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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 2020**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2020	2019
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Revenue	688,981	521,092
Gross profit	60,809	62,605
Profit for the period	5,614	10,617
Profit/(loss) for the period and total comprehensive income for the period attributable to:		
Owners of the Company	5,953	10,586
Non-controlling interests	(339)	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 2020 together with the comparative unaudited figures for the six months ended 30 June 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Revenue	4	688,981	521,092
Cost of services rendered		(624,798)	(456,249)
Business tax and auxiliary charges		(3,374)	(2,238)
Gross profit		60,809	62,605
Other income and gains	5	5,845	2,605
Administrative and other operating expenses		(30,538)	(32,446)
Impairment loss on trade, bills and other receivables and contract assets, net		(8,968)	(952)
Profit from operations		27,148	31,812
Finance costs	6	(13,360)	(15,028)
Profit before tax		13,788	16,784
Income tax expense	7	(8,174)	(6,167)
Profit for the period	8	5,614	10,617
Other comprehensive income for the period, net of tax		—	—
Total comprehensive income for the period		5,614	10,617
Profit/(loss) for the period and total comprehensive income for the period attributable to:			
Owners of the Company		5,953	10,586
Non-controlling interests		(339)	31
		5,614	10,617
Earnings per share			
Basic and diluted (RMB cents per share)	9	1.0	1.7

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	As at 30 June 2020 RMB' 000 (Unaudited)	As at 31 December 2019 RMB' 000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	10	23,001	21,787
Intangible assets	11	124,946	115,198
Right-of-use assets		–	337
Total non-current assets		147,947	137,322
Current assets			
Trade, bills and other receivables	12	751,840	798,975
Contract assets		951,848	887,376
Deposits with initial term of over three months		27,440	45,061
Bank and cash balances		170,941	161,903
Total current assets		1,902,069	1,893,315
TOTAL ASSETS		2,050,016	2,030,637
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	5,487	5,487
Reserves		853,078	847,125
		858,565	852,612
Non-controlling interests		6,927	7,266
Total equity		865,492	859,878
LIABILITIES			
Non-current liabilities			
Borrowings		133,874	105,483
Total non-current liabilities		133,874	105,483
Current liabilities			
Trade payables	14	246,461	331,622
Accruals and other payables		135,430	103,297
Contract liabilities		74,600	42,501
Lease liabilities		–	334
Borrowings		473,003	470,619
Current tax liabilities		121,156	116,903
Total current liabilities		1,050,650	1,065,276
TOTAL EQUITY AND LIABILITIES		2,050,016	2,030,637

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(25,000)	(277,862)
Purchases of property, plant and equipment	(3,674)	(1,362)
Purchases of intangible assets	(11,009)	(150)
Decrease/(increase) in deposits with initial term of over three months	17,621	(2,409)
Interest received	260	800
Proceeds from disposals of property, plant and equipment	399	726
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	3,597	(2,395)
Borrowings raised	96,000	251,000
Repayment of borrowings	(65,225)	(78,985)
Principal elements of lease payments	(334)	(421)
NET CASH GENERATED FROM FINANCING ACTIVITIES	30,441	171,594
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	9,038	(108,663)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	161,903	272,198
CASH AND CASH EQUIVALENTS AT END OF PERIOD	170,941	163,535
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	170,941	163,535

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 2020, the Peng Family, comprising Mr. Peng Daosheng, Ms. Wang Sufen, Mr. Peng Tianbin and Mr. Peng Yonghui, is the ultimate controlling parties 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 2019. The accounting policies (including the significant judgements made by management in applying the Group's accounting policies and key sources of estimate uncertainty) 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 2019 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 2020. 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 accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2019. A number of new or amended standards are effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

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 ended 30 June 2020					
External revenue	146,894	221,227	293,106	27,754	688,981
Segment results	<u>14,550</u>	<u>29,296</u>	<u>13,852</u>	<u>3,111</u>	<u>60,809</u>
Six months ended 30 June 2019					
External revenue	195,776	174,838	127,521	22,957	521,092
Segment results	<u>28,454</u>	<u>18,599</u>	<u>4,540</u>	<u>11,012</u>	<u>62,605</u>

All the revenue from construction contracts was recognised over time during the six months ended 30 June 2020 and 2019 except for the revenue from agency services of RMB739,000 (six months ended 30 June 2019: RMB1,564,000) included in "Others" segment that was recognised at a point in time during the six months ended 30 June 2020 and 2019.

