

长虹佳华
CHANGHONGIT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 3991

INTERIM REPORT
2022



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This interim report, in both English and Chinese versions, is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.changhongit.com).

Corporate Information

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	Unit 1412, 14/F, West Tower, Shun Tak Centre 168–200 Connaught Road Central Hong Kong
Bermuda principal share registrar and transfer office	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 1712–1716, Hopewell Centre 183 Queen’s Road East Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited China Insurance Group Building 141 Des Voeux Road Central, Sheung Wan Hong Kong
Stock exchange	The Stock Exchange of Hong Kong Limited (the “ Stock Exchange ”)
Stock code	3991
Website	www.changhongit.com
E-mail address	fengyl@changhongit.com
<i>Board of Directors</i>	
Executive Directors	Mr. ZHU Jianqiu (<i>Chairman and President</i>) Mr. PAN Xiaoyong Mr. ZHANG Xiaolong Mr. ZHOU Jiachao

Corporate Information

Independent Non-executive Directors	Mr. Jonathan CHAN Ming Sun Mr. GAO Xudong Mr. MENG Qingbin
Authorised representatives	Mr. ZHU Jianqiu Mr. CHENG Ching Kit
Company Secretary	Mr. CHENG Ching Kit
Audit Committee	Mr. Jonathan CHAN Ming Sun (<i>Chairman</i>) Mr. GAO Xudong Mr. MENG Qingbin
Remuneration Committee	Mr. Jonathan CHAN Ming Sun (<i>Chairman</i>) Mr. ZHU Jianqiu Mr. MENG Qingbin
Nomination Committee	Mr. ZHU Jianqiu (<i>Chairman</i>) Mr. Jonathan CHAN Ming Sun Mr. GAO Xudong
Auditor	Deloitte Touche Tohmatsu Registered Public Interest Entity Auditors 35/F, One Pacific Place 88 Queensway, Admiralty Hong Kong

Chairman's Statement

Dear Shareholders,

For the six months ended 30 June 2022, the global economy recovery has been hampered, and the Group continues its business operation in a prudent manner.

BUSINESS REVIEW

In the first half of 2022, the global economy was hit by COVID-19 pandemic (“**COVID-19 pandemic**”), the Russia-Ukraine crisis, the disruption of supply chain and high inflation in major developed countries, resulting in a rapid deceleration in the economy of the World and the increasing risk of stagflation. In the first half of the year, China's economy faced severe challenges such as the impact of the pandemic and the complex and changeable international situation, the overall performance of the economy showed a stabilizing and rebounding trend. The Group actively responded to the impact of the COVID-19 pandemic, poor logistics and shortage of supply chain, and strived to overcome difficulties to ensure smooth operation of each business segment and obtained stable profit in the first half of the year. On such basis, the Group seized new opportunities in the era of the Internet of Things and cloud applications, leveraged the advantages of omni-channel marketing and cloud service platforms, focused on upgrading core capabilities and innovating business models to promote strategic transformation and upgrade.

In the first half of 2022, the Group recorded a revenue of about HK\$17,906.45 million, down by 19.65% over the same period of the previous fiscal year; gross margin in the first half of 2022 was 3.09%, up by about 0.46 percentage point from the same period of the previous fiscal year. The profit attributable to shareholders in the first half of 2022 was approximately HK\$175.20 million, down by about 5.46% over the same period of the previous fiscal year and the basic earnings per share was HK\$6.82 cents, up by approximately of HK\$0.39 cents from HK\$7.21 cents in the same period of the previous fiscal year.

During the period, 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 operational 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, allocated funds in a reasonable manner, and accelerated fund turnover in a bid to ensure the safety and

Chairman's Statement

efficiency of working capital. However, due to the substantial increase in revenue in June this year as compared with the same period of last year and the change in business structure in the first half of the year, the trade and bills receivable increased as compared with the same period of last year. The Group continued to enhance cost control, and administrative expenses were still higher than the same period of the last year, mainly because of the increase in expenses such as labor costs and stamp duty; research and development expenses 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 decreased compared with the same period of last year, mainly due to certain logistics expenses being included in the cost of sales; the financing expenses rose compared with the same period of last year due to the increase in financing scale.

