



长虹佳华
CHANGHONGIT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 3991

INTERIM REPORT

2020

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

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	Unit 1412, 14/F, West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Bermuda principal share registrar and transfer office	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 1712-1716, Hopewell Centre 183 Queen's Road East Hong Kong
Stock exchange	Main Board of The Stock Exchange of Hong Kong Limited
Stock code	3991
Website	www.changhongit.com
E-mail address	kylen@changhongit.com
<i>Board of Directors</i>	
Executive Directors	Mr. ZHAO Yong (<i>Chairman</i>) Mr. ZHU Jianqiu (<i>President</i>) Mr. YANG Jun Mr. LUO Yongping
Independent Non-executive Directors	Mr. Jonathan CHAN Ming Sun Mr. GAO Xudong Mr. MENG Qingbin

Authorised representatives	Mr. ZHU Jianqiu Mr. ZHAO Qilin
Joint Company Secretaries	Mr. CHENG Ching Kit Mr. ZHAO Qilin
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. ZHAO Yong (<i>Chairman</i>) Mr. Jonathan CHAN Ming Sun Mr. GAO Xudong
Auditor	Deloitte Touche Tohmatsu 35/F, One Pacific Place 88 Queensway, Admiralty Hong Kong

CHAIRMAN'S STATEMENT

Dear Shareholders,

For the six months ended 30 June 2020, the Group overcame the impact of the slowdown of global economy and the Coronavirus Disease 2019 epidemic (the "COVID-19 epidemic") to continue its business operation in a prudent manner.

BUSINESS REVIEW

In the first half of 2020, the COVID-19 epidemic and global trade tensions had a superimposed impact, and the world economy fell into recession. As China has effectively controlled the COVID-19 epidemic, in the first half of the year, its economy managed to rise after a decline, showing a recovery growth and steady recovery trend. The production and demand of China's ICT industry chain have been affected to varying degrees. The Group actively responded to the challenge of the COVID-19 epidemic and worked closely with upstream manufacturers and partners to overcome the difficulties together and maintain stable operation of the overall business. Meanwhile, following the operating policy of "Gathering strength on network, cloud and intelligence to serve its partners", the Group continued its layout in the areas such as cloud computing, big data, Internet of Things and virtual technology, creating a system solution with cutting-edge technology. The new B2B distribution e-commerce platform, Jiahua Duola, increased its market expansion efforts to promote the rapid increase in the number of platform users and the scale of transactions, so as to build the ecology of the Jiahua Duola platform, and create an innovative business model.

In the first half of 2020, the Group recorded revenue of approximately HK\$17,423.52 million, up by 33.81% over the same period of the previous fiscal year. Overall gross profit margin stood at 2.66% for the first half of the year, down by approximately 0.75 percentage point from the same period of the previous fiscal year, mainly due to the increase in sales contribution of the product line with low gross profit margin and fierce market competition. The profit attributable to shareholders in the first half of 2020 was approximately HK\$149.09 million, down by approximately 8.56% over the same period of the previous fiscal year and the basic earnings per share were approximately HK5.80 cents, down by approximately HK0.54 cents from HK6.34 cents for the same period of the previous fiscal year.

The Group continuously consolidated basic management and strengthened informatisation construction and business process transformation and optimization so as to improve operation efficiency. The Group continued to reinforce risk management and control, insisted on strict management on inventory, credit and account receivables, reasonably allocated funds, and accelerated fund turnover. During the COVID-19 epidemic, the Group strived for internal and external resources to help downstream distributors relieve capital pressure, properly deal with capital risks brought by the COVID-19 epidemic, in a bid to ensure the safety and efficiency of working capital. In the first half of 2020, the Group continued its efforts to tighten expense control, and the distribution and sales expenses decreased slightly compared with the same period of last year; the administrative expenses increased significantly over the same period of last year mainly due to the increase in professional consulting expenses related to application for the transfer of listing and labour costs; the financing cost rose compared with the same period of last year due to the increase of financing scale.

For the six months ended 30 June 2020, the turnover and profits of the three operating segments of the Company were analyzed as follows (RMB exchange rate fluctuations may affect the amount/percentage of segments):

ICT consumer product distribution business: In response to the COVID-19 epidemic, the business segment seized market opportunities, fully utilized the advantages of online sales channels and new online marketing models, and maintained a good sales strategy and stable revenue in the first half of the year. The turnover of this business segment increased by 5.11% to HK\$5,715.48 million over the same period of last year, and its profit increased by 0.38% to HK\$122.56 million.

