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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 2018

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	353,157	821,643
Gross profit	46,934	111,959
Profit for the period attributable to owners of the Company	8,051	53,964
Total comprehensive income for the period attributable to owners of the Company	8,051	53,745

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 2018 together with the comparative unaudited figures for the six months ended 30 June 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	4	353,157	821,643
Cost of services rendered		(303,504)	(707,987)
Business tax and auxiliary charges		(2,719)	(1,697)
Gross profit		46,934	111,959
Other income and gains	5	6,094	453
Administrative and other operating expenses		(32,171)	(29,265)
Impairment loss on trade receivables		(2,842)	(5,035)
Profit from operations		18,015	78,112
Finance costs	6	(2,867)	(1,622)
Profit before tax		15,148	76,490
Income tax expense	7	(7,097)	(22,526)
Profit for the period attributable to owners of the Company		8,051	53,964
Other comprehensive income for the period, net of tax			
<i>Item that will be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		—	(219)
Total comprehensive income for the period attributable to owners of the Company		8,051	53,745
Earnings per share	10		
Basic and diluted (RMB cents per share)		RMB 1.3 cents	RMB 10.1 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	11	8,371	7,834
Intangible assets	12	74,480	—
Available-for-sale financial assets		—	13
Total non-current assets		82,851	7,847
Current assets			
Trade, bills and other receivables	13	604,294	701,129
Contract assets		788,136	—
Gross amount due from customers for contract works		—	868,377
Deposits with initial term of over three months		2,151	4,149
Bank and cash balances		216,321	371,703
Total current assets		1,610,902	1,945,358
TOTAL ASSETS		1,693,753	1,953,205
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	5,487	5,487
Reserves		799,272	798,281
Total equity		804,759	803,768
Current liabilities			
Trade payables	15	533,326	824,213
Accruals and other payables		77,378	80,648
Receipts in advance		—	18,270
Contract liabilities		48,854	—
Gross amount due to customers for contract works		—	16,079
Borrowings		125,900	111,000
Current tax liabilities		103,536	99,227
Total current liabilities		888,994	1,149,437
TOTAL EQUITY AND LIABILITIES		1,693,753	1,953,205

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(90,773)	(67,246)
Deposit paid for acquisition of a subsidiary	(13,600)	—
Purchases of property, plant and equipment	(1,302)	(812)
Purchases of intangible assets	(68,400)	—
Decrease in deposits with initial terms over three months	1,998	825
Dividend income from unlisted equity investment	12	9
Interest received	1,734	176
Proceeds from disposals of property, plant and equipment	49	—
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(79,509)	198
Borrowings raised	84,259	61,000
Repayment of borrowings	(69,359)	(61,000)
Proceeds from issue of shares	—	303,483
Repayment to a director	—	(967)
NET CASH GENERATED FROM FINANCING ACTIVITIES	14,900	302,516
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(155,382)	235,468
Effect of foreign exchange rate changes	—	(208)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	371,703	108,065
CASH AND CASH EQUIVALENTS AT END OF PERIOD	216,321	343,325
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	216,321	343,325

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 2018, the Peng Family, comprising Mr. Peng Daosheng, Ms. Wang Sufen, Mr. Peng Tianbin and Mr. Peng Yong Hui, 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 2017. 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 2017 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 2018. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations.

The Group has initially adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of IFRS 9, the Group was elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (“FVTOCI”) or fair value through profit or loss (“FVTPL”), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

(b) Measurement

At initial recognition, the Group measures a financial assets at its fair value plus, in the case of a financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(c) Impairment

For trade and other receivables and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Set out below is the impact of the adoption of IFRS 9 on the Group.

The following table summaries the impact on the Group's opening retained earnings as at 1 January 2018 is as follows:

	Note	RMB'000
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018:		
Increase in impairment losses for: – trade and other receivables	(b)	<u>(7,060)</u>
Attributable to owners of the Company		<u>(7,060)</u>

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	Note	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 RMB'000	Carrying amount under IFRS 9 RMB'000
Equity investment	(a)	Available-for-sale	FVTOCI	13	13
Trade and other receivables	(b)	Loans and receivables	Amortised cost	701,129	694,069

Note:

- (a) This equity investment represents investment that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated this investment at the date of initial application as measured at FVTOCI. As a result, asset with a fair value of RMB13,000 was reclassified from available-for-sale financial assets to financial assets at FVTOCI with no fair value gain. Under IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.
- (b) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of RMB7,060,000 in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

For assets in scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9 impairment model requirements at 1 January 2018 results in an additional impairment allowance as follows:

	Note	RMB'000
Impairment allowance at 31 December 2017 under IAS 39		12,433
Additional impairment recognised at 1 January 2018 on: – Trade and other receivables as at 31 December 2017	(b)	<u>7,060</u>
Impairment allowance at 1 January 2018 under IFRS 9		<u><u>19,493</u></u>

Impairment losses related to trade and other receivables are presented separately in the statement of profit or loss. As a result, the Group reclassified impairment losses amounting to RMB5,035,000, recognised under IAS 39, from “administrative and other operating expenses” to “impairment loss on trade receivables” in the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients) with the effect of initially applying this standard recognised at the date of initial application. (i.e. 1 January 2018) Accordingly, the information presented for 2017 has not been restated, i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The transition to IFRS 15 has no material impact on retained earnings at 1 January 2018.

The adoption of IFRS 15 resulted in the following changes to the Group’s accounting policies.

(i) **Timing of revenue recognition**

Previously, revenue arising from construction contracts and provision of services was recognised over time. Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. As the construction contracts performed by the Group could satisfy at least one of the three situations under IFRS 15, in which control of the promised good or service is regarded as being transferred over time, the revenue from construction contracts is recognised over time. Revenue is recognised over the period of the contract by reference to the work certified towards complete satisfaction of that performance obligation.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from construction contracts.

(ii) Presentation of contract assets and liabilities

Previously, contract balances relating to construction contracts in progress were presented in the statement of financial position under “Trade and other receivables”, “Trade and other payables”, or “Gross amounts due from/to customers for contract works” respectively, and construction cost incurred related to future activities on the contract, which mainly include materials that have been delivered to a contract site for use in a contract but not yet installed, used or applied during contract performance, are recognised as “Gross amount due from customers for contract works”.

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis. The uninstalled materials that have been delivered to a construct site for use in a contract, but the control has not been transferred to customers, are now included under inventories and other contract costs.

The impact on the Group’s financial position by the application of IFRS 15 as compared to IAS 18, IAS 11 and related interpretations that was previously in effect before the adoption of IFRS 15 is as follows:

	Previously stated as at 31 December 2017	Reclassification under IFRS 15	Restated as at 1 January 2018
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Consolidated statement of financial position (extract)			
Gross amount due from customers for contract works	868,377	(868,377)	—
Contract assets	—	868,377	868,377
Receipts in advance	18,270	(18,270)	—
Gross amount due to customers for contract works	16,079	(16,079)	—
Contract liabilities	—	34,349	34,349
	<u> </u>	<u> </u>	<u> </u>

The amount by each financial statements line items affected in the current period and period to date by the application of IFRS 15 as compared to IAS 18, IAS 11 and related interpretations that was previously in effect before the adoption of IFRS 15 is as follows:

	As reported <i>RMB'000</i>	Effect of the adoption of IFRS 15 <i>RMB'000</i>	Amounts without adoption of IFRS 15 <i>RMB'000</i>
As at 30 June 2018			
Consolidated statement of financial position (extract)			
Gross amount due from customers			
for contract works	—	788,136	788,136
Contract assets	788,136	(788,136)	—
Receipts in advance	—	(29,390)	29,390
Gross amount due to customers			
for contract works	—	19,464	19,464
Contract liabilities	48,854	(48,854)	—
	<u>48,854</u>	<u>(48,854)</u>	<u>—</u>

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 represents the revenue from construction contracts for the period.

The nature and effect of initially applying IFRS 15 on the Group's interim financial statements are disclosed in note 3.

(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 2018					
External revenue	163,984	150,192	32,140	6,841	353,157
Segment results	<u>24,362</u>	<u>19,516</u>	<u>3,708</u>	<u>(652)</u>	<u>46,934</u>
Six months period ended					
30 June 2017					
External revenue	254,120	363,789	150,748	52,986	821,643
Segment results	<u>38,004</u>	<u>47,093</u>	<u>20,952</u>	<u>5,910</u>	<u>111,959</u>

All the revenue from construction contracts was recognised over time during the six months ended 30 June 2018.

(ii) Reconciliation of reportable segment profit or loss:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Total profit or loss of reportable segments	46,934	111,959
Unallocated amounts:		
Interest income	1,734	176
Government incentives and awards	3,594	255
Impairment loss for trade receivables	(2,842)	(5,035)
Depreciation of property, plant and equipment	(552)	(265)
Amortisation of intangible assets	(1,520)	—
Finance costs	(2,867)	(1,622)
Employee benefits expense	(16,297)	(10,660)
Listing expenses	—	(6,179)
Others	(13,036)	(12,139)
Consolidated profit before tax	15,148	76,490

Segment assets and liabilities of the Group are not reported to the directors of the Group 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 and all non-current assets of the Group are located in the PRC and Hong Kong.

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

	30 June 2018	1 January 2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Receivables, which are included in "Trade and other receivables"	604,294	694,069
Contract assets	788,136	868,377
Contract liabilities	(48,854)	(34,349)

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 RMB9,977,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the six months ended 30 June 2018.

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income on:		
Bank deposits	1,041	176
Treasury products (note (a))	693	—
	<u>1,734</u>	<u>176</u>
Compensation income	—	13
Dividend income from unlisted equity investments	12	9
Exchange gain	704	—
Government incentives and awards (note (b))	3,594	255
Others	50	—
	<u>6,094</u>	<u>453</u>

Note:

- (a) The Group invested in unlisted treasury products issued by commercial banks in the PRC. The principals of these investments are guaranteed by the corresponding commercial banks. The investments are denominated in RMB and with maturity periods within three months. The rates of return range from 2.8% to 3.3% per annum.
- (b) 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	<u>2,867</u>	<u>1,622</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax - PRC		
Provision for the period	<u>7,097</u>	<u>22,526</u>

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 2018 and 2017.

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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Auditors' remuneration	350	320
Impairment loss for trade receivables	2,842	5,035
Cost of services rendered	303,504	707,987
Loss on disposal of property, plant and equipment	164	—
Exchange (gain)/loss	(704)	759
Depreciation of property, plant and equipment	552	265
Amortisation of intangible assets	1,520	—
Employee benefits expense (including directors' emoluments)	16,556	13,112
Listing expenses	—	6,179
Operating lease charges - land and buildings	<u>1,577</u>	<u>720</u>

9. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB Nil).

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	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>8,051</u>	<u>53,964</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>532,989</u>

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of approximately RMB1,302,000 (six months ended 30 June 2017: RMB812,000).

12. INTANGIBLE ASSETS

During the six months ended 30 June 2018, the Group acquired a First-Grade General Contractor for Water Works and Hydropower Projects Qualification* (水利水電工程施工總承包壹級資質) in the PRC at a consideration of RMB76,000,000. Such qualification is amortised on straight-line basis over an estimated useful life of 25 years.

13. TRADE, BILLS AND OTHER RECEIVABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade and bills receivables	412,300	512,241
Allowance for impairment of trade receivables	(15,993)	(11,037)
	<u>396,307</u>	<u>501,204</u>
Deposit, prepayment and other receivables	214,328	201,321
Allowance for impairment for other receivables	(6,341)	(1,396)
	<u>207,987</u>	<u>199,925</u>
	<u><u>604,294</u></u>	<u><u>701,129</u></u>

Included in the trade receivables were amount due from 湖州滄海建設投資有限公司 (Huzhou Canghu Construction Investment Company Limited*) (“**Huzhou Canghu**”), a related company of the Group, of approximately RMB5,600,000 (31 December 2017: RMB39,095,000) as at 30 June 2018.

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 receivables, based on the contract terms for the works certified and net of allowance, is as follow:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
0 to 90 days	74,920	110,117
91 to 180 days	33,952	56,909
181 to 365 days	112,038	142,780
Over 1 year but less than 2 years	112,252	93,014
Over 2 years but less than 3 years	14,683	51,524
Over 3 years	48,462	46,860
	<u>396,307</u>	<u>501,204</u>

14. SHARE CAPITAL

	Number of shares '000	Amount	
		HK\$'000	RMB'000
Authorised:			
Ordinary shares of HK\$0.01 per share:			
As at 1 January 2017	38,000	380	317
Increase of authorised share capital	1,962,000	19,620	17,416
	<u>2,000,000</u>	<u>20,000</u>	<u>17,733</u>
At 31 December 2017, 1 January 2018 and 30 June 2018			
	<u>2,000,000</u>	<u>20,000</u>	<u>17,733</u>
Issued and fully paid:			
At 1 January 2017	2	—	—
Issue of shares for capitalisation of amount due to a director	2	—	—
Share capitalisation	449,996	4,500	3,994
Global offering of shares	150,000	1,500	1,329
Issue of over-allotment shares	18,502	185	164
	<u>618,502</u>	<u>6,185</u>	<u>5,487</u>
At 31 December 2017, 1 January 2018 and 30 June 2018 (unaudited)			
	<u>618,502</u>	<u>6,185</u>	<u>5,487</u>

15. TRADE PAYABLES

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
0 to 90 days	33,261	75,802
91 to 180 days	33,780	14,508
181 to 365 days	69,852	212,660
Over 1 year but less than 2 years	194,018	260,930
Over 2 years but less than 3 years	167,095	223,132
Over 3 years	35,320	37,181
	<u>533,326</u>	<u>824,213</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS REVIEW

During the first half of 2018, the construction industry was affected by adjustments in various national policies. These policy adjustments included deleveraging in the entire financial system, suspension of bond issuance by local governments, increasing efforts to inspect infrastructure projects, and suspension of some Public-Private-Partnership (“PPP”, a business model, under this model the capital, construction and operation of public infrastructure projects are provided in the form of public and private partnership) projects, therefore, a large number of government projects delayed commencement in the short run. Meanwhile, affected by the nationwide cancellation of qualification for urban landscaping enterprises in 2017, the Group’s competitive edge was weakened for the time being, as a result, the overall construction volume of the Group in the first half of 2018 decreased as compared to the same period of the previous year.

PROSPECTS

Surrounded by the PRC government’s objectives of building a beautiful China and realizing a good living, the provision of services by the Group has been transformed from the traditional landscaping industry to the ecological restoration and environmental governance industry, and a multi-industry development direction, including water environmental control, river reforms, development of township with special features, has been gradually formed.

In 2018, the PRC government proposed to address the three major challenges of preventing and resolving material risks, performing targeted poverty alleviation, and controlling pollution. The enhancement in poverty alleviation and awareness of environmental protection (including water environment) are beneficial for the growth in the number of projects in municipal works, landscaping works and water works of the Group, among them, water environmental control is currently the most optimistic segment in terms of business prospects. During the second half of 2018, while advocating the requirements of “stabilizing investment” and “increasing efforts to improve deficiency in the infrastructural investment area”, the PRC government will be also relaxing monetary policy and issuing trillion-yuan project bonds to secure capital for the implementation of projects. Moreover, in the next five years, the approval time for the whole process of construction projects will be reduced by half. The continuous announcements of favourable government policies are encouraging to the Group, the Directors believe by leveraging on the Group’s strong and comprehensive qualification standards and extensive project experience, the Group will have abundant market opportunities and space for development.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased by 57.0% or RMB468.4 million from RMB821.6 million for the six months ended 30 June 2017 to RMB353.2 million for the six months ended 30 June 2018, which was primarily due to the deterioration of the results of the three major business segments of the Group which was in turn caused by the decrease in number of new projects during the period.

