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If you have sold or transferred all your shares in Changhong Jiahua Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Changhong Jiahua Holdings Limited

長虹佳華控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3991)

**(I) CONTINUING CONNECTED TRANSACTIONS IN RELATION
TO RENEWAL OF THE MASTER SUPPLY AGREEMENT AND
THE MASTER PURCHASE AGREEMENT;
(II) MAJOR AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE RENEWAL OF THE DEPOSIT SERVICES
UNDER THE FINANCIAL SERVICES AGREEMENT; AND
(III) NOTICE OF SPECIAL GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Capitalized terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 6 to 22 of this circular. A letter from the Independent Board Committee is set out on pages 23 to 24 of this circular. A letter from Somerley Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 51 of this circular.

A notice convening the SGM to be held at 9th Floor, Beijing Changhong Sci-Tech Tower, Building 26, Zone 18, No. 188 West Road, South Fourth Ring Road, Fengtai District, Beijing, China at 10:30 a.m. on 29 December 2023 is set out on pages SGM-1 to SGM-3 of this circular at which ordinary resolutions will be proposed to approve the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps).

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you propose to attend the SGM, you are requested to complete the accompanying form of proxy for use at the SGM in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so desire.

11 December 2023

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DEFINITIONS

In this circular the following expressions have the following meanings unless the context requires otherwise:

“2021 Financial Services Agreement”	the financial services agreement dated 17 November 2020 entered into between Changhong IT and Changhong Finance in relation to the provision of the Financial Services by Changhong Finance to Changhong IT, details of which are set out in the announcement of the Company dated 17 November 2020
“2021 Master Purchase Agreement”	the master purchase agreement dated 17 November 2020 entered into between the Company and Sichuan Changhong Holding in relation to the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group, details of which are set out in the announcement of the Company dated 17 November 2020
“2021 Master Supply Agreement”	the master supply agreement dated 17 November 2020 entered into between the Company and Sichuan Changhong Holding in relation to the supply of ICT Products and Services by the Group to the Sichuan Changhong Electric Group, details of which are set out in the announcement of the Company dated 17 November 2020
“2024 Financial Services Agreement”	the financial services agreement dated 14 November 2023 entered into between Changhong IT and Changhong Finance in relation to the provision of the Financial Services by Changhong Finance to Changhong IT
“2024 Master Purchase Agreement”	the master purchase agreement dated 14 November 2023 entered into between the Company and Sichuan Changhong Holding in relation to the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group
“2024 Master Supply Agreement”	the master supply agreement dated 14 November 2023 entered into between the Company and Sichuan Changhong Holding in relation to the supply of ICT Products and Services by the Group to the Sichuan Changhong Electric Group
“Agreements”	collectively, the 2024 Financial Services Agreement, 2024 Master Purchase Agreement and the 2024 Master Supply Agreement
“Announcement”	the announcement dated 14 November 2023 made by the Company in relation to the Agreements and the transactions contemplated thereunder

DEFINITIONS

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CAGR”	compound annual growth rate
“CBIRC”	China Banking and Insurance Regulatory Commission
“Changhong Finance”	Sichuan Changhong Group Finance Co., Ltd (四川長虹集團財務有限公司), a company established under the laws of the PRC and owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively as at the Latest Practicable Date
“Changhong Huayi”	Changhong Huayi Compressor Co., Ltd (長虹華意壓縮機股份有限公司), a company established under the laws of the PRC with limited liability and principally engaged in the manufacturing and sale of compressors, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000404) and is owned as to approximately 30.6% by Sichuan Changhong as at the Latest Practicable Date
“Changhong IT”	Sichuan Changhong IT Information Products Co., Ltd (四川長虹佳華信息產品有限責任公司), a company established under the laws of the PRC and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Changhong Meiling”	Changhong Meiling Co., Ltd (長虹美菱股份有限公司), a company established under the laws of the PRC with limited liability and principally engaged in the manufacturing and sale of consumer electronic appliances, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000521) and is owned as to approximately 27.36% by Sichuan Changhong as at the Latest Practicable Date
“Company”	Changhong Jiahua Holdings Limited (長虹佳華控股有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 3991)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Financial Services”	the financial services, including but not limited to (i) deposit services, (ii) loan services, and (iii) other intermediary services (such as settlement services) to be provided by Changhong Finance to Changhong IT
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICT”	information and communication technology
“ICT Products and Services”	ICT products and technical services, including mainly (i) storage products such as storage devices, (ii) servers, (iii) networking products such as switches and routers, (iv) personal computers, and (v) installation and maintenance services for the abovementioned categories of the ICT products to be provided by the Group to the Sichuan Changhong Electric Group
“Independent Board Committee”	the independent board committee of the Board comprising all the independent non-executive Directors
“Independent Financial Adviser” or “Somerley Capital”	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder
“Independent Shareholder(s)”	the Shareholders other than Sichuan Changhong and its associates, namely Changhong (Hong Kong) Trading Limited and Fit Generation Holding Limited
“independent third party”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with the Company or any of its connected persons
“Latest Practicable Date”	6 December 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules
“PBOC”	The People’s Bank of China
“PC”	personal computer
“PRC”	the People’s Republic of China
“Purchase Products”	products including software, services and ancillary equipment to be purchased by the Group from the Sichuan Changhong Electric Group
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held to approve the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement and the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.025 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Sichuan Changhong”	Sichuan Changhong Electric Co., Limited (四川長虹電器股份有限公司), a company established under the laws of the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600839) and a controlling shareholder of the Company
“Sichuan Changhong Electric Group”	Sichuan Changhong Holding and its subsidiaries
“Sichuan Changhong Holding”	Sichuan Changhong Electronics Holding Group Co., Ltd. (四川長虹電子控股集團有限公司), a company established under the laws of the PRC and holds approximately 23.22% equity interest in Sichuan Changhong as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“US\$” United States dollars, the lawful currency of United States of America

“%” per cent.

Note: For the purpose of illustration only, RMB is translated to HK\$ at the illustrative rate of RMB1.00 = HK\$1.0896.

长虹佳华
CHANGHONGIT

Changhong Jiahua Holdings Limited

長虹佳華控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3991)

Executive Directors:

Mr. Zhu Jianqiu (*Chairman and President*)

Mr. Zhang Xiaolong

Mr. Zhao Qilin

Mr. Shao Min

Ms. Su Huiqing

Mr. Zhou Jiachao

Independent Non-Executive Directors:

Mr. Jonathan Chan Ming Sun

Mr. Gao Xudong

Mr. Meng Qingbin

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Head office and principal

place of business:

Unit 1412, 14/F

West Tower, Shun Tak Centre

168–200 Connaught Road Central

Hong Kong

11 December 2023

To the Shareholders

Dear Sir or Madam,

**(I) CONTINUING CONNECTED TRANSACTIONS IN RELATION
TO RENEWAL OF THE MASTER SUPPLY AGREEMENT AND
THE MASTER PURCHASE AGREEMENT; AND
(II) MAJOR AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE RENEWAL OF THE DEPOSIT SERVICES
UNDER THE FINANCIAL SERVICES AGREEMENT**

INTRODUCTION

Reference is made to the Announcement.