ICT enterprise product distribution business: This business segment overcame unfavorable factors such as some projects were delayed and overseas logistics were restricted during the COVID-19 epidemic, keenly captured business opportunities related to the COVID-19 epidemic and new infrastructure, actively expanded cutting-edge technology products and services such as cloud computing, big data, and the Internet of Things, and maintained a stable sales scale in the first half of the year. The turnover of this business segment increased by 2.71% to HK\$3,756.29 million over the same period of last year, while its profit decreased by 15.25% to HK\$134.99 million.

Other business: Due to the substantial increase in smartphone sales, the turnover of this business segment surged by 102.50% to HK\$7,951.76 million as compared with the corresponding period of last year, while its profit grew by 183.17% to HK\$59.72 million.

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

OUTLOOK

In the second half of 2020, the COVID-19 epidemic will continue to affect the global financial market and the global economy. China’s economy has gradually stabilized, while external risks and challenges have increased significantly, thus the domestic economic recovery is still under pressure. The Group will closely monitor the impact of the development of the COVID-19 epidemic on the Group’s business and take active actions to cope with the challenges of the COVID-19 epidemic. In 2020, the Group is committed to continuously promoting the strategic upgrade of transformation to an ICT integrated service provider, with the operating policy of “Gathering strength on network, cloud and intelligence to serve its partners”, exploring new opportunities in fields such as cloud computing, big data, virtual technology and interconnection of all things, focusing on development, being a good link in the ICT ecosystem, and making new contributions to its partners and shareholders.

ZHAO Yong
Chairman

10 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2020 was approximately HK\$17,423.52 million (2019: HK\$13,021.44 million), representing an increase of 33.81% as compared with the previous period. This increase was mainly attributable to the expansion of the e-commerce sales business.
- Profit for the six months ended 30 June 2020 was approximately HK\$149.09 million (2019: HK\$163.06 million), representing a decrease of 8.56% as compared with the previous period. The decrease was mainly due to the impact of the decline in gross profit margin and the increase in operating costs.
- Total comprehensive income for the six months ended 30 June 2020 was approximately HK\$106.09 million (2019: HK\$155.63 million). This decrease was mainly attributable to the reduction of profit from operation and 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 2020, the Group's total interest-bearing borrowings amounted to approximately HK\$1,243 million and its cash and bank balances amounted to approximately HK\$718 million. Net current assets of the Group was approximately HK\$1,825 million. The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 30 June 2020 was 2.56 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 2020 (2019: 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 2020, the Group did not have any foreign currency investments which have been hedged by currency borrowings and other hedging instruments.

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 2020 and 31 December 2019, 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 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Settlement of trade and other payables	540,402	582,103
Discounted bills for raising of cash	3,137	137,379
Outstanding endorsed and discounted bills receivables with recourse	<u>543,539</u>	<u>719,482</u>

The outstanding endorsed and discounted bills receivables are aged within 180 days (2019: 360 days) at the end of each reporting period.

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 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2020, the Group had no material capital commitments and no future plans for material investments or capital assets.

EVENTS AFTER THE REPORTING PERIOD

In July 2020, the tax bureau in the registration place of Changhong IT Digital confirmed that Changhong IT Digital could declare and pay enterprise income tax at a reduced rate of 15% in line with the Western Development Policy of China. Accordingly, the total tax amounted to RMB23,440,259.47 (approximately HK\$25,842,871.21) has been returned to Changhong IT Digital and Duolayouhuo.

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

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2020, the total number of the Group's staff was 1,167 (as at 30 June 2019: 1,037). 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 2020 (2019: Nil).

The payment of a final dividend of HK4 cents per ordinary share and preference share for the year ended 31 December 2019, totaling approximately HK\$102.82 million, had been resolved at the annual general meeting (the "AGM") of the Company held on 22 May 2020. The date of payment was on 19 June 2020.

OTHER INFORMATION

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

During the six months ended 30 June 2020, 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 15 to the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") or Appendix 14 to the Rules Governing the Listing of Securities on (Main Board of) The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")* which sets out corporate governance principles and code provisions (the "**Code Provisions**"). Throughout the six months period ended 30 June 2020, the Company has complied with all the Code Provisions as set out under the CG Code, except the following deviations:

Pursuant to E.1.2 of the CG Code, the Chairman should attend the AGM. However, Mr. Zhao Yong, the Chairman of the Board, was unable to attend the AGM held on 22 May 2020 due to attending the National People's Congress on the same day. Mr. Zhao Yong has entrusted Mr. Yang Jun to respond to shareholders' concerns (if any) on behalf of him at the AGM.