Landscape construction

The Group recorded a decrease in revenue from the landscape construction segment, from RMB254.1 million for the six months ended 30 June 2017 to RMB164.0 million for the six months ended 30 June 2018, representing a decrease of 35.5% or RMB90.1 million. The decrease was primarily attributable to a decrease in the number of landscape construction projects newly commenced in 2018.

Municipal works construction

The Group recorded a substantial decrease in revenue from the municipal works construction segment, from RMB363.8 million for the six months ended 30 June 2017 to RMB150.2 million for the six months ended 30 June 2018, representing a decrease of 58.7% or RMB213.6 million. The decrease was primarily attributable to a decrease in the number of municipal works construction projects under construction of the Group in 2018.

Building works

The Group recorded a substantial decrease in revenue from the building works segment, from RMB150.7 million for the six months ended 30 June 2017 to RMB32.1 million for the six months ended 30 June 2018, representing a decrease of 78.7% or RMB118.6 million. The decrease was primarily attributable to a decrease in the number of construction works projects newly commenced in 2018.

Others

The Group recorded a decrease in revenue from the others segment, from RMB53.0 million for the six months ended 30 June 2017 to RMB6.8 million for the six months ended 30 June 2018, representing a decrease of 87.1% or RMB46.2 million. The decrease was primarily attributable to a decrease in the number of other projects newly commenced in 2018.

Cost of services rendered

Cost of service rendered decreased by 57.1% or RMB404.5 million from RMB708.0 million for the six months ended 30 June 2017 to RMB303.5 million for the six months ended 30 June 2018. Generally, the decrease in cost of service rendered was in line with the decrease in revenue for the period.

Business tax and auxiliary charges

Business tax and auxiliary charges increased by 60.2% or RMB1.0 million from RMB1.7 million for the six months ended 30 June 2017 to RMB2.7 million for the six months ended 30 June 2018. The increase was primarily due to the fact that pursuant to the relevant tax regulations, part of value added taxes were transferred out and expensed as a result of simple collection mechanism.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit decreased by 58.1% or RMB65.1 million from RMB112.0 million for the six months ended 30 June 2017 to RMB46.9 million for the six months ended 30 June 2018. Gross profit margin of the Group slightly decreased from 13.6% for the six months ended 30 June 2017 to 13.3% for the six months ended 30 June 2018. The decrease in gross profit was primarily attributable to a decrease in the number of projects under construction and newly commenced in 2018.

Other income and gains

Other income and gains increased by 12.5 times or RMB5.6 million from RMB0.5 million for the six months ended 30 June 2017 to RMB6.1 million for the six months ended 30 June 2018. The increase was primarily attributable to (i) the receipt of incentive payment for economic development amounting to RMB1.6 million and subsidies for introducing foreign capital amounting to RMB1.9 million from the government; and (ii) interest on deposits deposited in banks amounting to RMB1.7 million.

Administrative and other operating expenses

The Group's administrative expenses increased by 9.9% or RMB2.9 million from RMB29.3 million for the six months ended 30 June 2017 to RMB32.2 million for the six months ended 30 June 2018. The increase was primarily attributable to an increase in expenses as a result of business expansion during the period, but was partially offset by a decrease in one-off listing expenses for the same period in 2017.

Finance costs

The Group's finance costs increased by 76.8% or RMB1.3 million from RMB1.6 million for the six months ended 30 June 2017 to RMB2.9 million for the six months ended 30 June 2018, primarily attributable to the increase in average monthly balance of bank borrowings.

Income tax expense

The Group's income tax expense decreased by 68.5% or RMB15.4 million from RMB22.5 million for the six months ended 30 June 2017 to RMB7.1 million for the six months ended 30 June 2018, primarily attributable to the effect of a decrease in profit before tax.

