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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

INTERIM RESULTS

The Board of Canggang Railway Limited is pleased to announce the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2022, together with the comparative figures for the six months ended 30 June 2021.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue	155,998	188,530
Operating profit	45,125	69,015
Profit before taxation	34,540	57,034
Profit for the period	25,683	42,414
Earnings per share, basic and diluted (RMB)	0.03	0.04

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(For the six months ended 30 June 2022)

	<i>Note</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue	4	155,998	188,530
Operating expenses:			
Staff costs	5(b)	(29,643)	(34,689)
Outsourcing service charges and other labor costs		(19,911)	(23,380)
Cargo logistics		(17,258)	(16,161)
Depreciation	5(c)	(17,903)	(17,710)
Fuel used		(12,736)	(11,849)
Repairs and maintenance		(5,059)	(6,942)
General and administration expenses		(5,943)	(8,785)
Impairment loss on trade receivables		(199)	(1,184)
Other expenses		(3,751)	(4,638)
		<hr/>	<hr/>
Total operating expenses		(112,404)	(125,338)
		<hr/>	<hr/>
Other income		1,530	5,823
		<hr/>	<hr/>
Operating profit		45,124	69,015
Finance costs	5(a)	(10,509)	(11,878)
Share of loss of associates		(76)	(103)
		<hr/>	<hr/>
Profit before taxation	5	34,539	57,034
Income tax	6	(8,857)	(14,620)
		<hr/>	<hr/>
Profit for the year		25,682	42,414
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity shareholders of the Company		25,649	42,304
Non-controlling interests		33	110
		<hr/>	<hr/>
Profit for the year		25,682	42,414
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share (RMB)			
– Basic and diluted	8	0.03	0.04
		<hr/> <hr/>	<hr/> <hr/>

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	25,682	42,414
Other comprehensive income for the period (after tax):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency of the Group	<u>1,763</u>	<u>(1,997)</u>
Total comprehensive income for the period	<u>27,445</u>	<u>40,417</u>
Attributable to:		
Equity shareholders of the Company	27,412	40,307
Non-controlling interests	<u>33</u>	<u>110</u>
Total comprehensive income for the period	<u>27,445</u>	<u>40,417</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(As at 30 June 2022)

		As at 30 June 2022	As at 31 December 2021
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	9	782,115	783,638
Right-of-use assets		186,793	188,919
Interests in associates		8,134	10,523
Deferred tax assets		2,251	5,516
Prepayments and other receivables		5,339	2,457
Total non-current assets		984,632	991,053
Current assets			
Inventories		14,951	5,585
Trade and bills receivables	10	96,274	98,720
Prepayments and other receivables		100,199	25,760
Cash and cash equivalents		185,266	160,794
Total current assets		396,690	290,859
Current liabilities			
Bank and other loans	12	156,098	160,525
Trade payables	11	25,713	27,757
Other payables		17,193	61,936
Contract liabilities		3,072	2,501
Current taxation		8,931	11,673
Total current liabilities		211,007	264,392
Net current assets		185,683	26,467
Total assets less current liabilities		1,170,315	1,017,520
Non-current liabilities			
Bank and other loans	12	338,437	213,087
Total non-current liabilities		338,437	213,087
NET ASSETS		881,878	804,433
CAPITAL AND RESERVES			
Share capital		8,607	8,607
Reserves		793,543	766,131
Total equity attributable to equity shareholders of the Company		802,150	774,738
Non-controlling interests		29,728	29,695
TOTAL EQUITY		831,878	804,433

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 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 PRC.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”). It has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of unaudited condensed consolidated interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The unaudited condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The unaudited condensed consolidated interim financial information for the Reporting Period have not been reviewed by KPMG, the Company’s external auditor, but have been reviewed by the Audit Committee.

The financial information relating to the financial year ended 31 December 2021 that is included in the unaudited condensed consolidated interim financial information as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to the IFRSs, issued by the IASB to this unaudited condensed consolidated interim financial information for the Reporting Period:

- Amendments to IAS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to IAS 37, Provisions, contingent liabilities and contingent assets: Onerous Contracts-Cost of fulfilling a contract.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are discussed below:

Amendments to IAS16, Property, plant and equipment: Proceeds before intended use

The amendments prohibit an equity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The amendments do not have a material impact on these financial statements as the group does not sell items produced before an item of property, plant and equipment is available for use.

Amendments to IAS37, Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The amendments do not have a material impact on these financial statements as the group does not enter into any contract with material contingent arrangement.

