



CONTENTS

| | |
|--|-----------|
| Corporate Information | 2 |
| Chairman's Statement | 4 |
| Management Discussion and Analysis | 7 |
| Other Information | 10 |
| Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 15 |
| Condensed Consolidated Statement of Financial Position | 16 |
| Condensed Consolidated Statement of Changes in Equity | 17 |
| Condensed Consolidated Statement of Cash Flow | 18 |
| Notes to the Condensed Consolidated Interim Financial Statements | 19 |

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

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|---|--|
| 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 banker | 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 |

Corporate Information

Board of Directors

| | |
|-------------------------------------|---|
| Executive Directors | Mr. ZHU Jianqiu (<i>Chairman and President</i>) Mr. ZHANG Xiaolong Mr. ZHAO Qilin Mr. SHAO Min Ms. SU Huiqing Mr. ZHOU Jiachao |
| 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 2023, despite multiple challenges to global economic recovery, the Group maintained its stable operation and performance.

BUSINESS REVIEW

Global economic growth slowed down in the first half of 2023, and the outlook for economic recovery remained bleak due to factors such as the prolonged COVID-19 pandemic, the Ukraine crisis, climate change and high inflation. During the first half of the year, although China's economy and society fully resumed normal operation, it experienced unbalanced recovery and there remained a lack of market demand. In the face of the complex and grim economic environment and challenges in the market, the Group actively responded to changes in the market and competition, seized market opportunities, promoted innovation and development, and strengthened its operation and management, and continued to maintain a solid performance and a positive development momentum as a whole. At the same time, the Group remained committed to its strategic objectives, accelerated the expansion of innovative and transformational businesses, established core competencies, and promoted its strategic transformation and upgrading.

In the first half of 2023, the Group recorded a revenue of about HK\$16,960.78 million, down by 5.28% over the same period of the previous fiscal year; gross margin in the first half of 2023 was 3.49%, up by about 0.40 percentage point from the same period of the previous fiscal year. The profit attributable to shareholders in the first half of 2023 was approximately HK\$164.48 million, down by about 6.11% over the same period of the previous fiscal year and the basic earnings per share was approximately HK6.40 cents, down by approximately HK0.42 cents from HK6.82 cents in the same period of the previous fiscal year, mainly due to fluctuations in the RMB exchange rate.

During the period, the Group continuously consolidated basic management, strengthened digital and intelligent systems construction and business process transformation and optimization, built an intelligent business system, improved operational efficiency, enabled business innovation, and strived to provide 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 cash flow to ensure the safety and efficiency of working capital. The Group continued its efforts in tightening expense control, such that the administrative expenses and research and development cost decreased compared with the same period of last year; the distribution and sales expenses increased compared with the same period of last year, mainly due to the increase in labor costs, marketing expenses and travel expenses compared with the same period of last year; the financing cost rose compared with the same period of last year due to the increase of financing scale.

Chairman's Statement

For the six months ended 30 June 2023, 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 maintained close cooperation with core manufacturers, proactively addressed the challenges posed by weak market demand, strived to expand the featured product line through both online and offline channels, and occupied considerable market share. With the support of digital and intelligent technologies, the business segment innovated its business model to provide intelligent marketing services to its upstream and downstream partners, and overcame adverse market conditions. The business's revenue decreased by 15.28% to HK\$8,052.25 million over the same period of last year and the business segment's profit decreased by 6.76% to HK\$159.62 million.

ICT corporate products distribution business: The business segment strengthened capacity building for solutions and technical services, enhanced the value of customer service and business growth. Innovative businesses such as cloud computing and virtual reality continued to expand in terms of upstream and downstream resources, built a technical service support system and accelerated the iteration of business models. The business's revenue increased by 8.02% to HK\$5,550.78 million over the same period of last year, and the business segment's profit increased by 5.27% to HK\$191.63 million.

Other businesses: Due to the growth in sales of smartphones, the business segment's revenue increased by 2.89% to HK\$3,357.76 million as compared to the same period of last year; and due to the growth in ICT service business, the profit from the business increased by 36.45% to HK\$35.54 million.

Chairman's Statement

OUTLOOK

In the second half of 2023, uncertainties arising from the Ukraine crisis and inflationary pressure remain, and both the global and Chinese economic growth are facing a number of risks and challenges. China is expected to increase the intensity of macro policy regulation and adopt more vigorous measures to facilitate economic recovery and improvement. The digital economy, given its scale of growth and strong and vibrant momentum, is an important engine for China's economic development. In the second half of 2023, the Group will continue to operate under the principle of "focusing on being a digital and intelligent value partner", strive to build an intelligent business system, pay attention to business and management, develop and enhance its digital and intelligent core capabilities, empower itself and its partners and customers for value enhancement, serve as a remarkable digitalization and intelligentization comprehensive service provider and value partner in the new era, achieve new development in a new era together with its partners, and make greater contributions to its shareholders.