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

DIRECTOR'S SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding securities transactions by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct for securities transactions (the "**Code of Conduct**") before the Transfer of Listing.

After the Transfer of Listing, the Company has adopted the model code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**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 Code of Conduct or the Model Code* during the six months ended 30 June 2020.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

Pursuant to Rule 5.28 of the GEM Listing Rules and 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 15 of the GEM Listing Rules and 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 GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

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 2020.

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. Zhao Yong (chairman of the committee), Mr. Jonathan Chan Ming Sun and Mr. Gao Xudong.

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

As at 30 June 2020, 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 Required Standards of Dealing as referred to in Rule 5.46 of the GEM Listing Rules or the Model Code set out in Appendix 10 to the Listing Rules* were as follows:

Name of Director	Long/Short Position	Capacity	Number of ordinary shares interested	Approximate percentage of interest
Mr. Zhu Jianqiu (“ Mr. Zhu ”) (Note)	Long	Interest in a controlled corporation and beneficial owner	90,165,762	6.20%

Note:

Among the 90,165,762 ordinary shares of the Company (the “**Shares**”) held by Mr. Zhu, 7,750,000 Shares were held directly and 82,415,762 Shares were held through Typical Faith Limited (“**Typical Faith**”). As Typical Faith is wholly-owned by Mr. Zhu, Mr. Zhu is deemed to be interested in the Shares held by Typical Faith for the purpose of the SFO.

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

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive of the Company had interests in any shares, underlying shares or debentures 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 as referred to in Rule 5.46 of the GEM Listing Rules or the Model Code set out in Appendix 10 to the Listing Rules*.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2020 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. Up to the date of this report, the Company has not granted any share options to the Directors.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 30 June 2020, 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 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 shareholders	Capacity	Class of shares	Number of ordinary shares interested (Note 1)	Approximate percentage of interest (Note 2)
Sichuan Changhong Electric Co., Limited ("Sichuan Changhong")	Interests of controlled corporation and beneficial owner	Ordinary	948,368,000 (L) (Note 3)	65.20%
		Preference	1,115,868,000 (L) (Note 4)	100.00%
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interests of controlled corporation and beneficial owner	Ordinary	913,000,000 (L) (Note 5)	62.76%
		Preference	1,115,868,000 (L) (Note 4)	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 Chuantou Assets Management Co., Ltd. ("Chuantou Assets Management")	Beneficial owner	Ordinary	83,009,340 (L) (Note 6)	5.70%
Sichuan Provisional Investment Group Company Limited ("Sichuan Provisional Investment Group")	Interests of controlled corporation	Ordinary	83,009,340 (L) (Note 6)	5.70%
Typical Faith	Beneficial owner	Ordinary	82,415,762 (L) (Note 7)	5.67%

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

Notes:

1. (L) represents long position.
2. The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 30 June 2020, which were 1,454,652,000 and 1,115,868,000, respectively.
3. Among the 948,368,000 Shares held by Sichuan Changhong, 35,368,000 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.
4. 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.
5. Among 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.
6. Chuantou Assets Management is wholly-owned by Sichuan Provisional Investment Group, which is deemed to be interested in the Shares held by Chuantou Assets Management for the purpose of the SFO.
7. Typical Faith is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 30 June 2020, the Directors were not aware of any other person who had an interests or short position in the Shares or underlying shares or debentures 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 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 (Stock Code: 600839). 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 GEM Listing Rules or 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 2020.