4 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:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers		
Disaggregated by major service lines:		
– Rail freight transportation	117,440	141,007
– Ancillary services		
– Loading and unloading	19,768	32,024
– Road freight transportation	6,646	9,530
– Construction, maintenance and repair	1,036	1,010
– Others	11,108	4,959
	<hr/>	<hr/>
Subtotal	38,558	47,523
	<hr/>	<hr/>
	155,998	188,530
	<hr/> <hr/>	<hr/> <hr/>

- (ii) For the six months ended 30 June 2022 and 2021, the Group's customers with whom transactions exceeded 10% of the Group's revenue in the respective periods are set out below:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	32,416	*
Customer B	19,724	*
Customer C	17,646	*
Customer D	*	24,356
Customer E	*	22,236
Customer F	*	21,268

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

Note: Customer F includes a group of our customers that are under the common control of the same ultimate shareholder.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Total interest expense on bank and other loans	10,509	11,878

(b) Staff costs:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	26,181	31,206
Contributions to defined contribution retirement plans	3,462	3,483
	29,643	34,689

(c) **Other items:**

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Depreciation		
– property, plant and equipment (Note 9)	15,668	15,475
– right-of-use assets	2,235	2,235
	<u>17,903</u>	<u>17,710</u>
Short-term lease charges with remaining lease term of not more than 12 months	126	156
Auditors' remuneration	630	630
Cost of inventories	12,740	11,859
	<u>12,740</u>	<u>11,859</u>

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax		
Provision for the period	5,592	14,252
Deferred tax		
Origination and reversal of temporary differences	3,265	368
	<u>8,857</u>	<u>14,620</u>

7 DIVIDEND

During the six months ended 30 June 2022, no dividends were declared to the Shareholders (2021: HK\$4.83 cents (equivalent to approximately RMB0.04) per ordinary share).

8 EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the six months ended 30 June 2022 is calculated based on the profit attributable to ordinary equity shareholders of the Company of RMB22,994,000 (2021: RMB42,304,000) and the weighted average of 1,000,000,000 ordinary shares, in issue during the six months ended 30 June 2022 (2021: 1,000,000,000 ordinary shares in issue during the period).

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the six months ended 30 June 2022 and 2021.

9 PROPERTY, PLANT AND EQUIPMENT

- (i) The Group's property, plant and equipment are all located in the PRC.
- (ii) During the six months ended 30 June 2022, the Group paid RMB13,597,000 for upgrading and renovating the basic infrastructure of the Canggang Railway Line to enhance the safety and increase the overall capacity of railway operation.
- (iii) At 30 June 2022, property certificates of certain items of the Group's properties with carrying amounts of RMB60,479,000 (31 December 2021: RMB62,859,000), 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.

10 TRADE AND BILLS RECEIVABLES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Trade receivables	66,127	55,569
Bills receivables (<i>Notes (ii) and (iii)</i>)	<u>30,147</u>	<u>43,151</u>
	<u><u>96,274</u></u>	<u><u>98,720</u></u>

Notes:

- (i) All of the trade and bills receivables, net of loss allowance, are expected to be recovered within one year.
- (ii) At 30 June 2022, the carrying amounts of the Group's bills receivables that had been endorsed to the Group's suppliers and other creditors to settle the Group's trade and other payables towards these suppliers but had not been derecognized in the consolidated financial statements were RMB24,793,000 (31 December 2021: RMB15,500,000).
- (iii) At 30 June 2022, the Group had no bills receivables that had been factored to banks but had not been derecognized in the consolidated financial statements (31 December 2021: RMB2,000,000).

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:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 1 month	37,048	32,637
1 to 6 months	19,014	18,373
6 to 12 months	4,975	4,142
Over 12 months	5,090	417
	<hr/> 66,127 <hr/>	<hr/> 55,569 <hr/>

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

11 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:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 1 month	16,470	12,773
1 to 3 months	1,365	6,837
3 to 6 months	2,388	4,486
6 to 12 months	4,040	1,233
Over 12 months	1,450	2,428
	<hr/> 25,713 <hr/>	<hr/> 27,757 <hr/>

12 BANK AND OTHER LOANS

(a) The Group's bank and other loans comprise:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Bank loans:		
– Secured	353,977	360,025
– Unsecured	50,048	–
	<u>404,025</u>	<u>360,025</u>
Other loans:		
– Secured	90,510	11,107
– Unsecured	–	2,480
	<u>90,510</u>	<u>13,587</u>
	<u><u>494,535</u></u>	<u><u>373,612</u></u>

