

长虹佳华
CHANGHONGIT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 8016



FIRST
QUARTERLY
REPORT
2016

The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Changhong Jiahua Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

The unaudited consolidated revenue of the Company (together with its subsidiaries, the “Group”) for the three months period ended 31 March 2016 increased by approximately 13.85% to HK\$4,440.92 million as compared with the corresponding period in 2015. For the three months period ended 31 March 2016, the Group recorded a net profit of approximately HK\$54.56 million, representing an increase of approximately 13.06% as compared with the corresponding period in 2015.

RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company for the three months period ended 31 March 2016, together with the comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2016

	Notes	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Continuing operations			
Revenue	2	4,440,923	3,816,205
Cost of sales		(4,263,348)	(3,641,275)
Gross profit		177,575	174,930
Other income		817	1,344
Distribution and selling expenses		(64,097)	(70,453)
Administrative expenses		(31,588)	(28,583)
Profit from operation		82,707	77,238
Finance costs		(11,865)	(11,793)
Profit before taxation		70,842	65,445
Income tax expense	4	(17,489)	(16,820)
Profit for the period from continuing operations		53,353	48,625
Discontinued operation			
Profit/(loss) for the period from discontinued operation	7	1,211	(362)
Profit for the period attributed to:			
Owners of the Company		54,564	48,263
Earnings per share	5		
From continuing and discontinued operations			
Basic and diluted		2.12 cents	1.88 cents
From continuing operations			
Basic and diluted		2.08 cents	1.89 cents

Notes:

1. BASIS OF PREPARATION

The unaudited quarterly financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, these financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance (Cap. 622).

2. REVENUE

The principal activities of the Group are the provision of professional integrated information technology (“IT”) solutions and services, and distribution of IT corporate products, digital products, own brand products and related parts and components.

Revenue represents net amount received and receivable for the sale of different types of IT products, self developed products, provision of professional integrated IT solutions and services and corresponding sales related taxes. The amounts of each significant category of revenue recognised in revenue for the period ended 31 March 2016 and 2015 are as follows:

	2016	2015
	HK\$'000	HK\$'000
IT Consumer Products	2,493,324	2,605,398
IT Corporate Products	1,081,863	1,090,563
Others	865,736	120,244
	<u>4,440,923</u>	<u>3,816,205</u>

3. SEGMENT INFORMATION

The chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided as they collectively make strategic decision towards the group entity’s operation.

The Company had ceased Consumer Electronic Products segment since July 2015 after the business discontinuation of Changhong Overseas Development Limited (“CHOD”) following an internal review of the Company in June 2015. For details, please refer note 7.

The Group’s reportable and operating segments are as follows:

- (a) IT Consumer Products – distribution of IT consumer products which include mainly personal computers (“PC”), digital products and IT accessories.
- (b) IT Corporate Products – distribution of IT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system (“IBMS”) products and unified communication and contact centre (“UC & CC”) products.

- (c) Others – distribution of smartphones and development of its own brand products including but not limited to mobile location-based service (“LBS”) products and provision of professional integrated IT solutions and services.

Segment profit represents the profit earned by each segment without allocation of other income, finance costs as well as unallocated head office and corporate expenses. The measure is 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:

	2016			Total HK\$'000
	IT Consumer Products HK\$'000	IT Corporate Products HK\$'000	Others HK\$'000	
Revenue				
External sales	<u>2,493,324</u>	<u>1,081,863</u>	<u>865,736</u>	<u>4,440,923</u>
Segment profit	<u>37,443</u>	<u>59,930</u>	<u>13,035</u>	110,408
Other income				817
Finance costs				(11,865)
Unallocated head office and corporate expenses				<u>(28,518)</u>
Profit before tax				<u>70,842</u>
	2015			Total HK\$'000
	IT Consumer Products HK\$'000	IT Corporate Products HK\$'000	Others HK\$'000	
Revenue				
External sales	<u>2,605,398</u>	<u>1,090,563</u>	<u>120,244</u>	<u>3,816,205</u>
Segment profit	<u>41,051</u>	<u>63,923</u>	<u>1,059</u>	106,033
Other income				1,344
Finance costs				(11,793)
Unallocated head office and corporate expenses				<u>(30,139)</u>
Profit before tax				<u>65,445</u>