For the six months ended 30 June 2022, the revenue and profits of the three operating segments of the Group were analyzed as follows (RMB exchange rate fluctuations may affect the number/percentage of segments):

ICT consumer products distribution business: The business segment strengthened the communication and cooperation with core manufacturers, strived to expand and diversify the featured product line, effectively resolved the adverse impact brought by the pandemic and occupied considerable market share through the integrated development of online and offline channels. Meanwhile, we innovated and leveraged the advantages of omni-channel marketing to connect and empower domestic brands, providing them with comprehensive solutions for full-chain brands from design, production, market, sales, and services and creating a full-chain service brand. The business's revenue increased by 10.61% to HK\$9,504.42 million over the same period of last year and the business segment's profit increased by 19.84% to HK\$171.19 million.

ICT corporate products distribution business: The business segment strengthened the cooperation with domestic brands and established in-depth cooperative relationships with leading manufacturers in the fields of communications and new energy. The Group strive to enhance the value of customer services in key industries and build an integrated business system of trade, service, technology, and research. The Group also integrated the resources of cloud manufacturers and digital transformation product and created a digitalized cloud ecological operating comprehensive service platform, to assist channel partners in fulfilling the needs of customers through diversified solutions in a one-stop manner. Due to the pandemic and logistic disruptions in key areas during the period, delivery of products for certain projects were delayed, the business's revenue decreased by 6.41% to HK\$5,138.70 million over the same period of last year, and the business segment's profit decreased by 1.67% to HK\$182.03 million.

Chairman's Statement

Other businesses: Due to the decrease in sales of smartphones, the business segment's revenue decreased 60.22% over the same period of last year to HK\$3,263.33 million, and the profit decreased by 58.82% to HK\$26.04 million.

OUTLOOK

In the second half of 2022, the growth of the global economy is expected to decline because of the continuous impact brought by the Russia-Ukraine conflict, the COVID-19 pandemic and global supply chain issues. The recovery of China's economy is exposed to instability and uncertainty, with the impact of the pandemic receding and the implementation of policies and measures to stabilize the growth, the economic operation is expected to return to a reasonable range. The digital economy is an essential requirement for the high-quality development of China's economy, various regions have issued the "14th Five-Year Plan" policies and measures to accelerate the development of digital economy. The digital industry will maintain a healthy growth trajectory and strong momentum for economic development. In the second half of 2022, the Group continues to adhere to the business policy of "new cognition, new kinetic energy, and smart partner" and grasp the new trend of digital economy development, focus in key areas of digital industries such as cloud, network, data, intelligence, virtual reality, etc., explore new models, develop new kinetic energy and continue to promote strategic transformation and upgrades to keep creating value for shareholders.

ZHU Jianqiu

Chairman

10 August 2022

Management Discussion and Analysis

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2022 was approximately HK\$17,906.45 million (2021: HK\$22,286.32 million), representing a decrease of 19.65% as compared with the previous period. The decrease was mainly due to the decline in the sales scale of smartphones.
- Profit for the six months ended 30 June 2022 was approximately HK\$175.19 million (2021: HK\$185.30 million), representing a decrease of 5.46% as compared with the previous period. The decrease was mainly due to the decline in revenue.
- Total comprehensive income for the six months ended 30 June 2022 was approximately HK\$25.90 million (2021: HK\$217.29 million). This decrease was mainly due to the fluctuations in the RMB exchange rate.

LIQUIDITY AND FINANCIAL RESOURCES

For the period under review, the Group's financial and liquidity positions remained healthy and stable. As at 30 June 2022, the Group's total interest-bearing borrowings amounted to approximately HK\$2,144.71 million and its cash and bank balances amounted to approximately HK\$90.00 million. Net current assets of the Group was approximately HK\$2,516.70 million. The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 30 June 2022 was 3.70 times. The management is confident that the Group's financial resources is sufficient for its daily operations.

PLEDGE OF ASSETS

The Group did not have any mortgage or charge over its fixed assets as at 30 June 2022 (2021: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's monetary assets and liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United States dollars. As the spread of exchange rate of Renminbi is locked and the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes its exposure to exchange risk is minimal. The Group will continue to monitor the situation and assess whether any hedging arrangement is necessary.

As at 30 June 2022, the Group did not have any foreign currency investments which have been hedged by currency borrowings and other hedging instruments.

Management Discussion and Analysis

TREASURY POLICY

Cash and bank deposits of the Group are either in Renminbi, Hong Kong dollars and United States dollars. The Group conducts its core business transaction mainly in Renminbi, Hong Kong dollars and United States dollars. The Group did not use any derivative instruments to hedge its foreign currency exposure as the Group considered its foreign currency exposure is insignificant.