ZHU Jianqiu
Chairman

10 August 2023

Management Discussion and Analysis

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2023 was approximately HK\$16,960.78 million (2022: HK\$17,906.45 million), representing a decrease of 5.28% as compared with the previous period. This decrease was mainly due to the fluctuations in the RMB exchange rate.
- Profit for the six months ended 30 June 2023 was approximately HK\$164.48 million (2022: HK\$175.19 million), representing a decrease of 6.11% as compared with the previous period. The decrease was mainly due to the fluctuations in the RMB exchange rate.
- Total comprehensive income for the six months ended 30 June 2023 was approximately HK\$52.54 million (2022: HK\$25.90 million). This increase 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 2023, the Group's total interest-bearing borrowings amounted to approximately HK\$2,320.89 million and its cash and bank balances amounted to approximately HK\$4,439.54 million. Net current assets of the Group was approximately HK\$2,490.31 million. The net gearing ratio (total liabilities/total shareholders' equity) of the Group as at 30 June 2023 was 4.42 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 2023 (2022: 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 2023, 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 2023 and 31 December 2022, 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 2023 HK\$'000 (Unaudited) | As at 31 December 2022 HK\$'000 (Audited) |
|---|---|---|
| Settlement of trade and other payables | 71,487 | 154,166 |
| Discounted bills for raising of cash | 1,729,278 | 911,471 |
| Outstanding endorsed and discounted bills receivables with recourse | 1,800,765 | 1,065,637 |

The outstanding endorsed and discounted bills receivables are aged within 360 days at the end of the reporting period (2022: 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 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2023, the Group had no material capital commitments and no future plans for material investments or capital assets.

EVENTS AFTER THE REPORTING PERIOD

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 2023, the total number of the Group's staff was 1,408 (as at 30 June 2022: 1,316). 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 2023 (2022: Nil).

The payment of a final dividend of HK\$0.05 per ordinary share and preference share for the year ended 31 December 2022, totaling approximately HK\$128.53 million, had been resolved at the annual general meeting of the Company held on 25 May 2023 and the payment was made on 23 June 2023.

Other Information

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

During the six months ended 30 June 2023, 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 2023, 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 2023.

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 2023.

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 2023, 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% |
| Mr. Zhao Qilin (“ Mr. Zhao ”) | Beneficial owner | 750,000 (L) | 0.05% |
| Ms. Su Huiqing (“ Ms. Su ”) | Beneficial owner | 34,589,636 (L) | 2.38% |

Note:

(a) (L) represents long position.

Save as disclosed above, as at 30 June 2023, 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 2023 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 2023, 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% |

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 2023, 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 2023, 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 2023.

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 2023

| | Note | 2023 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) |
|---|------|---------------------------------|---------------------------------|
| Revenue | 3 | 16,960,784 | 17,906,448 |
| Cost of sales | | (16,368,847) | (17,352,949) |
| Gross profit | | 591,937 | 553,499 |
| Other income | | 48,325 | 33,335 |
| Research and development expenses | | (13,789) | (17,939) |
| Administrative expenses | | (83,595) | (97,858) |
| Impairment loss on trade receivables, net | | (17,060) | (8,829) |
| Exchange (loss)/gain, net | | (6,279) | 371 |
| Distribution and selling expenses | | (188,098) | (165,407) |
| Finance costs | | (125,682) | (82,754) |
| Profit before tax | 5 | 205,759 | 214,418 |
| Income tax expense | 6 | (41,281) | (39,228) |
| Profit for the period attributed to owners of the Company | | 164,478 | 175,190 |
| 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 | | (111,936) | (149,294) |
| Total comprehensive income for the period attributable to owners of the Company | | 52,542 | 25,896 |
| Earnings per share | | | |
| Basic and diluted (HK cents) | 7 | 6.40 | 6.82 |

