



**长虹佳华**  
CHANGHONGIT

# CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 8016

INTERIM  
REPORT

2018

## **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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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 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 or deceptive; (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 2018 together with the unaudited comparative figures for the respective corresponding periods in 2017 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2018

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	2	5,037,742	4,788,817	10,266,649	9,562,080
Cost of sales		<u>(4,824,421)</u>	<u>(4,593,562)</u>	<u>(9,861,821)</u>	<u>(9,197,876)</u>
Gross profit		213,321	195,255	404,828	364,204
Other income		6,950	1,198	10,125	2,419
Administrative expenses		(41,895)	(31,939)	(72,810)	(62,310)
Distribution and selling expenses		(60,016)	(62,836)	(127,308)	(128,531)
Finance cost		<u>(12,755)</u>	<u>(11,919)</u>	<u>(22,499)</u>	<u>(18,559)</u>
<b>Profit from operation</b>	4	<b>105,605</b>	89,759	<b>192,336</b>	157,223
Income tax expense	5	<u>(30,657)</u>	<u>(19,825)</u>	<u>(56,188)</u>	<u>(36,921)</u>
<b>Profit for the period</b>		<b>74,948</b>	69,934	<b>136,148</b>	120,302
<b>Profit for the period attributed to owners of the Company</b>		<b><u>74,948</u></b>	<u>69,934</u>	<b><u>136,148</u></b>	<u>120,302</u>
<b>Earnings per share</b>					
Basic and diluted (HK cents)	6	<u>2.92</u>	<u>2.72</u>	<u>5.30</u>	<u>4.68</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		<b>30 June 2018</b>	31 December 2017
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Audited)
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		27,033	29,255
Intangible assets		40,298	34,515
Equity instrument at fair value through other comprehensive income		21,202	–
Available-for-sale investment		–	21,384
		<b>88,533</b>	85,154
<b>CURRENT ASSETS</b>			
Inventories		1,799,938	1,976,801
Trade and bills receivables	7	1,703,494	1,494,684
Prepayments, deposits and other receivables		100,470	63,006
Amounts due from related companies		5,004	7,163
Trade deposits paid		496,360	475,190
Pledged bank deposits		206,140	130,400
Cash and bank balances		219,400	467,245
		<b>4,530,806</b>	4,614,489
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	8	1,378,938	2,043,973
Other payables		302,341	258,734
Tax payable		8,974	6,109
Borrowings	9	1,082,154	459,821
Amount due to related companies		27,292	6,778
Contract liabilities		140,017	–
Customer deposits		–	284,694
		<b>2,939,716</b>	3,060,109
<b>NET CURRENT ASSETS</b>		<b>1,591,090</b>	1,554,380
<b>TOTAL ASSET LESS CURRENT LIABILITIES</b>		<b>1,679,623</b>	1,639,534
<b>NON-CURRENT LIABILITIES</b>			
Government grants		3,617	3,289
<b>NET ASSETS</b>		<b>1,676,006</b>	1,636,245
<b>CAPITAL AND RESERVES</b>			
Share capital		36,366	36,366
Convertible preference shares		27,897	27,897
Reserves		1,611,743	1,571,982
<b>TOTAL EQUITY</b>		<b>1,676,006</b>	1,636,245

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
As at 1 January	1,636,245	1,357,185
Dividend payment	(77,116)	(77,116)
(Decrease)/Increase in exchange differences arising on translation	(19,271)	47,315
Net profit for the period attributable to shareholders	<u>136,148</u>	<u>120,302</u>
As at 30 June	<u><u>1,676,006</u></u>	<u><u>1,447,686</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Net cash used in operating activities	(1,216,278)	(786,377)
Net cash used in investing activities	(87,511)	(171,347)
Net cash generated from financing activities	<u>1,055,944</u>	<u>913,685</u>
Net decrease in cash and cash equivalents	(247,845)	(44,039)
Cash and cash equivalents at beginning of the period	<u>467,245</u>	<u>253,282</u>
Cash and cash equivalents at end of the period	<u><u>219,400</u></u>	<u><u>209,243</u></u>
Analysis of cash and cash equivalents		
Bank and cash balances	<u><u>219,400</u></u>	<u><u>209,243</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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).

The unaudited consolidated results for the six months ended 30 June 2018 have not been audited by the external auditors of the Company but have been reviewed by the audit committee of the Company.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated results are consistent with those used in the Company’s annual financial statements for the year ended 31 December 2017, except for the new amendments to HKFRSs issued by the HKICPA that the Group has applied, for the first time, for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS9 Financial Instruments with HKFRS4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

### 1.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

## 1.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

### 1.2.1 Key changes in accounting policies resulting from application of HKFRS 9

#### Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

#### *Equity instrument designated as at fair value through other comprehensive income (“FVTOCI”)*

At the date of initial application, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in reserve; and are not subject to impairment assessment.

### 1.2.2 Summary of effects arising from initial application of HKFRS 9

The Group elected to present in OCI for the fair value changes of its equity investment previously classified as available-for-sale investments, which related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK\$21,384,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, which related to unquoted equity investments previously measured at cost less impairment under HKAS 39.

The application of the other new amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early adopted any other standard, amendment or interpretation that has been issued but is not yet effective.

## 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 2017 or the Group's profit or loss for the three months and six months ended 30 June 2017.

## 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 six months ended 30 June 2018 and 2017 are as follows:

	For the six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>Revenue</b>		
IT Consumer Products	5,301,492	4,801,719
IT Corporate Products	3,233,507	2,356,790
Others	1,731,650	2,403,571
	<u>10,266,649</u>	<u>9,562,080</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:

- IT Consumer Products – distribution of IT consumer products which include mainly personal computers ("PC"), digital products and IT accessories.
- 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.
- 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 six months ended 30 June 2018 and 2017:

	<b>For the six months ended 30 June 2018</b>			
	<b>IT</b>	<b>IT</b>		
	<b>Consumer</b>	<b>Corporate</b>	<b>Others</b>	<b>Total</b>
	<b>Products</b>	<b>Products</b>		
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenue</b>				
External sales	<u>5,301,492</u>	<u>3,233,507</u>	<u>1,731,650</u>	<u>10,266,649</u>
<b>Segment profit</b>	<u>111,561</u>	<u>145,866</u>	<u>13,793</u>	271,220
Other income				10,125
Finance costs				(22,499)
Unallocated head office and corporate expenses				<u>(66,510)</u>
Profit before tax				<u>192,336</u>

	<b>For the six months ended 30 June 2017</b>			
	<b>IT</b>	<b>IT</b>		
	<b>Consumer</b>	<b>Corporate</b>	<b>Others</b>	<b>Total</b>
	<b>Products</b>	<b>Products</b>		
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenue</b>				
External sales	<u>4,801,719</u>	<u>2,356,790</u>	<u>2,403,571</u>	<u>9,562,080</u>
<b>Segment profit</b>	<u>98,668</u>	<u>115,244</u>	<u>16,279</u>	230,191
Other income				2,419
Finance costs				(18,559)
Unallocated head office and corporate expenses				<u>(56,828)</u>
Profit before tax				<u>157,223</u>

## Geographical information

The following provides an analysis of the Group's sales by geographical market for the six months ended 30 June 2018 and 2017, based on the origin of the goods:

	For the six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Mainland, China	10,168,612	9,535,218
Other regions	98,037	26,862
	<u>10,266,649</u>	<u>9,562,080</u>

## 4. PROFIT FROM OPERATION

The Group's profit from operation has been arrived at after charging for the six months ended 30 June 2018 and 2017:

	For the six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories recognized as an expense	9,861,821	9,197,876
Depreciation	1,503	1,909
Staff cost including directors' emolument		
– Salary and related staff cost	101,708	106,256
– Retirement benefits scheme contribution	10,566	9,907
Exchange (gain) loss, net	<u>(97)</u>	<u>786</u>

## 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 six months ended 30 June 2018 and 2017.

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 six months ended 30 June 2018 and 2017.

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

## 6. 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 three months ended 30 June		For the six months ended 30 June	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Earnings</b>				
Profit for the period attributable to owners of the Company	<b>74,948</b>	69,934	<b>136,148</b>	120,302
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>'000</b>	'000	<b>'000</b>	'000
<b>Number of Share</b>				
Weighted average number of ordinary shares and convertible preference shares for the purpose of basic and diluted earnings per share	<b>2,570,520</b>	2,570,520	<b>2,570,520</b>	2,570,520

As there were no potentially dilutive shares during the three months and the six months ended 30 June 2018 and 2017, the diluted earnings per share was same as basic 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. Credit 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:

	<b>As at 30 June 2018 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2017 HK\$'000 (Audited)</b>
Within 3 months	1,374,937	1,320,741
4 to 6 months	212,633	66,621
7 to 12 months	59,205	56,975
Over 1 year	56,719	50,347
	<b><u>1,703,494</u></b>	<b><u>1,494,684</u></b>

## 8. TRADE AND BILLS PAYABLES

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

	<b>As at 30 June 2018 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2017 HK\$'000 (Audited)</b>
Within 3 months	1,255,266	1,913,651
4 to 6 months	44,814	64,498
7 to 12 months	62,581	49,715
Over 1 year	16,277	16,109
	<b><u>1,378,938</u></b>	<b><u>2,043,973</u></b>

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. BORROWINGS

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

	As at 30 June 2018 <i>HK\$'000</i> (Unaudited)	As at 31 December 2017 <i>HK\$'000</i> (Audited)
Loan from a fellow subsidiary	237,220	47,853
Bank borrowings	844,934	411,968
	<u>1,082,154</u>	<u>459,821</u>
Secured	326,521	–
Unsecured	755,633	459,821
	<u>1,082,154</u>	<u>459,821</u>
Carrying amount repayable*:		
Within one year	<u>1,082,154</u>	<u>459,821</u>

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

The loan from a fellow subsidiary represents the advance from Sichuan Changhong Group Finance Co., Ltd. (四川長虹集團財務有限公司) as at 30 June 2018. The balance was unsecured, bearing interest at a fixed rate at 5.05% per annum and repayable within one year.

The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's borrowings for the period ended 30 June 2018 is fixed from 1.4% to 5.5% (2017: 3.9% to 5.0%).

## **DIVIDEND**

The Directors do not recommend the payment of any dividend for the six months ended 30 June 2018 (2017: Nil).

The payment of a final dividend of HK\$0.03 per share for the year ended 31 December 2017 had been resolved at the annual general meeting of the Company held on 18 May 2018. The date of payment was on 7 June 2018.

## **BUSINESS REVIEW**

In the first half of 2018, China's economic operation showed a good pattern of steady growth, expanded employment, moderate inflation and improved balance of payments. In the first half of the year, the Group continued to implement the management policy of "expanding omni-channel, being professional, developing new distribution and being a partner to help customer grow", promoted the upgrading planning and business mode innovation of internet distribution platform, and created an omni-channel network distribution platform. Besides, the Group conducted in-depth analysis and exploration of ISV (independent software supplier) channel resources and industrial informatization requirements to provide "transfer business to cloud" overall planning, solutions and professional services for the industry so as to promote the "Internet+" of traditional industry.

In the first half of 2018, the Group achieved a revenue of about HK\$10,266.64 million, an increase of 7.37% over the same period of the previous fiscal year. The gross profit rate was 3.94% in the first half of the year, up by about 0.13 percentage points over the same period of the previous fiscal year. In that first half of 2018, profit attributable to shareholders was about HK\$136.15 million, an increase of about 13.17% over the same period of the previous fiscal year, with a basic profit of HK\$5.30 cent per share, an increase of about HK\$0.62 cent per share over HK\$4.68 cent per share in the previous fiscal year.

The Group continues to strengthen informatization development and business process transformation and optimization to continuously improve operation management efficiency. It continues to adhere to strict credit management and accounts receivable management. Due to the expansion of e-commerce sales and the increase in sales of IT corporate products, both of which have longer accounts receivable collection period, the payment collection slowed down in the first half of the year, and the turnover of accounts receivable slowed down slightly compared with the same period of the previous fiscal year. In the first half of the year, the Group conducted strong cost control and the comprehensive cost rate was lower than that in the same period of last year, and the financial cost rate was the same as that in the same period of last year.

The analysis of the turnover and profit of the three reportable and operating segments of the Company for the six months ended 30 June 2018 is as follows (the fluctuation of exchange rate of Renminbi might affect the amount/percentage of the segment):

**IT consumer products distribution business:** Although the PC market demand shrinks in the first half of the year, this business segment maintained a stable sales scale and market share cooperating with the manufacturer to conduct strategy adjustment to further expand the e-commerce cooperation. The internet distribution platform strengthens business planning and system optimization and upgrading, and accelerates product introduction and pipeline expansion. Its turnover rose to HK\$5,301.49 million, an increase of 10.41% over the same period of last year, and its profit increased to HK\$111.56 million by 13.07%.

**IT corporate products distribution business:** In the first half of the year, the sales scale and income of the business segment maintained a significant growth, it further explored the customer resources of the industry, fully expanded professional services and actively captured new market opportunities. Its turnover rose to HK\$3,233.51 million, representing an increase of 37.20% over the same period of last year, and its profit increased by 26.57% to HK\$145.87 million.

**Other businesses:** The business segment's turnover fell to HK\$1,731.65 million, representing a decrease of 27.96% over the same period of last year and its profit fell to HK\$13.79 million by 15.27% due to falling sales of smart phones.

## **OUTLOOK**

Looking forward to the future, the environment at home and abroad is still complex and fickle, but it remains unchanged that China's economic momentum tends to a good prospect. The Group will adhere to the management policy of "expanding omni-channel, being professional, developing new distribution and being a partner to help customer grow", use internet technology to integrate on-line and off-line resources, create an innovative internet distribution platform, and construct an omni-channel ecological system. Oriented to the demand of upstream and downstream customers, the enterprise-level business will enhance the two-way integration of channel resources and technological solution capability, promote the breadth and depth of channel cooperation category, and further strengthen the industry penetration and landing capability of cloud service so as to empower partners and create new value for 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 2018, the Group's total interest-bearing borrowings amounted to approximately HK\$1,082.15 million and its cash and bank balances amounted to approximately HK\$219.40 million. Net current assets of the Group was approximately HK\$1,591.09 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 (2017: Nil). The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 30 June 2018 was 1.75 times.

## **PLEDGE OF ASSETS**

The Group did not have any mortgage or charge over its fixed assets as at 30 June 2018 (2017: 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 had carried out the exchange rate lock to part of exposures. The Group will however continue to monitor the situation and assess whether any hedging arrangement is necessary.

As at 30 June 2018, 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. Except the lock exchange agreement described above, 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 2018, 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 recognised 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:

	<b>As at 30 June 2018 HK\$'000 (Unaudited)</b>	As at 31 December 2017 HK\$'000 (Audited)
Settlement of trade and other payables	<b>19,150</b>	135,808
Discounted bills for raising of cash	<b>199,337</b>	274,380
Outstanding endorsed and discounted bills receivable with recourse	<b><u>218,487</u></b>	<u>410,188</u>



As at 30 June 2018, the outstanding endorsed and discounted bills receivable are aged within 270 days (as at 31 December 2017: 180 days).

At 30 June 2018, the Company had also given guarantees to certain suppliers in relation to the subsidiaries' settlement of the respective payables. The maximum aggregate amounts payable to these suppliers under guarantee were approximately HK\$967,162,851.38 (as at 31 December 2017: HK\$613,710,000).

## **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 2018.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

As at 30 June 2018, the Group had no material capital commitments and no future plans for material investments or capital assets.

## **EVENTS AFTER THE REPORTING PERIOD**

There are no significant events that might affect the Group after the reporting period up to the date of this report.

## **EMPLOYMENT AND REMUNERATION POLICY**

As at 30 June 2018, the total number of the Group's staff was 1,000 (as at 30 June 2017: 1,126). 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.

## **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 six months ended 30 June 2018.

## **AUDIT COMMITTEE**

Pursuant to Rule 5.28 of the GEM 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.

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 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 2018.

## 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 2018, 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 2018, 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”) (Note 1)	Interest in a controlled corporation	82,415,762 (L)	5.67%

Note:

(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 2018, 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 2018 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 OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 30 June 2018, 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 2018, 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 2018, 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 section, 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) 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 2018.

## **INTEREST OF THE COMPLIANCE ADVISER**

In accordance with Rule 6A.20 of the GEM Listing Rules, the Company has appointed Lego Corporate Finance Limited (“Lego”) as the compliance adviser. Lego, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. None of the compliance adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company or in the share capital of any member of the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules as at the date of this report.

## **DIRECTORS’ SECURITIES TRANSACTION**

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct regarding Directors’ transactions in securities of the Company (the “Code of Conduct”). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards of dealings and the Code of Conduct throughout the six months ended 30 June 2018.

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

Hong Kong, 10 August 2018

*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.*