The purpose of this circular is to provide you with, among other things, (i) further details of the 2024 Master Supply Agreement, 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps); (ii) a letter of recommendation from the Independent Board Committee in relation to the 2024 Master Supply Agreement, 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and

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each of the transactions contemplated thereunder (including the proposed annual caps); (iii) a letter of advice from Somerley Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the SGM.

THE 2024 MASTER SUPPLY AGREEMENT

Date

14 November 2023

Parties

1. The Company; and
2. Sichuan Changhong Holding.

Subject matter

Pursuant to the 2024 Master Supply Agreement, the Group has agreed to supply the ICT Products and Services to the Sichuan Changhong Electric Group. The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of the ICT Products and Services.

Term

The term commences from 1 January 2024 until 31 December 2026.

Pricing

As a general principle, the price and terms of the individual orders in respect of the supply of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, or on a similar basis as the Group transacts business with other independent third party customers, and shall be on terms which are no less favourable to the Group than those provided to independent third party customers. The terms of the individual orders will be consistent with the principles and the terms of the 2024 Master Supply Agreement. If there is any conflict between the terms of an individual order and the 2024 Master Supply Agreement, the latter shall prevail.

In particular, the Company maintains a gross profit margin level list for each category of the ICT Products and Services, including, among other things, (i) storage products such as storage devices, (ii) servers, (iii) networking products such as switches and routers, (iv) personal computers, and (v) installation and maintenance services for the above ICT products to be provided by the Group to both the Sichuan Changhong Electric Group and independent third party customers. Specifically, the gross profit margin levels are determined by the relevant business departments responsible for each category of the ICT Products and Services, and subsequently approved by the senior management of the Company with reference to (i) the Group's overall historical profit margins based on its dealings with independent third party customers and the Sichuan Changhong Electric Group in the past years; and (ii) the prevailing

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market prices of similar ICT Products and Services. The gross profit margin levels list will be monitored by the relevant business departments of the Company from time to time, and may be renewed in light of any significant market changes.

Taking into account the gross profit margin levels list as guidance, the relevant business departments of the Company will adjust the actual transaction price and payment terms of the ICT Products and Services based on factors such as the sales amount and the estimated costs to be incurred (e.g. costs of delivery, procurement and insurance) according to the pricing policy of the Group. Similarly, the fees for the provision of ICT Products and Services to project-related businesses will be adjusted by factors such as the competitiveness, duration and scale of the relevant project. As a general principle, the gross profit margin of the transactions with the Sichuan Changhong Electric Group shall not be lower than the relevant gross profit margin level stated on the list. The terms of the supply of ICT Products and Services shall then be approved by the relevant business departments and the project management department of the Company before an offer can be made to the Sichuan Changhong Electric Group to ensure that the price and payment terms offered to the Sichuan Changhong Electric Group will be on normal commercial terms, or on a similar basis as the Group transacts business with other independent third party customers, and shall be on terms no less favourable than those offered to independent third party customers.

Payment

The credit term for the fee payable by the Sichuan Changhong Electric Group is determined in accordance with the payment terms of each individual order. For project-related business, the payment terms of the individual order will make reference to the timing and schedule of the relevant project. For other wholesale-related business, the credit term is within a normal credit period upon the date of invoice.

Previous/existing annual cap amounts

The previous/existing annual cap amounts for the provision of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group under the 2021 Master Supply Agreement for the two years ended 31 December 2022 and the year ending 31 December 2023 are as follows:

	For the year ended 31 December		For the
	2021	2022	year ending
	<i>RMB'000</i>	<i>RMB'000</i>	31 December
			2023
			<i>RMB'000</i>
Previous/existing annual cap amounts	<u>200,000</u>	<u>220,000</u>	<u>242,000</u>

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Historical transaction amounts

The historical transaction amounts for the provision of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group under the 2021 Master Supply Agreement for the two years ended 31 December 2022 and the ten months ended 31 October 2023 are as follows:

	For the year ended 31 December		For the ten months ended
	2021	2022	31 October
	RMB'000	RMB'000	2023
			RMB'000
Historical transaction amounts	<u>25,233</u>	<u>11,092</u>	<u>12,531</u>

The Board confirms that as at the Latest Practicable Date, the annual caps under the 2021 Master Supply Agreement have not been exceeded.

Proposed annual caps

The proposed annual caps for the fee to be paid by the Sichuan Changhong Electric Group to the Group for the ICT Products and Services under the 2024 Master Supply Agreement for each of the three years ending 31 December 2026 are RMB100,000,000, RMB105,000,000 and RMB110,000,000, respectively.

The above proposed annual caps under the 2024 Master Supply Agreement were determined after having taken into account the following factors:

- (a) the proposed new annual caps are significantly lower than the existing annual cap for the year ending 31 December 2023 considering the low utilization rates of the previous/existing annual caps under the 2021 Master Supply Agreement as set out above, which was mainly due to (i) adjustment to the business strategies of the Sichuan Changhong Electric Group during 2021 to 2023, whereby some original projects which required the ICT Products and Services were put on hold; and (ii) the COVID-19 epidemic which hit the global economy hard, inevitably slowing down the business growth and affecting the business activities of various enterprises to a certain extent. For example, the Sichuan Changhong Electric Group had adopted a more stringent control over its investment in fixed assets during that period and reduced acquisition of ICT Products and Services. Since the impact of the COVID-19 epidemic is dissipating and the global economy is gradually recovering, the Group is more optimistic about the future business prospects and development, which will be accompanied by a growing and viable demand for the ICT Products and Services provided by the Group;

