CHANGHONG IT

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018 AND RETIREMENT OF DIRECTORS

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GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board of 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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement, for which the directors (the "Directors") of Changhong Jiahua Holdings Limited (the "Company", and collectively 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 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 or deceptive; (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.

RESULTS

The board of directors (the "Board") of the Company is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*2*	**22,098,076**	21,024,255
Cost of sales		**(21,266,681)**	(20,255,406)
Gross profit		**831,395**	768,849
Other income	*3*	**46,266**	27,100
Distribution and selling expenses		**(306,008)**	(285,494)
Research and development expenses		**(26,012)**	(8,842)
Administrative expenses		**(123,485)**	(116,191)
Finance costs	*5*	**(54,011)**	(40,224)
Impairment loss on trade receivables, net		**(1,748)**	(18,365)
Exchange (loss) gain, net		**(8,246)**	1,253
Profit before tax		**358,151**	328,086
Income tax expenses	*6*	**(88,001)**	(83,560)
Profit for the year attributable to the owners of the Company	*7*	**270,150**	244,526
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Exchange differences arising from translation of consolidated financial statements to presentation currency		**(96,038)**	111,650
Total comprehensive income for the year attributable to owners of the Company		**174,112**	356,176
Earnings per share	*8*		
Basic and diluted *(HK cents)*		**10.51**	9.51

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Plant and equipment		**23,809**	29,255
Intangible assets		**35,903**	34,515
Financial asset at fair value through profit or loss		**31,386**	–
Available-for-sale investment		**–**	21,384
		91,098	85,154
Current assets			
Inventories		**2,337,668**	1,976,801
Trade and bills receivables	*9*	**1,413,953**	1,494,684
Bills receivables at fair value through other comprehensive income		**273,218**	–
Prepayments, deposits and other receivables		**88,100**	63,006
Amounts due from related companies		**7,543**	7,163
Trade deposits paid		**649,981**	475,190
Structured bank deposits		**672,221**	–
Pledged bank deposits		**179,107**	130,400
Bank balances and cash		**334,240**	467,245
		5,956,031	4,614,489
Current liabilities			
Trade and bills payables	*10*	**2,807,980**	2,043,973
Other payables		**246,875**	258,734
Tax payables		**22,061**	6,109
Borrowings		**880,466**	459,821
Amounts due to related companies		**6,698**	6,778
Contract liabilities		**347,231**	–
Customer deposits		**–**	284,694
		4,311,311	3,060,109
Net current assets		**1,644,720**	1,554,380
Total assets less current liabilities		**1,735,818**	1,639,534

	2018	2017
	HK$'000	*HK$'000*
Non-current liability		
Government grants	**2,577**	3,289
Net assets	**1,733,241**	1,636,245
Capital and reserves		
Share capital	**36,366**	36,366
Convertible preference shares	**27,897**	27,897
Reserves	**1,668,978**	1,571,982
Total equity	**1,733,241**	1,636,245

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK$'000	Convertible preference shares HK$'000	Statutory reserve HK$'000 (Note i)	Merger reserve HK$'000 (Note ii)	Translation reserve HK$'000	Other reserve HK$'000 (Note iii)	Contributed surplus HK$'000 (Note iv)	Retained earnings HK$'000	Total HK$'000
At 31 December 2016 and 1 January 2017	36,366	27,897	56,720	(1,248,106)	(135,468)	(203,432)	1,992,231	830,977	1,357,185
Profit for the year	–	–	–	–	–	–	–	244,526	244,526
Exchange differences arising from translation of consolidated financial statements to presentation currency	–	–	–	–	111,650	–	–	–	111,650
Total comprehensive income for the year	–	–	–	–	111,650	–	–	244,526	356,176
Appropriation to statutory reserve	–	–	8,582	–	–	–	–	(8,582)	–
Dividends recognised as distribution *(Note 12)*	–	–	–	–	–	–	(77,116)	–	(77,116)
At 31 December 2017	**36,366**	**27,897**	**65,302**	**(1,248,106)**	**(23,818)**	**(203,432)**	**1,915,115**	**1,066,921**	**1,636,245**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**270,150**	**270,150**
Exchange differences arising from translation of consolidated financial statements to presentation currency	**–**	**–**	**–**	**–**	**(96,038)**	**–**	**–**	**–**	**(96,038)**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(96,038)**	**–**	**–**	**270,150**	**174,112**
Appropriation to statutory reserve	**–**	**–**	**41,967**	**–**	**–**	**–**	**–**	**(41,967)**	**–**
Dividends recognised as distribution *(Note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**(77,116)**	**–**	**(77,116)**
At 31 December 2018	**36,366**	**27,897**	**107,269**	**(1,248,106)**	**(119,856)**	**(203,432)**	**1,837,999**	**1,295,104**	**1,733,241**

Notes:

(i) In accordance with the Articles and Association of the People's Republic of China (the "PRC") subsidiaries and the relevant laws and regulations applicable in the PRC, companies established in the PRC are required to appropriate at least 10% of their statutory annual profits after tax determined in accordance with the relevant statutory rules and regulations applicable to enterprises in the PRC to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC companies. The amount of the transfer is subject to the approval of the board of director of the respective PRC companies.