CONTINGENT LIABILITIES

As at 30 June 2022 and 31 December 2021, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising of cash. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable banks in the PRC. As a result, the relevant assets and liabilities were not recognized in the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of each reporting period are as follows:

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Settlement of trade and other payables	266,822	436,058
Discounted bills for raising of cash	1,348,603	945,176
Outstanding endorsed and discounted bills receivables with recourse	1,615,425	1,381,234

The outstanding endorsed and discounted bills receivables are aged within 360 days at the end of the reporting period (2021: 360 days).

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not have any significant investments, acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2022, the Group had no material capital commitments and no future plans for material investments or capital assets.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, there are no significant events that might affect the Group after the reporting period up to the date of this report.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2022, the total number of the Group's staff was 1,316 (as at 30 June 2021: 1,330). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in 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.

DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 30 June 2022 (2021: Nil).

The payment of a final dividend of HK\$0.05 per ordinary share and preference share for the year ended 31 December 2021, totaling approximately HK\$128.53 million, had been resolved at the annual general meeting of the Company held on 27 May 2022 and the payment was made on 24 June 2022.

Other Information

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

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries had 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 14 to the Listing Rules which sets out corporate governance principles and code provisions (the "**Code Provisions**"). Throughout the six months period ended 30 June 2022, the Company has complied with all the Code Provisions as set out under the CG Code, except the following deviations:

Code Provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. As Mr. ZHU Jianqiu serves as both the chairman of the Board and the president, such practice deviates from code provision C.2.1 of the CG Code. Although the roles of chairman of the Board and president are performed by the same individual, all major decisions have been made in consultation with members of the Board as well as senior management. The Board comprises three independent non-executive Directors who offer different independent perspectives. Therefore, the Board is of the view that there is adequate balance of power and safeguards in place.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the model code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("**Model Code**") as its own code of conduct regarding Directors' dealings in securities of the Company.

Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the Model Code during the six months ended 30 June 2022.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

Pursuant to Rule 3.21 of the Listing Rules, the Company established an audit committee with written terms of reference aligned with the provision of the code provisions set out in Appendix 14 of the Listing Rules.

The primary responsibilities of the audit committee of the Company (the "**Audit Committee**") are to review and supervise the financial reporting process and internal control system of the Group. The members of the Audit Committee are Mr. Jonathan Chan Ming Sun (chairman of the committee), Mr. Gao Xudong and Mr. Meng Qingbin.

The financial information in this report has not been reviewed or audited by the external auditor of the Company but the Audit Committee has reviewed the Group's results for the six months ended 30 June 2022.

Other Information

REMUNERATION COMMITTEE

The primary responsibilities of the remuneration committee of the Company (the “**Remuneration Committee**”) are to review and make recommendation for the remuneration policy of the directors and senior management. The members of the Remuneration Committee are Mr. Jonathan Chan Ming Sun (chairman of the committee), Mr. Zhu Jianqiu and Mr. Meng Qingbin.

NOMINATION COMMITTEE

The primary responsibilities of the nomination committee of the Company (the “**Nomination Committee**”) are to formulate nomination policy and make recommendation to the Board on nomination and appointment of directors and board succession. The members of the Nomination Committee are Mr. Zhu Jianqiu (chairman of the committee), Mr. Jonathan Chan Ming Sun and Mr. Gao Xudong.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES IN THE COMPANY

As at 30 June 2022, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”)) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Capacity	Number of ordinary shares interested (Note a)	Approximate percentage of interest
Mr. Zhu Jianqiu (“ Mr. Zhu ”)	Beneficial owner	115,165,762 (L)	7.92%

Note:

(a) (L) represents long position.

Save as disclosed above, as at 30 June 2022, none of the Directors or chief executives of the Company had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules.

