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Changhong Jiahua Holdings Limited

長虹佳華控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3991)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

RESULTS

The board of directors (the “Board”) of the Company is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2020.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2020

	<i>NOTES</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	3	40,381,301	29,999,669
Cost of sales		(39,302,538)	(29,040,470)
Gross profit		1,078,763	959,199
Other income	4	68,657	52,711
Distribution and selling expenses		(363,873)	(328,253)
Research and development expenses		(24,557)	(13,509)
Administrative expenses		(180,176)	(168,480)
Finance costs	6	(144,130)	(85,411)
Impairment loss on trade receivables, net		(19,114)	(7,705)
Exchange loss, net		(93)	(6,601)

	<i>NOTES</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before tax		415,477	401,951
Income tax expenses	7	<u>(70,079)</u>	<u>(112,785)</u>
Profit for the year attributable to the owners of the Company	8	<u>345,398</u>	<u>289,166</u>
Other comprehensive expense			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences arising from translation of consolidated financial statements to presentation currency		<u>166,783</u>	<u>(46,501)</u>
Total comprehensive income for the year attributable to owners of the Company		<u>512,181</u>	<u>242,665</u>
Earnings per share			
Basic and diluted (<i>HK cents</i>)	9	<u>13.44</u>	<u>11.25</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Plant and equipment		5,726	18,326
Intangible assets		18,484	28,404
Right-of-use assets		12,599	2,946
Financial asset at fair value through profit or loss		30,666	30,699
		<u>67,475</u>	<u>80,375</u>
Current assets			
Inventories		3,131,603	2,115,395
Trade receivables	10	3,110,036	2,087,415
Bills receivables at fair value through other comprehensive income		418,414	381,023
Tax recoverable		4,065	–
Prepayments, deposits and other receivables		119,196	93,935
Amounts due from related companies		13,530	19,084
Trade deposits paid		808,048	771,271
Pledged bank deposits		2,917,765	1,022,483
Bank balances and cash		369,591	711,740
		<u>10,892,248</u>	<u>7,202,346</u>
Current liabilities			
Trade and bills payables	11	5,622,316	3,633,152
Other payables		331,711	309,237
Tax payables		26,723	14,857
Borrowings		2,195,451	1,005,285
Amounts due to related companies		15,878	6,412
Contract liabilities		444,244	409,903
Lease liabilities		8,800	3,058
		<u>8,645,123</u>	<u>5,381,904</u>
Net current assets		<u>2,247,125</u>	<u>1,820,442</u>
Total assets less current liabilities		<u>2,314,600</u>	<u>1,900,817</u>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current liabilities		
Government grants	1,766	1,946
Lease liabilities	4,684	81
	<u>6,450</u>	<u>2,027</u>
Net assets	<u>2,308,150</u>	<u>1,898,790</u>
Capital and reserves		
Share capital	36,366	36,366
Convertible preference shares	27,897	27,897
Reserves	2,243,887	1,834,527
Total equity	<u>2,308,150</u>	<u>1,898,790</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital	Convertible preference shares	Statutory reserve	Merger reserve	Translation reserve	Other reserve	Contributed surplus	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000 (Note i)	HK\$'000 (Note ii)	HK\$'000	HK\$'000 (Note iii)	HK\$'000 (Note iv)	HK\$'000	HK\$'000
At 1 January 2019	36,366	27,897	107,269	(1,248,106)	(119,856)	(203,432)	1,837,999	1,295,104	1,733,241
Profit for the year	-	-	-	-	-	-	-	289,166	289,166
Exchange differences arising from translation of consolidated financial statements to presentation currency	-	-	-	-	(46,501)	-	-	-	(46,501)
Total comprehensive (expense) income for the year	-	-	-	-	(46,501)	-	-	289,166	242,665
Appropriation to statutory reserve	-	-	3,950	-	-	-	-	(3,950)	-
Dividends recognised as distribution (Note 12)	-	-	-	-	-	-	(77,116)	-	(77,116)
At 31 December 2019	36,366	27,897	111,219	(1,248,106)	(166,357)	(203,432)	1,760,883	1,580,320	1,898,790
Profit for the year	-	-	-	-	-	-	-	345,398	345,398
Exchange differences arising from translation of consolidated financial statements to presentation currency	-	-	-	-	166,783	-	-	-	166,783
Total comprehensive income for the year	-	-	-	-	166,783	-	-	345,398	512,181
Appropriation to statutory reserve	-	-	4,219	-	-	-	-	(4,219)	-
Dividends recognised as distribution (Note 12)	-	-	-	-	-	-	(102,821)	-	(102,821)
At 31 December 2020	36,366	27,897	115,438	(1,248,106)	426	(203,432)	1,658,062	1,921,499	2,308,150