LETTER FROM THE BOARD

- (b) the Sichuan Changhong Electric Group has made in-depth layout in new infrastructure such as 5G, artificial intelligence and big data, and so far has achieved intermediate results in 5G station construction, industrial Internet, artificial intelligence and other aspects. It is expected that the Sichuan Changhong Electric Group's demand for ICT products and services such as cloud computing products and services, data storage and data security for its own use or for project operations will increase. Based on the communication and understanding between the Sichuan Changhong Electric Group and the Group, the expected quantity of ICT products and services to be ordered by the Sichuan Changhong Electronics Group from the Group in 2024 is estimated to be approximately RMB50,000,000 to RMB100,000,000. As at the Latest Practicable Date, the known amount of supply contract which will be entered into by the two parties in 2024 was approximately RMB10,000,000;
- (c) the proposed annual caps under the 2024 Master Supply Agreement will still provide sufficient flexibility for the Group to cater for and grasp the abundant business opportunities in the PRC ICT market in the coming three years. According to industry analysis such as the PRC ICT market forecasts for 2024 and beyond issued by the International Data Corporation (China) in August 2023, the total spending in the global ICT market is expected to increase to approximately US\$6.2 trillion in 2027, representing a five-year CAGR of 5.7%. In particular, the total spending in the PRC ICT market is expected to increase from approximately US\$530 billion in 2022 to approximately US\$720 billion in 2027, representing a five-year CAGR of 6.2%. Furthermore, the Sichuan Changhong Electric Group has integrated new technologies such as the Internet of Things, 5G, big data, artificial intelligence and blockchain to continuously promote the construction and application of "5G+ Industrial Internet" smart factories for home appliances, and to accelerate the digital transformation of various businesses, in order to enhance production and operation efficiency and to propel the transformation and upgrading of the manufacturing industry. In view of its operational needs to cater for the growing market size of the ICT industry and investment in digital transformation, it is anticipated that the Sichuan Changhong Electric Group's demand for the ICT Products and Services from relevant suppliers including the Group will increase accordingly; and
- (d) the prevailing open market prices and projected rise of similar ICT Products and Services in the PRC due to inflation, which were sourced from the (i) regular market observation and analysis of the Company; and (ii) past dealings of the Company with independent third party customers. According to the statistics published by the International Monetary Fund in October 2023, it was projected that the global inflation rate will be around 6.9% in 2023 and around 5.8% in 2024. The supply price of similar ICT Products and Services by the Group had seen an increase ranging from 5% to 10% from 2022 to 2023.

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Based on the communication and understanding between the Company and the Sichuan Changhong Electric Group in respect of its future development plan, and considering factors such as the overall expansion of the ICT industry, the historical growth of Sichuan Changhong's business, the historical transaction amounts under the 2021 Master Supply Agreement and inflation rates, the Company has proposed an annual cap for the year ending 31 December 2024 which is over 50% lower than the existing annual cap for the year ending 31 December 2023, with a buffer of approximately 5% increase for the annual caps for each of the two years ending 31 December 2026, for prudence purposes and to maintain flexibility for the Group's business.

Considering the factors set out above, the Directors (including the independent non-executive Directors having taken into account the advice from the Independent Financial Adviser) are of the view that the proposed annual caps of the 2024 Master Supply Agreement are fair and reasonable.

Reasons for and benefits of entering into the 2024 Master Supply Agreement

The Group has a long-standing business relationship with Sichuan Changhong, and has been supplying the ICT Products and Services to the Sichuan Changhong Electric Group since April 2016. Taking into account the Sichuan Changhong Electric Group's broad distribution network and well-established market, the 2024 Master Supply Agreement will enable the Company to continue its capitalization on such business relationship, and to maintain a stable income stream with a reliable and committed source of orders from the Sichuan Changhong Electric Group, which in turn will benefit the Group's revenue growth and future development. With the rapid development of the ICT industry and the widespread use of digital technology, it is also anticipated that the Sichuan Changhong Electric Group's general demand for the ICT Products and Services will increase correspondingly.

The Directors (including the independent non-executive Directors having taken into account the advice from the Independent Financial Adviser) are of the view that the 2024 Master Supply Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE 2024 MASTER PURCHASE AGREEMENT

Date

14 November 2023

Parties

1. The Company; and
2. Sichuan Changhong Holding.

LETTER FROM THE BOARD

Subject matter

Pursuant to the 2024 Master Purchase Agreement, the Company has agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group. The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of the Purchase Products.

Term

The term commences from 1 January 2024 until 31 December 2026.

Pricing

As a general principle, the price and terms of the individual orders in respect of the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, or on a similar basis as the Group transacts business with other independent third party suppliers, and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers. The terms of the individual orders will be consistent with the principles and the terms of the 2024 Master Purchase Agreement. If there is any conflict between the terms of an individual order and the 2024 Master Purchase Agreement, the latter shall prevail.

Payment

The credit term for the fee payable by the Group in relation to project-related business is determined in accordance with the payment terms of each individual order, with reference to the timing of the relevant project. For other trading-related business, the credit term is within a normal credit period upon the date of invoice.

Previous/existing annual cap amounts

The previous/existing annual cap amounts for the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group under the 2021 Master Purchase Agreement for the two years ended 31 December 2022 and the year ending 31 December 2023 are as follows:

	For the year ended 31 December		For the year ending 31 December
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Previous/existing annual cap amounts	<u>40,000</u>	<u>44,000</u>	<u>47,900</u>

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Historical transaction amounts

The historical transaction amounts for the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group under the 2021 Master Purchase Agreement for the two years ended 31 December 2022 and the ten months ended 31 October 2023 are as follows:

	For the year ended 31 December		For the ten months ended
	2021	2022	31 October 2023
	RMB'000	RMB'000	RMB'000
Historical transaction amounts	<u>1,789</u>	<u>3,998</u>	<u>2,233</u>

The Board confirms that as at the Latest Practicable Date, the annual caps under the 2021 Master Purchase Agreement have not been exceeded.

Proposed annual caps

The proposed annual caps for the price of the Purchase Products to be paid by the Group to the Sichuan Changhong Electric Group under the 2024 Master Purchase Agreement for each of the three years ending 31 December 2026 are RMB47,900,000, RMB50,300,000 and RMB52,800,000, respectively.