Other Information

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months end 30 June 2022 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate. As at the date of this report, the Company has not granted any share options to the Directors.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as the Directors were aware, as at 30 June 2022, the persons or companies (not being a Director or chief executive of the Company) whose interests or short positions in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed or were notified to the Company and the Stock Exchange pursuant to the provisions under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

Name of substantial shareholders	Capacity	Class of Shares	Number of Shares interested (Note a)	Approximate percentage of interest in relevant class of shares (Note b)
Sichuan Changhong Electric Co., Limited ("Sichuan Changhong")	Interest of controlled corporation	Ordinary share	874,650,000 (L) (Note c)	60.13%
		Preference share	1,115,868,000 (L) (Note d)	100.00%
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interest of controlled corporation and beneficial owner	Ordinary share	874,650,000 (L) (Note e)	60.13%
		Preference share	1,115,868,000 (L) (Note d)	100.00%
Fit Generation Holding Limited ("Fit Generation")	Beneficial owner	Ordinary share	858,650,000 (L)	59.03%
		Preference share	1,115,868,000 (L)	100.00%
Sichuan Chuantou Assets Management Co., Ltd. ("Chuantou Assets Management") (Note f)	Beneficial owner	Ordinary share	83,009,340 (L)	5.70%
Sichuan Provincial Investment Group Company Limited ("Sichuan Provincial Investment Group") (Note f)	Interest of controlled corporation	Ordinary share	83,009,340 (L)	5.70%

Other Information

Notes:

- (a) (L) represents long position.
- (b) The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 30 June 2022, which were 1,454,652,000 and 1,115,868,000, respectively.
- (c) Among the 874,650,000 Shares interest held by Sichuan Changhong, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong Hong Kong and 858,650,000 Shares were held through Fit Generation, which is wholly-owned by Changhong Hong Kong. Sichuan Changhong is therefore deemed to be interested in the Shares held by Changhong Hong Kong and Fit Generation for the purpose of the SFO. Sichuan Changhong Holding 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.
- (d) 1,115,868,000 preference shares of the Company were held by Fit Generation, which is wholly-owned by Changhong Hong Kong, which is a wholly-owned subsidiary of Sichuan Changhong. Each of Sichuan Changhong and Changhong Hong Kong is therefore deemed to be interested in the preference shares of the Company held by Fit Generation for the purpose of the SFO.
- (e) Among the 874,650,000 Shares interest held by Changhong Hong Kong, 16,000,000 Shares were held directly and 858,650,000 Shares were held through Fit Generation. As Fit Generation is wholly-owned by Changhong Hong Kong, Changhong Hong Kong is deemed to be interested in the Shares held by Fit Generation for the purpose of the SFO.
- (f) Chuantou Assets Management is wholly-owned by Sichuan Provincial Investment Group, which is deemed to be interested in the Shares held by Chuantou Assets Management for the purpose of the SFO.

Save as disclosed above, as at 30 June 2022, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

Other Information

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN A COMPETING BUSINESS

Sichuan Changhong is a controlling shareholder of the Company established in the PRC of which shares are listed on the Shanghai Stock Exchange. Sichuan Changhong is principally engaged in the wholesale business of consumer home electronics items under the name of "Changhong".

Save as disclosed above, none of the Directors or the controlling shareholders of the Company or any of their respective close associates (as defined in the Listing Rules) had any business or interest in a business which competes or may compete with the business of the Group and any other conflicts of interest which any person has or may have with the Group during the six months ended 30 June 2022.

CHANGES IN DIRECTORS' INFORMATION

There is no change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	Note	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	3	17,906,448	22,286,324
Cost of sales		(17,352,949)	(21,700,058)
Gross profit		553,499	586,266
Other income		33,335	25,027
Research and development expenses		(17,939)	(16,972)
Administrative expenses		(97,858)	(80,862)
Impairment loss on trade receivables, net		(8,829)	(14,598)
Exchange gain/(loss), net		371	(3,699)
Distribution and selling expenses		(165,407)	(180,443)
Finance costs		(82,754)	(76,443)
Profit before tax	5	214,418	238,276
Income tax expense	6	(39,228)	(52,976)
Profit for the period attributed to owners of the Company		175,190	185,300
Other comprehensive (expense)/income <i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences arising from translation of consolidated financial statements to presentation currency		(149,294)	31,991
Total comprehensive income for the period attributable to owners of the Company		25,896	217,291
Earnings per share			
Basic and diluted (HK cents)	7	6.82	7.21

Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Plant and equipment		4,870	5,668
Intangible assets		18,876	21,661
Right-of-use assets		12,409	12,524
Financial asset at fair value through profit or loss		28,941	35,196
		65,096	75,049
CURRENT ASSETS			
Inventories		3,745,982	3,667,994
Trade and bills receivables	8	5,430,817	4,385,787
Bills receivables at fair value through other comprehensive income		50,439	59,030
Prepayments, deposits and other receivables		213,300	189,568
Amounts due from related companies		3,887	8,306
Trade deposits paid		731,714	690,871
Pledged bank deposits		1,771,586	2,687,475
Bank balances and cash		90,000	707,365
		12,037,725	12,396,396
CURRENT LIABILITIES			
Trade and bills payables	9	6,714,444	7,839,724
Other payables		395,402	445,043
Tax payables		15,092	12,046
Borrowings	10	2,144,711	1,179,675
Amount due to related companies		36,910	22,585
Contract liabilities		203,769	276,973
Lease liabilities		10,699	8,612
		9,521,027	9,784,658
NET CURRENT ASSETS		2,516,698	2,611,738
TOTAL ASSETS LESS CURRENT LIABILITIES		2,581,794	2,686,787
NON-CURRENT LIABILITIES			
Government grants		1,282	1,341
Lease liabilities		2,882	5,186
		4,164	6,527
NET ASSETS		2,577,630	2,680,260
CAPITAL AND RESERVES			
Share capital		36,366	36,366
Convertible preference shares		27,897	27,897
Reserves		2,513,367	2,615,997
TOTAL EQUITY		2,577,630	2,680,260

Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2022

For the six months ended
30 June

	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Total equity at 1 January	2,680,260	2,308,150
Dividend payment	(128,526)	(128,526)
(Decrease)/increase in exchange differences rising on translation	(149,294)	31,991
Net profit for the period attributable to shareholders	175,190	185,300
Total equity as at 30 June	2,577,630	2,396,915

Condensed Consolidated Statement of Cash Flow

For the six months ended 30 June 2022

	For the six months ended	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Net cash used in operating activities	(2,479,323)	(842,119)
Net cash generated from investing activities	843,894	1,912,158
Net cash generated from/(used in) financing activities	1,018,064	(658,752)
Net (decrease)/increase in cash and cash equivalents	(617,365)	411,287
Cash and cash equivalents at beginning of the period	707,365	369,591
Cash and cash equivalents at end of the period	90,000	780,878
Analysis of cash and cash equivalents Bank and cash balances	90,000	780,878

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2022

1. GENERAL

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 “**Stock Exchange**”). 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 principal activities of its subsidiaries (together with the Company, the “**Group**”) are set out in Note 4 below.

The functional currency of the Company is Renminbi (“**RMB**”) and the condensed 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 Electric Co., Limited (“**Sichuan Changhong**”), a company incorporated in the People’s Republic of China (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 90% 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 30 June 2022. The Company’s immediate holding company is Fit Generation, a private company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements of the Group and selected explanatory notes has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and by the Hong Kong Companies Ordinance, including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2022

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The condensed consolidated results for the six months ended 30 June 2022 have not been reviewed or audited by the external auditors of the Company but have been reviewed by the audit committee of the Company.

The accounting policies adopted are consistent with those followed in the preparation of the 2021 Consolidated Financial Statements, except for the amendments and interpretations of Hong Kong Financial Reporting Standards issued by HKICPA which have become effective in this period as detailed in the notes of the 2021 Consolidated Financial Statements.

3. REVENUE

The principal activities of the Group are the provision of professional integrated Information and Communication Technology (“ICT”) solutions and services, and distribution of ICT consumer products, ICT corporate products, smartphones, own brand products and related parts and components.

The amounts of each significant category of revenue recognised in revenue for the six months ended 30 June 2022 and 2021 are as follows:

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue		
ICT Consumer Products	9,504,415	8,593,024
ICT Corporate Products	5,138,700	5,490,424
Others	3,263,333	8,202,876
	17,906,448	22,286,324

4. 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.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2022

4. SEGMENT INFORMATION (CONTINUED)

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

- (a) ICT Consumer Products — distribution of ICT consumer products which include mainly personal computers, digital products and IT accessories.
- (b) 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.
- (c) 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.

Segment profit represents the profit earned by each segment without allocation of other income, research and development expenses, finance costs, exchange gain/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.

