

长虹佳华
CHANGHONGIT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 3991

2021

INTERIM REPORT



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This interim report, in both English and Chinese versions, is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.changhongit.com).

Corporate Information

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	Unit 1412, 14/F, West Tower, Shun Tak Centre 168–200 Connaught Road Central Hong Kong
Bermuda principal share registrar and transfer office	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 1712–1716, Hopewell Centre 183 Queen’s Road East Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited China Insurance Group Building 141 Des Voeux Road Central, Sheung Wan Hong Kong
Stock exchange	Main Board of The Stock Exchange of Hong Kong Limited (the “ Stock Exchange ”)
Stock code	3991
Website	www.changhongit.com
E-mail address	fengyl@changhongit.com
<i>Board of Directors</i>	
Executive Directors	Mr. ZHU Jianqiu (<i>Chairman and President</i>) Mr. PAN Xiaoyong Mr. ZHANG Xiaolong Mr. LUO Yongping

Corporate Information

Independent Non-executive Directors	Mr. Jonathan CHAN Ming Sun Mr. GAO Xudong Mr. MENG Qingbin
Authorised representatives	Mr. ZHU Jianqiu Mr. CHENG Ching Kit
Company Secretary	Mr. CHENG Ching Kit
Audit Committee	Mr. Jonathan CHAN Ming Sun (<i>Chairman</i>) Mr. GAO Xudong Mr. MENG Qingbin
Remuneration Committee	Mr. Jonathan CHAN Ming Sun (<i>Chairman</i>) Mr. ZHU Jianqiu Mr. MENG Qingbin
Nomination Committee	Mr. ZHU Jianqiu (<i>Chairman</i>) Mr. Jonathan CHAN Ming Sun Mr. GAO Xudong
Auditor	Deloitte Touche Tohmatsu Registered Public Interest Entity Auditors 35/F, One Pacific Place 88 Queensway, Admiralty Hong Kong

Chairman's Statement

Dear Shareholders,

For the six months ended 30 June 2021, the global economy is recovering steadily, the Group continues its business operation in a prudent manner.

BUSINESS REVIEW

In the first half of 2021, with the improving situation of the 2019 novel coronavirus pandemic (the "**COVID-19 pandemic**") around the globe, the global economy recovered gradually. With the divergence and imbalance of the global economic recovery, the global supply chain has encountered a crisis of shortage. In the first half year, the national economic of PRC recovered steadily, and continued to show a trend of stabilization and improvement. The Group seized market opportunities which might arise after the pandemic to overcome the adverse effects of shortages in the entire industry and achieved stable growth and generated benefits in the first half year. At the same time, the Group actively grasped the trend of accelerating economic and social cloud adoption and digital transformation and carried out in-depth cooperation with leading industry manufactures and further developed business and explored customer demands and continued to build a cloud service system; took advantages of the online sales channels and platform value of Jiahua Duola, the B2B new distribution e-commerce platform, to introduce brands, empower channels and promote transaction conversion, with the business strategy of "Deeply ploughing demands, empowering with intelligence and jointing good partners".

In the first half of 2021, the Group recorded a revenue of about HK\$22,286.32 million, up by 27.91% over the same period of the previous fiscal year; gross margin in the first half of 2021 was 2.63%, down by about 0.03 percentage point from the same period of the previous fiscal year. The profit attributable to shareholders in the first half of 2021 was approximately HK\$185.30 million, up by about 24.28% over the same period of the previous fiscal year and the basic earnings per share was HK\$7.21 cents, up by approximately of HK\$1.41 cents from HK\$5.80 cents in the same period of the previous fiscal year.

The Group continuously consolidated basic management and strengthened informatization construction and business process transformation and optimization and built an intelligent business system so as to improve operation efficiency and reduce operating costs, and as a result providing customers with intelligent services with increased efficiency and convenience. The Group continued to reinforce risk management and control, insisted on strict inventory management, credit management and receivable management, reasonably allocate funds, and accelerated fund turnover in a bid to ensure the safety and efficiency of working capital. The Group continued its efforts to tighten expense control, and administrative expenses were basically the same as the same period last year; research and development expenses increased compared with the same period of last year due to the increase in the development costs of information system; the distribution and sales expenses increased compared with the same period of last year, mainly due to the increase in labor costs; the financing expenses rose compared with the same period of last year due to the increase of financing scale.