Notes:

- (i) In accordance with the Articles and Association of the People's Republic of China (the "PRC") subsidiaries and the relevant laws and regulations applicable in the PRC, companies established in the PRC are required to appropriate at least 10% of their statutory annual profits after tax determined in accordance with the relevant statutory rules and regulations applicable to enterprises in the PRC to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC companies. The amount of the transfer is subject to the approval of the board of director of the respective PRC companies.
- (ii) The merger reserve represents the difference between the considerations and the assets and liabilities acquired under business combinations under common control.
- (iii) The other reserve represents the difference between the consideration paid and the carrying values of non-controlling interests acquired during the year ended 31 December 2014.
- (iv) On 15 May 2015, a resolution was passed on the annual general meeting to approve the reduction of the amount of approximately HK\$2,095,051,000 standing to the credit of the share premium account of the Company and the transfer of the entire amount to the contributed surplus account of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

Changhong Jiahua Holdings Limited (the “Company”) was incorporated in Bermuda with limited liability.

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Unit 1412, 14/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The Company is an investment holding company.

The functional currency of the Company is Renminbi (“RMB”) and the consolidated financial statements are presented in Hong Kong dollars (“HK\$”). As the Company is a public company with its shares listed on the Stock Exchange with most of its investors located in Hong Kong, the directors of the Company consider that HK\$ is preferable in presenting the operating result and financial position of the Group.

Sichuan Changhong Electronic Co., Limited (“Sichuan Changhong”), a company incorporated in the PRC with its shares listed on the Shanghai Stock Exchange, has obtained the control over the board of directors of the Company since 2012. Sichuan Changhong Electronics Holding Group Co., Ltd., (“Sichuan Changhong Holding”, a company established in the PRC and wholly-owned by the State-owned Assets Supervision and Administration Commission of the Mianyang city government and one of the Controlling Shareholders) is the single largest shareholder of Sichuan Changhong, which held approximately 23.22% of the entire issued share capital of Sichuan Changhong and has de facto control over the composition of the majority of the board of Sichuan Changhong. In the opinion of the directors of the Company, Sichuan Changhong Holding, Sichuan Changhong, Changhong (Hong Kong) Trading Limited and Fit Generation Holding Limited (“Fit Generation”) remain as a group of controlling shareholders as at 31 December 2020. The Company’s immediate holding company is Fit Generation, a private company incorporated in the British Virgin Islands.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	<i>Insurance Contracts and the related Amendments</i> ¹
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> ⁴
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i> ⁵
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i> ¹
Amendments to HKAS 16	<i>Property, Plant and Equipment — Proceeds before Intended Use</i> ²
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i> ²
<i>Amendments to HKFRSs</i>	<i>Annual Improvements to HKFRSs 2018–2020</i> ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, including convertible instruments in which the conversion options are classified as equity instruments, and the related terms and conditions stipulated in the agreements between the Group and the relevant lenders/convertible instrument holders, the application of the amendments will not result in reclassification of the Group's liabilities.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2020			
	ICT consumer products HK\$'000	ICT corporate products HK\$'000	Others HK\$'000	Total HK\$'000
Types of goods or service				
Sales of Information and Communication				
Technology ("ICT") products	14,237,535	9,785,489	59,911	24,082,935
Sales of smartphone and own brand products	–	–	15,950,692	15,950,692
Sales of warranty packages and professional integrated ICT solutions	16,679	236,946	82,613	336,238
Provision of ICT services	–	–	11,436	11,436
	<u>14,254,214</u>	<u>10,022,435</u>	<u>16,104,652</u>	<u>40,381,301</u>
Timing of revenue recognition				
A point of time	14,254,214	10,022,435	16,093,216	40,369,865
Overtime	–	–	11,436	11,436
	<u>14,254,214</u>	<u>10,022,435</u>	<u>16,104,652</u>	<u>40,381,301</u>