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

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

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 1 year or on demand	<u>156,098</u>	<u>160,525</u>
After 1 year but within 2 years	232,766	175,087
After 2 years but within 5 years	<u>105,671</u>	<u>38,000</u>
	<u><u>338,437</u></u>	<u><u>213,087</u></u>
	<u><u>494,535</u></u>	<u><u>373,612</u></u>

- (c) At 30 June 2022, the Group's secured bank loans of RMB353,977,000 (31 December 2021: RMB360,025,000) were secured by the following assets of the Group:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Carrying amount:		
Right-of-use assets	100,422	117,466
Property, plant and equipment	7,778	7,938
Bills receivables (Note 10)	–	2,000
	<u>108,200</u>	<u>127,404</u>

Included in the Group's secured bank loans as at 30 June 2022, RMB70,105,000 were also guaranteed by Cangzhou Railway Logistics Services Company Limited ("Cangzhou Logistics") (31 December 2021: RMB75,104,000).

- (d) At 30 June 2022, the Group's secured other loans of RMB90,510,000 (31 December 2021: RMB11,107,000) were secured by the following assets of the Group:

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Carrying amount:		
Property, plant and equipment	123,838	109,008
Right-of-use assets	6,885	6,966
	<u>130,723</u>	<u>115,974</u>

Included in the Group's secured other loans as at 30 June 2022, RMB98,574,000 (31 December 2021: RMB Nil) were also guaranteed by Cangzhou Logistics and secured by equity interests of Cangzhou Canggang Railway Company Limited held by Cangzhou Logistics.

- (e) Included in the Group's unsecured other loans as at 30 June 2022, RMBNil (31 December 2021: RMB2,480,000) are unsecured, interest-bearing at 4.75% per annum and repayable in 2022.

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

	As at 30 June 2022		As at 31 December 2021	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings				
Bank loans	5.00%-5.50%	404,025	1.60%-5.94%	360,025
Other loans	N/A	–	4.75%	2,480
		<u>404,025</u>		<u>362,505</u>
Variable rate borrowings				
Other loans	6.01%	90,510	6.01%	11,107
Total borrowings		<u>494,535</u>		<u>373,612</u>
Fixed rate borrowings as a percentage of total borrowings		<u>82%</u>		<u>97%</u>

13 COMMITMENTS

Capital commitments outstanding at the end of each Reporting Period not provided for in the unaudited condensed consolidated interim financial information were as follows:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Commitments in respect of property, plant and equipment: – contracted for	<u>9,278</u>	<u>7,242</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is an established and expanding local railway operator based in Hebei Province. 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.

The first half year of 2022 was an extremely difficult six-month period. The rampant and spreading of COVID-19 worsened the China's economy and caused unprecedented challenges to the development especially in Hebei Province. Our Group had been striving to maintain overall stability in our operation while using all endeavours to fight against the difficulties under the pandemic.

In the first half of 2022, there was an increase in COVID-19 cases in Inner Mongolia, Hebei and Shandong, where the local government imposed strict control measures throughout the regions, which greatly affected the dispatch, transportation and arrival of goods. As a result, some of our clients' operations were forced to suspend temporarily and it significantly changed their business model. We endeavoured to make up our new customers to recover from our losses under the lock down. Our rail freight transportation as the core business has recorded a decrease in performance during the Reporting Period. We have completed transportation of 7.5 million tonnes of cargo for the six months ended 30 June 2022 compare to 9.7 million tonnes of cargo for the six months ended 30 June 2021 with a decrease of 22.8% or 2.2 million tonnes.

Accompanied with our freight transportation service, the decrease in revenue from our ancillary services by 18.9% in 2022 as compared with the corresponding period in 2021, was mainly due to the significant drop in our loading and unloading services because one of our key customers was temporary suspended its operation under the outbreak of COVID-19 in Shandong.

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 will continue closely monitor the effect of the outbreak and evaluate the impact to our business.

Our Directors expect that there will be no material changes to the Group's future development compare to our annual strategy.

