

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. 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”) 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.

HIGHLIGHTS

The unaudited consolidated revenue of the Company (together with its subsidiaries, the “Group”) for the three months period ended 31 March 2018 increased by approximately 9.55% to HK\$5,228.91 million as compared with the corresponding period in 2017. For the three months period ended 31 March 2018, the Group recorded a net profit of approximately HK\$61.20 million, representing an increase of approximately 21.51% as compared with the corresponding period in 2017.

RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company for the three months period ended 31 March 2018, together with the comparative figures for the corresponding period of last year, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2018

	Notes	2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Turnover	2	5,228,907	4,773,263
Cost of sales		(5,037,399)	(4,604,314)
Gross profit		191,508	168,949
Other income		3,174	1,221
Distribution and selling expenses		(67,292)	(65,695)
Administrative expenses		(30,915)	(30,371)
Profit from operation		96,475	74,104
Finance cost		(9,744)	(6,640)
Profit before taxation		86,731	67,464
Income tax expense	4	(25,531)	(17,096)
Profit for the period		61,200	50,368
Profit for the period attributed to owners of the Company		61,200	50,368
Earnings per share			
Basic and diluted (<i>HK cents</i>)	5	2.38	1.96

Notes:

1. BASIS OF PREPARATION

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

Comparative Figures

Certain comparative figures have been reclassified to conform to the current period’s presentation. The directors considered that the reclassifications 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 31 March 2017 or the Group’s profit or loss for the period ended 31 March 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 period ended 31 March 2018 and 2017 are as follows:

	2018	2017
	HK\$’000	HK\$’000
IT Consumer Products	2,617,712	2,470,847
IT Corporate Products	1,675,916	1,138,768
Others	935,279	1,163,648
	<u>5,228,907</u>	<u>4,773,263</u>

3. SEGMENT INFORMATION

Segment information is reported to the executive directors or management of the Company, being the chief operating decision maker (the “CODM”), for the purposes of making decisions about resource allocation and assessment of segment performance.

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

- (a) IT Consumer Products – distribution of IT consumer products which include mainly personal computers (“PC”), digital products and IT accessories.

- (b) IT Corporate Products – distribution of IT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system (“IBMS”) products and unified communication and contact centre (“UC & CC”) products.
- (c) Others – distribution of smartphones and development of its own brand products. 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, finance costs as well as unallocated head office and corporate expenses. The measure reported to the CODM is for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group’s revenue and results by reportable and operating segment:

	2018			
	IT Consumer Products HK\$'000	IT Corporate Products HK\$'000	Others HK\$'000	Total HK\$'000
Revenue				
External sales	<u>2,617,712</u>	<u>1,675,916</u>	<u>935,279</u>	<u>5,228,907</u>
Segment profit	<u>49,130</u>	<u>58,637</u>	<u>10,910</u>	118,677
Other income				3,174
Finance costs				(9,744)
Unallocated head office and corporate expenses				<u>(25,376)</u>
Profit before tax				<u>86,731</u>

	2017			
	IT Consumer Products <i>HK\$'000</i>	IT Corporate Products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	<u>2,470,847</u>	<u>1,138,768</u>	<u>1,163,648</u>	<u>4,773,263</u>
Segment profit	<u>45,830</u>	<u>46,260</u>	<u>7,976</u>	100,066
Other income				1,221
Finance costs				(6,640)
Unallocated head office and corporate expenses				<u>(27,183)</u>
Profit before tax				<u>67,464</u>

Geographical information

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Mainland, China	5,212,148	4,762,661
Other regions	<u>16,759</u>	<u>10,602</u>
	<u>5,228,907</u>	<u>4,773,263</u>

4. INCOME TAX EXPENSE

Pursuant to the rules and regulations of the Bermuda, the Company is not subject to any income tax in the Bermuda.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rates of the Company’s PRC subsidiaries is 25% for the period ended 31 March 2018.

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

5. 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 31 March	
	2018	2017
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to owners of the Company	61,200	50,368
	2018	2017
	HK\$'000	HK\$'000
Number of Shares		
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 was no diluted shares during the three months ended 31 March 2018 and 2017, the diluted earnings per share was same as basic earnings per share.

6. RESERVES

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

DIVIDENDS

The Directors do not recommend the payment of any dividend for the three months period ended 31 March 2018 (2017: Nil).

The Board recommended the payment of final dividend of HK\$0.03 per share in respect of the year ended 31 December 2017. The final dividend is subject to approval by the shareholders of the Company (the “Shareholders”) at the forthcoming annual general meeting of the Company to be held on 18 May 2018.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group’s unaudited consolidated results for the three months period ended 31 March 2018 and has provided advice and comments thereon.

BUSINESS REVIEW

In the first quarter of 2018, China’s economy continued to improve in steady pace. In response to the reform of IT technology, product form innovation and channel evolution, the Group has formulated and implemented the business operation policies of “expanding omni-channel, being professional, and developing new distribution and being a partner to help customer grow”. In the first quarter of 2018, the Group’s IT distribution business maintained a steady growth and successfully introduced a number of emerging products and market leading brands, marking a good start of business growth and model innovation.