Segments	For the year ended 31 December 2019			
	ICT consumer products <i>HK\$'000</i>	ICT corporate products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or service				
Sales of ICT products	12,250,375	7,997,218	54,472	20,302,065
Sales of smartphone and own brand products	–	–	9,493,897	9,493,897
Sales of warranty packages and professional integrated ICT solutions	5,122	102,510	78,781	186,413
Provision of ICT services	–	–	17,294	17,294
	<u>12,255,497</u>	<u>8,099,728</u>	<u>9,644,444</u>	<u>29,999,669</u>
Timing of revenue recognition				
A point of time	12,255,497	8,099,728	9,627,150	29,982,375
Overtime	–	–	17,294	17,294
	<u>12,255,497</u>	<u>8,099,728</u>	<u>9,644,444</u>	<u>29,999,669</u>

(ii) Performance obligations for contracts with customers

For sales of products to distributors, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the distributors' specific location (delivery). Following delivery, the distributor has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. For sales of warranty packages and professional integrated ICT solutions, control is transferred when the customers have the right to use or sell these products.

The ICT services are recognised overtime and considered to be distinct services as it is supplied by the Group to customers on a stand-alone basis or is available for customers from other providers in the market.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All sales of goods and provision of services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4. OTHER INCOME

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	23,187	10,700
Government grants	25,062	30,106
Waive of customer deposits	–	358
Waive of trade payables	–	1,985
Interest income on structured deposits	–	9,316
Gain on fair value changes of financial assets at FVTPL	19,435	–
Others	973	246
	<u>68,657</u>	<u>52,711</u>

5. SEGMENT INFORMATION

Information reported to the executive directors or the management of the Company, being the chief operating decision maker (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group’s reportable and operating segments under HKFRS 8 are as follows:

1. ICT Consumer Products — distribution of ICT consumer products which include mainly personal computers, digital products and IT accessories.
2. ICT Corporate Products — distribution of ICT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system products and unified communications and contact centre products.
3. Others — distribution of smartphones and development of its own brand products including but not limited to intelligent terminals, sales of warranty packages and professional integrated ICT solutions and provision of ICT services.

The accounting policies of the reportable and operating segments are the same as the Group’s accounting policies. Segment profit represents the profit earned by each segment without allocation of other income, research and development expenses, finance costs, exchange loss, net as well as unallocated head office and corporate administrative expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets do not include plant and equipment, intangible assets, right-of-use assets, prepayments, deposits and other receivables, structured bank deposits, pledged bank deposits, bank balances and cash, and financial asset at FVTPL. Segment liabilities do not include other payables, tax payables, lease liabilities, unallocated amounts due to related companies, government grants and borrowings.

The following is an analysis of the Group's revenue and results, as well as assets and liabilities by reportable and operating segment:

For the year ended 31 December 2020

	ICT consumer products HK\$'000	ICT corporate products HK\$'000	Others HK\$'000	Total HK\$'000
Revenue				
External sales	<u>14,254,214</u>	<u>10,022,435</u>	<u>16,104,652</u>	<u>40,381,301</u>
Segment profit	<u>264,586</u>	<u>339,684</u>	<u>91,506</u>	695,776
Other income				68,657
Research and development expenses				(24,557)
Administrative expenses				(180,176)
Exchange loss, net				(93)
Finance costs				<u>(144,130)</u>
Profit before tax				<u>415,477</u>
Segment assets	<u>2,838,816</u>	<u>3,553,218</u>	<u>1,089,597</u>	7,481,631
Unallocated assets:				
Pledged bank deposits				2,917,765
Bank balances and cash				369,591
Prepayments, deposits and other receivables				119,196
Tax recoverable				4,065
Plant and equipment				5,726
Right-of-use assets				12,599
Intangible assets				18,484
Financial asset at FVTPL				<u>30,666</u>
Total consolidated assets				<u>10,959,723</u>
Segment liabilities	<u>3,411,590</u>	<u>1,374,479</u>	<u>1,283,908</u>	6,069,977
Unallocated liabilities:				
Other payables				331,711
Amounts due to related companies				12,461
Government grants				1,766
Tax payables				26,723
Borrowings				2,195,451
Lease liabilities — non current				4,684
Lease liabilities — current				<u>8,800</u>
Total consolidated liabilities				<u>8,651,573</u>