Geographical information

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

	2016	2015
	HK\$'000	HK\$'000
Mainland, China	4,429,732	3,768,938
Europe	–	2,538
South America	–	1,103
Hong Kong	10,010	42,088
Australia	–	1,538
Other Asian District	1,181	–
	4,440,923	3,816,205

4. INCOME TAX EXPENSE

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the period ended 31 March 2016.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the Company's PRC subsidiaries is 25% for the period ended 31 March 2016.

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

5. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of basic earnings per share is based on the net profit for the period attributable to owners of the Company of HK\$54.56 million (2015: HK\$48.26 million), and the weighted average number of 2,570,520,000 (2015: 2,570,520,000) ordinary shares and convertible preference shares in issue during the period. Up to the date of this report, there were 1,115,868,000 convertible preference shares which can be converted subject to the requirement of the public float.

As there were no dilutive potential shares during the period ended 31 March 2016 and 2015, the diluted earnings per share is the same as basic earnings per share.

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operation is based on the net profit for period attributable to the owners of the Company of HK\$53.35 million (2015: HK\$48.63 million).

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operation

The basic and diluted earnings (2015: loss) per share for the discontinued operation is HK\$0.005 per share (2015: HK\$0.0001) based on the profit (2015: loss) for the period from the discontinued operation of approximately HK\$1.21 million (2015: HK\$0.36 million) and the denominators detailed above for basic earnings per share.

6. RESERVES

During the period under review, there was no movement to and from any reserves.

7. DISCONTINUED OPERATION

The results of the consumer electronic products for the period ended 31 March 2016 and 2015 were as follows:

	2016 HK\$'000	2015 <i>HK\$'000</i>
Revenue	–	84,189
Cost of sales	–	(83,655)
	<hr/>	<hr/>
Gross profit	–	534
Other income	3,114	11
Distribution of selling expenses	–	(160)
Administrative expenses	(1,864)	(729)
Finance costs	(39)	(18)
	<hr/>	<hr/>
Profit/(loss) before taxation	1,211	(362)
Income tax expenses	–	–
	<hr/>	<hr/>
Profit/(loss) for the period from discontinued operation (attributed to owners of the Company)	1,211	(362)
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DIVIDENDS

The Directors do not recommend the payment of any dividend for the period ended 31 March 2016 (2015: Nil).

The Board declared the payment of final dividend of HK\$0.02 per share in respect of the year ended 31 December 2015 and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company to be held on 19 May 2016.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's unaudited consolidated results for the period ended 31 March 2016 and has provided advice and comments thereon.

BUSINESS REVIEW

Despite a moderate slowdown in PRC economy in the first quarter of 2016, a number of indicators showed positive changes and the overall situation performed better than expected. In the first quarter of 2016, by adhering to the operation guideline of "focusing on optimization, targeting on high efficiency, and achieving new development", in terms of management, the Group executed risk control stringently, optimized organizational structure and improved turnover efficiency. With regard to its business, whilst actively expanding the cooperation scope with upstream manufacturers to achieve an all-round cooperation with manufacturers in different types of business, the Group deepened the fine-tuning and management of its businesses, enhanced the marketing of its segmented product markets to form the marketing capability with segmented product market advantages. By deepening the industry cooperation and exploration, the Group continued to promote industry solution and technology solution development in cloud computing and big data comprehensive services as well as the integration and promotion of proprietary equipment, so as to accelerate the research and development and testing of data engine. In the first quarter of 2016, the scale and earnings of the Group's core businesses maintained a healthy and stable growth.