(ii) The merger reserve represents the difference between the considerations and the assets and liabilities acquired under business combinations under common control.

(iii) The other reserve represents the difference between the consideration paid and the carrying values of non-controlling interests acquired during the year ended 31 December 2014.

(iv) On 15 May 2015, a resolution was passed on the annual general meeting to approve the reduction of the amount of approximately HK$2,095,051,000 standing to the credit of the share premium account of the Company and the transfer of the entire amount to the contributed surplus account of the Company.

1.1 GENERAL

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

The Company's shares are listed on GEM of 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 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 Electronic 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. In the opinion of the directors of the Company, the ultimate holding company of the Company is Sichuan Changhong as at 31 December 2018. Its immediate holding company is Fit Generation Holding limited, a private company incorporated in the British Virgin Islands.

1.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

1.2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contract with customers. Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. Information Technology ("IT") Consumer Products – distribution of IT consumer products which include mainly personal computers, digital products and IT accessories.

2. IT Corporate Products – distribution of IT 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.

3. Others – distribution of smartphones and development of its own brand products including but not limited to mobile location-based service products, sales of warranty packages and professional integrated IT solutions and provision of IT services.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Note 2.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amount under HKFRS 15 at 1 January 2018**
	HK$'000	*HK$'000*	***HK$'000***
Current liabilities			
Customer deposits	284,694	(284,694)	–
Contract liabilities	–	284,694	284,694

As at 1 January 2018, advances from customers of HK$284,694,000 previously included in customer deposits were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flow for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	**Adjustments**	**Amounts without application of HKFRS 15**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Contract liabilities	347,231	(347,231)	–
Customer deposits	–	347,231	347,231

Impact on the consolidated statement of cash flows

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
Increase in contract liabilities	79,188	(79,188)	–
Increase in customer deposits	–	79,188	79,188

As at 31 December 2018, customer deposits of HK$347,231,000 are classified as contract liabilities. As such, the increase in customer deposits of HK$79,188,000 in the consolidated statement of cash flows is classified as increase in contract liabilities.

1.2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 at the date of initial application, 1 January 2018.

	Notes	**Available-for-sale ("AFS") investment**	**Trade and bills receivables**	**Bills receivables at fair value through other comprehensive income ("FVTOCI")**	**Financial asset at fair value through profit or loss ("FVTPL")**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Closing balance at 31 December 2017 – HKAS 39		21,384	1,494,684	–	–
Effect arising from initial application of HKFRS 9:					
Reclassification					
From AFS investment	*(a)*	(21,384)	–	–	21,384
From loans and receivables	*(b)*	–	(164,799)	164,799	–
Opening balance at 1 January 2018		–	1,329,885	164,799	21,384

(a) AFS investment

From AFS investment to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investment of HK$21,384,000 was reclassified from AFS investment to financial asset at FVTPL. The fair value as at 1 January 2018 determined by an independent qualified professional valuer approximates the carrying value and no adjustment was made.

(b) Loans and receivables

As part of the Group's cash flow management, the Group has the practice of discounting some of the bills received from debtors to financial institutions before the bills are due for payment and derecognises bills discounted on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables of HK$164,799,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI as at 1 January 2018. The related fair value approximates amortised cost and no adjustment was made.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been grouped based on aging analysis.

ECL for all other financial assets, including bills receivables at FVTOCI, pledged bank deposits, bank balances and cash, other receivables and amounts due from related companies, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment in accordance with the requirements of HKFRS 9. No additional credit loss allowance has been recognised against retained earnings as the amounts involved are insignificant.