The above proposed annual caps under the 2024 Master Purchase Agreement were determined after having taken into account the following factors:

- (a) while based on the historical transaction amounts for the two years ended 31 December 2022 and the ten months ended 31 October 2023 as set out above, the utilization rate of the previous or existing annual caps under the 2021 Master Purchase Agreement was low, it was mainly due to the COVID-19 epidemic which hit the global economy hard, inevitably slowing down the business growth and affecting the business activities of various enterprises to a certain extent. Since the impact of the COVID-19 epidemic is dissipating and the global economy is gradually recovering, the Group is optimistic about the future business prospects and development, which will be necessitated by a growing and viable demand of the Group for the Purchase Products;
- (b) the Sichuan Changhong Electric Group has professional software development, consulting and implementation capabilities in the fields of smart enterprises, smart cities, etc. and it is devoted to improving the overall solutions for smart homes and smart manufacturing. It also possesses product design and high-end manufacturing capabilities in the fields of Internet of Things and smart terminals. Based on the communication and understanding between the Sichuan Changhong Electric Group and the Group, the expected quantity of the Purchase Products to be ordered by the Group from the Sichuan Changhong Electric Group in 2024 is estimated to be

LETTER FROM THE BOARD

approximately RMB20,000,000 to RMB47,900,000. As at the Latest Practicable Date, the known amount of purchase contract which will be entered into by the two parties in 2024 was approximately RMB5,000,000; and

- (c) the prevailing open market prices and projected rise of similar Purchase Products in the PRC due to inflation, which were sourced from the (i) regular market observation and analysis of the Company; and (ii) past dealings of the Company with independent third party suppliers. According to the statistics published by the International Monetary Fund in October 2023, it was projected that the global inflation rate will be around 6.9% in 2023 and around 5.8% in 2024. The procurement price of similar Purchase Products by the Group had seen an increase ranging from 5% to 10% from 2022 to 2023.

Based on the communication and understanding between the Company and the Sichuan Changhong Electric Group in respect of the Group's future development plan, the Company has proposed to maintain the annual cap for the year ending 31 December 2024, with a buffer of approximately 5% increase for the annual caps for each of the two years ending 31 December 2026, for prudence purposes and to maintain flexibility for the Group's business.

Considering the factors set out above, the Directors (including the independent non-executive Directors having taken into account the advice from the Independent Financial Adviser) are of the view that the proposed annual caps of the 2024 Master Purchase Agreement are fair and reasonable.

Reasons for and benefits of entering into the 2024 Master Purchase Agreement

The Group has a long-standing business relationship with Sichuan Changhong, and has been purchasing relevant software and services from the Sichuan Changhong Electric Group since April 2016. Taking into account the Sichuan Changhong Electric Group's thorough understanding as to the specifications of the Purchase Products required by the Group, and the well-established business relationship between the parties, the 2024 Master Purchase Agreement will enhance the diversification of products to be supplied to the Group, as well as the stable growth and expansion of the Group's business, which in turn will benefit the Group's revenue growth and future development.

The Directors (including the independent non-executive Directors having taken into account the advice from the Independent Financial Adviser) are of the view that the 2024 Master Purchase Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

THE 2024 FINANCIAL SERVICES AGREEMENT

Date

14 November 2023

Parties

1. Changhong IT, a wholly-owned subsidiary of the Company; and
2. Changhong Finance.

Subject matter

Pursuant to the 2024 Financial Services Agreement, Changhong Finance has agreed to provide the Financial Services to Changhong IT and its subsidiaries.

Term

The term commences from 1 January 2024 until 31 December 2026.

Pricing

In relation to the deposit services, the interest rate applicable to any deposits made available to Changhong Finance will be determined in the ordinary course of business and shall not be less than (a) the minimum interest rate prescribed by the PBOC at such relevant time, and (b) the interest rate available to Changhong IT from other major commercial banks in the PRC independent to Changhong IT in respect of the same type of deposits.

Previous/existing annual cap amounts

The previous/existing annual cap amounts for the provision of the deposit services under the 2021 Financial Services Agreement for the two years ended 31 December 2022 and the year ending 31 December 2023 are as follows:

	For the year ended 31 December		For the year ending 31 December
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Deposit services — Maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon)	<u>1,500,000</u>	<u>2,000,000</u>	<u>2,500,000</u>

LETTER FROM THE BOARD

Historical transaction amounts

The historical transaction amounts for the provision of the deposit services under the 2021 Financial Services Agreement for the two years ended 31 December 2022 and the ten months ended 31 October 2023 are as follows:

	For the year ended 31 December		For the ten months ended 31 October
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit services — Maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon)	694,108	842,412	1,283,221

The Board confirms that as at the Latest Practicable Date, the annual caps under the 2021 Financial Services Agreement have not been exceeded.

Proposed annual caps

The proposed annual caps for the deposit services under the 2024 Financial Services Agreement for each of the three years ending 31 December 2026 are as follows:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit services — Maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon)	1,500,000	1,500,000	1,500,000

The above proposed annual caps for the deposit services were determined based on arms' length negotiations between the parties to the 2024 Financial Services Agreement, of which the following considerations are taken:

- (a) the interest rate on deposits offered to Changhong IT by Changhong Finance shall not be less than those offered by other major commercial banks and no restriction is imposed on the cash flow of deposits by Changhong Finance on the account. As a result, the Group can enjoy free access to the account, and adopt different periods of cash deposits to generate a possible higher interest income of deposits and ensure a flexible cash flow;

LETTER FROM THE BOARD

- (b) the expected amount of the deposit services required by the Group from the Sichuan Changhong Electric Group based on the (i) historical transaction amounts between the Company and the Sichuan Changhong Electric Group and (ii) the annual cap utilization rates for the two years ended 31 December 2022 and the ten months ended 31 October 2023, respectively;
- (c) the Group's bank balance and cash, pledged bank deposits and trade and bills receivables as at 30 June 2023 amounted to approximately HK\$936,149,000, HK\$3,503,387,000 and HK\$4,650,247,000 respectively, the sum of which (i.e. approximately HK\$9,089,783,000) is significantly higher than the proposed annual caps for the deposit services under the 2024 Financial Services Agreement, which indicates the Group's valid and sustainable needs for more deposit services to be provided by deposit-taking financial institutions like Changhong Finance; and
- (d) the maximum credit amount to be made available by Changhong Finance to Changhong IT.

Reasons for and benefits of entering into the 2024 Financial Services Agreement

Changhong Finance is a non-bank financial institution which is subject to the regulations of the PBOC and the CBIRC, and is authorized to provide a wide range of financial services.

The Board believes that the proposed annual caps under the 2024 Financial Services Agreement are in the interests of the Company and its Shareholders as a whole since (i) the credit amount of RMB1.5 billion (or more for the two years ending 31 December 2026) will be made available from Changhong Finance to Changhong IT given the latter's good credit standing; (ii) in the event that Sichuan Changhong requests for a single loan in the full credit amount from Changhong Finance under the 2024 Financial Services Agreement, such amount can be deposited with Changhong Finance subsequently; and (iii) the Board considers the proposed annual caps will provide Changhong IT with sufficient flexibility to generate return on its funds through higher interest income and lower costs of financing, if the interest rates offered by Changhong Finance are more favourable than those offered by independent commercial banks in the PRC.