FINANCIAL REVIEW

Revenue

	Six months ended 30 June			
	2022		2021	
	<i>RMB in thousands, other than percentages</i>			
Rail freight transportation	117,440	75.3%	141,007	74.8%
Ancillary services				
Loading and unloading	19,768	12.7%	32,024	17.0%
Road freight transportation	6,646	4.3%	9,530	5.1%
Construction, maintenance and repair	1,036	0.7%	1,010	0.5%
Others	11,108	7.1%	4,959	2.6%
Subtotal	38,558	24.7%	47,523	25.2%
Total	155,998	100.0%	188,530	100.0%

Our revenue decreased by 17.3% or RMB32.5 million from RMB188.5 million for the six months ended 30 June 2021 to RMB156.0 million for the six months ended 30 June 2022, primarily due to the decrease in revenue from our core rail freight transportation business of RMB23.6 million relating to the decrease in transportation of coal by 10.3% or RMB10.3 million and decrease in transportation of asphalt and gravel by 54.6% or RMB5.5 million; which was partially offset by the increase in transportation of ore by 51.0% or RMB3.9 million. The decrease in transportation of coal was mainly driven by the drop in our customers result from the local government imposed stringent prevent measures throughout the region and temporary lockdown parts of the province neighboring Beijing.

Revenue from our loading and unloading ancillary service decreased by 38.3% or RMB12.3 million. The decrease was primarily accompanied to the drop of our freight transportation services provided to one of our key customer, who reduced the use of our loading and unloading service at the Port Huanghua, an important and busy port located on the east coast of Hebei Province and on the southside of the Bohai Bay.

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 10.3% or RMB12.9 million from RMB125.3 million for the six months ended 30 June 2021 to RMB112.4 million for the six months ended 30 June 2022. The decrease was primarily due to the decrease from our outsourcing service charges and other labor cost by 14.8% or RMB3.5 million and decrease from our staff cost by 14.5% or RMB5.0 million following the drop of our performance during the six months ended 30 June 2022.

During the COVID-19, in order to improve the stability with our customers, we continue to accept a longer settlement period requested from 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 COVID-19 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 decreased by 2.5% or RMB2.4 million from RMB98.7 million for the year ended 31 December 2021 to RMB96.3 million for the six months ended 30 June 2022. Nevertheless, the impairment loss on trade receivables decreased by 83.2% or RMB1.0 million from RMB1.2 million for the six months ended 30 June 2021 to RMB0.2 million for the six months ended 30 June 2022 as the trade receivables as at 30 June 2022 were mainly generated from our services rendered in the six months ended 30 June 2022. Our prepayment and other receivable increased by 289.0%, or RMB74.4 million from RMB25.8 million for the year ended 31 December 2021 to RMB100.2 million for the six months ended 30 June 2022 was mainly driven by the prepayment paid to our supplier for the preparation of our new trading business.

Segment result and segment margin

For our rail freight transportation, the segment result was RMB69.4 million and RMB48.4 million and the segment margin was 49.2% and 41.2%, for the six months ended 30 June 2021 and 2022, respectively. The decrease in segment margin was primarily due to high fixed costs, including staff costs and depreciation, incurred during the six months ended 30 June 2022 with lower revenue generated compare to the corresponding period in 2021.

For our ancillary businesses, the segment result was RMB3.8 million and RMB1.3 million and the segment margin was 8.0% and 3.4%, for the six months ended 30 June 2021 and 2022, respectively. The decrease in segment margin was primarily due to less revenue was generated from our road transportation business which possess of high fixed cost because of the depreciation of vehicles and the decrease in loading and unloading service following the drop in our core freight transportation services.

Other income

Our other income decreased by 73.7%, or RMB4.3 million from RMB5.8 million for the six months ended 30 June 2021 to RMB1.5 million for the six months ended 30 June 2022, primarily due to no government grants received in related to the global offering of the Shares.

Finance costs

Our finance costs decreased by 11.5%, or RMB1.4 million from RMB11.9 million for the six months ended 30 June 2021 to RMB10.5 million for the six months ended 30 June 2022, primarily due to the decrease in the interest rate after the Group restructured the loans with our major bank.

Income tax expense

Our income tax expense decreased by 39.4%, or RMB5.8 million from RMB14.6 million for the six months ended 30 June 2021 to RMB8.9 million for the six months ended 30 June 2022 mainly due to the decline in profit contributed from the rail freight transportation. Our effective tax rate remained relatively stable at 25.6% for the six months ended 30 June 2021 and 30 June 2022.