For the year ended 31 December 2019

	ICT consumer products <i>HK\$'000</i>	ICT corporate products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	<u>12,255,497</u>	<u>8,099,728</u>	<u>9,644,444</u>	<u>29,999,669</u>
Segment profit	<u>253,938</u>	<u>322,742</u>	<u>46,561</u>	623,241
Other income				52,711
Research and development expenses				(13,509)
Administrative expenses				(168,480)
Exchange loss, net				(6,601)
Finance costs				<u>(85,411)</u>
Profit before tax				<u>401,951</u>
Segment assets	<u>2,604,362</u>	<u>2,024,258</u>	<u>745,568</u>	5,374,188
Unallocated assets:				
Pledged bank deposits				1,022,483
Bank balances and cash				711,740
Prepayments, deposits and other receivables				93,935
Plant and equipment				18,326
Right-of-use assets				2,946
Intangible assets				28,404
Financial asset at FVTPL				<u>30,699</u>
Total consolidated assets				<u>7,282,721</u>
Segment liabilities	<u>2,518,181</u>	<u>966,572</u>	<u>558,302</u>	4,043,055
Unallocated liabilities:				
Other payables				309,237
Amounts due to related companies				6,412
Government grants				1,946
Tax payables				14,857
Borrowings				1,005,285
Lease liabilities — non current				81
Lease liabilities — current				<u>3,058</u>
Total consolidated liabilities				<u>5,383,931</u>

For the year ended 31 December 2020

	ICT consumer products <i>HK\$'000</i>	ICT corporate products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment loss on trade receivables, net	6,136	11,854	1,124	–	19,114
Allowance for inventories	3,728	30,994	12,148	–	46,870

Amounts regularly provided to
the CODM but not included in the
measure of segment profit or loss
or segment assets:

Research and development expenses	–	–	–	24,557	24,557
Addition to non-current assets	–	–	–	18,093	18,093
Depreciation	–	–	–	11,992	11,992
Amortisation	–	–	–	4,177	4,177
Bank interest income	–	–	–	(23,187)	(23,187)
Finance costs	–	–	–	144,130	144,130
Income tax expenses	–	–	–	70,079	70,079

For the year ended 31 December 2019

	ICT consumer products <i>HK\$'000</i>	ICT corporate products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment loss on trade receivables, net	3,195	3,771	739	–	7,705
Allowance (reversal of allowance) for inventories	2,929	6,576	(196)	–	9,309

Amounts regularly provided to
the CODM but not included in the
measure of segment profit or loss
or segment assets:

Research and development expenses	–	–	–	13,509	13,509
Addition to non-current assets	–	–	–	9,929	9,929
Depreciation	–	–	–	11,137	11,137
Amortisation	–	–	–	3,587	3,587
Bank interest income	–	–	–	(10,700)	(10,700)
Finance costs	–	–	–	85,411	85,411
Income tax expenses	–	–	–	112,785	112,785

Geographical information

The following table provides an analysis of the Group's sales by geographical market, based on the origin of the goods:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland, China	40,326,992	29,869,634
Other regions	54,309	130,035
	<u>40,381,301</u>	<u>29,999,669</u>

The following is an analysis of the carrying amount of non-current assets* analysed by the geographical area in which the assets are located:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	2	1
Mainland, China	36,807	49,675
	<u>36,809</u>	<u>49,676</u>

* *Non-current assets excluded financial instruments.*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of total revenue of the Group are as follows:

	Year ended	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A ¹	5,171,243	–
Customer B ²	4,791,702	3,652,151
Customer C ³	–	3,627,920
	<u>–</u>	<u>3,627,920</u>

¹ Revenue from “Others” segment

² Revenue from “ICT consumer products and others” segment

³ Revenue from “ICT consumer products” segment

6. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on:		
Bank and other borrowings	72,286	45,160
Discounted bills receivables	60,975	33,875
Guarantee fee	10,333	6,070
Lease liabilities	536	306
	<u>144,130</u>	<u>85,411</u>

7. INCOME TAX EXPENSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax		
— Provision for the year	—	—
— (Over)provision in prior years	—	(38)
	<u>—</u>	<u>(38)</u>
The PRC Enterprise Income Tax (“EIT”)		
— Provision for the year	98,967	108,053
— Under(Over)provision in prior years	(28,888)	4,770
	<u>70,079</u>	<u>112,823</u>
	<u>70,079</u>	<u>112,785</u>

Pursuant to the rules and regulations of the Bermuda, the Company is not subject to any income tax in the Bermuda.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2019 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, except as disclosed below, the tax rates of the subsidiaries in PRC are 25% for both years.