Taking into account its ability to offer deposits or loans with rates equal to or more favourable to Changhong IT than those offered by independent commercial banks in the PRC, the 2024 Financial Services Agreement is expected to provide Changhong IT with new means of financing, as well as improvement in the efficiency of the use of its funds through higher interest income and lower costs of financing. Changhong IT is also anticipated to be in a better position to manage the security of its funds since it is not considered to be exposed to any significant capital risk.

The Directors (including the independent non-executive Directors having taking into account the advice from the Independent Financial Adviser) are of the view that the deposit services under the 2024 Financial Services Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

INTERNAL CONTROL

The 2024 Master Supply Agreement and the 2024 Master Purchase Agreement

The Group will adopt the following internal control measures in connection with the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement:

- (a) the senior manager of the Group's internal audit department and relevant personnel and management of the Group in charge will closely monitor and supervise the pricing policies for all continuing connected transactions of the Group. To ensure that the relevant transactions are conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole, they will (i) conduct regular checks on a quarterly basis to review and assess whether the relevant continuing connected transactions are conducted in accordance with the terms of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement, and (ii) regularly update the market price of relevant ICT Products and Services and the Purchase Products for the purpose of considering if the price charged or paid for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policies;
- (b) the sales management department of the Group will monitor the continuing connected transactions consistently to ensure that the total transaction amount does not exceed the stipulated annual caps. In this connection, they will (i) carry out daily reviews of the actual transaction amounts of the relevant transactions; and (ii) provide monthly statistical updates (with data of the aggregate transaction amounts and the utilization rate of the annual caps) for the Board's review;
- (c) the independent non-executive Directors will review the transactions contemplated under the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement continuously; and
- (d) the external auditors of the Company will conduct annual review on the pricing terms and annual caps under the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement.

The 2024 Financial Services Agreement

The Group will adopt the following internal control measures in connection with the 2024 Financial Services Agreement:

- (a) the financial management department of the Group will (i) closely monitor and supervise the pricing policy under the 2024 Financial Services Agreement, subject to the pricing terms as disclosed above, and (ii) conduct regular checks twice a year to review and assess whether the transactions contemplated under the 2024 Financial Services Agreement are conducted in accordance with its terms and the aforesaid pricing policy, to ensure that the 2024 Financial Services Agreement is conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Shareholders as a whole;

LETTER FROM THE BOARD

- (b) the financial management department of the Group will monitor the continuing connected transactions under the 2024 Financial Services Agreement consistently to ensure that the total transaction amount does not exceed the stipulated annual caps. In this connection, they will (i) carry out daily reviews of the actual transaction amounts of the relevant transactions; and (ii) provide monthly statistical updates (with data of the aggregate transaction amounts and the utilization rate of the annual caps under the 2024 Financial Services Agreement) for the Board's review;
- (c) the treasury team of the financial management department of the Group will contact commercial banks in the PRC to obtain and compare interest rate quotes with those offered by Changhong Finance under the 2024 Financial Services Agreement;
- (d) the chief financial officer of Changhong IT will regularly review the interest rates and decisions of making any deposits before approval under Changhong Finance;
- (e) the independent non-executive Directors will review the transactions contemplated under the 2024 Financial Services Agreement continuously; and
- (f) the external auditors of the Company will conduct annual review of the transactions contemplated under the 2024 Financial Services Agreement.

LISTING RULES IMPLICATIONS

The 2024 Master Supply Agreement and the 2024 Master Purchase Agreement

As at the date of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement, Sichuan Changhong Holding holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company, and has control over Sichuan Changhong. Both Sichuan Changhong Holding and Sichuan Changhong are controlling shareholders of the Company. Therefore, Sichuan Changhong is a connected person of the Company and Sichuan Changhong Holding is an associate of a connected person of the Company, and thus also a connected person of the Company. Accordingly, the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the highest annual cap for the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement exceeds 5%, the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

The deposit services under the 2024 Financial Services Agreement

As at the date of the 2024 Financial Services Agreement, Changhong Finance is owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, the controlling shareholders of the Company. Changhong Finance is an associate of a connected person of the Company, and thus a connected person of the Company. Accordingly, the transactions contemplated under the 2024 Financial Services Agreement also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the maximum daily outstanding balance of the deposit services under the 2024 Financial Services Agreement exceed 5%, the deposit services under the 2024 Financial Services Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, the deposits made with Changhong Finance constitute provision of financial assistance by the Company under Rule 14.04(1)(e) of the Listing Rules. As the highest applicable percentage ratio in respect of the placing of deposits with Changhong Finance exceeds 25%, such placing of deposits also constitutes a major transaction of the Company subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors has material interest in the Agreements and the transactions contemplated thereunder and no Director was required under the Listing Rules to abstain from voting on the Board resolutions approving the Agreements and the transactions contemplated thereunder.

INFORMATION ON THE PARTIES

The Company is an investment holding company. The Group is principally engaged in the distribution of ICT consumer products and ICT corporate products.

Changhong IT is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. Changhong ICT is principally engaged in the distribution of ICT consumer products and ICT corporate products.

Sichuan Changhong Holding is an investment holding company established in the PRC with limited liability and is wholly owned by the State-owned Assets Supervision and Administration Commission of the Mianyang city government. The Sichuan Changhong Electric Group holds interests in various businesses, including but not limited to the manufacturing and sale of consumer electronic appliances (through Sichuan Changhong) and property development (through other business entities).

LETTER FROM THE BOARD

Changhong Finance is a company owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively. It is principally engaged in the provision of a wide range of financial services including but not limited to depository, loan, settlement, bill discounting, guarantees and other financial services approved by the CBIRC.

GENERAL

The SGM will be held at 10:30 a.m. on 29 December 2023, at 9th Floor, Beijing Changhong Sci-Tech Tower, Building 26, Zone 18, No. 188 West Road, South Fourth Ring Road, Fengtai District, Beijing, China for the purpose of considering and, if thought fit, approving the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps for the three years ending 31 December 2026). A notice of the SGM is set out on pages SGM-1 to SGM-3 of this circular.

Pursuant to the Rule 13.39(4) of the Listing Rules, the vote of the shareholders at a general meeting would be taken by poll. As at the Latest Practicable Date, Sichuan Changhong and its associates, namely Changhong (Hong Kong) Trading Limited and Fit Generation Holding Limited, were interested in an aggregate of 874,650,000 Shares, representing approximately 60.13% of the total issued Shares. Save for Sichuan Changhong and its associates, none of the other Shareholders has a material interest in the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder and is required to abstain from voting on the relevant resolutions in the SGM.

A form of proxy for the SGM is enclosed herewith. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as practicable but in any event no later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjournment thereof should you so wish.

