

长虹佳华
CHANGHONGIT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code : 8016

INTERIM REPORT
2017

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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.

UNAUDITED INTERIM RESULTS

The board of Directors of the Company (the “Board”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the three months and six months ended 30 June 2017 together with the unaudited comparative figures for the respective corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Continuing operations					
Revenue	2	4,788,817	4,588,235	9,562,080	9,029,158
Cost of sales		(4,593,562)	(4,382,103)	(9,197,876)	(8,642,728)
Gross profit		195,255	206,132	364,204	386,430
Other income		1,377	896	2,032	1,713
Administrative expenses		(31,058)	(33,882)	(59,896)	(68,193)
Distribution and selling expenses		(62,836)	(61,391)	(128,531)	(125,488)
Finance cost		(12,979)	(13,963)	(20,586)	(25,828)
Profit from operation	4	89,759	97,792	157,223	168,634
Income tax expense	5	(19,825)	(24,703)	(36,921)	(42,192)
Profit for the period from continuing operations		69,934	73,089	120,302	126,442
Discontinued operation					
Profit/(Loss) from discontinued operation	9	–	(426)	–	785
Profit for the period attributed to owners of the Company		69,934	72,663	120,302	127,227
Earnings per share					
From continuing and discontinued operations					
Basic and diluted (HK cents)	6	2.72	2.83	4.68	4.95
From continuing operations					
Basic and diluted (HK cents)	6	2.72	2.84	4.68	4.92

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2017 HK\$'000 (unaudited)	31 December 2016 HK\$'000 (unaudited)
NON-CURRENT ASSETS			
Plant and equipment		49,377	30,350
Available-for-sale investment		20,596	9,223
		69,973	39,573
CURRENT ASSETS			
Inventories		1,913,746	1,318,904
Trade and bills receivables	7	1,402,380	1,400,826
Prepayments, deposits and other receivables		54,300	51,171
Amounts due from related companies		363	17,930
Trade deposits paid		312,133	675,125
Pledged bank deposits		199,620	54,122
Cash and bank balances		209,243	253,282
		4,091,785	3,771,360
CURRENT LIABILITIES			
Trade and bills payables	8	1,538,780	1,607,015
Other payables		172,876	238,110
Tax payable		11,076	23,830
Borrowings		805,871	315,073
Amount due to related companies		39,479	13,912
Customer deposits		140,654	249,524
		2,708,736	2,447,464
NET CURRENT ASSETS		1,383,049	1,323,896
TOTAL ASSET LESS CURRENT LIABILITIES		1,453,022	1,363,469
NON-CURRENT LIABILITIES			
Government grants		5,336	6,284
NET ASSETS		1,447,686	1,357,185
CAPITAL AND RESERVES			
Share capital		36,366	36,366
Convertible preference shares		27,897	27,897
Reserves		1,383,423	1,292,922
TOTAL EQUITY		1,447,686	1,357,185

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
– UNAUDITED**

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
As at 1 January	1,357,185	1,274,221
Dividend payment	(77,116)	(51,410)
Increase/(decrease) in exchange differences arising on translation	47,315	(28,831)
Net profit for the period attributable to shareholders	120,302	127,227
	<u>1,447,686</u>	<u>1,321,207</u>
As at 30 June	<u>1,447,686</u>	<u>1,321,207</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW – UNAUDITED

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Net cash used in operating activities	(786,377)	(646,441)
Net cash used in investing activities	(171,347)	(84,447)
Net cash generated from financing activities	913,685	772,125
	<u>(44,039)</u>	<u>41,237</u>
Net (decrease)/increase in cash and cash equivalents	(44,039)	41,237
Cash and cash equivalents at beginning of the period	253,282	150,970
	<u>209,243</u>	<u>192,207</u>
Cash and cash equivalents at end of the period	209,243	192,207
	<u>209,243</u>	<u>192,207</u>
Analysis of cash and cash equivalents		
Bank and cash balances	<u>209,243</u>	<u>192,207</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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).