For the three months ended 31 March 2018, the Group recorded a revenue of approximately HK\$5,228.91 million, representing an increase of 9.55% as compared with that in the corresponding period of last financial year. The gross profit margin increased by approximately 0.12% to 3.66% as compared with that in the corresponding period of last financial year, due to the decrease in the sale of product lines with lower gross profit margin. Profit attributable to shareholders amounted to approximately HK\$61.20 million, representing an increase of approximately 21.51% as compared with that in the corresponding period of last financial year. Basic earnings per share amounted to HK2.38 cents, representing an increase of approximately HK0.42 cents as compared with HK1.96 cents in the corresponding period of last financial year.

The Group continued to intensify its efforts in optimising its information construction and business process and improve its operation management efficiency. By adhering to the stringent credit management and accounts receivable management, the receivable risks were managed and controlled effectively. During the first quarter of 2018, the Group achieved effective expenses control, leading to a year-on-year decrease in overall spending.

The analysis of three reportable and operating segments of the Company for the three months ended 31 March 2018 are as follow:

IT consumer products distribution business: the key product lines of this business segment maintained a sizeable increase, and signed contracts with several new well-known brand suppliers, enriching the product portfolio. The Internet distribution business actively explored new product lines and different forms of channels so as to explore diversified channel cooperation. The revenue of this business segment increased by 5.94% to HK\$2,617.71 million as compared with the corresponding period of last year whilst its profit increased by 7.20% to HK\$49.13 million.

IT corporate products distribution business: this business segment has tapped the customer resources of the industry in depth to form industrial IT product solutions and professional service capabilities, driving sales of multiple product lines. In terms of cloud computing, the Group actively explored MSP (Management Service Provider) service cooperation with mainstream cloud computing providers, to help domestic companies develop cloud computing applications. Revenue from this business segment increased by 47.17% to HK\$1,675.92 million as compared with the corresponding period of last year. Profit from this business segment increased by 26.76% to HK\$58.64 million.

Other business: revenue from this business segment decreased by 19.63% to HK\$935.28 million as compared with the corresponding period of last year due to declining sales of smart phones. Profit from this business segment increased by 36.79% to HK\$10.91 million due to the increase in gross profit of IT services business.

OUTLOOK

In 2018, as China further strengthens its economic reform measures such as financial regulation and mitigation of debt risks, the Chinese economy is expected to continue its steady growth. Adhering to the operation policies of “expanding omni-channel, being professional, and developing new distribution and being a partner to help customer grow”, the Group will build a full-coverage channel ecosystem and increase the value of supply chain services in response to the development of the Internet. Enterprise level business will accumulate technology solutions and industry solutions and continuously improve professional service capabilities based on demands of upstream and downstream customers, so as to create new value for partners and better returns for shareholders.

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

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

INTERESTS OF THE DIRECTORS IN THE COMPANY

As at 31 March 2018, the interests or short positions of the Directors and chief executives of the Company in the ordinary shares of the Company (the "Shares"), underlying Shares 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 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
			<i>%</i>
Mr. Zhu Jianqiu ("Mr. Zhu") <i>(Note a)</i>	Interest in a controlled corporation	82,415,762 (L)	5.67

Note:

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

Save as disclosed in this paragraph, as at 31 March 2018, none of the Directors or chief executives of the Company had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be 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 three months ended 31 March 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.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 31 March 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 (Notes a) %
Sichuan Changhong Electric Co, Limited ("Sichuan Changhong")	Interest of controlled corporation and beneficial owner	Ordinary	1,008,368,000 (L) (Note b)	69.32
		Preference	1,115,868,000 (L) (Note c)	100.00
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interest of controlled corporation and beneficial owner	Ordinary	913,000,000 (L) (Note d)	62.76
		Preference	1,115,868,000 (L) (Note c)	100.00
Fit Generation Holding Limited ("Fit Generation")	Beneficial owner	Ordinary	897,000,000 (L)	61.66
		Preference	1,115,868,000 (L)	100.00

Name of substantial shareholder	Capacity	Class of shares	Number of shares held	Approximate percentage of interest in relevant class of shares (Notes a) %
Sichuan Investment Management Company Limited ("Sichuan Investment Management") (Note e)	Beneficial owner	Ordinary	83,009,340 (L)	5.70
Sichuan Provisional Investment Group Company Limited ("Sichuan Investment Group") (Note e)	Interest of controlled corporation	Ordinary	83,009,340 (L)	5.70
Typical Faith Limited (Note f)	Beneficial owner	Ordinary	82,415,762 (L)	5.67

Notes:

- (a) The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 31 March 2018, which were 1,454,652,000 and 1,115,868,000, respectively.
- (b) Of the 1,008,368,000 Shares held by Sichuan Changhong, 95,368,000 Shares were held directly, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong Hong Kong 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.
- (c) 1,115,868,000 preference shares of the Company 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.
- (d) 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.
- (e) Sichuan Investment Management is wholly-owned by Sichuan Investment Group, which is deemed to be interested in the Shares held by Sichuan Investment Management for the purpose of the SFO.
- (f) Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 31 March 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 INTEREST IN A COMPETING BUSINESS

Sichuan Changhong is a substantial shareholder of the Company established in the PRC of which shares are listed on the Shanghai Stock Exchange. Sichuan Changhong is principally engaged in the wholesale business of consumer home electronics items under the name of "Changhong".

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

STANDARD OF DEALINGS AND CODE OF CONDUCT FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct for securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Code of Conduct throughout the three months period ended 31 March 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

To the best knowledge of the Board, the Company had complied with the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules throughout the three months period ended 31 March 2018.

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

Hong Kong, 20 April 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 appear on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from the day of its posting thereon and on the website of the Company at www.changhongit.com.hk.