In order to determine the list of Shareholders who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 27 December 2023 to Friday, 29 December 2023 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of the Shareholders of the Company on Friday, 29 December 2023 will be entitled to attend and vote at the SGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the members of the Independent Board Committee after receiving and considering the advice from the Independent Financial Adviser) are of the opinion that the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the SGM.

Your attention is also drawn to the letters from the Independent Board Committee and the Independent Financial Adviser and their respective recommendations set out on pages 23 to 24 and pages 25 to 51 of this circular, respectively.

ADDITIONAL INFORMATION

Your attention is also drawn to the appendices to this circular.

Shareholders and potential investors of the Company should note that completion of the Proposed Acquisitions is subject to the satisfaction of the conditions precedent as set out in the Agreements. Therefore, the Proposed Acquisitions may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

Yours faithfully,
On behalf of the Board
Changhong Jiahua Holdings Limited
Zhu Jianqiu
Chairman and Executive Director



Changhong Jiahua Holdings Limited

長虹佳華控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3991)

11 December 2023

To the Independent Shareholders

Dear Sir or Madam,

**(I) CONTINUING CONNECTED TRANSACTIONS IN RELATION
TO RENEWAL OF THE MASTER SUPPLY AGREEMENT AND
THE MASTER PURCHASE AGREEMENT; AND
(II) MAJOR AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE RENEWAL OF THE DEPOSIT SERVICES
UNDER THE FINANCIAL SERVICES AGREEMENT**

We refer to the circular of the Company dated 11 December 2023 (the “**Circular**”) of which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed by the Board as the members of the Independent Board Committee to consider the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement and the deposit services under the 2024 Financial Services Agreement (including the proposed annual caps thereunder) and to advise the Independent Shareholders in this regard, details of which are set out in the “Letter from the Board” on pages 6 to 22 of the Circular. Somerley Capital has been appointed as the independent financial adviser in this regard.

We wish to draw your attention to the letter from the Board set out on pages 6 to 22 of the Circular which contains, inter alia, information on the Agreements and the transactions contemplated thereunder, and the letter from Somerley Capital set out on pages 25 to 51 of the Circular which contains its advice.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the “Letter from the Board” and the “Letter from Somerley Capital” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Somerley Capital as set out in their letter of advice, we consider that (i) the terms of the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement and the deposit services under the 2024 Financial Services Agreement are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated under the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement and the deposit services under the 2024 Financial Services Agreement are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions approving the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement and the deposit services under the 2024 Financial Services Agreement, the transactions contemplated thereunder and the proposed annual caps for such transaction for the three years ending 31 December 2026 at the SGM.

Yours faithfully,

For and on behalf of the Independent Board Committee of

Changhong Jiahua Holdings Limited

Jonathan Chan Ming Sun

Gao Xudong

Meng Qingbin

Independent Non-Executive Directors

LETTER FROM SOMERLEY CAPITAL

The following is the text of the letter of advice from Somerley Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

11 December 2023

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(I) CONTINUING CONNECTED TRANSACTIONS IN RELATION
TO RENEWAL OF THE MASTER SUPPLY AGREEMENT AND
THE MASTER PURCHASE AGREEMENT; AND
(II) MAJOR AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE RENEWAL OF THE DEPOSIT SERVICES
UNDER THE FINANCIAL SERVICES AGREEMENT**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps), details of which are set out in the letter from the Board (“**Letter from the Board**”) of the circular of the Company dated 11 December 2023 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As the 2021 Master Supply Agreement and the 2021 Master Purchase Agreement will expire on 31 December 2023, on 14 November 2023, the Company entered into (i) the 2024 Master Supply Agreement and (ii) the 2024 Master Purchase Agreement with Sichuan Changhong Holding for a fixed term commencing from 1 January 2024 until 31 December 2026 (both dates inclusive).

As the 2021 Financial Services Agreement will also expire on 31 December 2023, on 14 November 2023, Changhong IT, a wholly-owned subsidiary of the Company, entered into the 2024 Financial Services Agreement with Changhong Finance for a fixed term commencing from 1 January 2024 until 31 December 2026 (both dates inclusive).

LETTER FROM SOMERLEY CAPITAL

As at the Latest Practicable Date, Sichuan Changhong Holding holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company, and has control over Sichuan Changhong. Both Sichuan Changhong Holding and Sichuan Changhong are controlling shareholders of the Company. Therefore, Sichuan Changhong is a connected person of the Company and Sichuan Changhong Holding is an associate of a connected person of the Company, and thus also a connected person of the Company. Accordingly, the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios under the Listing Rules in respect of the highest annual cap for the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement exceeds 5%, the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Changhong Finance is owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, the controlling shareholders of the Company, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively. Changhong Finance is an associate of a connected person of the Company, and thus a connected person of the Company. Accordingly, the transactions contemplated under the 2024 Financial Services Agreement also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios under the Listing Rules in respect of the maximum daily outstanding balance of the deposit services under the 2024 Financial Services Agreement exceed 5%, the deposit services under the 2024 Financial Services Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Jonathan CHAN Ming Sun, Mr. GAO Xudong and Mr. MENG Qingbin, has been established to advise the Independent Shareholders in relation to the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder (the “**Non-exempt CCTs**”). We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, Sichuan Changhong Holding, Changhong Finance or their respective core connected persons or associates. In the past two years prior to this appointment, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Sichuan Changhong Holding, Changhong Finance or their respective core connected persons or associates. Accordingly, we are considered eligible to give independent advice on the Non-exempt CCTs and the proposed annual caps.

LETTER FROM SOMERLEY CAPITAL

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company, which we have assumed to be true, accurate and complete in all material aspects. We have reviewed the information of the Company, among other things, (i) the annual reports of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”) and 2022 (the “**2022 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”); (ii) the Announcement of the Company dated 14 November 2023 in relation to, among others, the Non-exempt CCTs and the proposed annual caps; and (iii) other information contained in the Circular. We also have sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us were not misleading in any material aspects. We consider that the information we have received is sufficient for us to reach our opinion and give our advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Company, Sichuan Changhong Holding, Changhong Finance or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular and will continue to be true up to the time of the SGM, and Shareholders will be informed of any material change as soon as possible.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Information of the parties

1.1. Information of the Company

The Company is an investment holding company. The Group is principally engaged in the distribution of ICT consumer products and ICT corporate products.