(ii) Reconciliation of reportable segment profit or loss:

	Six months ended 30 June	
	2020	2019
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Total profit or loss of reportable segments	60,809	62,605
Unallocated amounts:		
Interest income	260	800
Government incentives and awards	891	200
Allowance for trade and bills receivables and other receivables and contracts assets, net	(8,968)	(952)
Depreciation of right-of-use assets	(337)	(391)
Depreciation of property, plant and equipment	(1,657)	(757)
Amortisation of intangible assets	(2,202)	(2,065)
Finance costs	(13,360)	(15,028)
Employee benefits expense	(16,344)	(16,840)
Others	<u>(5,304)</u>	<u>(10,788)</u>
Consolidated profit before tax	<u>13,788</u>	<u>16,784</u>

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 2020 RMB' 000 (Unaudited)	As at 31 December 2019 RMB' 000 (Audited)
Receivables, which are included in "Trade and other receivables"	499,737	516,922
Contract assets	951,848	887,376
Contract liabilities	74,600	42,501

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 RMB20,887,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB13,683,000).

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2020	2019
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Interest income on bank deposits	260	800
Bad debt recovery	–	631
Exchange gain	282	—
Waiver of other payables	–	644
Government incentives and awards (note)	891	200
Compensation income	4,000	–
Others	412	330
	5,845	2,605

Note:

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

6. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Interest on bank borrowings	16,495	15,010
Interest expense on lease liabilities	3	18
Total borrowing costs	16,498	15,028
Amount capitalised	(3,138)	–
	<u>13,360</u>	<u>15,028</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Current tax – PRC		
Provision for the period	8,174	6,167

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 (“**PRC EIT**”) of all the PRC subsidiaries have been provided at a rate of 25% for the six months ended 30 June 2020 and 2019.

For the six month ended 30 June 2020 and 2019, one of the subsidiaries of the Company, 浙江展海實業有限公司(Zhejiang Zhanhai Industrial Company Limited) (“**Zhejiang Zhanhai**”), is qualified as a small and low-profit enterprise in the PRC. Zhejiang Zhanhai is assessed the PRC EIT on the following basis: if its annual taxable income is less than RMB1,000,000, the applicable enterprise income tax rate determined by the relevant authority is 5%; if its annual taxable income is more than RMB1,000,000 but less than RMB3,000,000, the applicable enterprise income tax rate is 20% with preferential concession by 50%.

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	
	2020	2019
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Auditors' remuneration	330	380
Impairment loss on trade, bills and other receivables and contract assets, net	8,968	952
Cost of services rendered	624,798	456,249
Loss on disposal of property, plant and equipment	404	435
Exchange (gain)/loss	(282)	27
Depreciation of property, plant and equipment	1,657	757
Depreciation of right-of-use assets	337	391
Amortisation of intangible assets	2,202	2,065
Employee benefits expense (including directors' emoluments)	16,344	16,840
Operating lease charges – land and buildings	1,191	1,954
	<u>1,191</u>	<u>1,954</u>

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	<u>5,953</u>	<u>10,586</u>
Number of shares		
Weighted average number of ordinary shares used in basic and diluted earnings per share calculation (thousand shares)	<u>618,502</u>	<u>618,502</u>

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of approximately RMB3,674,000 (six months ended 30 June 2019: RMB1,362,000).

11. INTANGIBLE ASSETS

	At 30 June 2020 RMB' 000 (Unaudited)	At 31 December 2019 RMB' 000 (Audited)
Construction licenses	100,140	102,335
Copyrights	133	140
Concession rights (note)	24,673	12,723
	<u>124,946</u>	<u>115,198</u>

Note:

The service concession rights relate to a service concession arrangement with Public and Private Partnership Project Services Centre of Fuyang, Hangzhou (杭州市富陽區政府和社會資本合作項目服務中心), in which the Group carries out construction work for the granting authority and receives, in exchange, a right to operate the assets concerned in accordance with the pre-established conditions set by the granting authority for a period of 10 years. As the Group receives a right to charge users of public service, with an undeterminable amount, the assets are classified as intangible assets. The carrying amount is measured by the construction and other cost incurred by the Group plus estimated profit margin. During the period, RMB11,950,000 was capitalised as concession rights (six months ended 30 June 2019: RMB Nil). Once the underlying infrastructure of the concession arrangements has been completed, the concession rights will be amortised on a straight-line basis over the 10-year period of operation granted by the granting authority.