Change of functional currency

Subsequent to the completion of disposal of Changhong Overseas Development Limited (“CHOD”), an indirect wholly owned subsidiary of the Company, on 21 December 2016, the Directors re-assessed the functional currency of the Company and considered the Company’s major assets and its respective risks and rewards are primarily located in the People’s Republic of China (the “PRC”). As a result, the Directors determined to change the functional currency from United States dollars (“USD”) to Renminbi (“RMB”) with effect from 21 December 2016. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21.

Comparative figures

Certain comparative figures have been reclassified to conform to the current period’s presentation. The Directors considered that the reclassification would result in more appropriate manner to reflect the core business of the Group. These reclassifications have no impact on the Group’s total equity as at 30 June 2016 or the Group’s profit or loss for the period ended 30 June 2016.

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 net of corresponding sales related taxes and rebate. The amounts of each significant category of revenue recognised in revenue for the period ended 30 June 2017 and 2016 are as follows:

	2017	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>
IT Consumer Products	4,801,719	4,601,394
IT Corporate Products	2,356,790	2,234,668
Others	2,403,571	2,193,096
	<u>9,562,080</u>	<u>9,029,158</u>

3. SEGMENT INFORMATION

Information reported to the executive Directors or 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.

The Group’s reportable and operating segments under HKFRS 8 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. The own brand products include 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, finances cost as well as unallocated head office and corporate expenses. 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 period ended 30 June 2017 and 2016:

	2017			
	IT Consumer Products <i>HK\$’000</i>	IT Corporate Products <i>HK\$’000</i>	Others <i>HK\$’000</i>	Total <i>HK\$’000</i>
Revenue				
External sales	<u>4,801,719</u>	<u>2,356,790</u>	<u>2,403,571</u>	<u>9,562,080</u>
Segment profit	<u>98,322</u>	<u>114,594</u>	<u>15,899</u>	228,815
Other income				2,032
Finance costs				(20,586)
Unallocated head office and corporate expenses				<u>(53,038)</u>
Profit before tax				<u>157,223</u>

	2016			
	IT Consumer Products <i>HK\$'000</i>	IT Corporate Products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	<u>4,601,394</u>	<u>2,234,668</u>	<u>2,193,096</u>	<u>9,029,158</u>
Segment profit	<u>98,729</u>	<u>119,001</u>	<u>38,397</u>	256,127
Other income				1,713
Finance costs				(25,828)
Unallocated head office and corporate expenses				<u>(63,378)</u>
Profit before tax				<u>168,634</u>

Geographical information

The following provides an analysis of the Group's sales by geographical market for the period ended 30 June 2017 and 2016, based on the origin of the goods:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Mainland, China	9,535,218	9,002,624
Other regions	<u>26,862</u>	<u>26,534</u>
	<u>9,562,080</u>	<u>9,029,158</u>

4. Profit from operation

The Group's profit from operation has been arrived at after charging for the period ended 30 June 2017 and 2016:

	2017 HK\$'000	2016 HK\$'000
Cost of inventories recognized as an expense	9,197,876	8,642,728
Depreciation	1,909	2,554
Staff cost including directors' emolument		
– Salary and related staff cost	106,256	101,944
– Retirement benefits scheme contribution	9,907	10,013
Exchange loss, net	786	1,824

5. Income tax expense

Taxes on profit 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.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period ended 30 June 2017 and 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 30 June 2017 and 2016.

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

6. Earnings per share

From continuing and discontinued operations

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

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings				
Profit for the period attributable to owners of the Company	<u>69,934</u>	<u>72,663</u>	<u>120,302</u>	<u>127,227</u>
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Number of Share				
Weighted average number of ordinary shares and convertible preference shares for the purpose of basic and diluted earnings per share	<u>2,570,520</u>	<u>2,570,520</u>	<u>2,570,520</u>	<u>2,570,520</u>

As there were no diluted shares during the three months and the six months ended 30 June 2017 and 2016, the diluted earnings per share was same as basic earnings per share.