The following is an analysis of the Group's revenue and results by reportable and operating segment for the six months ended 30 June 2022 and 2021:

	For the six months ended 30 June 2022			
	ICT Consumer Products HK\$'000	ICT Corporate Products HK\$'000	Others HK\$'000	Total HK\$'000
Revenue				
External sales	9,504,415	5,138,700	3,263,333	17,906,448
Segment profit	171,192	182,026	26,045	379,263
Other income				33,335
Research and development expenses				(17,939)
Administrative expenses				(97,858)
Exchange gain, net				371
Finance costs				(82,754)
Profit before tax				214,418

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For the six months ended 30 June 2022

4. SEGMENT INFORMATION (CONTINUED)

	For the six months ended 30 June 2021			
	ICT	ICT	Others	Total
	Consumer Products HK\$'000	Corporate Products HK\$'000		
Revenue				
External sales	8,593,024	5,490,424	8,202,876	22,286,324
Segment profit	142,854	185,133	63,238	391,225
Other income				25,027
Research and development expenses				(16,972)
Administrative expenses				(80,862)
Exchange loss, net				(3,699)
Finance costs				(76,443)
Profit before tax				238,276

Geographical information

The following provides an analysis of the Group's sales by geographical market for the six months ended 30 June 2022 and 2021, based on the origin of the goods:

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Mainland China	17,849,415	22,251,615
Other regions	57,033	34,709
	17,906,448	22,286,324

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2022

5. PROFIT FOR THE PERIOD

The Group's profit for the period has been arrived at after charging for the six months ended 30 June 2022 and 2021:

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Cost of inventories sold	17,352,949	21,700,058
Depreciation of property plant and equipment	956	1,012
Depreciation of right-of-use assets	6,048	4,315
Staff cost including directors' emolument		
— Salary and related staff cost	165,593	164,856
— Retirement benefits scheme contribution	36,779	30,165
Exchange (gain)/loss, net	(371)	3,699

6. INCOME TAX EXPENSE

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

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million 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%. Accordingly, the profits tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

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 periods.

Beijing Jiacun Intelligent Cloud Technology Co., Ltd. (formerly known as "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 2020, 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 six months ended 30 June 2022 and 2021. 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.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2022

6. INCOME TAX EXPENSE (CONTINUED)

For the six months ended 30 June 2022 and 2021, Changhong IT Information Products Co., Ltd., Changhong IT Digital Technology Co., Ltd. and Changhong IT Duolayouhuo E-commerce Co., Ltd, operating in the PRC, have been qualified as the “Encouraged Enterprises” under “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.

Under the Law of the Republic of Indonesia No.1 Year 2020, the tax rates of PT. Changhong Jiahua Information Technology Indonesia are 22% for both periods.

The Group did not have any significant unprovided deferred tax liabilities (including withholding tax) in respect of the period.

7. 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:

	For the six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	175,190	185,300
	2022 '000	2021 '000
Number of Share		
Weighted average number of ordinary shares and convertible preference shares for the purpose of basic and diluted earnings per share	2,570,520	2,570,520

As there were no potentially dilutive shares during the six months ended 30 June 2022 and 30 June 2021, the diluted earnings per share was same as basic earnings per share.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2022

8. TRADE AND BILLS RECEIVABLES

The Group allows a credit period ranging from 30 to 180 days to its third party trade customers. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers are reviewed twice a year.

The following is an aged analysis of trade and bills receivables measured at amortised cost, net of allowance for doubtful debts, based on invoice dates at the end of the reporting period which approximated the respective revenue recognition dates:

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Within 30 days	2,099,458	1,361,470
31–60 days	946,891	962,161
61–90 days	300,034	334,596
91–180 days	576,537	325,960
181–365 days	306,306	1,189,158
Over 1 year	1,201,591	212,442
	5,430,817	4,385,787

9. TRADE AND BILLS PAYABLES

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

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Within 30 days	2,952,155	2,988,140
31–60 days	1,287,317	1,788,474
61–90 days	546,030	737,896
91–180 days	1,603,553	1,669,499
181–365 days	212,614	556,546
Over 1 year	112,775	99,169
	6,714,444	7,839,724

The credit period on purchase of goods is ranging from 30 to 120 days (2021: 30 to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2022

10. BORROWINGS

The following provides an analysis of the Group's borrowings:

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Bank borrowings	2,144,711	1,179,675
Secured	242,793	–
Unsecured	1,901,918	1,179,675
	2,144,711	1,179,675
Carrying amount repayable within one year*	2,144,711	1,179,675

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's borrowings for the six months ended 30 June 2022 is fixed from 0.8252% to 4.38% (2021: 0.8688% to 5.38%).

11. DIVIDEND

	For the six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Dividends recognised as distribution during the periods:		
2021 Final — HK\$0.05 (2021: 2020 Final — HK\$0.05) per share	128,526	128,526

The Board does not recommend the payment of any dividend for the six months ended 30 June 2022 (2021: Nil).