1.2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	**HKFRS 15**	**HKFRS 9**	**1 January 2018 (Restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Financial asset at FVTPL	–	–	21,384	21,384
AFS investment	21,384	–	(21,384)	–
Current assets				
Trade and bills receivables	1,494,684	–	(164,799)	1,329,885
Bills receivables at FVTOCI	–	–	164,799	164,799
Current liabilities				
Customer deposits	284,694	(284,694)	–	–
Contract liabilities	–	284,694	–	284,694

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$13,302,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$566,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

2. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018			
Segments	**IT consumer products**	**IT corporate products**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Types of goods or service				
Sales of IT products	11,053,217	6,976,552	–	18,029,769
Sales of smartphone and own brand products	–	–	3,933,589	3,933,589
Sales of warranty packages and professional integrated IT solutions	–	–	110,572	110,572
Provision of IT services	–	–	24,146	24,146
	11,053,217	6,976,552	4,068,307	22,098,076
Timing of revenue recognition				
A point of time	11,053,217	6,976,552	4,044,161	22,073,930
Overtime	–	–	24,146	24,146
	11,053,217	6,976,552	4,068,307	22,098,076

(ii) Performance obligations for contracts with customers

For sales of products to distributors, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the distributors' specific location (delivery). For sales of warranty packages and professional integrated IT solutions, control is transferred when the customers have the right to use or sell these products. Following delivery, the distributor has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods.

The IT services are recognised overtime and considered to be distinct services as it is supplied by the Group to customers on a stand-alone basis or is available for customers from other providers in the market.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All sales of goods and provision of services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. **For the year ended 31 December 2017**

The principal activities of the Group are the provision of professional integrated 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 year are as follows:

	2017
	HK$'000
IT Consumer Products	10,809,340
IT Corporate Products	5,560,739
Others	4,654,176
	21,024,255

3. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**6,669**	5,310
Government grants	**27,155**	17,597
Waive of customer deposits	**1,028**	2,450
Waive of trade payables	**5,890**	–
Compensation income	**2,873**	–
Investment income	**1,559**	–
Others	**1,092**	1,743
	46,266	27,100

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.

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

1. IT Consumer Products – distribution of IT consumer products which include mainly personal computers, digital products and IT accessories.

2. IT Corporate Products – distribution of IT 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.

3. Others – distribution of smartphones and development of its own brand products including but not limited to mobile location-based service products, sales of warranty packages and professional integrated IT solutions and provision of IT services.

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other income, research and development expenses, finance costs, exchange (loss) gain, 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.

Segment assets do not include plant and equipment, intangible assets, prepayments, deposits and other receivables, structured bank deposits, pledged bank deposits, bank balances and cash, financial asset at FVTPL and AFS investment. Segment liabilities do not include other payables, tax payables, amounts due to related companies, government grants and borrowings.

The following is an analysis of the Group's revenue and results, as well as assets and liabilities by reportable and operating segment:

For the year ended 31 December 2018

	IT consumer products *HK$'000*	**IT corporate products** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Revenue				
External sales	**11,053,217**	**6,976,552**	**4,068,307**	**22,098,076**
Segment profit	**206,900**	**304,741**	**11,998**	**523,639**
Other income				**46,266**
Research and development expenses				**(26,012)**
Administrative expenses				**(123,485)**
Exchange loss, net				**(8,246)**
Finance costs				**(54,011)**
Profit before tax				**358,151**
Segment assets	**2,816,950**	**1,798,028**	**67,385**	**4,682,363**
Unallocated assets:				
Structured bank deposits				**672,221**
Pledged bank deposits				**179,107**
Bank balances and cash				**334,240**
Prepayments, deposits and other receivables				**88,100**
Plant and equipment				**23,809**
Intangible assets				**35,903**
Financial asset at FVTPL				**31,386**
Total consolidated assets				**6,047,129**
Segment liabilities	**2,058,837**	**1,018,224**	**78,150**	**3,155,211**
Unallocated liabilities:				
Other payables				**246,875**
Amounts due to related companies				**6,698**
Government grants				**2,577**
Tax payables				**22,061**
Borrowings				**880,466**
Total consolidated liabilities				**4,313,888**

For the year ended 31 December 2017

	IT consumer products *HK$'000*	IT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue				
External sales	10,809,340	5,560,739	4,654,176	21,024,255
Segment profit	194,403	256,698	13,889	464,990
Other income				27,100
Research and development expenses				(8,842)
Administrative expenses				(116,191)
Exchange gain, net				1,253
Finance costs				(40,224)
Profit before tax				328,086
Segment assets	1,916,869	1,871,580	165,389	3,953,838
Unallocated assets:				
Pledged bank deposits				130,400
Bank balances and cash				467,245
Prepayments, deposits and other receivables				63,006
Plant and equipment				29,255
Intangible assets				34,515
AFS investment				21,384
Total consolidated assets				4,699,643
Segment liabilities	1,097,091	1,098,099	133,477	2,328,667
Unallocated liabilities:				
Other payables				258,734
Amounts due to related companies				6,778
Government grants				3,289
Tax payables				6,109
Borrowings				459,821
Total consolidated liabilities				3,063,398

