



Changhong Jiahua Holdings Limited
(長虹佳華控股有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

2014 FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE PERIOD ENDED 31 MARCH 2014

The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This announcement, for which the directors (the “Directors”) of Changhong Jiahua Holdings Limited 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement 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 turnover of the Changhong Jiahua Holdings Limited (the “Company” together with its subsidiaries, the “Group”) for the three months period ended 31 March 2014 was decreased approximately by 4.83% to HK\$4,452.46 million as compared with the same period in 2013, which was due to keen competition in the consumer electronic industry and information technology (“IT”) distribution business. The Group recorded a net profit of approximately HK\$60.49 million. The Directors believe that the first quarterly results was the normal fluctuation of the business operations of the Group.

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 2014, 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 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Turnover	2	4,452,460	4,678,613
Cost of sales		<u>(4,258,759)</u>	<u>(4,491,960)</u>
Gross profit		193,701	186,653
Other income		2,868	4,831
Distribution and selling expenses		(64,526)	(66,065)
Administrative expenses		(28,002)	(29,850)
Profit from operation		104,041	95,569
Finance costs		(23,617)	(16,482)
Profit before taxation		80,424	79,087
Income tax expense	4	(19,936)	(19,050)
Profit for the period		60,488	60,037
Profit for the period attributed to:			
Owners of the Company		54,331	54,337
Non-controlling interest		6,157	5,700
		60,488	60,037
Earnings per share	5		
Basic and diluted		2.32 cents	2.90 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).

2. TURNOVER

Turnover 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 trading of consumer electronic products, net of discounts and corresponding sales related taxes. The amounts of each significant category of revenue recognised in turnover for the period are as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
IT Consumer Products	3,244,003	2,821,324
IT Corporate Products	1,052,482	997,444
Consumer Electronic Products	101,649	742,225
Others	54,326	117,620
	<u>4,452,460</u>	<u>4,678,613</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 operation.

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) Consumer Electronic Products – trading of consumer electronic products which include mainly liquid crystal display (“LCD”) panels, electronic parts and components.
- (d) Others – distribution of smartphones and development of its own brand products including but not limited to mobile location-based service products and provision of professional integrated IT solutions and services.

Segment profit represents the profit earned by each segment without allocation of bank interest expenses, unallocated income as well as 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:

	2014				
	IT Consumer Products HK\$'000	IT Corporate Products HK\$'000	Consumer Electronic Products HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
External sales	<u>3,244,003</u>	<u>1,052,482</u>	<u>101,649</u>	<u>54,326</u>	<u>4,452,460</u>
Segment profit	<u>102,356</u>	<u>87,697</u>	<u>1,537</u>	<u>2,111</u>	<u>193,701</u>
Other income					2,868
Finance costs					(23,617)
Unallocated head office and corporate expenses					<u>(92,528)</u>
Profit before tax					<u><u>80,424</u></u>
	2013				
	IT Consumer Products HK\$'000	IT Corporate Products HK\$'000	Consumer Electronic Products HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
External sales	<u>2,821,324</u>	<u>997,444</u>	<u>742,225</u>	<u>117,620</u>	<u>4,678,613</u>
Segment profit	<u>89,912</u>	<u>78,315</u>	<u>15,568</u>	<u>2,858</u>	<u>186,653</u>
Other income					4,831
Finance costs					(16,482)
Unallocated head office and corporate expenses					<u>(95,915)</u>
Profit before tax					<u><u>79,087</u></u>

Geographical information

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
People's Republic of China ("PRC")	4,322,193	4,328,139
Europe	–	106,906
South America	670	89,804
Hong Kong	100,200	38,019
Africa	8,916	21,820
Middle East	10,459	7,458
Australia	5,806	6,020
Other Asian District	4,216	80,447
	<u>4,452,460</u>	<u>4,678,613</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.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the period ended 31 March 2014.

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 2014.

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

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to owners of the Company for the period of HK\$54.33 million (2013: HK\$54.34 million), and the weighted average number of 2,346,868,000 (2013: 1,877,198,800) ordinary shares and convertible preference shares in issue during the period. The difference of two figures is due to the completion of acquisition from Sichuan Changhong on 22 January 2013 where the dilutive share base is not the same. Up to the date of this announcement, there were 1,877,868,000 convertible preference shares which can be converted subject to the requirement of the public float.

As there were no dilutive potential shares during the period ended 31 March 2014 and 2013, the diluted earnings per share is the same as basic earnings per share.

6. RESERVES

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

DIVIDENDS

The directors do not recommend the payment of any dividend for the period ended 31 March 2014 (2013: Nil).

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's results for the period ended 31 March 2014 and has provided advice and comments thereon.

BUSINESS REVIEW

In the first quarter of 2014, the global economy continued to improve overall, while the economic growth in China gradually moderated. Meanwhile, China's IT market remained weak. In response to the weak market demand and the competitive business environment, the Company continued adhering to the business concept of "being a good partner with growing value", and dedicated to enhancing operating efficiency and improving business value and its competitiveness. In the first quarter, the Company proactively expanded the cooperation spectrum with the up-stream suppliers, injected innovation into services, and optimized and broadened the product portfolio, thus maintaining the steady growth and receiving satisfiable income in each of our businesses.