Condensed Consolidated Statement of Financial Position

As at 30 June 2023

| | Notes | 30 June 2023 HK\$'000 (Unaudited) | 31 December 2022 HK\$'000 (Audited) |
|--|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Plant and equipment | | 3,320 | 4,158 |
| Intangible assets | | 14,950 | 17,370 |
| Right-of-use assets | | 16,194 | 9,637 |
| Deferred tax assets | | 2,429 | – |
| Financial asset at fair value through profit or loss | | 36,795 | 33,051 |
| | | 73,688 | 64,216 |
| CURRENT ASSETS | | | |
| Inventories | | 3,905,894 | 5,284,511 |
| Trade receivables | 8 | 4,506,047 | 4,224,190 |
| Bills receivables at fair value through other comprehensive income | | 144,200 | 46,159 |
| Prepayments, deposits and other receivables | | 291,662 | 302,654 |
| Amounts due from related companies | | 759 | 621 |
| Trade deposits paid | | 471,557 | 461,517 |
| Pledged bank deposits | | 3,503,387 | 5,211,209 |
| Bank balances and cash | | 936,149 | 355,687 |
| | | 13,759,655 | 15,886,548 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | | 5,330,324 | 5,128,275 |
| Bills payables under supplier chain financing | 9 | 2,884,577 | 4,974,790 |
| Other payables | | 407,292 | 323,428 |
| Tax payables | | 14,037 | 18,985 |
| Borrowings | 10 | 2,320,894 | 2,548,366 |
| Amount due to related companies | | 64,027 | 59,453 |
| Contract liabilities | | 239,336 | 256,029 |
| Lease liabilities | | 8,857 | 6,105 |
| | | 11,269,344 | 13,315,431 |
| NET CURRENT ASSETS | | 2,490,311 | 2,571,117 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,563,999 | 2,635,333 |
| NON-CURRENT LIABILITIES | | | |
| Government grants | | – | 790 |
| Deferred tax liabilities | | 2,429 | – |
| Lease liabilities | | 7,591 | 4,579 |
| | | 10,020 | 5,369 |
| NET ASSETS | | 2,553,979 | 2,629,964 |
| CAPITAL AND RESERVES | | | |
| Share capital | | 36,366 | 36,366 |
| Convertible preference shares | | 27,897 | 27,897 |
| Reserves | | 2,489,716 | 2,565,701 |
| TOTAL EQUITY | | 2,553,979 | 2,629,964 |

Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2023

For the six months ended
30 June

| | 2023 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) |
|--|---------------------------------|---------------------------------|
| Total equity at 1 January | 2,629,964 | 2,680,260 |
| Dividend payment | (128,526) | (128,526) |
| Increase/(decrease) in exchange differences rising on translation | (111,937) | (149,294) |
| Net profit for the period attributable to shareholders | 164,478 | 175,190 |
| Total equity as at 30 June | 2,553,979 | 2,577,630 |

Condensed Consolidated Statement of Cash Flow

For the six months ended 30 June 2023

| | For the six months ended | |
|---|---------------------------------|---------------------------------|
| | 2023 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) |
| Net cash used in operating activities | (2,530,034) | (2,479,323) |
| Net cash generated from investing activities | 1,627,423 | 843,894 |
| Net cash (used in)/generated from financing activities | 1,483,074 | 1,018,064 |
| Net increase/(decrease) in cash and cash equivalents | 580,463 | (617,365) |
| Cash and cash equivalents at beginning of the period | 355,687 | 707,365 |
| Cash and cash equivalents at end of the period | 936,150 | 90,000 |
| Analysis of cash and cash equivalents | | |
| Bank and cash balances | 936,150 | 90,000 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

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) 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 2023. 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 2023

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

The condensed consolidated results for the six months ended 30 June 2023 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 2022 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 2022 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 2023 and 2022 are as follows:

| | For the six months ended 30 June | |
|------------------------|---|---------------------------------|
| | 2023 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) |
| Revenue | | |
| ICT Consumer Products | 8,052,248 | 9,504,415 |
| ICT Corporate Products | 5,550,778 | 5,138,700 |
| Others | 3,357,758 | 3,263,333 |
| | 16,960,784 | 17,906,448 |

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 2023

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 2023 and 2022:

| | For the six months ended 30 June 2023 | | | |
|-----------------------------------|---------------------------------------|------------------------------------|--------------------|-------------------|
| | ICT Consumer Products HK\$'000 | ICT Corporate Products HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| Revenue | | | | |
| External sales | 8,052,248 | 5,550,778 | 3,357,758 | 16,960,784 |
| Segment profit | 159,615 | 191,625 | 35,539 | 386,779 |
| Other income | | | | 48,325 |
| Research and development expenses | | | | (13,789) |
| Administrative expenses | | | | (83,595) |
| Exchange loss, net | | | | (6,279) |
| Finance costs | | | | (125,682) |
| Profit before tax | | | | 205,759 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