For the year ended 31 December 2018

	IT consumer products *HK$'000*	IT corporate products *HK$'000*	Others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment loss on trade receivables, net	**8,557**	**(6,238)**	**(571)**	**–**	**1,748**
(Reversal of allowance) allowance for inventories	**(34)**	**10,401**	**(3,401)**	**–**	**6,966**
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Research and development expenses	**–**	**–**	**–**	**26,012**	**26,012**
Addition to non-current assets	**–**	**–**	**–**	**14,547**	**14,547**
Depreciation	**–**	**–**	**–**	**3,825**	**3,825**
Amortisation	**–**	**–**	**–**	**2,581**	**2,581**
Gain on disposal of plant and equipment	**–**	**–**	**–**	**(44)**	**(44)**
Bank interest income	**–**	**–**	**–**	**(6,669)**	**(6,669)**
Finance costs	**–**	**–**	**–**	**54,011**	**54,011**
Income tax expenses	**–**	**–**	**–**	**88,001**	**88,001**

For the year ended 31 December 2017

	IT consumer products HK$'000	IT corporate products HK$'000	Others HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment loss on trade receivables, net	9,498	8,267	600	–	18,365
(Reversal of allowance) allowance for inventories	(296)	(1,933)	5,818	–	3,589
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Research and development expenses	–	–	–	8,842	8,842
Addition to non-current assets	–	–	–	47,163	47,163
Depreciation	–	–	–	5,437	5,437
Amortisation	–	–	–	306	306
Gain on disposal of plant and equipment	–	–	–	(19)	(19)
Bank interest income	–	–	–	(5,310)	(5,310)
Finance costs	–	–	–	40,224	40,224
Income tax expenses	–	–	–	83,560	83,560

Geographical information

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

	2018 ***HK$'000***	2017 *HK$'000*
Mainland, China	**21,957,610**	20,961,229
Other regions	**140,466**	63,026
	22,098,076	21,024,255

The following is an analysis of the carrying amount of non-current assets* analysed by the geographical area in which the assets are located:

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**1**	5
Mainland, China	**59,711**	63,765
	59,712	63,770

* *Non-current assets excluded financial instruments.*

Information about major customers

For the year ended 31 December 2018, revenue from one customer of HK$2,642,745,000 contributes over 10% of the total revenue of the Group. No customers contributed over 10% of the total revenue of the Group for the year ended 31 December 2017.

5. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings	**28,258**	17,978
Discounted bills with recourse	**19,678**	15,781
Guarantee fee	**6,075**	6,465
	54,011	40,224

6. INCOME TAX EXPENSES

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax		
– Provision for the year	**4,118**	–
– Underprovision in prior years	**869**	–
	4,987	–
The PRC Enterprise Income Tax ("EIT")		
– Provision for the year	**85,798**	86,521
– Overprovision in prior years	**(2,784)**	(2,961)
	83,014	83,560
	88,001	83,560

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, the tax rates of Changhong IT Information Products Co., Ltd. ("CHIT"), Changhong IT Digital Technology Co., Ltd. ("Changhong IT Digital"), Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd are 25% for both years.

7. PROFIT FOR THE YEAR

Profit for the year from continuing operations has been arrived at after charging (crediting):

	2018	2017
	HK$'000	*HK$'000*
Depreciation for plant and equipment	**3,825**	5,437
Amortisation of intangible assets	**2,581**	306
Auditor's remuneration	**2,300**	2,819
Directors' emoluments	**12,975**	12,998
Cost of inventories recognised as an expense	**21,258,367**	20,255,406
Staff costs, (including directors' emoluments)		
– Salaries and related staff costs	**217,738**	185,842
– Retirement benefits scheme contributions	**39,161**	35,910
	256,899	221,752
Allowance for inventories, net (included in cost of sales)	**6,966**	3,589
Impairment loss on trade receivables, net	**1,748**	18,365
Research and development expenses (Note)	**26,012**	8,842
Gain on disposal of plant and equipment	**(44)**	(19)
Written off of software under development	**7,526**	–
Written off of plant and equipment	**1,553**	–
Minimum lease payments in respect of rented premises	**11,587**	12,558

Note: Included in the research and development expenses, approximately HK$14,454,000 (2017: HK$7,549,000) are related to staff costs.

