation, extended our leading position in rail freight transportation business and continued to maintain our leading market position in Hebei Province. We are preparing to further expand our railway to enhance our services to our existing customers and to seek potential customers.

Rail freight transportation as our core business has recorded a good performance during the Reporting Period. We have completed transportation of 16.9 million tonnes of cargo for the year ended 31 December 2020 compare to 16.1 million tonnes of cargo for the year ended 31 December 2019 with an increase of 5.1% or 0.8 million tonnes.

2020 was a challenging year for our Group, the outbreak of COVID-19 has impacted China's economy and is having a huge negative effect on consumption. On 23 February 2020, the head of the Coal Department of the National Energy Administration announced that as a result of the measures taken by the government, the impact of the COVID-19 outbreak on coal production has been limited and the level of coal production has resumed to a similar level as compared to the previous year.

Despite the decrease in revenue from our ancillary services by 14.4% in 2020 as compared with 2019, which was mainly due to the significant drop in our construction income because the construction projects were delayed under the outbreak of COVID-19, revenue from our rail freight transportation services remained stable at RMB260.6 million (2019: RMB259.1 million).

Our Directors are of the view that the hygiene measures adopted by our Group can effectively prevent and control the COVID-19 infections, and safeguard the occupational health and safety of our employees. To the best of our Directors' knowledge, during the Reporting Period and up to the date of this announcement, none of our employees had been infected with COVID-19.

Our Directors considered that, like any other disaster, the outbreak is likely to be temporary and when it is over, the economic in China will return to normal as the general course. Our Directors will continue closely monitor the effect of the outbreak and evaluate the impact to our business.

FUTURE DEVELOPMENT

As at 31 December 2020, we operated one local railway, the Canggang Railway Line. One of our business strategies is to construct additional branch lines to expand our business scale, including expanding our geographic presence and business to the Northern Shandong Industrial Park and Comprehensive Industrial Park in Bohai New Area. However in the midst of COVID-19, particularly the recent outbreak in Hebei Province in January 2021, our Directors expected to begin the construction of the new branch lines in the second half year of 2021.

We are also in the process of upgrading and renovating the basic infrastructure of our Canggang Railway Line to enhance the safety and increase the overall capacity of railway operation (all of which are anticipated to be completed in the first half year of 2022). To kick off our upgrade, we invested RMB 2.2 million.

FINANCIAL REVIEW

Revenue

	Year ended 31 December			
	2020		2019	
	<i>RMB in thousands, other than percentages</i>			
Rail freight transportation	260,585	72.1%	259,065	68.8%
Ancillary services				
Loading and unloading	59,814	16.5%	65,654	17.4%
Road freight transportation	30,305	8.4%	32,530	8.6%
Construction, maintenance and repair	5,358	1.5%	15,525	4.1%
Others	5,412	1.5%	4,130	1.2%
Subtotal	100,889	27.9%	117,839	31.2%
Total	361,474	100.0%	376,904	100.0%

Our revenue decreased by 4.1% or RMB15.4 million from RMB376.9 million for the year ended 31 December 2019 to RMB361.5 million for the year ended 31 December 2020, primarily due to a decrease in revenue from ancillary businesses of RMB17.0 million primarily relating to the decrease in revenue from construction, maintenance and repair business of RMB10.2 million and the decrease in revenue from loading and unloading business of RMB5.8 million.

Revenue from rail freight transportation remained relatively stable at RMB259.1 million for the year ended 31 December 2019 and RMB260.6 million for the year ended 31 December 2020. Revenue from rail freight transportation of coal decreased by 5.6% or RMB10.7 million which was offset by an increase in our transportation of other product such as asphalt and gravel of RMB11.0 million.

Revenue from our loading and unloading business decreased by 8.9% or RMB5.8 million. The decrease was largely related to our loading and unloading services accompanied with our freight transportation services for coal.

Revenue from our road transportation decreased by 6.8% or RMB2.2 million. The decrease was primarily due to the decrease in the number of our customers during the year.

Revenue from our construction, maintenance and repair business decreased by 65.5% or RMB10.2 million. The decrease was primarily due to no major construction work was engaged as the construction projects were delayed under the outbreak of COVID-19 during the Reporting Period.

Revenue from others increased by 31.0% or RMB1.3 million. The increase was primarily due to an increase in provision of scattering prevention of services.

Operating expenses

Our operating expenses include staff costs, outsourcing service charges and other labor costs, cargo logistics, depreciation, fuel used, repair and maintenance, general and administration expenses, impairment loss on trade receivables and other expenses. The operating expenses decreased by 4.9% or RMB12.7 million from RMB260.6 million for the year ended 31 December 2019 to RMB247.8 million for the year ended 31 December 2020. The decrease was primarily due to the drop from our staff cost by 16.2% or RMB10.3 million under the favourable government policy during the outbreak of COVID-19 and the drop from our cargo logistics expenses by 18.2% or RMB7.1 million as the cargo logistics charges for non-coal cargo under Shuo-Huang Railway was temporarily waived during the outbreak of COVID-19; which was partially offset by the increase in our general and administration expenses by 12.9% or RMB2.9 million in relation to the global offering of the Shares and the increase in impairment loss on trade receivable, as discussed in the following paragraph, during the Reporting Period.