In the first quarter of 2016, the Group recorded revenue of approximately HK\$4,440.92 million, representing an increase of 16.37% as compared with that in the corresponding period of last financial year. The overall gross profit margin in the first quarter of the year 2016 was 4.00%, representing a decrease of approximately 0.50% as compared with that in the corresponding period of last financial year, the decrease of which was mainly due to the intense market competition and increase in contribution from the sale of product lines with relatively lower gross margins. In the first quarter of 2016, profit attributable to shareholders amounted to approximately HK\$54.56 million, representing an increase of approximately 13.06% as compared with that in the corresponding period of last financial year. Basic earnings per share for the three months ended 31 March 2016 amounted to HK2.12 cents, representing an increase of approximately HK0.24 cents as compared with HK1.88 cents in the corresponding period of last financial year.

The Group continued to improve and optimize the internal control and risk management system and reinforced the system set up and professional staff training, with an aim to constantly improve the risk control capabilities. In view of the obvious effect in cost control, the selling expenses of the Group in the first quarter of 2016 showed a significant decrease as compared with that in the corresponding period of last financial year.

The analysis of three reportable and operating segments of the Company for the three months ended 31 March 2016 are as following (the fluctuation of exchange rate of Renminbi might affect the amount/percentage of the segment):

IT consumer products distribution business: the Group kept close cooperation with upstream manufacturers and optimized its product structure and mix to better satisfy the channel demand and provided one-stop sourcing service to distribution channels. The revenue of this business segment decreased by approximately 4.30% to HK\$2,493.32 million as compared with the corresponding period of last year whilst its profit decreased by approximately 8.79% to HK\$37.44 million.

IT corporate products distribution business: by seizing the localization opportunities and tapping and grasping industry demand, the Group invested more resources to enhance the ancillary development of proprietary data system and strived to promote the applications of industry solution and technology solution. The revenue of this business segment decreased by approximately 0.80% to HK\$1,081.86 million as compared with the corresponding period of last year whilst its profit decreased by approximately 6.25% to HK\$59.93 million.

Other business: as a result of the significant increase in the sales of smartphones and LBS products, the revenue of this business segment increased substantially by 619.98% to approximately HK\$865.74 million as compared with the corresponding period of last year whilst its profit increased by approximately 1,130.88% to HK\$13.04 million.

To enhance the trading liquidity of the shares of the Company and to promote the Company's corporate image to public investors, the Company made an application to the Stock Exchange on 28 April 2015 for the Transfer of Listing in respect of the Company from the GEM Board to the Main Board of the Stock Exchange. For further details, please refer to the announcement of the Company dated 28 April 2015. Further updates will be provided by the Company from time to time as and when appropriate.

In 2015, the management of CHOD reported to the Board that a former employee of CHOD had misappropriated certain assets of CHOD and the case was reported to the Hong Kong Police on 14 June 2015 (the "Incident"). The Incident had a material adverse impact on the financial position of the CHOD. An independent committee has been established to investigate the Incident. As at the date of this report, most claims/suits have been settled between the purported suppliers and CHOD and only negotiation with one purported supplier was still continuing but no further action has been taken by that particular supplier. For further details, please refer to the announcements of the Company dated 15 June 2015, 19 June 2015, 20 July 2015 and 19 October 2015. Further updates will be provided by the Company from time to time as and when appropriate.

On 13 April 2016, Mr. Tang Yun tendered his resignation as an executive director of the Company with effect from 13 April 2016 to devote more time to his other business commitments. For further details, please refer to the announcement of the Company dated on the even date.

OUTLOOK

Despite being affected by global economic downturn and market fluctuation, the PRC economic growth in 2016 is expected to remain stable. By adhering to the operation guideline of “focusing on optimization, targeting on high efficiency, and achieving new development”, the Group will continue to optimize its operation management to enhance its operational and financial efficiency. Also, the Group will be actively innovative in business models, explore new business direction, develop new business markets, and strive to achieve a development breakthrough in strategic business and accomplish better results whilst recording sound income.