From continuing operations

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

	For the three months ended 30 June		For the six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Earnings				
Profit for the period attributable to owners of the Company	69,934	72,663	120,302	127,227
Add:				
(Profit)/Loss for the period from discontinued operation	<u>–</u>	<u>426</u>	<u>–</u>	<u>(785)</u>
Earnings for the purpose of basic and diluted earnings per share from continuing operations	<u>69,934</u>	<u>73,089</u>	<u>120,302</u>	<u>126,442</u>

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

From discontinued operation

As the discontinued operation was sold on 21 December 2016, the basic and diluted earning per share for the discontinued operation for the three months ended 30 June 2017 is nil (2016 loss: HK\$0.0002) based on the profit for the period from the discontinued operation of nil (2016 loss: HK\$426,000). Whereas the basic and diluted earning per share for the discontinued operation for the six months ended 30 June 2017 is nil (2016: HK\$0.0003) based on the profit for the period from the discontinued operation of nil (2016 profit: HK\$785,000).

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

7. Trade and bills receivables

The Group allows a credit period ranging from 30 – 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. Limits attributed to customers are reviewed twice a year.

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

	2017 HK\$'000	2016 <i>HK\$'000</i>
Within 3 months	1,124,104	1,197,509
4 to 6 months	160,897	59,860
7 to 12 months	62,137	51,603
Over 1 year	55,242	91,854
	1,402,380	1,400,826

8. Trade and bills payables

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

	2017 HK\$'000	2016 <i>HK\$'000</i>
Within 3 months	1,410,978	1,552,694
4 to 6 months	52,164	20,057
7 to 12 months	52,266	14,716
Over 1 year	23,372	19,548
	1,538,780	1,607,015

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

9. Discontinued operation

On 14 December 2016, the Company entered into a share transfer agreement (the “Share Transfer Agreement”) with an independent third party to dispose the discontinued operation at a consideration of HK\$100. Upon completion of the disposal on 21 December 2016, the discontinued operation results were no longer consolidated into the results of the Group. For details of the disposal, please refer to the announcement of the Company dated 14 December 2016.

The results of the consumer electronic products for the period ended 30 June 2016 were as follows:

	2016 <i>HK\$'000</i>
Revenue	372
Cost of sales	(729)
	<hr/>
Gross (loss)/profit	(357)
Other income	236
Distribution of selling expenses	–
Administrative expenses	952
Finance costs	(46)
	<hr/>
Profit/(loss) before taxation	785
Income tax expenses	–
	<hr/>
Profit/(loss) for the period from discontinued operation	785
	<hr/> <hr/>

DIVIDEND

The Directors do not recommend the payment of any dividend for the period ended 30 June 2017 (2016: Nil).

The payment of a final dividend of HK\$0.03 per share for the year ended 31 December 2016 has been resolved and declared at the annual general meeting of the Company held on 16 May 2017. The date of payment was on 5 June 2017.

BUSINESS REVIEW

In the first half of 2017, the economy of China continued to undergo its stable but improving economic trend with the overall situation better than expected. Under the guidance of the Group's strategic transformation policy, in the first half of 2017, the Group's traditional distribution business achieved a stable growth, both the functionalities and operating system of its internet distribution platform continued to optimise and build up its leading industrial solutions in the cloud computing and big data businesses.

In the first half of 2017, the Group recorded revenue of approximately HK\$9,562.08 million, representing an increase of approximately 5.90% as compared with that in the corresponding period of 2016. The overall gross profit margin in the first half of 2017 was approximately 3.81%, representing a decrease of approximately 0.47 percentage point as compared with that in the corresponding period of 2016, such a decrease was mainly due to intensifying market competition and the increase in sales of low gross profit margin product lines. In the first half of 2017, profit attributable to shareholders amounted to approximately HK\$120.30 million, representing a decrease of approximately 5.44% as compared with that in the corresponding period of 2016. Basic earnings per share amounted to HK\$4.68 cents, representing a decrease of approximately HK\$0.27 cents as compared with HK\$4.95 cents in the corresponding period of 2016.

The Group continued to strengthen its informatisation set up as well as the reformation and optimisation of business processes to enhance operation management efficiency constantly. The Group continued to insist on stringent creditability management and account receivables management, and had an obvious improvement in its receivables turnover as compared with the corresponding period of 2016. In the first half of 2017, the Group controlled its expenditures effectively with its overall expenses and financial expenses decreased as compared with the corresponding period of 2016.

