

长虹佳华
CHANGHONGIT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 8016

FIRST QUARTERLY REPORT 2017

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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 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 unaudited consolidated revenue of the Company (together with its subsidiaries, the “Group”) for the three months period ended 31 March 2017 increased by approximately 7.48% to HK\$4,773.26 million as compared with the corresponding period in 2016. For the three months period ended 31 March 2017, the Group recorded a net profit of approximately HK\$50.37 million, representing a decrease of approximately 7.69% as compared with the corresponding period in 2016.

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 2017, 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 2017

	<i>Notes</i>	2017 HK\$'000 (unaudited)	2016 <i>HK\$'000</i> <i>(unaudited)</i>
Continuing operations			
Revenue	2	4,773,263	4,440,923
Cost of sales		(4,604,314)	(4,260,625)
Gross profit		168,949	180,298
Other income		655	817
Distribution and selling expenses		(65,695)	(64,097)
Administrative expenses		(28,838)	(34,311)
Profit from operation		75,071	82,707
Finance costs		(7,607)	(11,865)
Profit before taxation		67,464	70,842
Income tax expense	4	(17,096)	(17,489)
Profit for the period from continuing operations		50,368	53,353
Discontinued operation			
Profit/(loss) for the period from discontinued operation	7	–	1,211
Profit for the period attributed to: Owners of the Company		50,368	54,564
Earnings per share			
From continuing and discontinued operations	5		
Basic and diluted		1.96 cents	2.12 cents
From continuing operations			
Basic and diluted		1.96 cents	2.08 cents

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).

Change of functional currency

Subsequent to the completion of disposal of Changhong Overseas Development Limited (“CHOD”), an indirect wholly owned subsidiary of the Company, on 21 December 2016, the directors of the Company re-assessed the functional currency of the Company and considered the Company’s major assets and its respective risks and rewards are primarily located in the People’s Republic of China (the “PRC”). As a result, the directors of the Company determined to change the functional currency from United States dollars (“USD”) to Renminbi (“RMB”) with effect from 21 December 2016. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21.

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 2016 or the Group’s profit or loss for the period ended 31 March 2016.

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 2017 and 2016 are as follows:

	2017 <i>HK\$’000</i>	2016 <i>HK\$’000</i>
IT Consumer Products	2,470,847	2,493,324
IT Corporate Products	1,138,768	1,081,863
Others	1,163,648	865,736
	<u>4,773,263</u>	<u>4,440,923</u>

3. SEGMENT INFORMATION

Information reported to the executive directors or management of the Company, being the chief operating decision maker (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group’s reportable and operating segments 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 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:

	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>45,810</u>	<u>46,719</u>	<u>7,590</u>	100,119
Other income				655
Finance costs				(7,607)
Unallocated head office and corporate expenses				<u>(25,703)</u>
Profit before tax				<u>67,464</u>

	2016			
	IT Consumer Products HK\$'000	IT Corporate Products HK\$'000	Others HK\$'000	Total HK\$'000
Revenue				
External sales	<u>2,493,324</u>	<u>1,081,863</u>	<u>865,736</u>	<u>4,440,923</u>
Segment profit	<u>48,622</u>	<u>48,688</u>	<u>16,916</u>	114,226
Other income				817
Finance costs				(11,865)
Unallocated head office and corporate expenses				<u>(32,336)</u>
Profit before tax				<u>70,842</u>

Geographical information

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

	2017 HK\$'000	2016 HK\$'000
Mainland, China	4,762,661	4,429,732
Other regions	10,602	11,191
	<u>4,773,263</u>	<u>4,440,923</u>

4. INCOME TAX EXPENSE

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for 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 2017.

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 31 March	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company	50,368	54,564
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
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 2017 and 2016, 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 31 March	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company	50,368	54,564
Add:		
(Profit)/Loss for the period from discontinued operation	–	(1,211)
Earnings for the purpose of basic and diluted earnings per share from continuing operations	50,368	53,353

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

From discontinued operation

As the discontinued operation sold on 21 December 2016, the basic and diluted earning per share for the discontinued operation for the three months ended 31 March 2017 is nil (2016: HK\$0.005) based on the profit for the period from the discontinued operation of nil (2016: HK\$1.21 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

On 14 December 2016, the Company entered into a share transfer agreement (the “Share Transfer Agreement”) with an independent third party to dispose the discontinued operation at a consideration of HK\$100. Upon completion of the disposal on 21 December 2016, the discontinued operation results were no longer consolidated into the results of the Group. For details of the disposal, please refer to the announcement of the Company dated 14 December 2016.