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

During the period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

INTERESTS OF THE DIRECTORS IN THE COMPANY

As at 31 March 2016, the interests or short positions of the Directors and chief executives of the Company in the ordinary shares of the Company (the “Shares”), underlying Shares and debentures of the Company or any of 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 recorded in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Name of Director	Capacity	Number of Ordinary shares held	Approximate percentage of interest %
Mr. Zhu Jianqiu (“Mr. Zhu”) (Note a)	Interest in a controlled corporation	82,415,762 (L)	5.67

Note:

- (a) Mr. Zhu is the sole shareholder of the Typical Faith Limited, which in turn is holding the 82,415,762 Shares.

Save as disclosed in this paragraph, as at 31 March 2016, 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 recorded in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period under review 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. No options have been granted to the Directors up to the date of this report.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 31 March 2016, the interests or short positions of the persons or companies (not being a Director or chief executive of the Company) whose interests 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 positions 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 shareholder	Capacity	Class of shares	Number of shares held	Approximate percentage of interest in relevant class of shares (Notes a) %
Sichuan Changhong Electric Co, Limited ("Sichuan Changhong")	Interest of controlled corporation and beneficial owner	Ordinary	1,008,368,000 (L) (Note b)	69.32
		Preference	1,115,868,000 (L) (Note c)	100.00
Changhong (Hong Kong) Trading Limited	Interest of controlled corporation and beneficial owner	Ordinary	913,000,000 (L) (Note d)	62.76
		Preference	1,115,868,000 (L) (Note c)	100.00

Name of substantial shareholder	Capacity	Class of shares	Number of shares held	Approximate percentage of interest in relevant class of shares (Notes a) %
Fit Generation Holding Limited	Beneficial owner	Ordinary	897,000,000 (L)	61.66
		Preference	1,115,868,000 (L)	100.00
Sichuan Investment Management Company Limited (Note e)	Beneficial owner	Ordinary	83,009,340 (L)	5.70
Typical Faith Limited (Note f)	Beneficial owner	Ordinary	82,415,762 (L)	5.67

Notes:

- (a) The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 31 March 2016, which were 1,454,652,000 and 1,115,868,000, respectively.
- (b) Of the 1,008,368,000 Shares held by Sichuan Changhong, 95,368,000 Shares were held directly, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong (Hong Kong) Trading Limited and 897,000,000 Shares were held through Fit Generation Holding Limited, which is wholly owned by Changhong (Hong Kong) Trading Limited.
- (c) 1,115,868,000 preference shares were held by Fit Generation Holding Limited, which is wholly owned by Changhong (Hong Kong) Trading Limited, which is a wholly-owned subsidiary of Sichuan Changhong.
- (d) Of the 913,000,000 Shares, 16,000,000 Shares were held directly and 897,000,000 Shares were held through Fit Generation Holding Limited.
- (e) Upon completion the acquisition of the entire issued share capital of Wide Miracle Limited on 5 June 2014, Sichuan Investment Management Company Limited ceased to be a connected person of the Company and its shareholding in the Company is counted towards public float.
- (f) Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 31 March 2016, 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.

DIRECTOR'S INTEREST IN A COMPETING BUSINESS

Sichuan Changhong is a substantial 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 in this paragraph, none of the Directors or the substantial shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the period under review.

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 (the "Code of Conduct") as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct for securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Code of Conduct throughout the three months period ended 31 March 2016.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

To the best knowledge of the Board, the Company had complied with the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules throughout the three months period ended 31 March 2016.

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

Hong Kong, 22 April 2016

As at the date of this report, the executive Directors are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yu Xiao, Mr. Wu Xiangtao and Ms. Shi Ping and the independent non-executive Directors are Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin.