CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board of the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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This report, for which the directors (the "Directors") of Changhong Jiahua Holdings Limited (the "Company", and collectively with its subsidiaries, the "Group") 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 2019 together with the unaudited comparative figures for the respective corresponding periods in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2019

		For the three months ended 30 June		For the six months ended 30 June	
		2019	2018	**2019**	2018
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*2*	**6,396,153**	5,037,742	**13,021,444**	10,266,649
Cost of sales		**(6,184,347)**	(4,826,143)	**(12,577,941)**	(9,863,543)
Gross profit		**211,806**	211,599	**443,503**	403,106
Other income		**19,598**	6,950	**28,867**	10,189
Research and development expenses		**(1,670)**	(5,713)	**(4,138)**	(11,216)
Administrative expenses		**(36,813)**	(29,293)	**(65,346)**	(55,261)
Impairment loss on trade receivables, net		**(4,241)**	(576)	**(5,454)**	(4,578)
Exchange (loss) gain, net		**(3,057)**	(4,591)	**102**	(97)
Distribution and selling expenses		**(77,034)**	(60,016)	**(135,592)**	(127,308)
Finance cost		**(21,663)**	(12,755)	**(47,824)**	(22,499)
Profit from operation	*4*	**86,926**	105,605	**214,118**	192,336
Income tax expense	*5*	**(18,575)**	(30,657)	**(51,063)**	(56,188)
Profit for the period		**68,351**	74,948	**163,055**	136,148
Profit for the period attributed to owners of the Company		**68,351**	74,948	**163,055**	136,148
Other comprehensive (expense) income					
Item that will not be reclassified to profit or loss					
Exchange differences arising from translation of consolidated financial statements to presentation		**(53,361)**	(99,781)	**(7,423)**	(19,271)
Total comprehensive income for the period attributable to owners of the Company		**14,990**	(24,833)	**155,632**	116,877
Earnings per share					
Basic and diluted *(HK cents)*	*6*	**2.66**	2.92	**6.34**	5.30

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	**30 June 2019 HK$'000 (Unaudited)**	31 December 2018 HK$'000 (Audited)
NON-CURRENT ASSETS			
Plant and equipment		**20,870**	23,809
Intangible assets		**36,165**	35,903
Financial asset at fair value through profit or loss		**31,261**	31,386
Right-of-use assets		**6,385**	–
		94,681	91,098
CURRENT ASSETS			
Inventories		**2,072,055**	2,337,668
Trade receivables	*7*	**2,580,581**	1,413,953
Bills receivable at fair value through other comprehensive income		**89,421**	273,218
Prepayments, deposits and other receivables		**131,778**	88,100
Amounts due from related companies		**5,667**	7,543
Trade deposits paid		**379,128**	649,981
Structure bank deposits		**–**	672,221
Pledged bank deposits		**456,221**	179,107
Bank balances and cash		**431,140**	334,240
		6,145,991	5,956,031
CURRENT LIABILITIES			
Trade and bills payables	*8*	**2,630,669**	2,807,980
Other payables		**223,656**	246,875
Tax payable		**18,773**	22,061
Borrowings	*9*	**1,340,170**	880,466
Amount due to related companies		**33,880**	6,698
Contract liabilities		**179,002**	347,231
		4,426,150	4,311,311
NET CURRENT ASSETS		**1,719,841**	1,644,720
TOTAL ASSET LESS CURRENT LIABILITIES		**1,814,522**	1,735,818
NON-CURRENT LIABILITIES			
Government grants		**2,582**	2,577
Lease liability		**183**	–
NET ASSETS		**1,811,757**	1,733,241
CAPITAL AND RESERVES			
Share capital		**36,366**	36,366
Convertible preference shares		**27,897**	27,897
Reserves		**1,747,494**	1,668,978
TOTAL EQUITY		**1,811,757**	1,733,241

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
As at 1 January	**1,733,241**	1,636,245
Dividend payment	**(77,116)**	(77,116)
Decrease in exchange differences arising on translation	**(7,423)**	(19,271)
Net profit for the period attributable to shareholders	**163,055**	136,148
As at 30 June	**1,811,757**	1,676,006

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(1,559,438)**	(1,216,278)
Net cash from (used in) investing activities	**383,832**	(87,511)
Net cash generated from financing activities	**1,272,506**	1,055,944
Net increase (decrease) in cash and cash equivalents	**96,900**	(247,845)
Cash and cash equivalents at beginning of the period	**334,240**	467,245
Cash and cash equivalents at end of the period	**431,140**	219,400
Analysis of cash and cash equivalents		
Bank and cash balances	**431,140**	219,400

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards 34 ("HKAS 34") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, these financial statements include applicable disclosures required by the Chapter 18 of GEM Listing Rules and by the Hong Kong Companies Ordinance.

The unaudited condensed consolidated results for the six months ended 30 June 2019 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 2018 (the "2018 Consolidated Financial Statements"), except for the amendments and interpretations of HKFRSs (the "New HKFRSs") issued by HKICPA which have become effective in this period as detailed in the notes of the 2018 Consolidated Financial Statements.

1.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

1.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

1.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK$9,778,164 and right-of-use assets of HK$9,778,164 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.75%.

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

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 2019 and 2018 are as follows:

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
IT Consumer Products	**5,437,385**	5,301,492
IT Corporate Products	**3,657,271**	3,233,507
Others	**3,926,788**	1,731,650
	13,021,444	10,266,649

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 intelligent terminal products and services, 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 2019 and 2018:

	For the six months ended 30 June 2019			
	IT Consumer Products	**IT Corporate Products**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Revenue				
External sales	**5,437,385**	**3,657,271**	**3,926,788**	**13,021,444**
Segment profit	**122,091**	**159,275**	**21,091**	**302,457**
Other income				**28,867**
Finance costs				**(47,824)**
Research and development expenses				**(4,138)**
Administrative expenses				**(65,346)**
Exchange gain, net				**102**
Profit before tax				**214,118**

	For the six months ended 30 June 2018			
	IT Consumer Products	IT Corporate Products	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
External sales	5,301,492	3,233,507	1,731,650	10,266,649
Segment profit	111,561	145,866	13,793	271,220
Other income				10,189
Finance costs				(22,499)
Research and development expenses				(11,216)
Administrative expenses				(55,261)
Exchange loss, net				(97)
Profit before tax				192,336

Geographical information

The following provides an analysis of the Group's sales by geographical market for the six months ended 30 June 2019 and 2018, based on the origin of the goods:

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Mainland China	**12,945,257**	10,168,612
Other regions	**76,187**	98,037
	13,021,444	10,266,649

4. PROFIT FROM OPERATION

The Group's profit from operation has been arrived at after charging for the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories recognized as an expense	**12,572,978**	9,861,821
Depreciation of property plant and equipment	**1,176**	1,503
Depreciation of right-of-use assets	**3,579**	–
Staff cost including directors' emolument		
– Salary and related staff cost	**121,695**	101,708
– Retirement benefits scheme contribution	**10,314**	10,566
Exchange gain(loss), net	**102**	(97)

5. 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"), Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd are 25% for both years.

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 2019. 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.

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	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Earnings				
Profit for the period attributable to owners of the Company	**68,351**	74,948	**163,055**	136,148
	2019	2018	**2019**	2018
	'000	*'000*	***'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	**2,570,520**	2,570,520

As there were no potentially dilutive shares during the three months and the six months ended 30 June 2019 and 30 June 2018, 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 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 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:

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**1,150,098**	696,701
31 – 60 days	**982,368**	363,149
61 – 90 days	**227,058**	194,561
91 – 180 days	**192,128**	94,792
181 – 365 days	**65,239**	36,714
Over 1 year	**53,111**	28,036
	2,670,002	1,413,953

8. 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 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**1,349,978**	2,161,954
31 – 60 days	**842,555**	452,173
61 – 90 days	**199,135**	69,695
91 – 180 days	**173,312**	59,938
181 – 365 days	**19,651**	25,086
Over 1 year	**46,038**	39,134
	2,630,669	2,807,980

The credit period on purchase of goods is ranging from 30 to 120 days (2018: 30 to 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 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Loan from a fellow subsidiary	**29,556**	–
Bank borrowings	**1,310,614**	880,466
	1,340,170	880,466
Secured	**280,828**	–
Unsecured	**1,059,342**	880,466
	1,340,170	880,466
Carrying amount repayable*:		
Within one year	**1,340,170**	880,466

* *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 2019. The balance was unsecured, bearing interest at a fixed rate at 5% 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 2019 is fixed from 2.45% to 7% (2018: 1.48% to 5.44%).

DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 30 June 2019 (2018: Nil).

The payment of a final dividend of HK$0.03 per ordinary share and preference share for the year ended 31 December 2018, totalling approximately HK$77.1 million, had been resolved at the annual general meeting of the Company held on 17 May 2019. The date of payment was on 12 June 2019.

BUSINESS REVIEW

In the first half of 2019, factors such as the escalating China-US trade frictions resulted in major fluctuations of the Chinese economy, which grew at a slower pace. Nevertheless, the overall national economy remained stable and progressive, running within its reasonable range. In the first half of the year, the Group continued with its business policy of "Professional Exploration and Growth of Value", as it coordinated with upstream manufacturers to promote the application of cutting-edge technologies such as artificial intelligence, the internet of things, big data and cloud computing, leveraging new technologies to develop industry and technological solutions and establish a multi-dimensional distribution system. During the period, the Group completed the setting up of a VIE (variable interest entity) structure, which has created the condition for the internet distribution business in respect of model innovation and upgrade.