8. EARNINGS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company	**270,150**	244,526
Less: Earnings attributable to convertible preference shares	**(117,273)**	(106,149)
Earnings for the purpose of basic earnings per share	**152,877**	138,377
Add: Earnings attributable to convertible preference shares	**117,273**	106,149
Earnings for the purpose of diluted earnings per share	**270,150**	244,526

	2018	2017
	'000	*'000*
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,454,652**	1,454,652
Weighted average number of convertible preference shares for the purpose of diluted earnings per share	**1,115,868**	1,115,868
Weighted average number of shares for the purpose of diluted earnings per share	**2,570,520**	2,570,520

9. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**1,460,826**	1,410,879
Less: Allowance for credit loss	**(46,873)**	(80,994)
	1,413,953	1,329,885
Bills receivables	**–**	164,799
Trade and bills receivables	**1,413,953**	1,494,684

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$1,413,953,000 and HK$1,329,885,000 respectively.

The following is the aging analysis of trade and bills receivables, net of allowance for credit losses, based on the invoice dates at the end of the reporting period which approximated the respective revenue recognition dates:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**696,701**	570,609
31 – 60 days	**363,149**	608,065
61 – 90 days	**194,561**	142,067
91 – 180 days	**94,792**	66,621
181– 365 days	**36,714**	56,975
Over 1 year	**28,036**	50,347
	1,413,953	1,494,684

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$299,306,000 which are past due but not impaired as at the reporting date. Out of the past due balances, HK$41,078,000 has been past due 1 year or more and is not considered as in default as there has not been a significant change in credit quality and the amounts are still considered fully recoverable.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$331,239,000 which were past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances.

The Group allows a credit period ranging from 30 – 180 days to its third party trade customers. As at 31 December 2017, 74% of the trade and bills receivables are neither past due nor impaired.

Aging of trade receivables which are past due but not impaired:

	2017
	HK$'000
Within 30 days	242,256
31 –60 days	30,110
61 –90 days	7,923
91 – 180 days	18,801
Over 180 days	32,149
	331,239

Movement in the allowance for doubtful debts:

	2017
	HK$'000
Balance at beginning of the year	60,671
Impairment loss on trade receivables	18,365
Amounts written off as uncollectible	(2,837)
Exchange realignment	4,795
Balance at the end of the year	80,994

At 31 December 2017, included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$80,994,000 which have been in severe financial difficulties.

10. TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables, based on the date of receipt of goods, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**2,161,954**	1,408,780
31 – 60 days	**452,173**	444,758
61 – 90 days	**69,695**	60,113
91 – 180 days	**59,938**	64,498
181 – 365 days	**25,086**	49,715
Over 1 year	**39,134**	16,109
	2,807,980	2,043,973

The credit period on purchase of goods is ranging from 30 – 120 days (2017: 30 – 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

11. CONTINGENT LIABILITIES

During the years ended 31 December 2018 and 2017, the Group (i) endorsed certain bills receivables for the settlement of trade and other payables; and (ii) discounted certain bills receivables 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 receivables, 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 receivables is low because all endorsed and discounted bills receivables are issued and guaranteed by the reputable banks in the PRC. As a result, the relevant assets and liabilities were not recognised in the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivables at the end of each reporting period are as follows:

	2018	2017
	HK$'000	*HK$'000*
Settlement of trade and other payables	**181,480**	135,808
Discounted bills for raising of cash	**168,282**	274,380
Outstanding endorsed and discounted bills receivables with recourse	**349,762**	410,188

The outstanding endorsed and discounted bills receivables are aged within 180 days (2017: 180 days) at the end of each reporting period.

12. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2017 Final – HK3 (2017: 2016 Final – HK3) cents per share	**77,116**	77,116

The directors recommend the payment of a final dividend of HK3 cents (2017 Final: HK3 cents) per share in respect of the year ended 31 December 2018 which is subject to approval by the shareholders in the forthcoming annual general meeting.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules which sets out corporate governance principles and code provisions (the "Code Provisions"). Throughout the year ended 31 December 2018, the Company has complied with all the Code Provisions as set out under the CG Code.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors is appointed for a twelve-month term, which is renewable automatically with a fixed amount of remuneration per annum. Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng have served the Group for more than nine years. Pursuant to Code Provision A.4.3 of the CG Code, (a) an independent non-executive Director having served the Company for more than nine years could be relevant to the determination of an independent non-executive Director's independence; and (b) if an independent non-executive Director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by Shareholders and the papers to Shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected. The independent non-executive Directors, Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin will retire at the forthcoming annual general meeting of the Company ("AGM"). Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin will not offer themselves for re-election at the AGM while Mr. Johnathan CHAN Ming Sun, being eligible, has offered himself for re-election. Details of the reasons why the Board believes Mr. Jonathan CHAN Ming Sun is still independent and should be re-elected are set out in the circular to be despatched to the Shareholders to be sent together with this Annual Report.

All independent non-executive Directors have confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers them to be independent.

REMUNERATION COMMITTEE

The Company has established the remuneration committee with written terms of reference. The remuneration committee currently comprises three independent non-executive directors and one executive director. It is chaired by an independent non-executive director. During the year, the remuneration committee held two meetings.

AUDIT COMMITTEE

The Company has established the audit committee with written terms of reference. The audit committee currently comprises four independent non-executive directors. At the discretion of the audit committee, executive directors and/or senior management personnel, overseeing the Group's finance and internal control functions, may be invited to attend meeting.

During the year under review, the audit committee held five meetings. The annual results for the year ended 31 December 2018 have been reviewed by the audit committee.

NOMINATION COMMITTEE

The Company has established the nomination committee with written terms of reference. The nomination committee currently comprises three independent non-executive directors and one executive director. It is chaired by the Chairman of the Board. During the year, the nomination committee held two meetings.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board conducts regular reviews on the effectiveness of the risk management and internal control systems on at least an annual basis to ensure that the operation of the Company is legal, the assets of the Company are safeguarded and the financial information that the Company relies on for the operation of its business or for the release to the public are accurate and reliable. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The management of the Group is responsible for establishing and maintaining the risk management and internal control systems for financial reporting. The Company has established a stringent internal control system for financial reporting to eliminate the risks of misstatement, omission and fraud in financial reporting. Meanwhile, with reference to external regulatory requirements, the Company's business development and the internal management procedures, the Company has reviewed the effectiveness of the internal control system for business strategy, finance, operations, marketing, legal compliance and other areas. The Company has established a comprehensive risk management system which integrates internal control and risk management system for the control of business operations with high risks. The Company also conducted assessment on the effectiveness of its internal control and risk management systems for the year ended 31 December 2018. The management of the Group believes that the internal control, risk management and financial reporting systems were effective and adequate and provided reliable financial data in the preparation of financial statements in accordance with generally accepted accounting principles.

All material information related to the Company is disclosed through the leadership of the Board together with the performance of the relevant duties by the management. The Company has performed an annual review of the effectiveness of the disclosure procedures. The Company's disclosure procedures were effective at a reasonable assurance level.

The Board has overall responsibilities for the establishment of, maintaining an adequate and effective internal control system and for reviewing its effectiveness to safeguard the Company's assets against unauthorized use or disposition, and to protect the interests of shareholders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2018 Business Review

In 2018, the overall growth of the world economy was moderate, and the major developed economies maintained relatively strong growth. However, the economic momentum slowed down, the US protectionism and unilateralism emerged frequently, and the international economic and trade rules had shown a trend of undergoing profound adjustment. Affected by major changes in the domestic and international environment, China's economy faced increased downward pressure in 2018, but it remained stable on the whole with some progress through adopting a loosely-oriented monetary policy and a more proactive fiscal policy. Various new technologies such as artificial intelligence, blockchain, big data, cloud computing and Internet of Things are accelerating industrial innovation and application, and the digitization transformation has become the main theme in the market. In 2018, the Group implemented the marketing network strategy of online and offline omnichannel expansion, aiming to strengthen the segmentation and management of channels and tap the channel value. At the same time, we continued to deepen our strategic upgrading and completed the business layout for the big data, cloud services and hardware and software infrastructures, forming a satisfactory business scale, gaining solid market position and winning good reputation among upstream and downstream enterprises; and in terms of the internet distribution business, we solidify the basic business and upgraded the internet platforms in an effort to build the network-based and three-dimension distribution platforms and ecological systems. The scale and revenue of the Group's main business continued to grow steadily in 2018.

In 2018, the Group recorded revenue of approximately HK$22,098.08 million, representing an increase of 5.11% as compared with that in the corresponding period of the last financial year. The gross profit margin in 2018 was 3.76%, representing an increase of approximately 0.11% as compared with that in the corresponding period of the last financial year. In 2018, profit attributable to shareholders amounted to approximately HK$270.15 million, representing an increase of approximately 10.48% as compared with that in the corresponding period of the last financial year, and basic earnings per share amounted to HK 10.51 cents, representing an increase of HK 1.00 cents as compared with HK9.51 cents in the corresponding period of the last financial year.

The Group continued to strengthen its basic management and carried on strengthening the information technology construction as well as transforming and optimizing the business process so as to improve its operational efficiency. In addition, the Group adhered to strict credit management and accounts receivable management. The turnover ratio of receivables slight decreased as compared with that in the corresponding period of the last financial year due to the lowered settlement speed of cash during the whole year as a result of the expansion of the e-commerce sales business with long accounts receivable periods and the growth of IT corporate products sales. The inventory balance at the end of this financial year increased compared with the same period last year due to concentrated purchase at the end of the year. The Group continued to strengthen its cost control. The distribution and sales expenses was basically the same as those of the same period of last year; the administrative expenses increased significantly as compared with the corresponding period of last year due to the increase in the number of technical personnel and related expenses; and the finance costs increased as compared with the corresponding period of last year due to the rising interest rates on loans.