Chairman's Statement

For the six months ended 30 June 2021, the revenue and profits of the three operating segments of the Company were analyzed as follows (RMB exchange rate fluctuations may affect the amount/percentage of segments):

ICT consumer products distribution business: The business segment strengthened online and offline comprehensive cooperation with core manufacturers, captured opportunities in advantageous product line, broadened the business operation model of e-commerce platforms, and expanded online channel service capabilities to deepen the integrated development of online and offline channels. The business's revenue increased by 50.35% to HK\$8,593.02 million over the same period of last year, and the business segment's profit increased by 16.56% to HK\$142.85 million.

ICT corporate products distribution business: The business segment achieved good growth generally, and expanded business area including cloud computing, artificial intelligence, the Internet of Things and virtual reality with leading manufacturers at the same time. It also focused on improving solution capabilities and consulting service capabilities. The business scale has increased significantly. The business's revenue increased by 46.17% to HK\$5,490.42 million over the same period of last year, and business segment's profit increased by 37.15% to HK\$185.13 million.

Other businesses: The smartphone business was operating steadily, the business segment's revenue increased by 3.16% over the same period of last year to HK\$8,202.88 million, and the business segment's profit increased by 5.88% to HK\$63.24 million.

OUTLOOK

In the second half of 2021, the repeated outbreaks of COVID-19 pandemic may weaken the momentum of economic recovery and slow down the growth of the world economy. The Chinese economy is expected to continue to recover steadily, but the economic development is exposed to uncertainty and imbalance, and the macroeconomic situation is still facing multiple challenges. Under the construction of a new development pattern of high-quality domestic circulation and international circulation interaction, China has vigorously promoted technological innovation, and the development of digital economy represented by new generation of technologies such as artificial intelligence, cloud computing, big data, and the Internet of Things is booming. In the second half of 2021, the Group will continue its strategic transformed and emerging businesses, which will provide new drivers to the future growth of the Group, create new business value for partners, and make new contributions to shareholders, with "Deeply ploughing demands, empowering with intelligence and jointing good partners" as the business strategy.

ZHU Jianqiu
Chairman

10 August 2021

Management Discussion and Analysis

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2021 was approximately HK\$22,286.32 million (2020: HK\$17,423.52 million), representing an increase of 27.91% as compared with the previous period. This increase was mainly attributable to the expansion of the sales scale of ICT consumer products and ICT corporate products and the fluctuation of exchange rate for Renminbi to Hong Kong dollars;
- Profit for the six months ended 30 June 2021 was approximately HK\$185.30 million (2020: HK\$149.09 million), representing an increase of 24.28% as compared with the previous period. The increase was mainly due to the substantial increase in the Group's revenue and affected by the aforementioned exchange rate fluctuations.
- Total comprehensive income for the six months ended 30 June 2021 was approximately HK\$217.29 million (2020: HK\$106.09 million). This increase was mainly attributable to the growth of profit from operation and the fluctuations in the RMB exchange rate.

LIQUIDITY AND FINANCIAL RESOURCES

For the period under review, the Group's financial and liquidity positions remained healthy and stable. As at 30 June 2021, the Group's total interest-bearing borrowings amounted to approximately HK\$1,278.76 million and its cash and bank balances amounted to approximately HK\$780.88 million. Net current assets of the Group was approximately HK\$2,336.69 million. The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 30 June 2021 was 3.22 times. The management is confident that the Group's financial resources is sufficient for its daily operations.

PLEDGE OF ASSETS

The Group did not have any mortgage or charge over its fixed assets as at 30 June 2021 (2020: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's monetary assets and liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United States dollars. As the spread of exchange rate of Renminbi is locked and the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes its exposure to exchange risk is minimal. The Group will continue to monitor the situation and assess whether any hedging arrangement is necessary.

As at 30 June 2021, the Group did not have any foreign currency investments which have been hedged by currency borrowings and other hedging instruments.

Management Discussion and Analysis

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 2021 and 31 December 2020, 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 recognized 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 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Settlement of trade and other payables	272,435	727,119
Discounted bills for raising of cash	1,526,693	385,294
Outstanding endorsed and discounted bills receivables with recourse	1,799,128	1,112,413

The outstanding endorsed and discounted bills receivables are aged within 360 days (2020: 360 days) at the end of each reporting period.