LETTER FROM SOMERLEY CAPITAL

Set out below is the summary of the financial information of the Group for the years ended 31 December 2021 and 2022 and the six months ended 30 June 2022 and 2023 as extracted from the 2022 Annual Report and the 2023 Interim Report:

	For the six months ended		For the year ended	
	30 June		31 December	
	2023	2022	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Revenue <i>(Note)</i>				
— ICT consumer products	8,052,248	9,504,415	19,525,986	19,670,732
— ICT corporate products	5,550,778	5,138,700	11,638,705	12,520,449
— Others	3,357,758	3,263,333	7,174,418	12,366,992
	16,960,784	17,906,448	38,339,109	44,558,173
Gross profit	591,937	553,499	1,272,511	1,318,440
Profit for the period attributable to Shareholders	164,478	175,190	365,816	413,247

Note: The revenue of the Group mainly comprised of (i) distribution of ICT consumer products which include mainly personal computers, digital products and IT accessories; (ii) distribution of ICT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system products and unified communications and contact centre products; and (iii) others being the distribution of smartphones and development of its own brand products including but not limited to intelligent terminals, sales of warranty packages and professional integrated ICT solutions and provision of ICT services.

For the two years ended 31 December 2021 and 2022

For the years ended 31 December 2021 and 2022, the Group recorded a revenue of approximately HK\$44,558.2 million and HK\$38,339.1 million respectively, representing a decrease of approximately 14.0%. As disclosed in the 2022 Annual Report, the decrease in revenue was mainly attributable to the decline in smartphone sales.

The Group's gross profit for the year ended 31 December 2021 and 2022 amounted to approximately HK\$1,318.4 million and HK\$1,272.5 million respectively, representing a decrease of approximately 3.5%. As disclosed in the 2022 Annual Report, the gross margin in 2022 was approximately 3.3%, up by about 0.36 percentage point from 2021, mainly due to the change in sales contribution of the product line.

LETTER FROM SOMERLEY CAPITAL

The Group's profit attributable to Shareholders for the year ended 31 December 2021 and 2022 amounted to approximately HK\$413.2 million and HK\$365.8 million respectively, representing a decrease of approximately 11.5%. Such decrease was mainly attributable to (i) the decline in revenue; (ii) the increase in administrative expenses as a result of the increase in expenses such as labour costs and stamp duty; and (iii) the increase in financing expenses due to the increase in financing scale.

For the six months ended 30 June 2022 and 2023

For the six months ended 30 June 2022 and 2023, the Group recorded a revenue of approximately HK\$17,906.4 million and HK\$16,960.8 million respectively, representing a decrease of approximately 5.3%. As disclosed in the 2023 Interim Report, the decrease in revenue was mainly due to the fluctuations in the RMB exchange rate.

The Group's gross profit for the six months ended 30 June 2022 and 2023 amounted to approximately HK\$553.5 million and HK\$591.9 million respectively, representing an increase of approximately 6.9%. The gross margin in the first half of 2023 was approximately 3.5%, up by about 0.40 percentage point from the same period in 2022, mainly due to increased revenue from the distribution of ICT corporate products.

The Group's profit attributable to Shareholders for the six months ended 30 June 2022 and 2023 amounted to approximately HK\$175.2 million and HK\$164.5 million respectively, representing a decrease of approximately 6.1%. Such decrease was mainly attributable to (i) the fluctuations in the RMB exchange rate; (ii) the increase in financing expenses due to the increase in financing scale; and (iii) the increase in distribution and selling expenses as a result of the increase in labour costs, marketing expenses and travel expenses.

Set out below is the summary of the financial position of the Group as at 31 December 2021, 2022 and 30 June 2023 as extracted from the 2022 Annual Report and the 2023 Interim Report:

	As at 30 June	As at 31 December	
	2023	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)	(Audited)
Total assets	13,833,343	15,950,764	12,471,445
Total liabilities	11,279,364	13,320,800	9,791,185
Net assets	2,553,979	2,629,964	2,680,260

As at 30 June 2023, the Group's total assets amounted to approximately HK\$13.8 billion, mainly comprised of (i) trade receivables of approximately HK\$4.5 billion; (ii) inventories of approximately HK\$3.9 billion; (iii) pledged bank deposits of approximately HK\$3.5 billion; and (iv) bank balances and cash of approximately HK\$0.9 billion.

LETTER FROM SOMERLEY CAPITAL

As at 30 June 2023, the Group's total liabilities amounted to approximately HK\$11.3 billion, mainly comprised of (i) trade and bills payables of approximately HK\$5.3 billion; (ii) bills payables under supplier chain financing of approximately HK\$2.9 billion; and (iii) borrowings of approximately HK\$2.3 billion.

As at 30 June 2023 and 31 December 2022, the Group's net assets amounted remained relatively stable at approximately HK\$2.6 billion.

In our view, based on the above analysis, the Group has financed its growth prudently and retained a satisfactory financial position.

1.2. Information of Changhong IT

Changhong IT is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. Changhong ICT is principally engaged in the distribution of ICT consumer products and ICT corporate products.

1.3. Information of Sichuan Changhong Holding

Sichuan Changhong Holding is an investment holding company established in the PRC with limited liability and is wholly owned by the State-owned Assets Supervision and Administration Commission of the Mianyang city government. The Sichuan Changhong Electric Group holds interests in various businesses, including but not limited to the manufacturing and sale of consumer electronic appliances (through Sichuan Changhong) and property development (through other business entities).

1.4. Information of Changhong Finance

Changhong Finance is a company owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively. It is principally engaged in the provision of a wide range of financial services including but not limited to depository, loan, settlement, bill discounting, guarantees and other financial services approved by the CBIRC.

We understood from the management of the Company that Changhong Finance is a non-bank financial institution regulated and authorised by the PBOC and CBIRC to provide a wide range of financial services. We noted that Changhong Finance is subject to several rules and measures on supervision, management and risk control set out in the Measures for the Supervision and Rating of Financial Companies of Enterprise Groups* (《企業集團財務公司監管評級辦法》) promulgated by the National Administration of Financial Regulation (NAFR) which regulates the operation of non-bank financial institutions that provide financial management services to the enterprise group member entities. We have obtained from the Company and reviewed the relevant business license and relevant permit, as well as the asset-liability ratios of Changhong Finance as at 30 June 2023. From our review, we noted that Changhong Finance has met the relevant asset-liability ratios requirements.

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We have been advised by the management of the Company that, to the best knowledge of the Company, there is no record of material non-compliance with the relevant law, rules and regulations in the PRC applicable to Changhong Finance. From our review of the official website of CBIRC, we did not note any non-compliance record of Changhong Finance.