For the first half of 2019, the Group recorded a revenue of approximately HK$13,021.44 million, representing an increase of 26.83% as compared with that in the corresponding period of last financial year. Overall gross profit margin stood at 3.41% for the first half of the year, which represented a decline of approximately 0.52% from that in the corresponding period of last financial year, mainly due to the greater sales contribution from product lines with lower gross profit margin. Profit attributable to shareholders was approximately HK$163.06 million in the first half of 2019, representing an increase of approximately 19.76% as compared with that in the corresponding period of last financial year. Basic earnings per share amounted to HK6.34 cents, representing an increase of approximately HK1.04 cents as compared with HK5.30 cents in the corresponding period of last financial year.

The Group carried on strengthening its information technology development as well as transforming and optimising the business process so as to improve its operational and management efficiency. In addition, the Group adhered to strict credit management and accounts receivable management, with enhanced control over operational risks. Over the first half of the year, the Group recorded a slowdown in both payment collection and turnover of accounts receivable compared with the corresponding period of last financial year, as a result of the expansion of the e-commerce sales business and the growth of IT corporate products sales. In the first half of the year, the Group conducted strong cost control, with a lower comprehensive cost rate and a marginally higher financial cost rate compared with the same period of last year.

Below sets out an analysis of turnover and profit of the three operating segments of the Company for the six months ended 30 June 2019 (the fluctuation of exchange rate of Renminbi might affect the amount/ percentage of the segment):

IT consumer products distribution business: In response to the shrinking PC market demand, this business segment worked on improving the proportion of value-oriented business for higher turnover efficiency and stable revenue, whilst striving to boost the sales of intelligent terminal products. Its revenue rose to HK$5,437.39 million with a 2.56% increase over the same period of last year, and its profit increased by 9.44% to HK$122.09 million.

IT corporate products distribution business: This business segment proactively introduced product lines that were powered by new technology, worked on such solutions as big data exploration at a steady pace, expanded channels in an in-depth manner, and was agile in capturing market opportunities. As a result, its sales scale and income continued to grow in the first half of the year, with revenue and profit up by 13.11% and 9.19% to HK$3,657.28 million and HK$159.27 million respectively as compared with the same period of last year.

Other business: Due to a major increase in smartphone sales, revenue from this business segment surged by 126.77% to HK$3,926.79 million as compared with the corresponding period of last year, while profit of the segment grew by 52.91% to HK$21.09 million.

Mr. Li Jin has tendered his resignation as executive Director with effect from 15 January 2019 in order to devote more time to his other business commitment. Mr. Li Jin also ceased to be the alternate director of Mr. Zhao Yong, the chairman of the Board and an executive Director, with effect from 15 January 2019. For further details, please refer to the announcement of the Company dated 15 January 2019.

With effect from the conclusion of the annual general meeting of the Company held on 17 May 2019, each of Mr. Robert Ip Chun Chung and Mr. Sun Dongfeng has retired as an independent non-executive Director and ceased to be a member of each of the audit committee of the Company (the "Audit Committee"), the nomination committee of the Company (the "Nomination Committee") and the remuneration committee of the Company (the "Remuneration Committee") and Mr. Cheng Yuk Kin has retired as independent non-executive Director and ceased to be a member of the Audit Committee. With effect from 17 May 2019, Mr. Gao Xudong has been appointed as an independent non-executive Director and a member of each of the Audit Committee and Nomination Committee, and Mr. Meng Qingbin has been appointed as an independent non-executive Director and a member of each of the Audit Committee and Remuneration Committee. For further details, please refer to the announcement of the Company dated 17 May 2019.

To expand the Group's e-commerce business, on 12 April 2019, Sichuan Changhong Jiahua Digital Technology Co., Ltd.* (四川長虹佳華數字技術有限公司, the "WFOE"), Sichuan Changhong Cloud Computing Company Limited* (四川長虹雲計算有限公司, the "OPCO"), and Sichuan Changhong Electronics Holding Group Co., Ltd. (四川長虹電子控股集團有限公司) entered into the VIE Agreements. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. The Group intends for the OPCO to establish a new business-to-business e-commerce platform, which will connect third-party merchants with each other. The VIE Agreements had been approved by the shareholders at the special general meeting of the Company held on 17 May 2019. For further details, please refer to the announcements of the Company dated 12 April 2019 and 17 May 2019, and the circular of the Company dated 30 April 2019.

