滄海 CHANHIGH

CHANHIGH HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2017)

UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	**521,092**	353,157
Gross profit	**62,605**	46,934
Profit for the period	**10,617**	8,051
Profit for the period and total comprehensive income for the period attributable to:		
Owners of the Company	**10,586**	8,051
Non-controlling interests	**31**	—

The board (the "**Board**") of directors (the "**Directors**") of Chanhigh Holdings Limited (the "**Company**"), hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 together with the comparative unaudited figures for the six months ended 30 June 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Note	**Six months ended 30 June**	
		2019	2018
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	**521,092**	353,157
Cost of services rendered		**(456,249)**	(303,504)
Business tax and auxiliary charges		**(2,238)**	(2,719)
Gross profit		**62,605**	46,934
Other income and gains	5	**2,605**	6,094
Administrative and other operating expenses		**(32,446)**	(32,171)
Impairment loss on trade, bills and other receivables and contract assets, net		**(952)**	(2,842)
Profit from operations		**31,812**	18,015
Finance costs	6	**(15,028)**	(2,867)
Profit before tax		**16,784**	15,148
Income tax expense	7	**(6,167)**	(7,097)
Profit for the period	8	**10,617**	8,051
Other comprehensive income for the period, net of tax		**—**	—
Total comprehensive income for the period		**10,617**	8,051
Profit for the period and total comprehensive income for the period attributable to:			
Owners of the Company		**10,586**	8,051
Non-controlling interests		**31**	—
		10,617	8,051
Earnings per share			
Basic and diluted (RMB cents per share)	9	**1.7**	1.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	**As at 30 June 2019 RMB'000 (Unaudited)**	As at 31 December 2018 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	10	**8,517**	9,073
Right-of-use assets		**730**	—
Intangible assets	11	**97,919**	99,833
Total non-current assets		**107,166**	108,906
Current assets			
Trade, bills and other receivables	12	**837,284**	651,914
Contract assets		**805,638**	824,942
Deposits with initial term of over three months		**10,297**	7,888
Bank and cash balances		**163,535**	272,198
Total current assets		**1,816,754**	1,756,942
TOTAL ASSETS		**1,923,920**	1,865,848
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	13	**5,487**	5,487
Reserves		**816,449**	805,895
		821,936	811,382
Non-controlling interests		**7,155**	7,124
Total equity		**829,091**	818,506
Non-current liabilities			
Borrowings		**35,877**	45,102
Total non-current liabilities		**35,877**	45,102
Current liabilities			
Trade payables	14	**281,972**	410,126
Accruals and other payables		**95,300**	88,436
Contract liabilities		**55,265**	62,346
Lease liabilities		**759**	—
Borrowings		**518,325**	337,085
Current tax liabilities		**107,331**	104,247
Total current liabilities		**1,058,952**	1,002,240
TOTAL EQUITY AND LIABILITIES		**1,923,920**	1,865,848

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(277,862)**	(90,773)
Deposit paid for acquisition of a subsidiary	—	(13,600)
Purchases of property, plant and equipment	**(1,362)**	(1,302)
Purchases of intangible assets	**(150)**	(68,400)
(Increase)/decrease in deposits with initial term of over three months	**(2,409)**	1,998
Dividend income from unlisted equity investment	—	12
Interest received	**800**	1,734
Proceeds from disposals of property, plant and equipment	**726**	49
NET CASH USED IN INVESTING ACTIVITIES	**(2,395)**	(79,509)
Borrowings raised	**251,000**	84,259
Repayment of borrowings	**(78,985)**	(69,359)
Principal elements of lease payments	**(421)**	—
NET CASH GENERATED FROM FINANCING ACTIVITIES	**171,594**	14,900
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(108,663)**	(155,382)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**272,198**	371,703
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**163,535**	216,321
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**163,535**	216,321

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 services of municipal work and landscape construction and the related services.

In the opinion of the Directors, as at 30 June 2019, the Peng Family, comprising Mr. Peng Daosheng, Ms. Wang Sufen, Mr. Peng Tianbin and Mr. Peng Yonghui, is the ultimate controlling parties (the "**Controlling Shareholders**") of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "**IASB**") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018. The accounting policies and methods of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2018 except as stated below.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

IFRS 16 Leases

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

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

(a) Definition of a lease

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

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

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

(b) As a lessee

The Group leases several properties.