The analyses of turnover and profit for the three operating segments of the Company as of 31 December 2018 are as follows (Fluctuations in the RMB exchange rate may affect the numbers/percentages of segment):

IT consumer products distribution business: in response to the continued decline in PC market demand and the pressure from e-commerce enterprises, the Group strengthened its cooperation between core manufacturers and e-commerce enterprises, and introduced new product lines to give full play to its advantage of channel resources and expand its marketing model and scale. Revenue in this segment increased by 2.26% to HK$11,053.22 million as compared with the corresponding period of last year, while its profit increased by 6.43% to HK$206.90 million.

IT corporate products distribution business: we actively expanded new brands and new product lines and strengthened cooperation and layout with upstream manufacturers in the cloud business which was expected to form an organic combination with existing businesses. By leveraging the internationally leading big data analysis technology, we explored and analyzed channel resources and industry needs to deepen the application and development of solutions based on cloud computing, big data and artificial intelligence and other technologies. Revenue in this segment increased by 25.46% to HK$6,976.55 million as compared with the corresponding period of last year, while its profit increased by 18.72% to HK$304.74 million.

Other business: revenue in this segment decreased by 12.59% to HK$4,068.31 million as compared with the corresponding period of last year due to the decline in the sales of smartphones. Profit in this segment decreased by 13.62% to HK$12.00 million due to loss incurred as a result of the disposal of LBS product inventory.

On 28 December 2018, Ms. SHI Ping has tendered her resignation as an executive Director with effect from 31 December 2018 in order to devote more time to more time to her retirement. Mr. LUO Yongping has been appointed as an executive Director with effect from 1 January 2019. For further details, please refer to the announcement of the Company dated 28 December 2018.

Mr. LI Jin has tendered his resignation as executive Director with effect from 15 January 2019 in order to devote more time to his other business commitment. Mr. Li Jin would also cease to be the alternate director of Mr. Zhao Yong, the chairman of the Board and an executive Director, with effect from 15 January 2019. For further details, please refer to the announcement of the Company dated 15 January 2019.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2018, the Group's financial and liquidity positions remained healthy and stable. As at 31 December 2018, the aggregate outstanding borrowings of the Group were approximately HK$880.47 million (2017: HK$459.82 million), which were unsecured and interest bearing. The increase in the Group's borrowings was due to the increase in demand of payment as compared with the corresponding period of last year. The Group's cash and bank balances amounted to approximately HK$513.35 million (2017: HK$597.65 million), together with trade and bills receivables amounting to approximately HK$1,687.17 million (2017: HK$1,494.68 million). For the year ended 31 December 2018, the Group's net current assets amounted to approximately HK$1,644.72 million (2017: HK$1,554.38 million) and the Group did not have any charges on its fixed assets (2017: Nil). The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 31 December 2018 was 2.49 times (2017: 1.87 times). The management of the Group is confident that with proper funding arrangements, the Group's financial resources are sufficient to finance its daily operations.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2018, the total number of the Group's staff was 1,038 (2017: 1,063 staff). For the year ended 31 December 2018, total staff costs (including Directors) amounted to approximately HK$256.90 million (2017: HK$221.75 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The remuneration of executive Directors is determined based on the Company's financial position in a fixed sum; whereas the remuneration of independent non-executive Directors is determined with reference to the prevailing market conditions and the workload. The Group provides retirement benefit for its employees in Hong Kong in the 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.

During the year ended 31 December 2018, there were no outstanding share options granted or exercised as the share option scheme previously adopted by the Company had expired.

The Group did not experience any significant labour disputes or substantial changes in the number of its employees that led to any disruption of normal business operations. The Directors consider that the Group has developed good relationships with its employees.

EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR

There were no significant events occurred that might affect the Group after 31 December 2018.