Profit for the period and net profit margin

As a result of the foregoing, our profit for the period decreased by 39.4% or RMB16.7 million from RMB42.4 million for the six months ended 30 June 2021 to RMB25.7 million for the six months ended 30 June 2022. Our net profit margin decreased from 22.5% for the six months ended 30 June 2021 to 16.5% for the six months ended 30 June 2022.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2022, the Group continued to maintain a strong financial position. The Group had net current assets of approximately RMB185.7 million and the current ratio, representing current assets divided by current liabilities, was 1.88 (31 December 2021: RMB26.5 million and 1.10). During the Reporting Period, our cash and cash equivalent increased by 15.2% or RMB24.5 million to RMB185.3 million as at 30 June 2022 from RMB160.8 million as at 31 December 2021. It was mainly due to cash generated from our new loans obtained, which was partially offset by our prepayment made for our trading business.

As at 30 June 2022, our interest-bearing borrowings were RMB494.5 million, of which RMB338.4 million was long-term borrowing. We had unutilized and unrestricted banking facilities of RMB21.1 million, none of which were guaranteed or secured by our related parties.

The gearing ratio, which is calculated by total debt (being bank and other loans) divided by total equity then multiplied by 100%, was approximately 59.4% as at 30 June 2022 (31 December 2021: approximately 46.4%). The increase was mainly attributed to the increase in loan balance.

After considering our cash and cash equivalent level, which representing approximately 13.4% (31 December 2021: approximately 12.5%) of the total assets, together with our steady cash generated from operations as well as the banking facilities available to the Group, 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.

Pledge of assets

As at 30 June 2022, certain of our property, plant and equipment with carrying amount of approximately RMB7.8 million (31 December 2021: RMB7.9 million), were secured for our bank loans. Also, our property, plant and equipment with carrying amount of approximately RMB123.8 million (31 December 2021: RMB109.0 million) secured for our other loans.

As at 30 June 2022, a certain portion of our right-of-use assets with carrying amount of approximately RMB100.4 million (31 December 2021: RMB117.5 million) were pledged for our bank loans and our right-of-use assets with carrying amount of approximately RMB6.9 million (31 December 2021: RMB7.0 million) secured for our other loans.

Contingent liabilities

As at 30 June 2022, the Group did not have any contingent liabilities (31 December 2021: nil).

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. It is expected that the Group will not be subjected to any material adverse effects arising from exchange rate fluctuation except a few listing compliance transactions as well as the settlement of dividend and demand deposits in Hong Kong dollars. The Group currently does not have any foreign currency hedging policies. Nevertheless, the Group will continue to monitor foreign exchange risk exposure and will take appropriate action when needed.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditure

During the Reporting Period, we have invested RMB17.9 million for our capital expenditure which were mainly related to the upgrading and renovating of the basic infrastructure of our Canggang Railway Line. We financed our capital expenditure through the proceed from the IPO, cash generated from operations and banking facilities.

Capital Commitments

As at 30 June 2022, our outstanding capital commitments in respect of property, plant and equipment amounted to approximately RMB9.3 million (31 December 2021: RMB7.2 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 30 June 2022.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

The Group did not have any material subsequent event after the Reporting Period and up to the date of this announcement.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2022, the Group had 767 employees (31 December 2021: 778 employees) (including two executive Directors but excluding three independent non-executive Directors).

The Group offers attractive remuneration package to the employees as the 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

Since the Listing on 23 October 2020, the Company has been committed to maintaining high standard of corporate governance. The Board believes that good corporate governance is the basis in ensuring the proper management in the interest of all our stakeholders. Improvement of the corporate governance is a long and systematic project, which requires strong commitment and perseverance. As it always has, the Company will continuously improve the risk assessment and monitoring procedures, internal control policy, enhancing our transparency and disclosures quality to our shareholders to promote the sustainable and robust development of the Company in light of evolving business and regulatory environment and to meet the expectations of stakeholders.

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company has complied with all the applicable code provisions under the CG Code during the Reporting Period.

The Board considers that the Company's corporate governance functions are adequate and appropriate for the Company's current business strategy. The Board will continue to review the changes of legal and regulatory environment and the business environment.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code 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.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the Group's unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements comply with the applicable accounting standards, the Listing Rules and that adequate disclosures have been made.

INTERIM DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 30 June 2022.

During the six months ended 30 June 2021, the Board has resolved to declare an interim dividend of HK4.83 cents (equivalent to approximately RMB0.04) per ordinary share, representing an aggregate amount of approximately HK\$48.3 million (equivalent to approximately RMB40.0 million).

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim 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 interim report for the six months ended 30 June 2022 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:

“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”	the corporate governance code as set out 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 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 six months ended 30 June 2022
“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, 29 August 2022

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.

* *The English translation of company names in Chinese is for identification purposes only. If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.*