Management Discussion and Analysis

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 2021.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2021, the Group had no material capital commitments and no future plans for material investments or capital assets.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, 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 2021, the total number of the Group's staff was 1,330 (as at 30 June 2020: 1,167). 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.

DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 30 June 2021 (2020: Nil).

The payment of a final dividend of HK\$0.05 per ordinary share and preference share for the year ended 31 December 2020, totaling approximately HK\$128.53 million, had been resolved at the annual general meeting of the Company held on 28 May 2021. The date of payment was on 25 June 2021.

Other Information

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

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the corporate governance code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") which sets out corporate governance principles and code provisions (the "**Code Provisions**"). Throughout the six months period ended 30 June 2021, the Company has complied with all the Code Provisions as set out under the CG Code, except the following deviations:

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. As Mr. ZHU Jianqiu serves as both the chairman of the Board and the president with effect from 8 April 2021, such practice deviates from code provision A.2.1 of the CG Code. Although the roles of chairman of the Board and president are performed by the same individual, all major decisions have been made in consultation with members of the Board as well as senior management. The Board has three independent non-executive Directors who offer different independent perspectives. Therefore, the Board is of the view that there is adequate balance of power and safeguards in place.

Former Executive Director, Mr. YANG Jun (resigned on 8 April 2021), and Executive Directors, Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong and Mr. LUO Yongping, were not appointed for a specific term as required under code provision A.4.1 of the CG Code, but are subject to retirement by rotation at least once every three years in accordance with the Company's by-laws. The Company considers that such requirement is sufficient to meet the same objective as a specific term of appointment under the CG Code.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the model code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("**Model Code**") as its own code of conduct regarding Directors' dealings in securities of the Company.

Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the Model Code during the six months ended 30 June 2021.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

Pursuant to Rule 3.21 of the 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 14 of the 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 2021.

Other Information

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. Zhu Jianqiu (chairman of the committee), Mr. Jonathan Chan Ming Sun and Mr. Gao Xudong.

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

As at 30 June 2021, the interests or short positions of the Directors and chief executives 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 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 Model Code set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Capacity	Number of ordinary shares interested (Note a)	Approximate percentage of interest
Mr. Zhu Jianqiu (“ Mr. Zhu ”) (Note b)	Interest in a controlled corporation and beneficial owner	115,165,762 (L)	7.92%

Notes:

- (a) (L) represents long position.
- (b) Among the 115,165,762 ordinary shares of the Company (the “**Shares**”) held by Mr. Zhu, 7,750,000 Shares were held directly and 107,415,762 Shares were held through Typical Faith Limited (“**Typical Faith**”). As Typical Faith is wholly-owned by Mr. Zhu, Mr. Zhu is deemed to be interested in the Shares held by Typical Faith for the purpose of the SFO.

Save as disclosed above, as at 30 June 2021, 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 Model Code set out in Appendix 10 to the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 30 June 2021 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. As at the date of this report, the Company has not granted any share options to the Directors.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 30 June 2021, the persons or companies (not being a Director or chief executives 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 provisions 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 shareholders	Capacity	Class of Shares	Number of Shares interested (Note a)	Approximate percentage of interest in relevant class of shares (Note b)
Sichuan Changhong Electric Co., Limited ("Sichuan Changhong")	Interest of controlled corporation	Ordinary share	874,650,000 (L) (Note c)	60.13%
		Preference share	1,115,868,000 (L) (Note d)	100.00%
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interest of controlled corporation and beneficial owner	Ordinary share	874,650,000 (L) (Note e)	60.13%
		Preference share	1,115,868,000 (L) (Note d)	100.00%
Fit Generation Holding Limited ("Fit Generation")	Beneficial owner	Ordinary share	858,650,000 (L)	59.03%
		Preference share	1,115,868,000(L)	100.00%
Sichuan Chuantou Assets Management Co., Ltd. ("Chuantou Assets Management") (Note f)	Beneficial owner	Ordinary share	83,009,340(L)	5.70%
Sichuan Provincial Investment Group Company Limited ("Sichuan Provincial Investment Group") (Note f)	Interest of controlled corporation	Ordinary share	83,009,340(L)	5.70%
Typical Faith (Note g)	Beneficial owner	Ordinary share	107,415,762 (L)	7.38%

Other Information

Notes:

- (a) (L) represents long position.
- (b) The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 30 June 2021, which were 1,454,652,000 and 1,115,868,000, respectively.
- (c) Among the 874,650,000 Shares interest held by Sichuan Changhong, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong Hong Kong, and 858,650,000 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. Sichuan Changhong Holding is the single largest shareholder of Sichuan Changhong, which held approximately 23.22% of the entire issued share capital of Sichuan Changhong and has de facto control over the composition of the majority of the board of Sichuan Changhong.
- (d) 1,115,868,000 preference shares of the Company were held by Fit Generation, which is wholly-owned by Changhong Hong Kong, which is a wholly-owned subsidiary of Sichuan Changhong. 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.
- (e) Among the 874,650,000 Shares interest held by Changhong Hong Kong, 16,000,000 Shares were held directly and 858,650,000 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.
- (f) Chuantou Assets Management is wholly-owned by Sichuan Provincial Investment Group, which is deemed to be interested in the Shares held by Chuantou Assets Management for the purpose of the SFO.
- (g) Typical Faith is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 30 June 2021, 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.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN A COMPETING BUSINESS

Sichuan Changhong is a controlling 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 above, none of the Directors or the controlling shareholders of the Company or any of their respective close associates (as defined in the 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 2021.

CHANGES IN DIRECTORS' INFORMATION

The changes in information of the Directors subsequent to the date of the 2020 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Mr. Jonathan Chan Ming Sun has been appointed as an independent non-executive director of Hao Tian International Construction Investment Group Limited (Stock Exchange Stock Code: 1341) with effect from 12 July 2021.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

	Note	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	3	22,286,324	17,423,519
Cost of sales		(21,700,058)	(16,960,875)
Gross profit		586,266	462,644
Other income		25,027	23,017
Research and development expenses		(16,972)	(10,325)
Administrative expenses		(80,862)	(75,400)
Impairment loss on trade receivables, net		(14,598)	(10,550)
Exchange loss, net		(3,699)	(1,039)
Distribution and selling expenses		(180,443)	(134,822)
Finance cost		(76,443)	(59,781)
Profit from operation	5	238,276	193,744
Income tax expense	6	(52,976)	(44,650)
Profit for the period attributed to owners of the Company		185,300	149,094
Other comprehensive expense <i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences arising from translation of consolidated financial statements to presentation currency		31,991	(43,003)
Total comprehensive income for the period attributable to owners of the Company		217,291	106,091
Earnings per share			
Basic and diluted (HK cents)	7	7.21	5.80

Condensed Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Plant and equipment		5,363	5,726
Intangible assets		18,738	18,484
Right-of-use assets		8,423	12,599
Financial asset at fair value through profit or loss		31,016	30,666
		63,540	67,475
CURRENT ASSETS			
Inventories		2,544,781	3,131,603
Trade and bills receivables	8	4,470,719	3,110,036
Bills receivables at fair value through other comprehensive income		536,641	418,414
Tax receivables		–	4,065
Prepayments, deposits and other receivables		158,584	119,196
Amounts due from related companies		2,175	13,530
Trade deposits paid		526,499	808,048
Pledged bank deposits		1,039,499	2,917,765
Cash and bank balances		780,878	369,591
		10,059,776	10,892,248
CURRENT LIABILITIES			
Trade and bills payables	9	5,701,134	5,622,316
Other payables		399,653	331,711
Tax payables		34,906	26,723
Borrowings	10	1,278,759	2,195,451
Amount due to related companies		28,371	15,878
Contract liabilities		273,258	444,244
Lease liabilities		7,007	8,800
		7,723,088	8,645,123
NET CURRENT ASSETS		2,336,688	2,247,125
TOTAL ASSET LESS CURRENT LIABILITIES		2,400,228	2,314,600
NON-CURRENT LIABILITIES			
Government grants		1,552	1,766
Lease liabilities		1,761	4,684
		3,313	6,450
NET ASSETS		2,396,915	2,308,150
CAPITAL AND RESERVES			
Share capital		36,366	36,366
Convertible preference shares		27,897	27,897
Reserves		2,332,652	2,243,887
TOTAL EQUITY		2,396,915	2,308,150

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

For the six months ended
30 June

	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Total equity at 1 January	2,308,150	1,898,790
Dividend payment	(128,526)	(102,821)
Decrease in exchange differences rising on translation	31,991	(43,003)
Net profit for the period attributable to shareholders	185,300	149,094
Total equity as at 30 June	2,396,915	1,902,060