Beijing Changhong IT Intelligence System Co., Ltd operating in the PRC have been accredited as a “High and New Technology Enterprise” by the Ministry of Science and Technology, the PRC and relevant authorities for a term of three years starting 2018, and have been registered with the local tax authorities for enjoying the reduced 15% EIT rate. Accordingly, the profits derived by the subsidiary are subject to 15% EIT rate for the year ended 31 December 2020 and 2019. The qualification as a High and New Technology Enterprise will be subject to review every three years by the relevant tax authorities in the PRC.

In 2020, Changhong IT Digital Technology Co., Ltd. and Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd., operating in the PRC, have been qualified as the “Encouraged Enterprises” under the “The Catalogue of Encouraged Industries in Western Regions” (the “Catalogue”), as their main business is one of the encouraged business in the Catalogue and the revenue from their main business accounts for more than the required percentage of their total revenue, and enjoyed the reduced preferential EIT rate of 15%. Accordingly, the profits derived by the aforesaid subsidiaries are subject to 15% EIT rate for the year ended 31 December 2020.

The tax charge for the years can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before tax	<u>415,477</u>	<u>401,951</u>
Tax at the domestic income tax rate of 25% (2019: 25%) (<i>Note</i>)	103,869	100,488
Tax effect of income not taxable for tax purpose	(17)	(734)
Tax effect of expenses not deductible for tax purpose	1,297	1,096
Effect of tax exemption and tax concessions	(30,983)	(143)
Tax effect of tax losses not recognised	2,961	2,664
Tax effect of deductible temporary differences not recognised	19,086	2,080
Utilisation of deductible temporary differences not recognised	(589)	–
(Over)underprovision in prior years	(28,888)	4,732
Others	<u>3,343</u>	<u>2,602</u>
Income tax expenses	<u>70,079</u>	<u>112,785</u>

Note: The domestic tax rate in the jurisdiction where the operations of the Group are substantially based is used.

8. PROFIT FOR THE YEAR

Profit for the year from continuing operations has been arrived at after charging (crediting):

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Depreciation for plant and equipment	3,859	4,150
Depreciation for right-of-use assets	8,133	6,987
Amortisation of intangible assets	4,177	3,587
Auditor's remuneration	2,350	2,300
Directors' emoluments	14,916	13,813
Cost of inventories recognised as an expense	39,302,538	29,040,470
Staff costs, (including directors' emoluments)		
— Salaries and related staff costs	283,720	237,352
— Retirement benefits scheme contributions	35,452	43,854
	319,172	281,206
Allowance for inventories, net (included in cost of sales)	46,870	9,309
Impairment loss on trade receivables, net	19,114	7,705
Research and development expenses (<i>Note</i>)	24,557	13,509
Written off of plant and equipment	9,989	5,260
Written off of software	7,070	8,572

Note: Included in the research and development expenses, approximately HK\$10,240,000 (2019: HK\$7,664,000) are related to staff costs.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company	345,398	289,166
Less: Earnings attributable to convertible preference shares	(149,938)	(125,528)
Earnings for the purpose of basic earnings per share	195,460	163,638
Add: Earnings attributable to convertible preference shares	149,938	125,528
Earnings for the purpose of diluted earnings per share	345,398	289,166

	2020 '000	2019 '000
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,454,652	1,454,652
Weighted average number of convertible preference shares for the purpose of diluted earnings per share	1,115,868	1,115,868
	<u> </u>	<u> </u>
Weighted average number of shares for the purpose of diluted earnings per share	2,570,520	2,570,520
	<u> </u>	<u> </u>

10. TRADE RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	3,156,574	2,128,128
Less: Allowance for credit losses	(46,538)	(40,713)
	<u> </u>	<u> </u>
Trade receivables	3,110,036	2,087,415
	<u> </u>	<u> </u>

The following is the aging analysis of trade receivables, net of allowance for credit losses, based on the invoice dates at the end of reporting period with approximately the respective revenue recognition dates:

	2020 HK\$'000	2019 HK\$'000
Within 30 days	1,847,405	1,180,463
31–60 days	661,307	427,543
61–90 days	177,991	238,836
91–180 days	285,422	129,386
181- 365 days	77,526	55,267
Over 1 year	60,385	55,920
	<u> </u>	<u> </u>
	3,110,036	2,087,415
	<u> </u>	<u> </u>

The Group allows a credit period ranging from 30–180 days to its third party trade customers. As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$494,195,000 (2019: HK\$369,386,000) which are past due but not impaired as at the reporting date. Out of the past due balances, HK\$70,495,000 (2019: HK\$91,344,000) has been past due 90 days or more and is not considered as in default as there has not been a significant change in credit quality and the amounts are still considered fully recoverable.