12. TRADE, BILLS AND OTHER RECEIVABLES

	At 30 June 2020 RMB' 000 (Unaudited)	At 31 December 2019 RMB' 000 (Audited)
Trade and bills receivables	491,395	496,327
Allowance for impairment of trade and bills receivables	(23,025)	(13,569)
	<u>468,370</u>	<u>482,758</u>
Deposits, prepayments and other receivables	284,018	317,505
Allowance for impairment of other receivables	(548)	(1,288)
	<u>283,470</u>	<u>316,217</u>
	<u>751,840</u>	<u>798,975</u>

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), a related company of the Group, of approximately RMB171,000 (31 December 2019: RMB5,771,000) as at 30 June 2020.

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:

	At 30 June 2020 RMB' 000 (Unaudited)	At 31 December 2019 RMB' 000 (Audited)
0 to 90 days	140,071	178,937
91 to 180 days	43,717	48,497
181 to 365 days	97,379	71,556
Over 1 year but less than 2 years	50,285	58,089
Over 2 years but less than 3 years	65,065	67,999
Over 3 years	71,853	57,680
	<u>468,370</u>	<u>482,758</u>

13. SHARE CAPITAL

	Number of shares ' 000	Amount	
		HK\$' 000	RMB' 000
Authorised:			
Ordinary shares of HK\$0.01 per share:			
At 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020 (unaudited)	<u>2,000,000</u>	<u>20,000</u>	<u>17,733</u>
Issued and fully paid:			
Ordinary shares of HK\$0.01 per share:			
At 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020 (unaudited)	<u>618,502</u>	<u>6,185</u>	<u>5,487</u>

14. TRADE PAYABLES

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

	At 30 June 2020 RMB' 000 (Unaudited)	At 31 December 2019 RMB' 000 (Audited)
0 to 90 days	103,858	107,388
91 to 180 days	28,462	30,234
181 to 365 days	23,024	26,477
Over 1 year but less than 2 years	22,492	21,557
Over 2 years but less than 3 years	15,042	63,588
Over 3 years	53,583	82,378
	246,461	331,622

15. EVENTS AFTER THE REPORTING DATE

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS REVIEW

In the first half of 2020, due to the impact of the COVID-19 epidemic, global economy was hit hard while China's economy was under unprecedented pressure. As the Chinese government strengthened macro policy control, the construction industry showed new trends of development and enterprises faced new development opportunities. Details are as follows:

I. Infrastructure investment turning positive and picking up

In the first half of 2020, construction enterprises (meaning construction enterprises with qualification and grades for general contraction and professional contraction, other than construction enterprises subcontracting labor services) in China achieved total output of RMB10.08 trillion, representing a year-on-year decrease of 0.8%; and achieved completion output of RMB3.80 trillion, representing a year-on-year decrease of 7.8%. The construction industry realized increased value of RMB2.85 trillion, a year-on-year decrease of 1.9%. Against a backdrop of decreased output and increased value of the construction industry due to the impact of the epidemic, the results of the Group was negatively affected to a certain extent.

Since April, when the single month growth rates of real estate investment, infrastructure investment and industrial increased value have all turned positive, the decline rate of consumption growth has also narrowed sharply. With improvement in both policy and environments, capital constraints on infrastructure investment have been eased significantly.

II. Rising business activity index of the construction industry

As the role of investment to increase domestic demands continued to emerge, currently the construction industry continued to show a buoyant trend, particularly the new order index for the construction industry which rebounded steadily, meaning that investment demand continues to release strong momentum; "new infrastructure" related policies and projects have been implemented successively and resumption of work and production for the construction industry has accelerated significantly.

With the large-scale issuance of special bonds and subsequent financial policy support, the growth rates of real estate investment will continue to recover; meanwhile, with significant progress of "new infrastructure", the long-term positive trend of the construction industry will remain unchanged.

III. Strengthening policy support for the construction industry

Since the outbreak of the epidemic, the government has promoted development of the construction industry by intensive introduction of a series of macro-control policies to hedge the impact of the epidemic on the construction industry and provide strong guarantee for stabilizing economic operation.

In the 2020 NPC & CNPPC Government Work Report, it is expressly raised about the opinions on increasing effective investments with priority to supporting “new infrastructure, new urbanization initiatives and major projects” as well as division of responsibilities among work departments. In 2020, the proposed arrangement for local government special bonds is RMB3.75 trillion, representing an increase of RMB1.60 trillion from last year. While increased proportion of special bonds can be used as project capital, the investment arranged under the budget of the central government is RMB0.60 trillion.

After the Government Work Report has clarified the sources of investment funds for “new infrastructures”, local governments across the country successively issued relevant policies to promote the development of new infrastructure. It is expected that infrastructure investment will continue to resume rapid growth.

The Group processes several first-grade qualifications for municipal, construction and water works, and can undertake municipal, construction and water works projects, which are highly consistent with China’s “two news and one major” industrial development layout, having relatively large competitive advantage in project development.

In the first half of 2020, the Group’s revenue was approximately RMB689.0 million, representing an increase of 32.2% as compared with the same period of 2019. The business revenue mainly comes from: i) landscape construction, ii) municipal works construction, iii) building works, and iv) others, which accounts for 21.3%, 32.1%, 42.6% and 4.0% of the total revenue of the Group for the six months ended 30 June 2020.

In the first half of 2020, the Group obtained the Grade III Qualification for Professional Contraction of Steel Structure Works (鋼結構工程專業承包三級資質) and applied for the Grade A Qualification for Property Management Services of Water Works and Hydropower Project (水利水電工程物業管理服務甲級資質). With the improvement of the Group’s qualifications in construction, operation and maintenance, its business development would be definitely promoted.

In the first half of 2020, the Group was awarded the First Prize of the 2020 Anhui Province Engineering Construction QC (Quality Control) Team Achievements (二零二零年安徽省工程建設QC (Quality Control (品質控制))小組活動成果一等獎) in respect of its two quality control achievements and was awarded Ningbo “Camellia Cup” for Outstanding Landscape Construction Gold Prize (寧波市“茶花杯”優秀園林工程獎金獎) in respect of a number of its projects. The Group has applied for provincial and national cups and awards for a batch of its key projects, such as the Zhoushan Central Park Project (舟山中央公園項目) and the Fuyang City Yidaohe Road Landscaping Engineering Project (阜陽市一道河路道路景觀工程項目).

OUTLOOK

Currently, undermined by the pneumonia caused by the COVID-19, there exist uncertainties in the international economic development, thus increasing the downward risk of the global economy.

At the National People's Congress (NPC) & the Chinese People's Political Consultative Conference (CPPCC) (兩會) that were just concluded in May 2020, the GDP growth indicators were not mentioned in the Government Work Report (the “**Report**”), which was very uncommon in the past. This is mainly due to the facts that there exist large uncertainties in the global epidemic and economic and trade situation and China is also faced with some unpredictable factors in its economic development, which are also the challenges that the Group will face in the near future.

Meanwhile, it is also proposed in the Report that efforts shall be focused on the “Six Stabilities (六穩)” and the “Six Guarantees (六保)”. It should be noted that whether it is to maintain employment and people's livelihood, achieve poverty alleviation goals or prevent and defuse risks, it must be supported by economic growth and stable economic operation is vital to all aspects. For this purpose, the government is required to expand effective investment and focus on supporting the construction of new infrastructure, new urbanization and key projects (兩新一重), improve the market-oriented investment and financing mechanism and support the equal participation of private enterprises.

Geographically, the General Office of Ningbo Municipal Party Committee and the General Office of Ningbo Municipal Government issued the Ningbo City's Action Plan for Promoting the Integrated Development of Ningbo and Zhoushan (《寧波市推進甬舟一體化發展行動方案》) (the “Plan”), in which it is planned to achieve substantial progress in the integrated development of Ningbo and Zhoushan, to fully establish the system and mechanism for the integrated development, to substantially achieve the urban integration in respect of infrastructure, science and technology industries, ecological and environmental protection, public services and other fields and to build a modern international port city at its initial stage by 2025.

According to the Plan, leveraging on the deep integration of Ningbo Zhoushan Port as a breakthrough point, Ningbo and Zhoushan will coordinate and promote the construction of a number of major transportation infrastructure, coordinate and promote the linkage of water conservancy, power, oil and gas pipelines, realize the two-way docking of infrastructure, facilitate the two-way flow of key resources and build a fast and convenient “one hour” commuting traffic circle.

Taking into consideration territorial dimension, the Group is headquartered in Ningbo, Zhejiang, and the integrated development of Ningbo and Zhoushan will directly benefit from the increase in demand in the region where it is located.

In 2019, the Group completed the adjustment of the enterprise qualifications of the housing construction and water conservancy and we were fully equipped to undertake businesses. In the first half of 2020, we also completed the construction and testing of our cloud platform. Our strategic deployment was fully consistent with the construction of the new infrastructure, new urbanization and key projects (兩新一重) in the Report and the construction of the integrated development of Ningbo and Zhoushan, which also provided a very good opportunity for us to achieve high-quality and leap-forward development. In the second half of 2020, with focus on the whole industrial chain and technology development, we will continue to stay innovative, pragmatic and progressive to ensure the successful achievement of the goals for 2020 and beyond.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased by 32.2% or RMB167.9 million from RMB521.1 million for the six months ended 30 June 2019 to RMB689.0 million for the six months ended 30 June 2020. The increase was attributable to the increase in the overall number of projects during the six months ended 30 June 2020.

The revenue recognised during the period for projects completed during the six months ended 30 June 2020 and in progress as at the end of the six months ended 30 June 2020 as compared with that of the previous corresponding period is tabulated as follows:

Business segments	For the six months ended 30 June					
	2020	2020		2019		
	Revenue RMB' 000	No. of projects completed during the period	No. of projects in progress as at the period end	Revenue RMB' 000	No. of projects completed during the period	No. of projects in progress as at the period end
Landscape construction	146,894	15	63	195,776	18	46
Municipal works construction	221,227	28	68	174,838	23	46
Building works	293,106	5	23	127,521	7	14
Others	27,754	6	17	22,957	3	15
Total	688,981	54	171	521,092	51	121

Increase in the overall number of projects for the six months ended 30 June 2020 was mainly due to the following reasons:

- (i) the number of new projects in the six months ended 30 June 2020 increased as compared with that of the previous corresponding period; 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 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).

Landscape construction

The Group recorded a decrease in revenue from the landscape construction segment, from RMB195.8 million for the six months ended 30 June 2019 to RMB146.9 million for the six months ended 30 June 2020, representing a decrease of 25.0% or RMB48.9 million. The decrease was mainly due to the decrease in average landscape construction project contract value for the six months ended 30 June 2020 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 RMB174.8 million for the six months ended 30 June 2019 to RMB221.2 million for the six months ended 30 June 2020, representing an increase of 26.5% or RMB46.4 million. The increase was mainly due to the increase in overall number of municipal works construction projects for the six months ended 30 June 2020 as compared with that of the previous corresponding period.

Building works

The Group recorded a significant increase in revenue from the building works segment, from RMB127.5 million for the six months ended 30 June 2019 to RMB293.1 million for the six months ended 30 June 2020, representing an increase of 129.9% or RMB165.6 million. The increase was mainly due to the increase in overall number and average contract value of building works projects as a result of integration of First-Grade General Contractor for Housing Construction Projects qualification in 2019 for the six months ended 30 June 2020 as compared with that of the previous corresponding period.

Others

The Group recorded an increase in revenue from the others segment, from RMB23.0 million for the six months ended 30 June 2019 to RMB27.8 million for the six months ended 30 June 2020, representing an increase of 20.9% or RMB4.8 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 2020 as compared with that of the previous corresponding period.

Cost of services rendered

Cost of service rendered increased by 37.0% or RMB168.6 million from RMB456.2 million for the six months ended 30 June 2019 to RMB624.8 million for the six months ended 30 June 2020. 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

The Group's gross profit decreased by 2.9% or RMB1.8 million from RMB62.6 million for the six months ended 30 June 2019 to RMB60.8 million for the six months ended 30 June 2020. Gross profit margin of the Group decreased from 12.0% for the six months ended 30 June 2019 to 8.8% for the six months ended 30 June 2020. The decrease in gross profit was mainly due to the increase in contribution from building works segment of which the gross profit margin is relatively low.