The results of the consumer electronic products for the period ended 31 March 2017 and 2016 were as follows:

	2017 HK\$'000	2016 HK\$'000
Revenue	–	–
Cost of sales	–	–
	<hr/>	<hr/>
Gross profit	–	–
Other income	–	3,114
Distribution of selling expenses	–	–
Administrative expenses	–	(1,864)
Finance costs	–	(39)
	<hr/>	<hr/>
Profit/(loss) before taxation	–	1,211
Income tax expenses	–	–
	<hr/>	<hr/>
Profit/(loss) for the period from discontinued operation (attributed to owners of the Company)	<hr/> <hr/>	<hr/> <hr/>

DIVIDENDS

The Directors do not recommend the payment of any dividend for the three months period ended 31 March 2017 (2016: Nil).

The Board recommended the payment of final dividend of HK\$0.03 per share in respect of the year ended 31 December 2016. 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 16 May 2017.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group’s unaudited consolidated results for the three months period ended 31 March 2017 and has provided advice and comments thereon.

BUSINESS REVIEW

The PRC economy achieved a solid kick-off in the first quarter of 2017 and continued its recovery trend. During the first quarter of 2017, by adhering to the “new thinking, new measures and new heights” operating guidelines and on the basis of consolidating the development of traditional distribution businesses, the Group built a unified platform for its internet distribution business and traditional distribution business to achieve an integrated innovative development. By leveraging on the industry trend of the domestic brands which are independent and controllable, the Group will continue to perfect its business layout through active and in-depth development in cloud computer and big data segment new business models.

In the first quarter of 2017, the Group recorded revenue of approximately HK\$4,773.26 million, representing an increase of 7.48% as compared with that in the corresponding period of last financial year. The overall gross profit margin in the first quarter of 2017 was 3.54%, representing a decrease of approximately 0.52% as compared with that in the corresponding period of last financial year, the decrease of which was mainly due to the intense market competition and increase in contribution from the sale of product lines with relatively low gross margins. In the first quarter of 2017, profit attributable to shareholders amounted to approximately HK\$50.37 million, representing an decrease of approximately 7.69% as compared with that in the corresponding period of last financial year. Basic earnings per share for the three months ended 31 March 2017 amounted to HK1.96 cents, representing a decrease of approximately HK0.16 cents as compared with HK2.12 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 2017, 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 2017 are as following (the fluctuation of exchange rate of Renminbi might affect the amount/percentage of the segment):

IT consumer products distribution business: the Group accelerated the construction of the internet distribution network platform of its wholly-owned subsidiary named Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd. (“Duolayouhuo”) and perfect its service functions so as to provide valuable value-added services for its upstream and downstream partners. In response to adverse market environment due to the increasing personal computer (“PC”) product prices and insufficient market demand, the Group made active adjustments to its product mix, reinforced the cooperation with core manufacturers to expand new product lines and new channel business. The revenue of this business segment decreased by approximately 0.90% to HK\$2,470.85 million as compared with the corresponding period of last year whilst its profit decreased by approximately 5.78% to HK\$45.81 million.

IT corporate products distribution business: on the basis of developing the distribution business steadily, the Group continued to improve its technological and service capability including cloud computing and big data, actively explored the business opportunities from cloud services, big data analysis and industry solutions, technology solutions and specified equipment sectors. The revenue of this business segment increased by approximately 5.26% to HK\$1,138.77 million as compared with the corresponding period of last year whilst its profit decreased by approximately 4.04% to HK\$46.72 million.

Other business: the revenue of this business segment increased by approximately 34.41% to HK\$1,163.65 million as compared with the corresponding period of last year as a result of the expansion of channel sales of smartphones. When compared with the corresponding period of last year, sales of location-based services (“LBS”) products, which had higher gross profit, went down and its segment profits decreased by approximately 55.13% to HK\$7.59 million.

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 of the shares from the GEM to the Main Board of the Stock Exchange (the "Application") 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 order to promote the strategic transformation of the Group, provide a one-stop internet distribution platform for customers and assist distributors and retailers to transform towards "Internet+" in the PRC, the Company resolved to establish Duolayouhuo with a capital contribution of RMB100 million on 23 February 2017. Duolayouhuo was established on 9 March 2017 and is expected to engage in, among other things, wholesale and retail of electronic products, computer hardware and software, communication equipment; provision of computer technology consulting services and e-commerce services; and development, design and application of computer software. For further details in relation to the establishment of Duolayouhuo, please refer to the announcement of the Company dated 23 February 2017.

OUTLOOK

Notwithstanding the global economic will continue to experience uncertainties in various aspects in 2017, while the PRC economy is expected to maintain its steady growth trend. By adhering to the "new thinking, new measures and new heights" operating guidelines, the Group will continue to capitalise on industry development trend and market opportunities and accelerate the construction and perfection of the internet distribution business system and establish a one-stop internet distribution platform which provides upstream and downstream customers with industrial chain solutions and assists distributors in transformation and development. The Group will actively promote the new business development in cloud computing and big data sectors, and foster new value growth points to create 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 2017, 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 %
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 2017, 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 2017 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 2017, 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
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 2017, 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 2017, 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 2017.

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 2017.

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

Hong Kong, 21 April 2017

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>.