During the period under review, the Group engaged in distribution business of IT Consumer and Corporate Products and trading business of Consumer Electronic Products. A fair operating results for the three months ended 31 March 2014 has been achieved, the Group has accomplished a revenue of approximately HK\$4,452.46 million and a net profit of approximately HK\$60.49 million.

On 30 July 2013, Shirley Oliver (mother of decedent Lauren Humphrey) issued a writ of summons ("Summons") to the Superior Court of California, County of Los Angeles, against eleven parties including Apex Digital, Inc. ("Apex Digital", which is wholly owned by Mr. David Ji Long Fen ("Mr. Ji"), a former executive director and an existing shareholder of the Company), Apex Digital, LLC (subsidiary of the Company), (collectively known as the "Defendants"). The Defendants were claimed damages against Apex Digital, LLC for wrongful death based on strict product liabilities within the United States of America ("USA"). The amount of damages was not determined. The Company has engaged a USA law firm to handle this matter.

OUTLOOK

In 2014, China's economy will grow at a slower pace, and the landscape in the IT industry will continue to evolve. The Company will proactively explore the emerging business models in relation to cloud computing, big data and mobile internet, continue to promote the strategic transition into the service industry, intensify the efforts in technology investment and business innovation, so as to facilitate business upgrade and value enhancement. The Company will also dedicate to process reengineering, consolidate the foundation of management, and enhance operating efficiency and core competence. In 2014, the management will be ready to embrace the challenges in the market, promote innovation and adapt to changes, so as to bring greater value 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 2014, none of the Directors had interests 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 (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.

Long positions in shares of associated company

Mr. Zhu Jianqiu ("Mr. Zhu"), is interested in 3.685% equity interests in Changhong IT information Products Co., Limited ("Changhong IT"). Such equity interests were held by Ms. Su Huiqing through a nominee arrangement. Details of such nominee arrangement are set out in the circular of the Company dated 19 November 2013. Such nominee arrangement with respect to Mr. Zhu's interests has been terminated. However, Mr Zhu's interests in 3.685% equity interest in Changhong IT remains unchanged.

Note:

The registered capital of Changhong IT was RMB200,000,000.

Save as disclosed in this paragraph, as at 31 March 2014, none of the Directors 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 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. No options have been granted to the directors up to the date of this announcement.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

As at 31 March 2014, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV 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 Company and beneficial owner	Ordinary	246,368,000 (Note b)	52.53
		Preference	1,877,868,000 (Note c)	100.00
Changhong (Hong Kong) Trading Limited	Interest of controlled Company and beneficial owner	Ordinary	151,000,000 (Note d)	32.20
		Preference	1,877,868,000 (Note c)	100.00
Fit Generation Holding Limited	Beneficial owner	Ordinary	135,000,000	28.79
		Preference	1,877,868,000	100.00
Sichuan Investment Management Company Limited	Beneficial owner	Ordinary	83,009,340	17.70

Notes:

- a. The percentages are calculated based on the total number of ordinary shares and preference shares of the Company in issue as at 31 March 2014, which were 469,000,000 and 1,877,868,000, respectively.

- b. Of the 246,368,000 ordinary shares held by Sichuan Changhong, 95,368,000 ordinary shares are held directly, 16,000,000 ordinary shares are held through its wholly-owned subsidiary, Changhong (Hong Kong) Trading Limited and 135,000,000 ordinary shares are held through Fit Generation Holding Limited, which is wholly owned by Changhong (Hong Kong) Trading Limited.
- c. 1,877,868,000 preference shares are 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.
- d. Of the 151,000,000 ordinary shares, 16,000,000 ordinary shares are held directly and 135,000,000 ordinary shares are held through Fit Generation Holding Limited.

Save as disclosed above as at 31 March 2014, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares 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 which incorporated in the PRC and is listed in Shanghai Stock Exchange. Changhong is principally engaged in the wholesaling 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.

CORPORATE GOVERNANCE RELATING TO THE DEED OF NON-COMPETITION

Pursuant to the acquisition from Sichuan Changhong which was completed on 22 January 2013 (details of which are set out in the announcement of the Company dated 23 April 2012 and the circular of the Company dated 12 December 2012 (the "Changhong Jiahua Acquisition"), a deed of non-competition was entered into between Sichuan Changhong, Sichuan Changhong Electronics Group Co., Limited and Fit Generation Holdings Limited, the controlling shareholders of the Company and the Company on 7 December 2012 to eliminate the competition between the Group and Sichuan Changhong and its shareholder, Sichuan Changhong Electronics Group Co., Limited, with effect from completion of the Changhong Jiahua Acquisition. (Please refer to the section headed "Relationship with the Controlling Shareholders – Non-compete Undertakings" of the Circular for further details about the deed of non-competition). The Company gradually reduced the trading business of consumer electronic products with effect from 30 June 2013, the details of which are set out in the announcement of the Company dated 11 June 2013.

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

The Company has adopted a code of conduct with standards not lower than those required for securities transactions by directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has confirmed after making due enquiries with the Directors in accordance with the code of conduct, that all the Directors have complied with the standard of dealings and model code of conduct in relation to securities transaction by directors.

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.

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

Hong Kong, 17 April 2014

As at the date of this announcement, the executive directors of the Company are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yu Xiao, Mr. Tang Yun, Mr. Wu Xiangtao, Ms. Shi Ping and Mr. Xiang Chaoyang and the independent non-executive directors of the Company are Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin.

This announcement 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>.