

长虹佳华
CHANGHONGIT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 8016



THIRD
QUARTERLY
REPORT

2016

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This report, for which the directors (the “Directors”) of Changhong Jiahua Holdings Limited (the “Company” together 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 the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

The Group's consolidated revenue for the nine months period ended 30 September 2016 decreased by approximately 6.88% to HK\$13,195.21 million comparing with that for the same period in 2015. The Group achieved net profit of approximately HK\$170.65 million for the nine months ended 30 September 2016, representing an increase of approximately 39.95% comparing with that for the same period in 2015. This was due to a combination of various factors, including the scale down of the Group's consumer electronic products business, the fierce competition within the industry, the complicated global economy, the sluggish market demand, the influence of the Renminbi ("RMB") exchange rate fluctuation, the strengthening of product structure adjustment and cost control.

RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited results of the Group for the three months period and nine months period ended 30 September 2016, together with the comparative figures for the corresponding periods of 2015, as follows:

	Notes	For the three months ended		For the nine months ended	
		30 September 2016 HK\$'000	2015 HK\$'000	30 September 2016 HK\$'000	2015 HK\$'000
Continuing operations					
Revenue	2	4,166,049	5,597,380	13,195,207	14,169,944
Cost of sales		(4,013,366)	(5,403,628)	(12,661,579)	(13,628,645)
Gross profit		152,683	193,752	533,628	541,299
Other income		10,407	1,390	12,120	9,409
Administrative expenses		(34,009)	(25,642)	(96,717)	(91,536)
Distribution and selling expenses		(66,049)	(82,414)	(191,537)	(226,207)
Profit from operation		63,032	87,086	257,494	232,965
Finance cost		(10,276)	(41,041)	(36,104)	(68,161)
Profit before taxation		52,756	46,045	221,390	164,804
Income tax expense	4	(9,196)	(12,016)	(51,388)	(39,712)
Profit for the period from continuing operations		43,560	34,029	170,002	125,092
Discontinued operation					
Profit/(Loss) from discontinued operation	7	(141)	(1,306)	644	(3,160)
Profit for the period		43,419	32,723	170,646	121,932
Profit for the period attributed to owners of the Company					
–from continuing operations		43,560	34,029	170,002	125,092
–from discontinued operation	7	(141)	(1,306)	644	(3,160)
		43,419	32,723	170,646	121,932
Earnings per share					
From continuing and discontinued operations					
Basic and diluted (HK cents)	5	1.69	1.27	6.64	4.74
From continuing operations					
Basic and diluted (HK cents)	5	1.69	1.32	6.61	4.87

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).

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, and self developed products.

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 and corresponding sales related taxes. The amounts of each significant category of revenue recognised in revenue for the period ended 30 September 2016 and 2015 are as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
IT Consumer Products	6,941,161	10,043,962
IT Corporate Products	3,401,406	3,523,051
Others	2,852,640	602,931
	<u>13,195,207</u>	<u>14,169,944</u>

3. SEGMENT INFORMATION

The chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided as they collectively make strategic decision towards the Group’s entity operation.

The Company had ceased Consumer Electronic Products segment since July 2015 after the business discontinuation of Changhong Overseas Development Limited (“CHOD”) following an internal review of the Company in June 2015. For details, please refer note 7 and the paragraph headed “Business Review” of this report.

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 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 cost as well as unallocated head office and corporate expenses. The measure 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 for the period ended 30 September 2016 and 2015:

	2016			
	IT Consumer products <i>HK\$'000</i>	IT Corporate products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	<u>6,941,161</u>	<u>3,401,406</u>	<u>2,852,640</u>	<u>13,195,207</u>
Segment profit	<u>112,952</u>	<u>201,915</u>	<u>17,872</u>	332,739
Other income				12,120
Finance costs				(36,104)
Unallocated head office and corporate expenses				<u>(87,365)</u>
Profit before tax				<u><u>221,390</u></u>

	2015			Total HK\$'000
	IT Consumer products HK\$'000	IT Corporate products HK\$'000	Others HK\$'000	
Revenue				
External sales	<u>10,043,962</u>	<u>3,523,051</u>	<u>602,931</u>	<u>14,169,944</u>
Segment profit	<u>96,719</u>	<u>213,532</u>	<u>4,841</u>	315,092
Other income				9,409
Finance costs				(68,161)
Unallocated head office and corporate expenses				<u>(91,536)</u>
Profit before tax				<u>164,804</u>

Geographical information

The following provides an analysis of the Group's sales by geographical market for the period ended 30 September 2016 and 2015, based on the origin of the goods:

	2016 HK\$'000	2015 HK\$'000
Mainland, China	13,158,061	14,143,677
Other regions	<u>37,146</u>	<u>26,267</u>
	<u>13,195,207</u>	<u>14,169,944</u>

4. INCOME TAX EXPENSE

Taxes on profit assessable elsewhere have been calculated at the rates of tax prevailing in the countries or regions in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the period ended 30 September 2016 and 2015.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the Company's PRC subsidiaries is 25% for the period ended 30 September 2016 and 2015.