Other income and gains

Other income and gains increased by 123.0% or RMB3.2 million from RMB2.6 million for the six months ended 30 June 2019 to RMB5.8 million for the six months ended 30 June 2020, which was mainly due to a compensation income of RMB4.0 million received from the government for expropriation of a piece of land.

Administrative and other operating expenses

The Group's administrative expenses decreased by 5.9% or RMB1.9 million from RMB32.4 million for the six months ended 30 June 2019 to RMB30.5 million for the six months ended 30 June 2020, which was mainly due to the cost saving measures imposed.

Finance costs

The Group's finance costs decreased by 10.7% or RMB1.6 million from RMB15.0 million for the six months ended 30 June 2019 to RMB13.4 million for the six months ended 30 June 2020, which was mainly due to the fact that part of finance costs was capitalised as the necessary conditions of capitalisation were fulfilled.

Income tax expense

The Group's income tax expense increased by 32.5% or RMB2.0 million from RMB6.2 million for the six months ended 30 June 2019 to RMB8.2 million for the six months ended 30 June 2020, which was mainly due to the the fact that certain expenses for the six months ended 30 June 2020 were non-deductible for tax computation purposes.

LIQUIDITY AND CAPITAL RESOURCES

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Cash and cash equivalents (RMB' 000)	170,941	161,903
Current ratio	1.8	1.8
Gearing ratio	0.7	0.7

As at 30 June 2020, 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 1.8.

As at 30 June 2020, 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 2020, the Group incurred capital expenditures totalling RMB15,624,000 in relation to property, plant and equipment and intangible assets.

Capital commitments

As at 30 June 2020, the Group had no significant capital commitment.

INDEBTEDNESS

Borrowings

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

	As at 30 June 2020 RMB' 000 (Unaudited)	As at 31 December 2019 RMB' 000 (Audited)
Bank borrowings	571,000	531,000
Factoring loan with recourse	35,877	45,102
	<u>606,877</u>	<u>576,102</u>

The average interest rates for bank loans and factoring loan with recourse as at 30 June 2020 were 5.20% and 5.94% per annum respectively.

Except as disclosed above, as at 30 June 2020, 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	7.5 ^(Note 2)	83.9
Acquisition or establishment of a new inspection centre accredited with the qualification(s) to carry out inspection, analysis and testing on the incoming materials to be used for construction, and/or inspection and supervision of construction works	7.9	—	7.9
General working capital	20.2	20.2	—
Total	315.3	147.9	167.4

Notes:

- The Group acquired several construction licenses including a First-Grade General Contractor for Water Works and Hydropower 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).
- 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).

The remaining net proceeds of approximately HK\$167.4 million are currently held in bank deposits and it is intended to apply in the manner consistent with the proposed allocation in the Company's announcement dated 8 December 2017. These remaining net proceeds are expected to be utilised by the end of 2021.

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020.

CORPORATE GOVERNANCE HIGHLIGHTS

The Company is committed to achieving and maintaining high standards of corporate governance. The Board believes that effective corporate governance and disclosure practices are not only crucial to the enhancement of the Company's accountability and transparency and investors' confidence, but also critical to the Group's long-term success. The Company has adopted the code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code on corporate governance.

The Company has complied with the code provisions set out in the CG Code for the six months ended 30 June 2020, except that chairman of the Board, Mr. Peng Tianbin, did not attend the annual general meeting on 22 June 2020 due to unexpected business engagements.

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2020, the Group had 515 full-time employees. Total employee benefits expense incurred for the six months ended 30 June 2020 amounted to RMB16.3 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 2020, 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 2020.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 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 2020 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 2020 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 2020

As at the date of this announcement, the Board consists of Mr. Peng Tianbin, Mr. Peng Yonghui and Mr. Peng Daosheng as executive Directors; Ms. Wang Sufen as non-executive Director; and Mr. Fan Rong, Mr. Shi Weixing and Mr. Yang Zhongkai as independent non-executive Directors.

* *For identification purposes only*