The analysis of three reportable and operating segments of the Company for the six months ended 30 June 2017 is as follows (the fluctuation of exchange rate of Renminbi might affect the amount/percentage of the segment):

IT consumer products distribution business: The Group cooperated actively with core suppliers, accelerated the facilitation of its PC new product lines and channels and maintained a stable market share for its PC business. The Duolayouhuo internet distribution platform strived to introduce high quality video, musical and household consumer electronics products to enrich its product portfolios. The revenue of the Group's IT consumer products distribution business increased by approximately 4.35% to approximately HK\$4,801.72 million as compared with that in the corresponding period of 2016. However, profit decreased by approximately 0.41% to approximately HK\$98.32 million.

IT corporate products distribution business: The Group sustained a continuous growth in its distribution business, fully put its comprehensive strengths into full play, deeply explored industrial needs and built up big data industry solutions based on its comprehensive edges in products, technology and services. The revenue of the IT corporate products distribution business increased by approximately 5.46% to approximately HK\$2,356.79 million as compared with that in the corresponding period of 2016. However, profit decreased by approximately 3.70% to approximately HK\$114.59 million.

Other business: The revenue in this segment increased by approximately 9.60% to approximately HK\$2,403.57 million as compared with the corresponding period of 2016 as a result of the expansion of channel sales of smartphones but profit in this segment decreased by approximately 58.59% to approximately HK\$15.90 million as compared with the corresponding period of 2016 as a result of the decrease in sales of LBS products that have higher gross profit.

To enhance the trading liquidity of the shares of the Company and to promote the Company's corporate image to public investors, the Company submitted an application for the transfer of listing of its shares from the GEM to the Main Board of the Stock Exchange to the Stock Exchange on 28 April 2015 and subsequently made a re-submission to the Stock Exchange on 6 November 2015 (the "Second Application"). The Second Application lapsed on 6 May 2016 and no re-submission has been made at this stage. For further details, please refer to the announcements of the Company dated 28 April 2015, 6 November 2015 and 6 May 2016. The Company may make re-submission as and when the Board considers appropriate and further updates will be provided by the Company from time to time as and when appropriate.

In order to promote the strategic transformation of the Group, provide a one-stop internet distribution platform for customers and assist distributors and retailers to transform towards "Internet+" in the PRC, the Company resolved to establish a wholly-owned subsidiary named Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd.* (四川長虹佳華哆啦有貨電子商務有限公司) ("Duolayouhuo") with a capital contribution of RMB100 million on 23 February 2017. Duolayouhuo was established in the PRC on 9 March 2017 and is engaged in, among other things, wholesale and retail of electronic products, computer hardware and software, communication equipment; provision of computer technology consulting services and e-commerce services; and development, design and application of computer software. For further details in relation to the establishment of Duolayouhuo, please refer to the announcement of the Company dated 23 February 2017.

* For identification purpose only

On 4 May 2017, the Group entered into several leases (the “Leases”) for the purpose of leasing certain premises in Beijing and Chengdu which were intended to be used by the Group as its offices. The entering into of the Leases constitutes continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules, which is exempted from the circular (including independent financial advice) and shareholders’ approval requirements, but is subject to announcement, annual reporting and annual review requirements under Chapter 20 of the GEM Listing Rules. For details of the Leases, please refer to the announcements of the Company dated 4 May 2017 and 5 May 2017.

On 4 May 2017, Mr. Yu Xiao and Mr. Wu Xiangtao have tendered their resignations as executive Directors with effect from 4 May 2017 in order to devote more time to their other business commitments. Mr. Li Jin and Mr. Yang Jun have been appointed as executive Directors with effect from 4 May 2017. In addition, Mr. Zhao Yong has appointed Mr. Li Jin as his alternate director with effect from 4 May 2017. For further details, please refer to the announcement of the Company dated 4 May 2017.