During the COVID-19, we noted that a longer settlement period may be needed for some of our customers. We have received notification of requests for delay in settlement of trade receivables from some of our major customers as a result of the outbreak. Due to the disruption to the PRC economy caused by the COVID-19 outbreak, as to improve our liquidity, we seek to maintain strict control over outstanding receivables and our senior management regularly reviews overdue balance to reduce our credit risk. Our trade and bills receivables dropped by 28.4% or RMB38.3 million from RMB134.9 million for the year ended 31 December 2019 to RMB96.6 million for the year ended 31 December 2020. Nevertheless, the impairment loss on trade receivables was increased by 507.6% or RMB3.0 million from RMB0.6 million for the year ended 31 December 2019 to RMB3.6 million for the year ended 31 December 2020 as the trade receivables were in general aged longer due to the outbreak of COVID-19.

Other income

Our other income increased by 16.2%, or RMB0.4 million from RMB2.7 million for the year ended 31 December 2019 to RMB3.2 million for the year ended 31 December 2020, primarily due to the government grants received in related to the global offering of the Shares.

Segment result and segment margin

For our rail freight transportation, the segment result was RMB117.5 million and RMB132.4 million and the segment margin 45.4% and 50.8%, for the years ended 31 December 2019 and 2020 respectively. The increase in segment margin was primarily due to the decrease in staff costs and cargo logistic costs as a result of special supportive government policy and our supplier's supporting in relation to the COVID-19 outbreak.

For our ancillary businesses, the segment result was RMB22.2 million and RMB10.5 million and the segment margin was 18.8% and 10.4%, for the years ended 31 December 2019 and 2020, respectively. The decrease in segment margin was primarily due to no major construction works was commenced during the year, which is more profitable than our other ancillary businesses.

Finance costs

Our finance costs increased by 5.6%, or RMB1.4 million from RMB24.7 million for the year ended 31 December 2019 to RMB26.0 million for the year ended 31 December 2020, primarily due to an increase in our average monthly loan balance.

Income tax expense

Our income tax expense remained relatively stable at RMB24.8 million for the year ended 31 December 2019 and RMB25.2 million for the year ended 31 December 2020. Our effective tax rate increased from 26.3% for the year ended 31 December 2019 to 28.1% for the year ended 31 December 2020 primarily due to the increase in non-deductible listing expenses.

Profit for the year and net profit margin

As a result of the foregoing, our profit for the year decreased by 7.1% or RMB4.9 million from RMB69.5 million for year ended 31 December 2019 to RMB64.6 million for the year ended 31 December 2020. Our net profit margin decreased from 18.4% for the year ended 31 December 2019 to 17.9% for the year ended 31 December 2020. Should the listing expenses be excluded, our profit for the year would be RMB78.5 million, representing a slightly decrease of 1.5% or RMB1.2 million compared to RMB79.7 million for the year ended 31 December 2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the Group had net current assets of approximately RMB130.0 million (2019: net current liabilities of approximately RMB212.2 million). The Group continued to maintain a strong financial position with cash and cash equivalent of approximately RMB227.1 million as at 31 December 2020 (2019: RMB33.9 million). During the Reporting Period, we received net proceeds from the Listing of approximately HK\$229.7 million. With our steady cash generated from operations, we have adequate financial resources to meet our working capital needs as well as to fund our budgeted construction and upgrade plans in 2021 and 2022.

As at 31 December 2020, our interest-bearing borrowings were RMB455.2 million, of which RMB337.2 million was long-term borrowing. We had unutilized and unrestricted banking facilities of RMB49.5 million, none of which were guaranteed or secured by our related parties.

The gearing ratio, which is calculated by dividing total debt (being bank and other loans) by total equity as at the end date of the respective year then multiplying by 100%, was approximately 59.2% as at 31 December 2020 (2019: 108.0%). The decrease was mainly attributed to the increase in equity after the Listing.

Pledge of assets

As at 31 December 2020, certain of our property, plant and equipment with carrying amount of approximately RMB8.3 million (2019: RMB8.6 million), were pledged for our bank loans. Also, our property, plant and equipment with carrying amount of approximately RMB138.3 million (2019: RMB148.8 million) secured our other loans.

As at 31 December 2020, a certain portion of our right-of-use assets with carrying amount of approximately RMB119.3 million (2019: RMB91.1 million) were pledged for our bank loans and our right-of-use assets with carrying amount of approximately RMB7.1 million (2019: RMB7.3 million) secured our other loans.

Contingent liabilities

As at 31 December 2020, the Group did not have any contingent liabilities.

Foreign exchange risk

The Group operated primarily in the PRC and are denominated in RMB. It is expected that the Group will not be subjected to any material adverse effects arising from exchange rate fluctuation. Nevertheless, the Group will continue to monitor foreign exchange exposure and will take appropriate action when needed.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditure

Our capital expenditures during the Reporting Period were mainly related to our purchases of locomotives and rolling stocks for our operations. We financed our capital expenditure through cash generated from operations and banking facilities.

Capital Commitments

As at 31 December 2020, our outstanding capital commitments in respect of property, plant and equipment amounted to approximately RMB7.7 million (2019: RMB0.1 million). Save as disclosed in this announcement, we did not have any other material capital commitment.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OF CAPITAL ASSETS

Save as disclosed in this announcement and the Prospectus, there were no significant investments held by the Group during the Reporting Period, nor was there any material acquisition or disposal of subsidiaries, associates and joint venture during the Reporting Period. Save as disclosed in this announcement and the Prospectus, there was no other plan for significant investments or additions of capital assets as at 31 December 2020.

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

Save for the issue of new shares in the Listing, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020 and up to the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

The Group did not have any material subsequent event after 31 December 2020 and up to the date of this announcement.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 787 employees (2019: 788 employees) (including two executive Directors but excluding three independent non-executive Directors).

The Group offers attractive remuneration package to the employees as our Directors believe the consistency and quality of our staffs is the key to success. In order to retain our staffs and motivate them for better performance, the remuneration package, including basic salary and other employee benefits such as bonus, are reviewed annually according to their individual performance. We are also committed to provide a caring environment to retain our staffs and for better performance. We provided sufficient trainings and persuaded our staffs to attend other courses to maintain their professionalism and qualifications.

CORPORATE GOVERNANCE

The Company has complied with the principles and all relevant code provisions as set out in the CG Code, contained in Appendix 14 to the Listing Rules, except for code provision A.2.7 of the CG Code. As the Company was listed in October 2020, the CG Code provisions were not applicable to the Company before the Listing Date.

Pursuant to code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive directors without presence of other directors. As the Company was listed recently in October 2020, the chairman considered there were no significant matters that needed to be discussed with the independent non-executive directors after listing. In the year ending 31 December 2021, the Company will comply with code provision A.2.7 of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securitized transactions by the Directors. Specific enquiry has been made to all the Directors, all the Directors have confirmed that they have complied with the required standard set out in Model Code during the Reporting Period and up to the date of this announcement.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive Directors: Ms. Lyu Qinghua (chairman of the Audit Committee) and Mr. Liu Changchun and a non-executive Director: Mr. Xu Zhihua.

The Audit Committee has reviewed the Group's consolidated financial statements for the Reporting Period. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and the Audit Committee is of the opinion that such consolidated financial statements comply with the applicable accounting standards, the Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2020 had been agreed by the Group's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KPMG on the preliminary announcement.

ANNUAL GENERAL MEETING

The AGM is proposed to be held on 24 May 2021. A notice convening the AGM will be published and despatched to the Shareholders in accordance with the requirements of the Articles of Association and the Listing Rules in due course.

DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2020. There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 18 May 2021 to Monday, 24 May 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 17 May 2021.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the Company's website at www.czcgtl.com and the website of the Stock Exchange at www.hkexnews.hk. The annual report for the year ended 31 December 2020 will be dispatched to the Shareholders and made available on the above websites in due course.

APPRECIATION

The Board would like to take this opportunity to express its sincere gratitude to the management team and staff for their hard work and contribution, and to our Shareholders, investors and business partners for their support.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“AGM”	the annual general meeting of the Company
“Articles of Association”	the articles of association of the Company adopted by the written resolution of the Shareholders on 16 June 2020 and as amended, supplemented and otherwise modified from time to time
“associate”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Company
“Board”	the board of directors of the Company
“Canggang Railway Line”	a local freight railway line in Cangzhou, Hebei Province, which connects Cangzhou and Bohai New Area which contains Port Huanghua, from Cangzhou Station (滄州站) to Gangkou Station (港口站)
“CG Code”	corporate governance code contained in Appendix 14 to the Listing Rules
“China” or “PRC”	the People’s Republic of China excluding for the purposes of this announcement only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company”	Canggang Railway Limited (滄港鐵路有限公司) (stock code: 2169), an exempted company incorporated in the Cayman Islands with limited liability on 19 October 2018.
“Director(s)”	the director(s) of the Company

“Group”, “our Group”, “we” or “us”	the Company and its subsidiaries from time to time, or where the context so requires in respect of the period before the Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing”	the Shares were listed on the Main Board of the Stock Exchange
“Listing Date”	23 October 2020, since which the Shares of the Company have been listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“Model Code”	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 of the Listing Rules
“Prospectus”	the prospectus of the Company dated 12 October 2020
“Reporting Period”	the year ended 31 December 2020
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary(ies)” has the meaning ascribed to it in sections 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

“%” per cent

By Order of the Board
Canggang Railway Limited
Yi Weiming
Chief Executive Officer

Hong Kong, 25 March 2021

As at the date of this announcement, the Board comprises Mr. Liu Yongliang and Mr. Yi Weiming as the executive Directors; Mr. Xu Zhihua and Mr. Qin Shaobo as the non-executive Directors; and Mr. Liu Changchun, Mr. Zhao Changsong and Ms. Lyu Qinghua as the independent non-executive Directors.