OUTLOOK

Looking forward to 2019, global economic growth is expected to slow down, while the economic uncertainty and instability will pile up. The external environment facing China remains grim, and China's economy is still exposed to great downward pressure. However, with the increase in the reverse regulation effect of macro policies and the sustained release of policy effects, it is expected that China's economy will rally gradually in the second half of 2019 with a "First Low, Then Stable" growth momentum throughout the year. China will continue to promote the deep integration and application of next-generation information and communication technologies and industries such as big data, cloud computing, artificial intelligence, Internet of Things and 5G, and promote the emergence of new technologies, new products, new industries, new formats and new models. In 2019, the Group will keep on promoting the strategic upgrading towards becoming a IT comprehensive service provider, and carry on the implementation of the business strategy of "All Channels, Specialization, New Distribution, and Good Partners", and hence establish a new IT comprehensive services system based on the business policy of "Professional Exploration and Growth of Value", and strive to build and expand independent intellectual property solutions, promote value added continuously and enhance the ability to serve customers by enhancing technology implementation and service capabilities, make every effort to increase the stickiness of customers and channels to get closer to the end customers, and end up to help customers achieve the digitalization transformation while making a greater contribution to shareholders. The Group is planning to set up a third-party e-commerce platform in Mainland China. Once it is materialised, the Company will announce the details in a timely manner.

DIVIDEND

The Board recommended the payment of final dividend of HK$0.03 per share of the Company (the "Share(s)") in respect of the year ended 31 December 2018 (2017: HK$0.03 per Share), and there is no arrangement that a Shareholder has waived or agreed to waive any dividend. The final dividend is expected to be paid on Wednesday, 12 June 2019 to all Shareholders whose name appear on the register of members of the Company at the close of business on 24 May 2019 and is subject to approval by the Shareholders at the AGM.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The AGM is scheduled to be held on Friday, 17 May 2019. The Company's register of members will be closed from Tuesday, 14 May 2019 to Friday, 17 May 2019, both days inclusive, for the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, 10 May 2019.

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The Company's register of members will be closed from Monday, 27 May 2019 to Wednesday, 29 May 2019, both days inclusive, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend of HK$0.03 per Share for the year ended 31 December 2018, if approved at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2019. The proposed final dividend will be paid to Shareholders whose names appear on the register of members of the Company on Friday, 24 May 2019.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2018, 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 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 Shares held *(Note a)*	Approximate percentage of interest %
Mr. Zhu Jianqiu ("Mr. Zhu") *(Note b)*	Interest in a controlled corporation	82,415,762 (L)	5.67

Note:

(a) (L) represents long position.

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

Save as disclosed in this paragraph, as at 31 December 2018, none of the Directors or chief executives of the Company had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate. As at the date of this announcement, 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 31 December 2018, the persons or companies (not being a Director or chief executive 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 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 *(Note a)*	Approximate percentage of interest in relevant class of Shares *(Note b)*
Sichuan Changhong Electric Co, Limited ("Sichuan Changhong")	Interest of controlled corporation and beneficial owner	Ordinary	1,008,368,000 (L) *(Note c)*	69.32%
		Preference	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	913,000,000 (L) *(Note e)*	62.76%
		Preference	1,115,868,000 (L) *(Note d)*	100.00%

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

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 31 December 2018, which were 1,454,652,000 and 1,115,868,000, respectively.

(c) 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.

(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) 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 Kong Kong, Changhong Hong Kong is deemed to be interested in the Shares held by Fit Generation for the purpose of the SFO.

(f) 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.

(g) Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' 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 controlling shareholders of the Company or any of their respective close associates (as defined in the GEM 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 period under review.

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 as set out in the Code of Conduct.

RETIREMENT OF DIRECTORS

The Board announces that Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin will retire from office as independent non-executive Directors by rotation at the 2019 AGM pursuant to bye-law 84 of the Bye-laws.

Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin confirmed that they will not offer themselves for re-election at the 2019 AGM as they wish to devote more time on pursuance of their own businesses.

Each of Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin has confirmed that he has no disagreement with the Board and there are no other matters relating to his retirement that need to be brought to the attention of the shareholders of the Company or the Stock Exchange.

Following the retirement of Mr. Robert IP Chun Chung and Mr. SUN Dongfeng as independent non-executive Directors, they will also cease to be members of each of the Audit Committee, the Nomination Committee and the Remuneration Committee with effect from the conclusion of the AGM. Following the retirement of Mr. CHENG Yuk Kin as an independent non-executive Director, he will also cease to be a member of the Audit Committee with effect from the conclusion of the AGM.

The Board is now in the course of identifying suitable candidates to fill the vacancies of independent non-executive Directors as soon as practicable before the effective of retirement of Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin. Further announcement will be made by the Company if and when appropriate.

The Board would like to extend its appreciation to Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin for their valuable contributions during their tenure of office in the Company.

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

Hong Kong, 25 March 2019

As at the date of this announcement, the executive Directors are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yang Jun and Mr. Luo Yongping 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 announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited 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 the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the day of its posting thereon and on the website of the Company at www.changhongit.com.hk.