OUTLOOK

China’s domestic demand remains strong in 2017, and with encouraging overseas market demand, the economic conditions for the year are expected to maintain a stable growth. The Group will persist in the operation principles of “New Thoughts, New Measures, New Heights”, continue to improve the system and technical platform of internet distribution business, innovate new business patterns and improve service values. The Group will strive to boost new business development in the cloud computing and big data sectors, and deepen industry cooperation to generate better revenue for its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

For the period under review, the Group’s financial and liquidity positions remained healthy and stable. As at 30 June 2017, the Group’s total interest-bearing borrowings amounted to approximately HK\$805.87 million and its cash and bank balances amounted to approximately HK\$408.86 million. Net current assets of the Group was approximately HK\$1,383.05 million. The management is confident that the Group’s financial resources is sufficient for its daily operations. The Group did not have any charges on its fixed assets (2016: Nil). The net gearing ratio (total net debt/total shareholders’ equity) of the Group as at 30 June 2017 was 1.87 times.

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 Company will however continue to monitor the situation and assess whether any hedging arrangement is necessary.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2017, the total number of the Group's staff was 1,126 (30 June 2016: 1,118). 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.

CORPORATE GOVERNANCE

The Company endeavours to adopt prevailing best corporate governance practices. For the six months ended 30 June 2017, the Company had complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules.

AUDIT COMMITTEE

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), Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin.

The Audit Committee has reviewed the Group's results for the period ended 30 June 2017 and has provided advice and comments thereon.

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), Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Zhu Jianqiu.

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. Zhao Yong (Chairman), Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Jonathan Chan Ming Sun.

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

During the six months ended 30 June 2017, 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 30 June 2017, the interests or short positions of the Directors and chief executive of the Company in the ordinary shares of the Company (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 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 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") (<i>Note 1</i>)	Interest in a controlled corporation	82,415,762 (L)	5.67%

Notes:

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

Save as disclosed in this paragraph, as at 30 June 2017, none of the Directors or chief executive 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 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 six months ended 30 June 2017 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.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 30 June 2017, 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 (Note 1)
Sichuan Changhong Electric Co., Limited ("Sichuan Changhong")	Interests of controlled corporation and beneficial owner	Ordinary	1,008,368,000 (L) (Note 2)	69.32%
		Preference	1,115,868,000 (L) (Note 3)	100.00%
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interests of controlled corporation and beneficial owner	Ordinary	913,000,000 (L) (Note 4)	62.76%
		Preference	1,115,868,000 (L) (Note 3)	100.00%
Fit Generation Holding Limited ("Fit Generation")	Beneficial owner	Ordinary	897,000,000 (L)	61.66%
		Preference	1,115,868,000 (L)	100.00%
Sichuan Investment Management Company Limited ("Sichuan Investment Management") (Note 5)	Beneficial owner	Ordinary	83,009,340 (L)	5.70%
Sichuan Provisional Investment Group Company Limited ("Sichuan Investment") (Note 5)	Interests of controlled corporation	Ordinary	83,009,340 (L)	5.70%
Typical Faith Limited (Note 6)	Beneficial owner	Ordinary	82,415,762 (L)	5.67%

Notes:

1. The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 30 June 2017, which were 1,454,652,000 and 1,115,868,000, respectively.
2. 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 and 897,000,000 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.
3. 1,115,868,000 preference shares were held by Fit Generation, which is wholly owned by Changhong Hong Kong. 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.
4. Of the 913,000,000 Shares held by Changhong Hong Kong, 16,000,000 Shares were held directly and 897,000,000 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.
5. Sichuan Investment Management is wholly-owned by Sichuan Investment, which is deemed to be interested in the Shares held by Sichuan Investment Management for the purpose of the SFO.
6. Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 30 June 2017, 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 AND CONTROLLING SHAREHOLDER'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 controlling 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 six months ended 30 June 2017.

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 six months ended 30 June 2017.

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

Hong Kong, 11 August 2017

As at the date of this report, the executive Directors are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Li Jin, Mr. Yang Jun 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.

This report will remain on the “Latest Company Announcements” page on the GEM website (www.hkgem.com) for at least 7 days from the date of its posting. This report will also be posted on the Company’s website at www.changhongit.com.hk.