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

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

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

	Balance as at	
	30 June 2019	1 January 2019
	RMB'000	RMB'000
Properties	**730**	1,130

Significant accounting policies

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

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

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

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

Transition

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

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

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

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

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

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

(c) Impacts of financial statements

Impact on transition

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

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

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

	As at 1 January 2019
	RMB'000
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	3,306
Less: Recognition exemption for leases of low-value assets	(22)
Less: Recognition exemption for leases with less than 12 months of leases term at transition	(2,846)
Add: Adjustments as a result of a different treatment of extension and termination options	724
Lease liability recognised as at 1 January 2019	1,162
Of which are:	
Current lease liabilities	814
Non-current lease liabilities	348
	1,162

Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RMB730,000 of right-of-use assets and RMB759,000 of lease liabilities as at 30 June 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and finance costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised RMB391,000 of depreciation charges and RMB18,000 of finance costs from these leases.

4. REVENUE AND SEGMENT INFORMATION

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is mainly derived from contracts with customers.

(i) Information about reportable segment profit or loss:

	Landscape construction RMB'000 (Unaudited)	Municipal works construction RMB'000 (Unaudited)	Building works RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Six months period ended 30 June 2019					
External revenue	**195,776**	**174,838**	**127,521**	**22,957**	**521,092**
Segment results	**28,454**	**18,599**	**4,540**	**11,012**	**62,605**
Six months period ended 30 June 2018					
External revenue	163,984	150,192	32,140	6,841	353,157
Segment results	24,362	19,516	3,708	(652)	46,934

All the revenue from construction contracts was recognised over time during the six months ended 30 June 2019, except for the revenue from agency services of RMB1,564,000 (six months ended 30 June 2018: RMB Nil) included in "Others" segment was recognised at a point of time during the six months ended 30 June 2019.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Total profit or loss of reportable segments	**62,605**	46,934
Unallocated amounts:		
Interest income	**800**	1,734
Government incentives and awards	**200**	3,594
Impairment loss on trade, bills and other receivables and contracts assets, net	**(952)**	(2,842)
Depreciation of right-of-use assets	**(391)**	–
Depreciation of property, plant and equipment	**(757)**	(552)
Amortisation of intangible assets	**(2,065)**	(1,520)
Finance costs	**(15,028)**	(2,867)
Employee benefits expense	**(16,840)**	(16,297)
Others	**(10,788)**	(13,036)
Consolidated profit before tax	**16,784**	15,148

Segment assets and liabilities of the Group are not reported to the directors of the Company regularly. As a result, reportable segment assets and liabilities have not been presented in the condensed consolidated financial statements.

(iii) ***Geographical information***

Based on the locations of the customers, all the revenues are earned in the PRC.

(iv) ***The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:***

	As at 30 June 2019	As at 31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Receivables, which are included in "Trade and other receivables"	**572,583**	498,878
Contract assets	**805,638**	824,942
Contract liabilities	**55,265**	62,346

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on construction contracts at the end of the reporting period. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. The contract liabilities primarily relate to advance consideration received from customers for construction contracts, for which revenue is recognised over time.

The amount of RMB13,683,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the six months ended 30 June 2019.

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income on:		
Bank deposits	**800**	1,041
Treasury products	**—**	693
	800	1,734
Bad debt recovery	**631**	—
Dividend income from unlisted equity investments	**—**	12
Exchange gain	**—**	704
Waiver of other payables	**644**	—
Government incentives and awards (note)	**200**	3,594
Others	**330**	50
	2,605	6,094

Note:

Government incentives and awards mainly related to the incentive and awards received from the local government authority for the achievement of the Group.

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**15,010**	2,867
Lease finance cost	**18**	—
	15,028	2,867

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – PRC		
Provision for the period	**6,167**	7,097

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB Nil).

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

The PRC Enterprise Income Tax of all the PRC subsidiaries have been provided at a rate of 25% for the six months ended 30 June 2019 and 2018.

8. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Auditors' remuneration	**380**	350
Impairment loss on trade, bills and other receivables and contract assets, net	**952**	2,842
Cost of services rendered	**456,249**	303,504
Loss on disposal of property, plant and equipment	**435**	164
Exchange loss/(gain)	**27**	(704)
Depreciation of property, plant and equipment	**757**	552
Depreciation of right-of-use assets	**391**	—
Amortisation of intangible assets	**2,065**	1,520
Employee benefits expense (including directors' emoluments)	**16,840**	16,556
Operating lease charges – land and buildings	**1,954**	1,577

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	**10,586**	8,051
Number of shares		
Weighted average number of ordinary shares used in basic and diluted earnings per share calculation (thousand shares)	**618,502**	618,502

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment of approximately RMB1,362,000 (six months ended 30 June 2018: RMB1,302,000).

11. INTANGIBLE ASSETS

During the six months ended 30 June 2019, the Group purchased the copyright of a song amounted to RMB150,000 (six months ended 30 June 2018: purchase of project qualification of RMB76,000,000), with a useful life of 10 years (six months ended 30 June 2018: 25 years).

12. TRADE, BILLS AND OTHER RECEIVABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade and bills receivables	**513,916**	459,152
Allowance for impairment of trade and bills receivables	**(12,756)**	(10,366)
	501,160	448,786
Deposit, prepayment and other receivables	**337,275**	205,532
Allowance for impairment for other receivables	**(1,151)**	(2,404)
	336,124	203,128
	837,284	651,914

Included in the trade receivables were amount due from 湖州滄湖建設投資有限公司 (Huzhou Canghu Construction Investment Company Limited) ("Huzhou Canghu"), a related company of the Group, of approximately RMB2,371,000 as at 30 June 2019 (31 December 2018: RMB5,771,000).

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 on credit. 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:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
0 to 90 days	**196,335**	121,754
91 to 180 days	**56,903**	43,249
181 to 365 days	**30,562**	69,408
Over 1 year but less than 2 years	**99,558**	98,076
Over 2 years but less than 3 years	**65,592**	58,360
Over 3 years	**52,210**	57,939
	501,160	448,786

13. SHARE CAPITAL

	Number of shares '000	Amount HK$'000	RMB'000
Authorised:			
Ordinary shares of HK$0.01 per share:			
At 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019 (unaudited)	2,000,000	20,000	17,733
Issued and fully paid:			
At 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019 (unaudited)	618,502	6,185	5,487

14. TRADE PAYABLES

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
0 to 90 days	**75,238**	76,488
91 to 180 days	**22,717**	10,614
181 to 365 days	**14,768**	28,999
Over 1 year but less than 2 years	**38,626**	121,703
Over 2 years but less than 3 years	**77,186**	96,931
Over 3 years	**53,437**	75,391
	281,972	410,126

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS REVIEW

The industry in which the Group operates and the performance of the Group are affected by the economic environment in the PRC and the policies of the PRC government.

As disclosed in the annual report and the annual results announcement of the Group for the year ended 31 December 2018, the industry was negatively affected and the Group faced a lot of challenges in 2018 due to, among others, the downward pressure on the then economic growth, fierce market competition caused by policy changes, and the issue of debts of local governments.

In the first half of 2019, the construction industry faced more opportunities as a result of the adjustments of various national policies, specifically as follows:

(a) Acceleration of the development of urban agglomerations

The central government has decided to accelerate the development of urban agglomerations and "Yangtze River Delta Integration" has been elevated to a national strategy. Under the top-level design, the regional development strategies have been launched at a faster pace, and the construction of transportation infrastructure and ecological environment has been accelerated. As the Group is headquartered in Ningbo City, Zhejiang Province, it is expected that it will benefit from the infrastructure development in the Yangtze River Delta. In addition, the Group has a number of First-Grade qualifications and extensive construction experience, and thus has strong competitive advantages in undertaking large-scale projects.

(b) Acceleration of the approval of construction projects

The State Council issued the "Opinions on the Implementation of the Comprehensive Reform of the Construction Project Approval System", which covers the entire process of construction projects. According to the "Opinions", the approval turnarounds for construction projects shall be reduced to less than 120 working days across the nation in the first half of 2019; the provinces (autonomous regions) and the cities at the prefecture level or above shall preliminarily complete the building of the approval system framework and the information platform for construction projects; and the relevant authorities shall simplify the processes, shorten the approval turnarounds, optimize the development environments, and facilitate rapid launching and quick commencement of projects. In short-term, such policies has increased the number of construction projects in the market for which the Group is qualified to tender.

(c) Implementation of large-scale tax cuts and fee reductions and issue of special bonds

The central government has decided to implement large-scale tax cuts and fee reductions, and has raised the fiscal deficit by 0.2%. In the first half of 2019, the nationwide additional tax cut and fee reduction totaled RMB1.17 trillion. Furthermore, the notice on local governments' issuing special bonds was issued to provide financial guarantee for major projects. In the first half of 2019, the budgetary funds continued to increase and the social financing conditions improved. These policies have improved and enhanced local governments' financing ability in relation to infrastructure project funding and it is expected that more construction projects will be available for tender.

(d) Promulgation of the "Government Investment Regulations" to further regulate local governments' investment behaviors

In order to stimulate the vitality of social investments, the government issued regulations for the first time to prohibit the use of constructors' funds for the construction of government investment projects, providing the legal basis for weakness improvement and risk prevention. This new policy allows construction enterprises to participate in more government projects without extra funding.

The Group's revenue generated in the first half of 2019 was approximately RMB 521.1 million, representing an increase of approximately 47.6% over the same period of 2018. The revenue came from the reportable segments, namely: i) landscape construction, ii) municipal works construction, iii) building works, and iv) others, which accounts for 37.6%, 33.6%, 24.4%, and 4.4% of the total revenue of the Group for the six months ended 30 June 2019 (for the six months ended 30 June 2018: 46.5%, 42,5%, 9.1%, 1.9%), respectively.

In the first half of 2019, thanks to the strong support provided by government policies as discussed above and the strict management and control exercised by the Group, we made gratifying progress in multiple aspects such as number of won bids, project quality, service level, qualification integration and project progress; achieved a rapid business growth; and maintained good trade receivables collection and a sound financial structure. In addition to the financial growth, the Group won several provincial-level and city-level awards and honors: for example, Xikou Town Wuling Square Project won the Qianjiang Cup Award (Quality Project) for Zhejiang's Construction Projects.

In the first half of 2019, the Group successively won several large projects, such as the Project of Landscape Construction of One River Road (Thirty-Mile River — Hang Ying Road) of Fuyang* (阜陽市一道河路(三十里河－航穎路)道路景觀綠化施工工程) (with a bid price of RMB 322 million) and the the Project of Landscape Construction of New Town Happy Harbour Bay Head Park of Yinzhou District, Ningbo* (寧波市鄞州區新城區歡樂海岸灣頭公園市政景觀承包工程) (with a bid price of RMB 113 million).

In the first half of 2019, the Group searched for appropriate acquisition target in relation to A-Grade Landscape Construction Design qualification (風景園林工程設計專項甲級資質), and made substantial progress. In addition, Zhejiang Chanhigh Construction Limited, a major wholly-owned subsidiary, fully promoted the integration of the First-Grade General Contractor for Housing Construction Projects qualification (建築工程施工總承包壹級資質); Ningbo Hongyuan Construction Limited, a wholly-owned subsidiary, completed the re-domiciliation of the First-Grade General Contractor for Water Works and Hydropower Project qualification (水利水電工程施工總承包壹級資質). The integration and gradual improvement of the Group's qualifications greatly helped the Group to undertake projects in the first half of 2019.

OUTLOOK

I. External Environment

The Chinese government has elevated the importance of urban landscaping to the maintenance of ecological balance. The policy formulated by the central government to "build a good ecological environment and realize ecological civilization" provides a broad market for the landscaping industry.

The urbanization rate was 59.58% by the end of 2018 and the urbanization rate in terms of permanent residents is expected to have reached 60% by 2020, the realization of "overall well-off society". There will be substantial room towards the urbanization rate of 70% by 2030 as set out in the "National Population Development Plan (2016-2030)" issued by the State Council. Besides, structural differences in urbanization rates between the eastern and western regions also bring regional development potential. As the urbanization rate goes up, the demand for greening in new urban areas will continue to grow. In addition, according to the greening improvement targets required in "National Afforestation and Greening Plan (2011-2020)", the greening rates of the urban built-up areas shall be increased from 37.9% in 2018 to 39.5% in 2020.

The main source of capital for infrastructure construction is the government budget. In June 2019, the National Development and Reform Commission (NDRC) clearly stated that full play shall be given to the important role of local governments' special bonds and that more support shall be provided for the construction of major projects such as roads, airports, and water conservancy projects.

China's vast territory and unbalanced development in the eastern, central and western regions provides enormous space for transportation infrastructure construction as a key area for the promotion of effective investments. As the 165 major projects listed in the "National 13th Five-Year Plan" shall be completed by 2020 and the deadlines for the rigid targets set in the "13th Five-Year Plan for the Development of the Modern Comprehensive Transportation System" are forthcoming, the development and reform commissions at all levels are intensively approving road investment projects. In July 2019, projects with the total investment amount of over RMB 450 billion kicked off, initiating the infrastructure construction boom in the second half of 2019.

Furthermore, the water environment management market will continue to flourish with the implementation of the "Water Pollution Prevention and Control Action Plan", the decentralization of the approval of the water conservancy projects, and the continuous strengthening of the environmental protection supervision and law enforcement and water conservancy project weakness improvement. Therefore, the Group's water conservancy business will face huge business opportunities.

When deploying the economic work for the second half of 2019 at the meeting held on 30 July 2019, the Political Bureau of the Central Committee of the Communist Party of China said, the government will continue to implement tax cut and fee reduction policies (it is expected that corporate taxes and social security contributions will be reduced by nearly RMB 2 trillion throughout 2019); and the government will promote supply-side structural reform in the financial industry and guide financial institutions to increase medium and long-term financing for private enterprises (it is expected that the medium and long-term financing costs in the market can be reduced).

II. Operating Strategy

The Group is undergoing an important stage in the industry development in view of the favourable conditions and opportunities brought about by the national policies and factors discussed in the paragraphs headed "External Environment" and "Industrial and Business Review". We are confident that we will adapt to the new normal conditions, maintain a strategic sober mentality, and comprehensively carry out and promote various tasks while bearing the current industry development characteristics in mind.

(a) To focus on the goals, expand the market, and increase the output and profit

The Group will keep a close eye on the performance goals set at the beginning of 2019, capture industry market demands, flexibly adapt to the market conditions while maintaining steady and sound development, and focus on the continuous improvement of profitability to achieve high-quality coordinated development.

We will actively tap into the market, continuously increase the business volume, constantly improve the service levels, improve customer satisfaction, build a good reputation, and expand market awareness and influence to gain a greater market share.

In terms of cost control, we will improve internal operational efficiency, enhance bargaining power, and focus on profits to effectively increase the profitability. On the basis of ensuring quality, we will "broaden the sources of income and economize on expenditures, reduce costs and improve efficiency" so as to establish a long-term cost advantage.

(b) To improve weaknesses and join forces to form an overall advantage

The Group's revenues mainly come from the segments of municipal works construction and landscape construction. While maintaining the advantages in the traditional business, the Group will fully utilize its existing qualifications to expand the business and enhance the capabilities in water conservancy, housing construction and other fields to create an overall competitive advantage. In addition, the Group will look for and acquire the relevant resources it lacks according to its strategic plan, so as to consolidate its market position and enhance its competitiveness.

(c) To introduce talents, strengthen assessment, and improve the talent mechanism

The Group regards talents as the core resource for enterprise development, and believes talent cultivation is the foundation for its sustainable development. The Group will assign the well-educated and capable employees to the positions which can give full play to their expertise, and thus better transform the talent advantage into a development advantage.

All in all, the industry under which the Group's main business falls is supported by national policies, and enjoys stable development and good prospects in 2019. We are confident that the Group will win bigger markets with its strong and comprehensive qualifications, extensive project experience, and pioneering spirit.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased by 47.6% or RMB167.9 million from RMB353.2 million for the six months ended 30 June 2018 to RMB521.1 million for the six months ended 30 June 2019. The increase was attributable to the increase in segment revenue of all business segments of the Group which was in turn led by the increase in the overall number of projects during the six months ended 30 June 2019.

The revenue recognised during the period for projects completed during the six months ended 30 June 2019 and in progress as at the end of the six months ended 30 June 2019 as compared with that of the previous corresponding period is tabulated as follows:

Business segments	For the six months ended 30 June 2019 Revenue RMB'000	No. of projects completed during the period	No. of projects in progress as at the period end	2018 Revenue RMB'000	No. of projects completed during the period	No. of projects in progress as at the period end
Landscape construction	**195,776**	**18**	**46**	163,984	5	23
Municipal works construction	**174,838**	**23**	**46**	150,192	16	26
Building works	**127,521**	**7**	**14**	32,140	—	11
Others	**22,957**	**3**	**15**	6,841	3	12
Total	**521,092**	**51**	**121**	353,157	24	72

Increase in the overall number of projects for the six months ended 30 June 2019 was mainly due to the following reasons:

(i) the number of new projects in the six months ended 30 June 2019 increased as compared with that of the previous corresponding period, and the commencement of certain projects obtained in previous years was deferred to 2019; and

(ii) the business of building works segment and the number of projects under this segment grew up as a result of the Group's obtaining of the First-Grade General Contractor for Housing Construction Projects qualification (建築工程施工總承包壹級資質).

Landscape construction

The Group recorded an increase in revenue from the landscape construction segment, from RMB164.0 million for the six months ended 30 June 2018 to RMB195.8 million for the six months ended 30 June 2019, representing an increase of 19.4% or RMB31.8 million. The increase was mainly due to the increase in overall number of landscape construction projects for the six months ended 30 June 2019 as compared with that of the previous corresponding period.

Municipal works construction

The Group recorded an increase in revenue from the municipal works construction segment, from RMB150.2 million for the six months ended 30 June 2018 to RMB174.8 million for the six months ended 30 June 2019, representing an increase of 16.4% or RMB24.6 million. The increase was mainly due to the increase in overall number of municipal works construction projects for the six months ended 30 June 2019 as compared with that of the previous corresponding period.

Building works

The Group recorded an increase in revenue from the building works segment, from RMB32.1 million for the six months ended 30 June 2018 to RMB127.5 million for the six months ended 30 June 2019, representing an increase of 296.8% or RMB95.4 million. The increase was mainly due to the increase in overall number of building works projects for the six months ended 30 June 2019 as compared with that of the previous corresponding period following the Group's obtaining of the First-Grade General Contractor for Housing Construction Projects qualification.

Others

The Group recorded an increase in revenue from the others segment, from RMB6.8 million for the six months ended 30 June 2018 to RMB23.0 million for the six months ended 30 June 2019, representing a increase of 235.6% or RMB16.2 million. The increase was mainly due to the increase in overall number of other projects, mainly including decoration projects, lighting projects and landscape maintenance services, for the six months ended 30 June 2019 as compared with that of the previous corresponding period, and the revenue of RMB1.6 million derived from agency business which commenced operation in the first half of 2019.

Cost of services rendered

Cost of service rendered increased by 50.3% or RMB152.7 million from RMB303.5 million for the six months ended 30 June 2018 to RMB456.2 million for the six months ended 30 June 2019. Generally, the increase in cost of service rendered was in line with the increase in revenue for the period.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by 33.4% or RMB15.7 million from RMB46.9 million for the six months ended 30 June 2018 to RMB62.6 million for the six months ended 30 June 2019. Gross profit margin of the Group slightly decreased from 13.3% for the six months ended 30 June 2018 to 12.0% for the six months ended 30 June 2019. The increase in gross profit was mainly due to the increase in revenue for the six months ended 30 June 2019 as compared with that of the previous corresponding period. The slight decrease in gross profit margin was mainly due to the increase in revenue proportion contributed by building works segment which has lower gross profit margin.

Other income and gains

Other income and gains decreased by 57.3% or RMB3.5 million from RMB6.1 million for the six months ended 30 June 2018 to RMB2.6 million for the six months ended 30 June 2019, which was mainly due to the decrease in government incentives and awards in relation to economic development and foreign capital investment.

Administrative and other operating expenses

The Group's administrative expenses increased by 0.9% or RMB0.2 million from RMB32.2 million for the six months ended 30 June 2018 to RMB32.4 million for the six months ended 30 June 2019, which was mainly due to the increase in staff costs.

Finance costs

The Group's finance costs increased by 424.2% or RMB12.1 million from RMB2.9 million for the six months ended 30 June 2018 to RMB15.0 million for the six months ended 30 June 2019, which was mainly due to the increase in average monthly balance of bank borrowings for the purpose of construction project funding.

Income tax expense

The Group's income tax expense decreased by 13.1% or RMB0.9 million from RMB7.1 million for the six months ended 30 June 2018 to RMB6.2 million for the six months ended 30 June 2019, which was mainly due to the effect of a decrease in taxable profit.

LIQUIDITY AND CAPITAL RESOURCES

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Cash and cash equivalents (RMB'000)	**163,535**	272,198
Current ratio	**1.7**	1.8
Gearing ratio	**0.7**	0.5

As at 30 June 2019, the Group's current ratio (based on the total current assets as at the respective period ends divided by the total current liabilities as at the respective period ends) was 1.7.

As at 30 June 2019, the Group's gearing ratio (based on the total debt as at the respective period ends divided by total equity as at the respective period ends) was 0.7.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditures

For the six months ended 30 June 2019, the Group incurred capital expenditures totalling RMB1,512,000 in relation to property, plant and equipment and intangible assets.

Capital commitments

Capital commitments at the end of the reporting period are as follows:

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Contracted but not provided for:		
Consideration paid for purchase of property, plant and equipment	**3,500**	3,500

INDEBTEDNESS

Borrowings

The following table sets forth the Group's total debts as at the dates indicated:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Short-term bank borrowings	**506,000**	330,900
Factoring loan with recourse	**48,202**	51,287
	554,202	382,187

The average interest rates for bank loans and factoring loan with recourse as at 30 June 2019 were 4.89% and 5.94% per annum respectively.

Except as disclosed above, as at 30 June 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 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 design firm(s) in the Yangtze River Delta possessing qualification in architecture related design	91.4	5.6 *(Note 2)*	85.8
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	146.0	169.3

Notes:

1. The Group acquired several construction licenses including a First-Grade General Contractor for Water Works and Hydropower Project qualification (水利水電工程施工總承包壹級資質), A Second-Grade General Contractor for Highway Construction Projects qualification (公路工程施工總承包貳級) along with a Second-Grade General Contractor for Water Supply and Drainage and Electrical Projects qualification (水利水電工程施工總承包貳級) and a First-Grade General Contractor for Housing Construction Projects qualification (建築工程施工總承包壹級) in the PRC at a consideration of RMB76,000,000, RMB13,600,000 and RMB13,500,000 respectively, totaling RMB103.1 million (HK$120.2 million).

2. In August 2019, the Group acquired an A-Grade Landscape Construction Design qualification license (風景園林工程設計專項甲級資質) with a total consideration of RMB6.7 million (HK$7.5 million), of which RMB4.9 million (HK$5.6 million) was paid and remaining balance of RMB1.8 million (HK$1.9 million) is payable.

The remaining net proceeds of approximately HK$169.3 million are currently held in bank deposits and it is intended to apply in the manner consistent with the proposed allocation in the Company's announcement dated 8 December 2017. These remaining net proceeds are expected to be utilised by the end of 2020.

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019.

EVENTS AFTER THE REPORTING PERIOD

Apart from the acquisition of an A-Grade Landscape Construction Design qualification (風景園林工程設計專項甲級資質) in August 2019 as disclosed in section headed "USE OF NET PROCEEDS FROM THE LISTING", there was no other significant events after the reporting period.

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 CG Code for the six months ended 30 June 2019.

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2019, the Group had 451 full-time employees. Total employee benefits expense incurred for the six months ended 30 June 2019 amounted to RMB16.8 million. The remuneration committee of the Company, comprising two independent non-executive Directors, namely Mr. Yang Zhongkai and Mr. Shi Weixing and one executive Director, namely Mr. Peng Tianbin was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. The emolument policy of the Group would also make reference to the comparable market practices with reference to the qualifications of the employees.

The Company has not adopted any share option scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2019, 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 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 six months ended 30 June 2019.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been reviewed by the Company's auditor, RSM Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have also been reviewed by the audit committee of the Company comprising all the independent non-executive Directors, namely Mr. Fan Rong, Mr. Shi Weixing and Mr. Yang Zhongkai. Neither the Company's auditor nor the audit committee of the Company has any disagreement with the accounting treatment adopted by the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM 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 interim report for the six months ended 30 June 2019 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 our customers and shareholders for their continuing support as well as our employees for their dedication and contribution.

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

Hong Kong, 28 August 2019

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.

* *For identification purposes only*