11. TRADE AND BILLS PAYABLES

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	2,758,239	1,769,173
31–60 days	1,626,687	859,048
61–90 days	292,518	573,545
91–180 days	723,689	349,752
181–365 days	175,579	36,781
Over 1 year	45,604	44,853
	<u>5,622,316</u>	<u>3,633,152</u>

The credit period on purchase of goods is ranging from 30–120 days (2019: 30–120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

12. DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
2019 Final — HK4 cents per share (2019: 2018 Final — HK3 cents per share)	<u>102,821</u>	<u>77,116</u>

The directors recommend the payment of a final dividend of HK5 cents (2019 Final: HK4 cents) per share in respect of the year ended 31 December 2020 which is subject to approval by the shareholders in the forthcoming annual general meeting.

CHAIRMAN’S STATEMENT

Dear Shareholders,

In 2020, the Coronavirus Disease 2019 epidemic (“COVID-19 epidemic”) impacted the global economy. However, the group grasped the market opportunities, continued to operate steadily and achieved good growth.

BUSINESS REVIEW

The COVID-19 epidemic has ravaged the globe in 2020. The global economy, trade and investment have been severely damaged, causing substantial recession in the world economy, which showed a slow recovery in the second half of 2020. Amidst the challenging domestic and international environment, China has proactively taken effective measures to cope with the pandemic and has leveraged its macro policies to counteract the negative impact, resulting in a sustainable steady recovery of the economy. The digital economy has become the new driving force of the recovery, and the pandemic and the new infrastructures are driving a new wave of digitalization in China. In 2020, despite the challenges of the pandemic, the Group overcame all kinds of uncertainties, worked closely with domestic and overseas manufacturers to respond to the needs and take advantage of the situation, thereby showing a positive development trend in all businesses and achieving significant growth in results. The Group continued its strategic transformation in 2020, actively developed in areas such as big data, cloud computing, artificial intelligence and the Internet of Things with “Gathering strength on network, cloud and intelligence to serve its partners” as the business strategy, captured the new opportunities, improved the planning of mainstream cloud resources in the market, constructed a comprehensive ecology in the field of leading technologies, and built a customer-oriented cloud intelligent application with scenario and cloud service system. Jiahua Duola, the B2B new distribution e-commerce platform, focused on building regional distribution marketplaces for brand manufacturers, matching regional distributors with terminal distributors in online transactions. With the addition of a large number of merchants, the number of the brands and categories of Jiahua Duola platform increased, and the overall traffic and transaction scale has increased significantly.

In 2020, the Group recorded an income of about HK\$40,381.30 million, up by 34.61% over the same period of the previous fiscal year; gross margin in 2020 was 2.67%, down by about 0.53 percentage point from the same period of the previous fiscal year, mainly due to the increase in sales contribution of the product line with low gross margin and intense competition in the market. The profit attributable to shareholders in 2020 was approximately HK\$345.40 million, up by about 19.45% over the same period of the previous fiscal year and the basic earnings per share was HK\$13.44 cents, up by HK\$2.19 cents from HK\$11.25 cents in the same period of the previous fiscal year.

The Group continuously consolidated basic management and strengthened informatization construction and business process transformation and optimization and built an intelligent business system so as to improve operation efficiency and reduce operating costs, and as a result providing customers with intelligent services with increased efficiency and convenience. The Group continued to reinforce risk management and control, insisted on strict inventory management, credit management and receivable management, reasonably allocate funds, and accelerated fund turnover in a bid to ensure the safety and efficiency of working capital. The Group continued its efforts to tighten expense control, and research and development cost increased compared with the same period of last year due to the increase in the development costs of information system; the distribution and sales expenses increased compared with the same period of last year, mainly due to the increase in labor costs and the increase in marketing fee arising from enhanced marketing; the financing cost rose compared with the same period of last year due to the increase of financing scale.

As at 31 December 2020, the turnover and profits of the three operating segments of the Company were analyzed as follows (RMB exchange rate fluctuations may affect the number/percentage of segments):

ICT consumer product distribution business: Given the challenges of the pandemic, the business took the advantage of the product line and fully leveraged the online sales channels and new online marketing models to foster the integration development of online and offline channels and maintain positive growth and stable profitability levels. The business's turnover increased by 16.31% to HK\$14,254.21 million over the same period of last year, and its profit increased by 4.19% to HK\$264.59 million.