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.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		2020 <i>HK\$ '000</i> (Unaudited)	2019 <i>HK\$ '000</i> (Unaudited)
	<i>Note</i>		
Revenue	3	17,423,519	13,021,444
Cost of sales		<u>(16,960,875)</u>	<u>(12,577,941)</u>
Gross profit		462,644	443,503
Other income		23,017	28,867
Research and development expenses		(10,325)	(4,138)
Administrative expenses		(75,400)	(65,346)
Impairment loss on trade receivables, net		(10,550)	(5,454)
Exchange (loss) gain, net		(1,039)	102
Distribution and selling expenses		(134,822)	(135,592)
Finance cost		<u>(59,781)</u>	<u>(47,824)</u>
Profit from operation	5	193,744	214,118
Income tax expense	6	<u>(44,650)</u>	<u>(51,063)</u>
Profit for the period attributed to owners of the Company		<u>149,094</u>	<u>163,055</u>
Other comprehensive expense			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences arising from translation of consolidated financial statements to presentation currency		<u>(43,003)</u>	<u>(7,423)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>106,091</u>	<u>155,632</u>
Earnings per share			
Basic and diluted (HK cents)	7	<u>5.80</u>	<u>6.34</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Plant and equipment		16,888	18,326
Intangible assets		25,174	28,404
Right-of-use assets		14,729	2,946
Financial asset at fair value through profit or loss		30,107	30,699
		86,898	80,375
CURRENT ASSETS			
Inventories		1,983,911	2,115,395
Trade receivables	8	2,286,658	2,087,415
Bills receivables at fair value through other comprehensive income		550,812	381,023
Prepayments, deposits and other receivables		108,971	93,935
Amounts due from related companies		27,828	19,084
Trade deposits paid		458,836	771,271
Pledged bank deposits		557,931	1,022,483
Cash and bank balances		717,861	711,740
		6,692,808	7,202,346
CURRENT LIABILITIES			
Trade and bills payables	9	3,098,832	3,633,152
Other payables		264,970	309,237
Tax payables		15,854	14,857
Borrowings	10	1,242,966	1,005,285
Amount due to related companies		38,314	6,412
Contract liabilities		199,049	409,903
Lease liabilities		7,399	3,058
		4,867,384	5,381,904
NET CURRENT ASSETS		1,825,424	1,820,442
TOTAL ASSET LESS CURRENT LIABILITIES		1,912,322	1,900,817
NON-CURRENT LIABILITIES			
Government grants		1,841	1,946
Lease liabilities		8,421	81
		10,262	2,027
NET ASSETS		1,902,060	1,898,790
CAPITAL AND RESERVES			
Share capital		36,366	36,366
Convertible preference shares		27,897	27,897
Reserves		1,837,797	1,834,527
TOTAL EQUITY		1,902,060	1,898,790

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Total equity at 1 January	1,898,790	1,733,241
Dividend payment	(102,821)	(77,116)
Decrease in exchange differences rising on translation	(43,003)	(7,423)
Net profit for the period attributable to shareholders	<u>149,094</u>	<u>163,055</u>
Total equity as at 30 June	<u><u>1,902,060</u></u>	<u><u>1,811,757</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net cash used in operating activities	<u>(2,427,937)</u>	<u>(1,559,438)</u>
Net cash generated from investing activities	<u>455,228</u>	<u>383,832</u>
Net cash generated from financing activities	<u>1,978,830</u>	<u>1,272,506</u>
Net increase in cash and cash equivalents	<u>6,121</u>	<u>96,900</u>
Cash and cash equivalents at beginning of the period	<u>711,740</u>	<u>334,240</u>
Cash and cash equivalents at end of the period	<u><u>717,861</u></u>	<u><u>431,140</u></u>
Analysis of cash and cash equivalents		
Bank and cash balances	<u><u>717,861</u></u>	<u><u>431,140</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL

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

During the period, the Company’s shares were listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) before 18 March 2020, and the listing of the Company’s shares have been transferred from GEM to Main Board of the Stock Exchange on 18 March 2020 pursuant to the approval granted by the Stock Exchange on 9 March 2020. 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 collectively “**the Group**”) are set out in Note 4.

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

Sichuan Changhong Electronic Co., Limited (“**Sichuan Changhong**”), a company incorporated in the 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. In the opinion of the directors of the Company, the ultimate holding company of the Company is Sichuan Changhong as at 30 June 2020. Its immediate holding company is Fit Generation Holding Limited, a private company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The unaudited 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 of Hong Kong Limited 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**”).

The unaudited condensed consolidated results for the six months ended 30 June 2020 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 Group’s annual consolidated financial statements for the year ended 31 December 2019 (the “**2019 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 2019 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 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 ICT products, self developed products, provision of professional integrated ICT solutions and services net of corresponding sales related taxes and rebate. The amounts of each significant category of revenue recognised in revenue for the six months ended 30 June 2020 and 2019 are as follows:

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
ICT Consumer Products	5,715,475	5,437,385
ICT Corporate Products	3,756,289	3,657,271
Others	7,951,755	3,926,788
	<u>17,423,519</u>	<u>13,021,444</u>

4. 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) ICT Consumer Products – distribution of ICT consumer products which include mainly personal computers (“PC”), 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 (“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 products, sales of warranty packages and professional integrated IT solutions and provision of IT 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 six months ended 30 June 2020 and 2019:

	For the six months ended 30 June 2020			
	ICT	ICT		Total
	Consumer	Corporate	Others	
	Products	Products		Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
External sales	<u>5,715,475</u>	<u>3,756,289</u>	<u>7,951,755</u>	<u>17,423,519</u>
Segment profit	<u>122,559</u>	<u>134,988</u>	<u>59,725</u>	<u>317,272</u>
Other income				23,017
Research and development expenses				(10,325)
Administrative expenses				(75,400)
Exchange loss, net				(1,039)
Finance costs				(59,781)
Profit before tax				<u>193,744</u>
	For the six months ended 30 June 2019			
	ICT	ICT		Total
	Consumer	Corporate	Others	
	Products	Products		Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
External sales	<u>5,437,385</u>	<u>3,657,271</u>	<u>3,926,788</u>	<u>13,021,444</u>
Segment profit	<u>122,091</u>	<u>159,275</u>	<u>21,091</u>	<u>302,457</u>
Other income				28,867
Research and development expenses				(4,138)
Administrative expenses				(65,346)
Exchange loss, net				102
Finance costs				(47,824)
Profit before tax				<u>214,118</u>

Geographical information

The following provides an analysis of the Group's sales by geographical market for the six months ended 30 June 2020 and 2019, based on the origin of the goods:

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Mainland China	17,399,343	12,945,257
Other regions	24,176	76,187
	<u>17,423,519</u>	<u>13,021,444</u>

5. PROFIT FROM OPERATION

The Group's profit from operation has been arrived at after charging for the six months ended 30 June 2020 and 2019:

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	16,960,875	12,572,978
Depreciation of property plant and equipment	1,804	1,176
Depreciation of right-of-use assets	4,399	3,579
Staff cost including directors' emolument		
– Salary and related staff cost	116,122	109,052
– Retirement benefits scheme contribution	16,227	22,957
Exchange (loss)/gain, net	<u>(1,039)</u>	<u>102</u>

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.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on EIT (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rates of Changhong IT Information Products Co., Ltd. (“**CHIT**”), Changhong IT Digital Technology Co., Ltd. (“**Changhong IT Digital**”) and Sichuan Changhong Cloud Computing Company Limited are 25% for both periods.

Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd. (“**Duolayouhuo**”), a wholly-owned subsidiary of the company, can declare and pay enterprise income tax at a reduced rate of 15% in line with the Western Development Policy of China. Accordingly, the profits derived by the subsidiary are subject to 15% EIT rate for the six months ended 30 June 2020.

Beijing Changhong IT Intelligence System Co., Ltd, a wholly-owned subsidiary of the Company operating in the PRC, has been accredited as a “High and New Technology Enterprise” by the Ministry of Science and Technology of the PRC, 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 2020. The qualification as a High and New Technology Enterprise will be subject to annual review by the relevant tax authorities in the PRC.

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

7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	149,094	163,055
	2020	2019
	'000	'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 2020 and 30 June 2019, the diluted earnings per share was same as basic earnings per share.

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, net of allowance for doubtful debts, based on invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
Within 30 days	1,046,356	1,180,463
31 – 60 days	718,788	427,543
61 – 90 days	264,853	238,836
91 – 180 days	113,404	129,386
181 – 365 days	82,942	55,267
Over 1 year	60,315	55,920
	<u>2,286,658</u>	<u>2,087,415</u>

9. TRADE AND BILLS PAYABLES

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

	As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
Within 30 days	1,638,988	1,769,173
31 – 60 days	861,233	859,048
61 – 90 days	314,741	573,545
91 – 180 days	147,717	349,752
181 – 365 days	84,885	36,781
Over 1 year	51,268	44,853
	<u>3,098,832</u>	<u>3,633,152</u>

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

10. BORROWINGS

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

	As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
Bank borrowings	<u>1,242,966</u>	<u>1,005,285</u>
Secured	<u>295,599</u>	–
Unsecured	<u>947,367</u>	<u>1,005,285</u>
	<u>1,242,966</u>	<u>1,005,285</u>
Carrying amount repayable within one year *	<u>1,242,966</u>	<u>1,005,285</u>

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

The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's borrowings for the six months ended 30 June 2020 is fixed from 0.6% to 5% (2019: 1.32% to 7%).

11. DIVIDEND

	For the six months ended 30 June 2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividends recognised as distribution during the periods:		
2019 Final – HK\$0.04 (2019: 2018 Final – HK\$0.03) per share	<u>102,821</u>	<u>77,116</u>

The Board does not recommend the payment of any dividend for the six months ended 30 June 2020 (2019: Nil).