Profit for the period attributable to owners of the Company

As a result of the foregoing, the Group's profit decreased by 85.1% or RMB45.9 million from RMB54.0 million for the six months ended 30 June 2017 to RMB8.1 million for the six months ended 30 June 2018. The Group's net profit margin decreased from 6.6% for the six months ended 30 June 2017 to 2.3% for the six months ended 30 June 2018, primarily attributable to the decrease in revenue.

LIQUIDITY AND CAPITAL RESOURCES

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Cash and cash equivalents (RMB'000)	216,321	371,703
Current ratio	1.81	1.69
Gearing ratio	0.16	0.14

As at 30 June 2018, 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 1.81.

As at 30 June 2018, 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 0.16.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditures

The Group's capital expenditures principally consisted of expenditures on acquisitions of property, plant and equipment, and intangible assets in its operations. The Group's capital expenditure amounted to RMB69.7 million for the six months ended 30 June 2018.

On 8 December 2017, the Group entered into an acquisition agreement to acquire the entire equity interests of the target company which holds a First-Grade General Contractor for Water Works and Hydropower Projects Qualification* (水利水電工程施工總承包壹級資質) in the PRC with a total cash consideration of RMB76.0 million (tax inclusive). According to the terms of the acquisition agreement, 10% of consideration representing RMB7.6 million and 90% of consideration representing RMB68.4 million were paid on 15 December 2017 and 17 January 2018 respectively.

Operating lease commitments

As at 30 June 2018, the Group had commitments for future minimum lease payments in respect of the Group's offices under non-cancellable operating lease arrangements, which fall due as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within one year	2,408	3,388
In the second to fifth year inclusive	1,295	1,417
Over five years	<u>2</u>	<u>2</u>
Total	<u><u>3,705</u></u>	<u><u>4,807</u></u>

Capital commitments

As at 30 June 2018, the Group had no significant capital commitments.

INDEBTEDNESS

Borrowings

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Short-term bank borrowings	<u><u>125,900</u></u>	<u><u>111,000</u></u>

The average interest rates per annum as at 30 June 2018 was 5.17%. These borrowings were unsecured.

Except as disclosed above, as at 30 June 2018, 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 of use of net proceeds from listing as described in the Company's announcement dated 8 December 2017, as at the date of this announcement, RMB76.0 million of the net proceeds were used for acquisition of equity interests of the target company which holds a First-Grade General Contractor for Water Works and Hydropower Projects qualification* (水利水電工程施工總承包壹級資質) in the PRC as detailed in section headed "CAPITAL EXPENDITURES AND COMMITMENTS"; and RMB13.6 million of the net proceeds were used for acquisition of equity interests in 南京果嶠建設工程有限公司 (Nanjing Guokong Construction Company Limited*) ("**Nanjing Guokong**") as detailed in section headed "EVENTS AFTER THE REPORTING PERIOD". The remaining net proceeds of approximately RMB180.0 million are currently held in bank deposits and it is intended that they will be applied in the manner consistent with the proposed allocation in the Company's announcement dated 8 December 2017.

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018.

EVENTS AFTER THE REPORTING PERIOD

On 28 June 2018, the Group entered into an agreement to acquire 100% equity interests in Nanjing Guokong, for a cash consideration of RMB13.6 million. The transaction has been completed on 2 July 2018. Nanjing Guokong holds a Second-Grade General Contractor for Water Works and Hydropower Projects Qualification* (水利水電工程施工總承包貳級資質) and a Second-Grade General Contractor for Highway Projects Qualification* (公路工程施工總承包貳級資質).

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 2018.

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2018, the Group had 370 full-time employees. Total employee benefits expense incurred for the six months ended 30 June 2018 amounted to RMB16.6 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 does not have a share option scheme for the purchase of ordinary shares in the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2018, 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 2018.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018 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 2018 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.

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 2018 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, 27 August 2018

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*