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

5. EARNINGS PER SHARE

From continuing and discontinued operations

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Earnings				
Profit for the year attributable to owners of the Company	<u>43,419</u>	<u>32,723</u>	<u>170,646</u>	<u>121,932</u>
	2016 '000	2015 '000	2016 '000	2015 '000
Number of Share				
Weighted average number of ordinary shares and convertible preference shares for the purpose of basic and diluted earnings per share	<u>2,570,520</u>	<u>2,570,520</u>	<u>2,570,520</u>	<u>2,570,520</u>

As there was no diluted shares during the three months and the nine months ended 30 September 2016 and 2015, the diluted earnings per share was same as basic earnings per share.

From continuing operations

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Earnings				
Profit for the year attributable to owners of the Company	43,419	32,723	170,646	121,932
Add:				
(Profit)/Loss for the period from discontinued operation	<u>141</u>	<u>1,306</u>	<u>(644)</u>	<u>3,160</u>
Earnings for the purpose of basic and diluted earnings per share from continuing operations	<u>43,560</u>	<u>34,029</u>	<u>170,002</u>	<u>125,092</u>

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

From discontinued operation

The basic and diluted loss per share from discontinued operation for the three months ended 30 September 2016 is HK0.005 cents (2015: HK0.05 cents) based on the loss for the period of approximately HK\$141,000 (2015: HK\$1.31 million). Whereas the basic and diluted earnings per share from discontinued operation for the nine months ended 30 September 2016 is HK0.025 cents (2015 loss: HK0.12 cents) based on the profit for the period of approximately HK\$644,000 (2015 loss: HK\$3.16 million).

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

6. RESERVES

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

7. DISCONTINUED OPERATION

The results of the consumer electronic products for the period ended 30 September 2016 and 2015 were as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	372	147,772
Cost of sales	(729)	(147,155)
Gross (loss)/profit	(357)	617
Other income	246	34
Distribution of selling expenses	–	(795)
Administrative expenses	797	(2,978)
Finance costs	(42)	(38)
Profit/(loss) before taxation	644	(3,160)
Income tax expenses	–	–
Profit/(loss) for the period from discontinued operation	<u>644</u>	<u>(3,160)</u>

DIVIDENDS

The Directors do not recommend the payment of any dividend for the period ended 30 September 2016 (2015: nil).

The payment of a final dividend of HK\$0.02 per share for the year ended 31 December 2015 has been resolved and declared at the general meeting of the Company held on 19 May 2016. The date of payment was on 7 June 2016.

BUSINESS REVIEW

For the nine months ended 30 September 2016, global economic recovery remained slow and imbalance with economic prospects continue to be relatively sluggish. China continued to strengthen its coordination in macroeconomic policies which saw the economy gradually stabilized in the third quarter of 2016 with consumption increased while maintaining its stability, however, export still remained weak. In the first three quarters of 2016, the Group strived to facilitate the layout and expansion of big data mining, cloud services and other emerging businesses, continued to forge its internet marketing platform, introduced new product lines like smart life, audiovisual entertainment and others. At the same time, the Group strengthened its risk management and control as well as processed optimization to promote the overall stability and efficient business development. For the nine months ended 30 September 2016, the Group maintained stable operation of the core businesses and achieved a sound earnings growth.

For the nine months ended 30 September 2016, the Group recorded revenue of approximately HK\$13,195.21 million, representing a decrease of 6.88% as compared with that in the corresponding period of the last financial year due to the impact of the RMB exchange rate fluctuation. The overall gross profit margin in the first three quarters of 2016 was 4.04%, representing an increase of approximately 0.22% as compared with that in the corresponding period of the last financial year, such increase was mainly due to the adjustment of the Group's low gross profit margin of its IT consumer product lines and at the same time maintaining the stable benefits of its IT corporate product lines. For the nine months ended 30 September 2016, profit attributable to shareholders amounted to approximately HK\$170.65 million, representing an increase of 39.95% as compared with that in the corresponding period of the last financial year, and basic earnings per share amounted to HK6.64 cents, representing an increase of approximately HK1.90 cents as compared with HK4.74 cents in the corresponding period of the last financial year.

IT consumer products distribution business: due to the slow-moving demand of the PC market globally and in China, the Group reduced those product lines with relatively lower gross profit margin and higher market risk. At the same time, it accelerated its assets turnover and controlled its expenses stringently. Hence, the revenue of the Group's IT consumer products distribution business decreased by 30.89% to HK\$6,941.16 million as compared with that in the corresponding period of last year, however, profit was up by 16.78% to HK\$112.95 million as compared with that in the corresponding period of last year.