Condensed Consolidated Statement of Cash Flow

For the six months ended 30 June 2021

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Net cash used in operating activities	(3,122,156)	(2,427,937)
Net cash generated from investing activities	1,912,158	455,228
Net cash generated from financing activities	1,621,285	1,978,830
Net increase in cash and cash equivalents	411,287	6,121
Cash and cash equivalents at beginning of the period	369,591	711,740
Cash and cash equivalents at end of the period	780,878	717,861
Analysis of cash and cash equivalents Bank and cash balances	780,878	717,861

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2021

1. GENERAL

Changhong Jiahua Holdings Limited (the “**Company**”) was incorporated in Bermuda with limited liability.

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Unit 1412, 14/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries (together with the Company, the “**Group**”) are set out in Note 4 below.

The functional currency of the Company is Renminbi (“**RMB**”) and the consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”). As the Company is a public company with its shares listed on the Stock Exchange with most of its investors located in Hong Kong, the directors of the Company consider that HK\$ is preferable in presenting the operating result and financial position of the Group.

Sichuan Changhong Electric Co., Limited (“**Sichuan Changhong**”), a company incorporated in the People’s Republic of China (the “**PRC**”) with its shares listed on the Shanghai Stock Exchange, has obtained the control over the board of directors of the Company since 2012. Sichuan Changhong Electronics Holding Group Co., Ltd. (“**Sichuan Changhong Holding**”, a company established in the PRC and 90% owned by the State-owned Assets Supervision and Administration Commission of the Mianyang city government and one of the Controlling Shareholders) is the single largest shareholder of Sichuan Changhong, which held approximately 23.22% of the entire issued share capital of Sichuan Changhong and has de facto control over the composition of the majority of the board of Sichuan Changhong. In the opinion of the directors of the Company, Sichuan Changhong Holding, Sichuan Changhong, Changhong (Hong Kong) Trading Limited and Fit Generation Holding Limited (“**Fit Generation**”) remain as a group of controlling shareholders as at 30 June 2021. The Company’s immediate holding company is Fit Generation, a private company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements of the Group and selected explanatory notes has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and by the Hong Kong Companies Ordinance, including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2021

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The condensed consolidated results for the six months ended 30 June 2021 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 2020 Consolidated Financial Statements, except for the amendments and interpretations of Hong Kong Financial Reporting Standards issued by HKICPA which have become effective in this period as detailed in the notes of the 2020 Consolidated Financial Statements.

3. REVENUE

The principal activities of the Group are the provision of professional integrated Information and Communication Technology (“ICT”) solutions and services, and distribution of ICT consumer products, ICT corporate products, smartphones, own brand products and related parts and components.

The amounts of each significant category of revenue recognised in revenue for the six months ended 30 June 2021 and 2020 are as follows:

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue		
ICT Consumer Products	8,593,024	5,715,475
ICT Corporate Products	5,490,424	3,756,289
Others	8,202,876	7,951,755
	22,286,324	17,423,519

4. SEGMENT INFORMATION

Information reported to the executive directors or the 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.

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For the six months ended 30 June 2021

4. SEGMENT INFORMATION (CONTINUED)

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

- (a) ICT Consumer Products — distribution of ICT consumer products which include mainly personal computers, digital products and IT accessories.
- (b) ICT Corporate Products — distribution of ICT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system products and unified communications and contact centre products.
- (c) Others — distribution of smartphones and development of its own brand products including but not limited to intelligent terminals, sales of warranty packages and professional integrated ICT solutions and provision of ICT services.

Segment profit represents the profit earned by each segment without allocation of other income, research and development expenses, finance costs, exchange loss, net as well as unallocated head office and corporate administrative expenses. This is 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 2021 and 2020:

	For the six months ended 30 June 2021			
	ICT Consumer Products HK\$'000	ICT Corporate Products HK\$'000	Others HK\$'000	Total HK\$'000
Revenue				
External sales	8,593,024	5,490,424	8,202,876	22,286,324
Segment profit	142,854	185,133	63,238	391,225
Other income				25,027
Research and development expenses				(16,972)
Administrative expenses				(80,862)
Exchange loss, net				(3,699)
Finance costs				(76,443)
Profit before tax				238,276

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For the six months ended 30 June 2021