4. SEGMENT INFORMATION (CONTINUED)

| | For the six months ended 30 June 2022 | | | |
|-----------------------------------|---------------------------------------|--------------------------------|-----------|------------|
| | ICT | ICT | Others | Total |
| | Consumer Products HK\$'000 | Corporate Products 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 |

Geographical information

The following provides an analysis of the Group's sales by geographical market for the six months ended 30 June 2023 and 2022, based on the origin of the goods:

| | For the six months ended 30 June | |
|----------------|----------------------------------|---------------------------------|
| | 2023 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) |
| Mainland China | 16,839,317 | 17,849,415 |
| Other regions | 121,467 | 57,033 |
| | 16,960,784 | 17,906,448 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

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 2023 and 2022:

| | For the six months ended 30 June | |
|--|-------------------------------------|---------------------------------|
| | 2023 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) |
| Cost of inventories sold | 16,368,847 | 17,352,949 |
| Depreciation of property plant and equipment | 891 | 956 |
| Depreciation of right-of-use assets | 5,890 | 6,048 |
| Staff cost including directors' emolument | | |
| — Salary and related staff cost | 147,364 | 165,593 |
| — Retirement benefits scheme contribution | 39,564 | 36,779 |
| Exchange loss/(gain), net | 6,279 | (371) |

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.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

6. INCOME TAX EXPENSE (CONTINUED)

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. The profits derived by the subsidiary are subject to 25% EIT rate for the six months ended 30 June 2023.

For the six months ended 30 June 2023 and 2022, 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.

Under the Law of the Republic of the Philippines Republic Act No. 11534 — Corporate Recovery and Tax Incentives for Enterprises Act, the tax rate of Changhong Jiahua Information Technology Philippines Inc. is 25% for the six months ended 30 June 2023.

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

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 | |
|--|---|--|
| | 2023 HK\$'000 (Unaudited) | 2022 HK\$'000 (Unaudited) |
| Earnings | | |
| Profit for the period attributable to owners of the Company | 164,478 | 175,190 |
| | | |
| | 2023 '000 | 2022 '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 2023 and 30 June 2022, 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 2023

8. TRADE 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 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 2023 HK\$'000 (Unaudited) | As at 31 December 2022 HK\$'000 (Audited) |
|----------------|---|---|
| Within 30 days | 1,482,957 | 1,288,210 |
| 31–60 days | 715,416 | 790,146 |
| 61–90 days | 375,683 | 339,586 |
| 91–180 days | 568,717 | 505,022 |
| 181–365 days | 387,032 | 254,508 |
| Over 1 year | 976,242 | 1,046,718 |
| | 4,506,047 | 4,224,190 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2023

9. TRADE AND BILLS PAYABLES/BILLS PAYABLES UNDER SUPPLIER CHAIN FINANCING

| | As at 30 June 2023 HK\$'000 (Unaudited) | As at 31 December 2022 HK\$'000 (Audited) |
|---|---|---|
| Trade and bills payables | 5,330,324 | 5,128,275 |
| Bills payables under supplier chain financing | 2,884,577 | 4,974,790 |
| | 8,214,901 | 10,103,065 |

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

| | As at 30 June 2023 HK\$'000 (Unaudited) | As at 31 December 2022 HK\$'000 (Audited) |
|----------------|---|---|
| Within 30 days | 1,158,849 | 1,454,234 |
| 31–60 days | 295,118 | 363,357 |
| 61–90 days | 90,272 | 136,621 |
| 91–180 days | 139,150 | 100,730 |
| 181–365 days | 77,856 | 42,238 |
| Over 1 year | 82,733 | 110,610 |
| | 1,843,978 | 2,207,790 |

The credit period on purchase of goods is ranging from 30 to 120 days (2022: 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 2023

10. BORROWINGS

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

| | As at 30 June 2023 HK\$'000 (Unaudited) | As at 31 December 2022 HK\$'000 (Audited) |
|-----------------|---|---|
| Bank borrowings | 2,320,894 | 2,548,366 |
| Secured | 8,130 | 204,207 |
| Unsecured | 2,312,764 | 2,344,159 |
| | 2,320,894 | 2,548,366 |

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 2023 is fixed from 2.6422% to 5.66% (2022: 0.83% to 5.35%).

11. DIVIDEND

| | For the six months ended 30 June | |
|--|-------------------------------------|------------------|
| | 2023 HK\$'000 | 2022 HK\$'000 |
| Dividends recognised as distribution during the periods: | | |
| 2022 Final — HK\$0.05 (2022: 2021 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 2023 (2022: Nil).