OUTLOOK

The second half of 2019 is confronted by slower growth of the global economy, changing monetary policies among major economies, a myriad of uncertainties in the China-US trade frictions as well as fresh downward pressure for the economic growth rate of China. This, however, is in tandem with overall controllable risks as countercyclical economic policies further unleash their effect. The fifth mobile communications technology ("5G") offers crucial support to high-quality economic development, with 5G development to lead the advancement and upgrade of relevant technology industries as well as promote the expansion and upgrade of information consumption. Endeavouring to promote its strategic upgrade to become an ICT comprehensive service provider, the Group will maintain its operation strategy of "All Channels, Specialisation, New Distribution, and Good Partners", regard "Professional Exploration and Growth of Value" as its operational policy, follow the fresh trends in industry development and take the initiative to expand the product offerings powered by new technology. Meanwhile, with timely awareness of market demand, the Group will quicken its innovation and accumulation of technological, industrial and professional solutions, never cease to bolster its professional service capability and profitability, help its clients undergo digital transformation and make greater contributions to 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 2019, the Group's total interest-bearing borrowings amounted to approximately HK$1,340 million and its cash and bank balances amounted to approximately HK$431 million. Net current assets of the Group was approximately HK$1,720 million. The management is confident that the Group's financial resources is sufficient for its daily operations. The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 30 June 2019 was 2.44 times.

PLEDGE OF ASSETS

The Group did not have any mortgage or charge over its fixed assets as at 30 June 2019 (2018: 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 Stated 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 2019, 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 2019 and 31 December 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:

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Settlement of trade and other payables	**135,952**	181,480
Discounted bills for raising of cash	**438,562**	168,282
Outstanding endorsed and discounted bills receivable with recourse	**574,514**	349,762

As at 30 June 2019, the outstanding endorsed and discounted bills receivable are aged within 270 days (as at 31 December 2018: 180 days).

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 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2019, 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 2019, the total number of the Group's staff was 1,037 (as at 30 June 2018: 1,000). 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 code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2019.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

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 of the committee), Mr. Gao Xudong and Mr. Meng Qingbin.

The financial information in this report has not been reviewed or audited by the external auditor of the Company but the Audit Committee has reviewed the Group's results for the six months ended 30 June 2019.

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.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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

As at 30 June 2019, the interests or short positions of the Directors and chief executive 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 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:

Interests in shares

Name of Director	**Capacity**	**Number of ordinary shares interested** *(Note 1)*	**Approximate percentage of interest**
Mr. Zhu Jianqiu ("Mr. Zhu") *(Note 2)*	Interest in a controlled corporation	82,415,762 (L)	5.67%

Note:

(1) (L) represents long position.

(2) Mr. Zhu is the sole shareholder of the Typical Faith Limited, which in turn held the 82,415,762 ordinary shares of the Company (the "Shares").

Save as disclosed above, as at 30 June 2019, 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 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 2019 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 2019, 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 shareholder	Capacity	Class of shares	Number of shares interested *(Note 1)*	Approximate percentage of interest in relevant class of shares *(Note 2)*
Sichuan Changhong Electric Co., Limited ("Sichuan Changhong")	Interests of controlled corporation and beneficial owner	Ordinary Preference	1,008,368,000 (L) *(Note 3)* 1,115,868,000 (L) *(Note 4)*	69.32% 100.00%
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interests of controlled corporation and beneficial owner	Ordinary Preference	913,000,000 (L) *(Note 5)* 1,115,868,000 (L) *(Note 4)*	62.76% 100.00%
Fit Generation Holding Limited ("Fit Generation")	Beneficial owner	Ordinary Preference	897,000,000 (L) 1,115,868,000 (L)	61.66% 100.00%
Sichuan Investment Management Company Limited ("Sichuan Investment Management") *(Note 6)*	Beneficial owner	Ordinary	83,009,340 (L)	5.70%
Sichuan Provisional Investment Group Company Limited ("Sichuan Investment") *(Note 6)*	Interests of controlled corporation	Ordinary	83,009,340 (L)	5.70%
Typical Faith Limited *(Note 7)*	Beneficial owner	Ordinary	82,415,762 (L)	5.67%

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 2019, which were 1,454,652,000 and 1,115,868,000, respectively.

3. 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.

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. 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.

6. 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.

7. Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 30 June 2019, 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) 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 2019.

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 Corporate Finance") as the compliance adviser. Lego Corporate Finance, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. Neither Lego Corporate Finance nor any of 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 Group 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, except for the compliance adviser agreement entered into between the Company and Lego Corporate Finance.

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 2019.

CHANGES IN DIRECTORS' INFORMATION

There is no change in the Directors' information required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

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

Hong Kong, 31 July 2019

As at the date of this report, the executive Directors are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yang Jun and Mr. Luo Yongpin and the independent non-executive Directors are Mr. Jonathan Chan Ming Sun, Mr. Gao Xudong and Mr. Meng Qingbin.

This report will remain on the "Latest Company Information" 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.