IT corporate products distribution business: the Group continued to deepen the cooperation with international IT providers in terms of localization, domestic brands and production in the software aspects. It accelerated the application and implementation of comprehensive industry solution in big data mining and cloud services, increased the investments and optimization of its technology system and professional service system. Due to the impact of exchange rate fluctuation, the revenue of the Group's IT corporate products distribution business decreased by 3.45% to HK\$3,401.41 million as compared with that in the corresponding period of last year and profit was down by 5.44% to HK\$201.92 million.

Other business: the revenue of other business increased by 373.13% to HK\$2,852.64 million as compared with that in the corresponding period of last year whilst its profit increased by 269.16% to HK\$17.87 million as a result of the strengthening of the commercial cooperation in location-based service business.

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

In 2015, the management of Changhong Overseas Development Limited ("CHOD") reported to the Board that a former employee of CHOD had misappropriated certain assets of CHOD and the case was reported to the Hong Kong Police on 14 June 2015 (the "Incident"). The Incident had a material adverse impact on the financial position of the CHOD. An independent committee has been established to investigate the Incident. As at the date of this report, most claims/suits have been settled between the purported suppliers and CHOD and only negotiation with one purported supplier was still continuing but no further action has been taken by that particular supplier. For further details, please refer to the announcements of the Company dated 15 June 2015, 19 June 2015, 20 July 2015 and 19 October 2015. Further updates will be provided by the Company from time to time as and when appropriate.

On 13 April 2016, Mr. Tang Yun tendered his resignation as an executive director with effect from 13 April 2016 as Mr. Tang Yun would like to devote more time to his other business commitments. For further details, please refer to the announcement of the Company dated on the even date.

OUTLOOK

China's economy is expected to be moderately stable in 2016 and accelerates its structural reform of the supply front while maintaining the total demand. The Group will continue its corporate development strategy, deepen the development of big data mining and build up nationwide marketing service platforms. Meanwhile, it will promote the optimization and upgrading of its internet business-to-business marketing platforms and be innovative in business models of integrated development. The Group will continue to commit to providing more business opportunities and value-added services for its partners and cooperate with them by creating a win-win ecophere, thereby create greater value for the shareholders.

CORPORATE GOVERNANCE

The Company endeavours to adopt prevailing best corporate governance practices. For the nine months ended 30 September 2016, the Company had complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

The primary responsibilities of the audit committee of the Company (the "Audit Committee") are to review and supervise the financial reporting process and internal control system of the Group. The members of the Audit Committee are Mr. Jonathan Chan Ming Sun (chairman), Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin.

The Audit Committee has reviewed the Group's results for the period ended 30 September 2016 and has provided advice and comments thereon.

REMUNERATION COMMITTEE

The primary responsibilities of the remuneration committee of the Company (the "Remuneration Committee") are to review and make recommendation for the remuneration policy of the directors and senior management. The members of the Remuneration Committee are Mr. Jonathan Chan Ming Sun (chairman), Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Zhu Jianqiu.

NOMINATION COMMITTEE

The primary responsibilities of the nomination committee of the Company (the "Nomination Committee") are to formulate nomination policy and make recommendation to the Board on nomination and appointment of directors and board succession. The members of the Nomination Committee are Mr. Zhao Yong (chairman), Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Jonathan Chan Ming Sun.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S 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 30 September 2016, 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 or any of 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 recorded 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)	Interests in a controlled corporation	82,415,762 (L)	5.67%

Notes:

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

Save as disclosed in this paragraph, as at 30 September 2016, 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 recorded 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 period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 30 September 2016, the interests or short position of 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 meeting 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 1)
Sichuan Changhong Electric Co., Limited ("Sichuan Changhong")	Interest 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	Interest 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	Beneficial owner	Ordinary	897,000,000 (L)	61.66%
		Preference	1,115,868,000 (L)	100.00%
Sichuan Investment Management Company Limited (Note 5)	Beneficial owner	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 September 2016, 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) Trading Limited and 897,000,000 Shares were held through Fit Generation Holding Limited, which is wholly-owned by Changhong (Hong Kong) Trading Limited.
3. 1,115,868,000 preference shares were held by Fit Generation Holding Limited, which is wholly-owned by Changhong (Hong Kong) Trading Limited, which is a wholly-owned subsidiary of Sichuan Changhong.
4. Of the 913,000,000 Shares, 16,000,000 Shares were held directly and 897,000,000 Shares were held through Fit Generation Holding Limited.
5. Upon completion the acquisition of the entire issued share capital of Wide Miracle Limited on 5 June 2014, Sichuan Investment Management Company Limited ceased to be a connected person of the Company and its shareholding in the Company is counted towards public float.
6. Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 30 September 2016, 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 nine months ended 30 September 2016.

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

Hong Kong, 21 October 2016

As at the date of this report, the executive Directors are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yu Xiao, Mr. Wu Xiangtao 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 <http://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 <http://www.changhongit.com.hk>.