4. SEGMENT INFORMATION (CONTINUED)

	For the six months ended 30 June 2020			
	ICT	ICT	Others	Total
	Consumer Products HK\$'000	Corporate Products HK\$'000		
Revenue				
External sales	5,715,475	3,756,289	7,951,755	17,423,519
Segment profit	122,559	134,988	59,725	317,272
Other income				23,017
Research and development expenses				(10,325)
Administrative expenses				(75,400)
Exchange loss, net				(1,039)
Finance costs				(59,781)
Profit before tax				193,744

Geographical information

The following provides an analysis of the Group's sales by geographical market for the six months ended 30 June 2021 and 2020, based on the origin of the goods:

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Mainland China	22,251,615	17,399,343
Other regions	34,709	24,176
	22,286,324	17,423,519

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For the six months ended 30 June 2021

5. PROFIT FROM OPERATION

The Group's profit from operation has been arrived at after charging for the six months ended 30 June 2021 and 2020:

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Cost of inventories sold	21,700,058	16,960,875
Depreciation of property plant and equipment	1,012	1,804
Depreciation of right-of-use assets	4,315	4,399
Staff cost including directors' emolument		
— Salary and related staff cost	164,856	116,122
— Retirement benefits scheme contribution	30,165	16,227
Exchange loss, net	3,699	1,039

6. 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, except as disclosed below, the tax rates of the subsidiaries in PRC are 25% for both years.

Beijing Changhong IT Intelligence System Co., Ltd operating in the PRC have been accredited as a "High and New Technology Enterprise" by the Ministry of Science and Technology, the PRC and relevant authorities for a term of three years starting 2020, 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 six months ended 30 June 2021 and 2020. The qualification as a High and New Technology Enterprise will be subject to review every three years by the relevant tax authorities in the PRC.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2021

6. INCOME TAX EXPENSE (CONTINUED)

In 2020, Changhong IT Digital Technology Co., Ltd. (“**Changhong IT Digital**”) and Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd. (“**Duolayouhuo**”) operating in the PRC, have been qualified as the “Encouraged Enterprises” under “The Catalogue of Encouraged Industries in Western Regions” (the “**Catalogue**”), as their main business is one of the encouraged business in the Catalogue and the revenue from their main business accounts for more than the required percentage of their total revenue, and enjoyed the reduced preferential EIT rate of 15%. Accordingly, the profits derived by the aforesaid subsidiaries are subject to 15% EIT rate for six months ended 30 June 2021, the profits derived by Duolayouhuo is subject to 15% EIT rate for six months ended 30 June 2020.

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

7. 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 six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	185,300	149,094
	2021 '000	2020 '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

As there were no potentially dilutive shares during the six months ended 30 June 2021 and 30 June 2020, the diluted earnings per share was same as basic earnings per share.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2021

8. 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 measured at amortised cost, net of allowance for doubtful debts, based on invoice dates at the end of the reporting period which approximated the respective revenue recognition dates:

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within 30 days	1,334,577	1,847,405
31–60 days	2,028,404	661,307
61–90 days	386,808	177,991
91–180 days	409,392	285,422
181–365 days	232,613	77,526
Over 1 year	78,925	60,385
	4,470,719	3,110,036

9. 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 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Within 30 days	2,531,023	2,758,239
31–60 days	1,136,942	1,626,687
61–90 days	809,079	292,518
91–180 days	966,627	723,689
181–365 days	196,903	175,579
Over 1 year	60,560	45,604
	5,701,134	5,622,316

The credit period on purchase of goods is ranging from 30 to 120 days (2020: 30 to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

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For the six months ended 30 June 2021

10. BORROWINGS

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

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Borrowings from a related company	–	499,049
Bank borrowings	1,278,759	1,696,402
	1,278,759	2,195,451
Secured	36,053	–
Unsecured	1,242,706	2,195,451
	1,278,759	2,195,451
Carrying amount repayable within one year*	1,278,759	2,195,451

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

The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's borrowings for the six months ended 30 June 2021 is fixed from 0.8688% to 5.38% (2020: 0.6% to 5%).

11. DIVIDEND

	For the six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Dividends recognised as distribution during the periods: 2020 Final — HK\$0.05 (2020: 2019 Final — HK\$0.04) per share	128,526	102,821

The Board does not recommend the payment of any dividend for the six months ended 30 June 2021 (2020: Nil).