ICT enterprise product distribution business: On top of the uncertainties including the pandemic and changes in the international environment overcome by the business, it also captured business opportunities, steadily developed its business with overseas manufacturers and actively expanded its cooperation with domestic manufacturers and result in significant growth in business scale; it also made great efforts in promoting the development of emerging business such as big data and cloud computing, and carried out in-depth strategic cooperation with leading industry manufacturers to establish system solutions and professional technical teams with leading technologies in order to enhance technical and service capabilities. The business's turnover increased by 23.74% to HK\$10,022.44 million over the same period of last year, and its profit increased by 5.25% to HK\$339.68 million.

Other businesses: Due to booming sales of smartphones via e-commerce channels, the business's turnover big increased by 66.98% over the same period of last year to HK\$16,104.65 million; the profit from the business has risen by 96.54% to HK\$91.51 million.

The Company has successfully transferred its listing from GEM to the Main Board of the Stock Exchange on 18 March 2020 (the “Transfer of Listing”). A listing status of the Company on the Main Board is generally perceived to enjoy a premier status amongst investors, which will help strengthen the recognition of the Group among both the existing Shareholders as well as the potential investors, resulting in a broader investor base and higher trading liquidity of the Shares. Further, facilitated by the enhanced status of the Group, it is believed that the Transfer of Listing will help reinforce the confidence of the Group’s customers, suppliers and other stakeholders in the Company’s financial strength, governance and credibility and will hence further promote the Company’s corporate profile and recognition among public investors and the public in general. This will in turn further strengthen the Group’s position in the industry and improve the Group’s competitiveness in retaining its current employees, recruiting more talents and attracting new customers and suppliers which may ultimately help foster the business development of the Group and enhance return to the Shareholders in the long run.

OUTLOOK

Looking ahead to 2021, the global economy is expected to remain depressed in the first half of the year due to the continuous spread of the COVID-19 epidemic outside of China, but the rollout of vaccines and additional stimulus fiscal policies are expected to assist the global economy to recover. The Chinese economy will continue to recover steadily in 2021 and build a new development pattern that domestic and International dual circulating and mutually promoting each other to promote high-quality and sustainable economic development. Following the in-depth development of the new round of technological revolution and industrial restructuring, and the innovation and wide penetration of the new generation of information technology represented by cloud computing, big data, the Internet of Things and artificial intelligence, industries and fields have accelerated their digital transformation. The digital economy continues to be a key driving force for China’s economic growth, and the ICT industries are expecting a period of major change, major adjustment, and major development. In 2021, the Group will respond to the rapid development of the Internet of Things, cloud applications and trend of digital transformation, and will further develop our business and explore customer demands in the cloud era of the Internet of Things with the business strategy of “Deeply ploughing demands, empowering with intelligence and jointing good partners”. The Group will be application-driven based on advanced technologies and products including the Internet of Things, artificial intelligence, big data and virtual reality, and be customer-oriented to create cloud intelligent application scenarios, systematically connect with our partners and be each other’s nodes, work together to achieve transformation and upgrade of cloud-data integration in order to contribute greater value to our partners and shareholders.

ZHAO Yong
Chairman

30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2020 was approximately HK\$40,381.30 million (2019: HK\$29,999.67 million), representing a increase of 34.61% as compared with the previous year. This increase was mainly attributable to the expansion of the e-commerce sales business and the growth of IT corporate products sales.
- Profit for the year ended 31 December 2020 was approximately HK\$345.40 million (2019: HK\$289.17 million), representing a increase of 19.45% as compared with the previous year. This increase was mainly attributable to the increase in revenue, the reduction in corporate income tax rates for certain subsidiaries and the increase in gain on fair value changes of financial assets at FVTPL.
- Total comprehensive income for the year ended 31 December 2020 was approximately HK\$512.18 million (2019: HK\$242.67 million). This increase was mainly attributable to the Fluctuations in the RMB exchange rate.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2020, the Group's financial and liquidity positions remained healthy and stable. As at 31 December 2020, the aggregate outstanding borrowings of the Group were approximately HK\$2,195.45 million (2019: HK\$1,005.29 million), which were unsecured and interest bearing. The increase in the Group's borrowings was due to the increase in demand of payment as compared with the corresponding period of last year. The Group's cash and bank balances amounted to approximately HK\$3,287.36 million (2019: HK\$1,734.22 million), together with trade and bills receivables amounting to approximately HK\$3,528.45 million (2019: HK\$2,468.44 million). For the year ended 31 December 2020, the Group's net current assets amounted to approximately HK\$2,247.13 million (2019: HK\$1,820.44 million) and the Group did not have any charges on its fixed assets (2019: Nil). The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 31 December 2020 was 3.75 times (2019: 2.83 times). The management of the Group is confident that with proper funding arrangements, the Group's financial resources are sufficient to finance its daily operations.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2020, the total number of the Group's staff was 1,259 (2019: 1,043 staff). For the year ended 31 December 2020, total staff costs (including Directors) amounted to approximately HK\$319.17 million (2019: HK\$281.21 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The remuneration of executive Directors is determined based on the Company's financial position in a fixed sum; whereas the remuneration of independent non-executive Directors is determined with reference to the prevailing market conditions and the workload. The Group provides retirement benefit for its employees in Hong Kong in the form of mandatory provident fund, and pays social pension insurance and housing provident fund for its employees in China in accordance with the local laws and regulations.

During the year ended 31 December 2020, there were no outstanding share options adopted by the Company granted or exercised.

The Group did not experience any significant labour disputes or substantial changes in the number of its employees that led to any disruption of normal business operations. The Directors consider that the Group has developed good relationships with its employees.

EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR

Establishment of a Wholly-Owned Subsidiary in Indonesia

The wholly-owned subsidiary of the Group named as “PT. Changhong Jiahua Information Technology Indonesia” has established in Indonesia on 11 February 2021, which will be conducive to the Group to build an international business development platform, seize good market opportunities and effectively promote the development of overseas business. For further details, please refer to the announcements of the Company dated 16 December 2020.

Save as disclosed above, there were no significant events occurred that might affect the Group after 31 December 2020.

FINAL DIVIDEND

The Board recommended the payment of final dividend of HK\$0.05 per share of the Company (the “Share(s)”) in respect of the year ended 31 December 2020 (2019: HK\$0.04 per Share), amounting to HK\$128,526,000, and there is no arrangement that a Shareholder has waived or agreed to waive any dividend. The final dividend is expected to be paid on Friday, 25 June 2021 to all Shareholders whose name appear on the register of members of the Company at the close of business on Wednesday, 9 June 2021 and is subject to approval by the Shareholders at the forthcoming annual general meeting of the Company (the “AGM”).

CLOSURE OF REGISTER OF MEMBERS FOR THE AGM

The AGM is scheduled to be held on Friday, 28 May 2021. The Company’s register of members will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, for the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, 24 May 2021.

CLOSURE OF REGISTER OF MEMBERS FOR THE PROPOSED FINAL DIVIDEND

The Company's register of members will be closed from Monday, 7 June 2021 to Wednesday, 9 June 2021, both days inclusive, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend of HK\$0.05 per Share for the year ended 31 December 2020, if approved at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, 4 June 2021.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTING SECURITIES

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the corporate governance code (the "CG Code") as set out in Appendix 15 to the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") or Appendix 14 to the Rules Governing the Listing of Securities on (Main Board of) The Stock Exchange of Hong Kong Limited (the "Listing Rules")* which sets out corporate governance principles and code provisions (the "Code Provisions"). Throughout the year ended 31 December 2020, the Company has complied with all the Code Provisions as set out under the CG Code, except the following deviation:

Mr. YANG Jun and Mr. LUO Yongping, directors of the Company, are not appointed for a specific term as required under code provision A.4.1 of the CG Code, but are subject to retirement by rotation at least once every three years in accordance with the Company's bye-laws (the "Bye-laws"). The Company considers that such requirement is sufficient to meet the same objective as a specific term of appointment under the CG Code.

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

STANDARD OF DEALINGS AND CODE OF CONDUCT FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct for securities transactions before the Transfer of Listing. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' dealings in securities of the Company (the "Code of Conduct") after the Transfer of Listing. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards as set out in the Code of Conduct throughout the year ended 31 December 2020.

REVIEW OF ANNUAL RESULTS

The annual results for the year ended 31 December 2020 have been reviewed and agreed by the audit committee of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND 2020 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.changhongit.com). The 2020 annual report will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in April 2021.

By order of the Board
Changhong Jiahua Holdings Limited
Zhao Yong
Chairman

Hong Kong, 30 March 2021

As at the date of this announcement, the executive Directors are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yang Jun and Mr. Luo Yongping and the independent non-executive Directors are Mr. Jonathan Chan Ming Sun, Mr. Gao Xudong and Mr. Meng Qingbin.