2. Reasons for and benefits of the Non-exempt CCTs

2.1. The 2024 Master Supply Agreement

As stated in the Letter from the Board of the Circular, the Group has a long-standing business relationship with Sichuan Changhong, and has been supplying the ICT Products and Services to the Sichuan Changhong Electric Group since April 2016. Taking into account the Sichuan Changhong Electric Group's broad distribution network and well-established market, the 2024 Master Supply Agreement will enable the Company to continue its capitalisation on such business relationship, and to maintain a stable income stream with a reliable and committed source of orders from the Sichuan Changhong Electric Group, which in turn will benefit the Group's revenue growth and future development. With the rapid development of the ICT industry and the widespread use of digital technology, it is also anticipated that the Sichuan Changhong Electric Group's general demand for the ICT Products and Services will increase correspondingly.

2.2. The 2024 Master Purchase Agreement

As stated in the Letter from the Board, the Group has a long-standing business relationship with Sichuan Changhong, and has been purchasing relevant software and services from the Sichuan Changhong Electric Group since April 2016. Taking into account the Sichuan Changhong Electric Group's thorough understanding as to the specifications of the Purchase Products required by the Group, and the well-established business relationship between the parties, the 2024 Master Purchase Agreement will enhance the diversification of products to be supplied to the Group, as well as the stable growth and expansion of the Group's business, which in turn will benefit the Group's revenue growth and future development.

2.3. The deposit services under the 2024 Financial Services Agreement

As stated in the Letter from the Board, Changhong Finance is a non-bank financial institution which is subject to the regulations of the PBOC and the CBIRC, and is authorised to provide a wide range of financial services.

The Board believes that the proposed annual caps under the 2024 Financial Services Agreement are in the interests of the Company and its Shareholders as a whole since (i) the credit amount of RMB1.5 billion (or more for the two years ending 31 December 2026) will be made available from Changhong Finance to Changhong IT given the latter's good credit standing; (ii) in the event that Sichuan Changhong requests for a single loan in the full credit amount from Changhong Finance under the 2024 Financial Services Agreement, such amount can be deposited with Changhong Finance subsequently; and (iii) the Board considers the proposed annual caps will provide Changhong IT with

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sufficient flexibility to generate return on its funds through higher interest income and lower costs of financing, if the interest rates offered by Changhong Finance are more favourable than those offered by independent commercial banks in the PRC.

Taking into account its ability to offer deposits or loans with rates equal to or more favourable to Changhong IT than those offered by independent commercial banks in the PRC, the 2024 Financial Services Agreement is expected to provide Changhong IT with new means of financing, as well as improvement in the efficiency of the use of its funds through higher interest income and lower costs of financing. Changhong IT is also anticipated to be in a better position to manage the security of its funds since it is not considered to be exposed to any significant capital risk.

Taking into account the above and the fact that (i) the principal terms of the Non-exempt CCTs are on normal commercial terms (as discussed in the sections below); (ii) the transactions under the 2024 Master Supply Agreement generate revenue to the Group and Sichuan Changhong Holding is a reliable long-term customer of the Group; (iii) the 2024 Master Purchase Agreement and the deposit services under the 2024 Financial Services Agreement provide the Group with stable and reliable long-term supplier; (iv) the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement and the 2024 Financial Services Agreement do not restrict the Group from selling/procuring goods/services to/from other customers/suppliers and offered the Group with flexibilities to conduct business with Sichuan Changhong Holding and Changhong Finance; and (v) the internal control measures in place to ensure that the Non-exempt CCTs are conducted in accordance with their terms and conditions (as discussed in the section headed “6. Internal control measure” below), we concur with the Directors that the Non-exempt CCTs, which are conducted in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole.

3. The 2024 Master Supply Agreement

3.1. Principal terms of the 2024 Master Supply Agreement

The following sets forth the principal terms of the 2024 Master Supply Agreement. For detailed terms of the 2024 Master Supply Agreement, please refer to the section headed “THE 2024 MASTER SUPPLY AGREEMENT” in the Letter from the Board.

Date:	14 November 2023
Parties:	(i) the Company; and (ii) Sichuan Changhong Holding.
Subject matter:	Pursuant to the 2024 Master Supply Agreement, the Group has agreed to supply the ICT Products and Services to the Sichuan Changhong Electric Group. The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of the ICT Products and Services.

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Term: The term commences from 1 January 2024 until 31 December 2026.

Pricing: As a general principle, the price and terms of the individual orders in respect of the supply of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, or on a similar basis as the Group transacts business with other independent third party customers, and shall be on terms which are no less favourable to the Group than those provided to independent third party customers.

The terms of the individual orders will be consistent with the principles and the terms of the 2024 Master Supply Agreement. If there is any conflict between the terms of an individual order and the 2024 Master Supply Agreement, the latter shall prevail.

In particular, the Company maintains a gross profit margin level list for each category of the ICT Products and Services, including, among other things, (i) storage products such as storage devices, (ii) servers, (iii) networking products such as switches and routers, (iv) personal computers, and (v) installation and maintenance services for the above ICT products to be provided by the Group to both the Sichuan Changhong Electric Group and independent third party customers. Specifically, the gross profit margin levels are determined by the relevant business departments responsible for each category of the ICT Products and Services, and subsequently approved by the senior management of the Company with reference to (i) the Group's overall historical profit margins based on its dealings with independent third party customers and the Sichuan Changhong Electric Group in the past years; and (ii) the prevailing market prices of similar ICT Products and Services. The gross profit margin levels list will be monitored by the relevant business departments of the Company from time to time, and may be renewed in light of any significant market changes.

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Taking into account the gross profit margin levels list as guidance, the relevant business departments of the Company will adjust the actual transaction price and payment terms of the ICT Products and Services based on factors such as the sales amount and the estimated costs to be incurred (e.g. costs of delivery, procurement and insurance) according to the pricing policy of the Group. Similarly, the fees for the provision of ICT Products and Services to project-related businesses will be adjusted by factors such as the competitiveness, duration and scale of the relevant project. As a general principle, the gross profit margin of the transactions with the Sichuan Changhong Electric Group shall not be lower than the relevant gross profit margin level stated on the list. The terms of the supply of ICT Products and Services shall then be approved by the relevant business departments and the project management department of the Company before an offer can be made to the Sichuan Changhong Electric Group to ensure that the price and payment terms offered to the Sichuan Changhong Electric Group will be on normal commercial terms, or on a similar basis as the Group transacts business with other independent third party customers, and shall be on terms no less favourable than those offered to independent third party customers.

Payment:

The credit term for the fee payable by the Sichuan Changhong Electric Group is determined in accordance with the payment terms of each individual order. For project-related business, the payment terms of the individual order will make reference to the timing and schedule of the relevant project. For other wholesale-related business, the credit term is within a normal credit period upon the date of invoice.

Our assessment of the terms of the 2024 Master Supply Agreement

As set out in the paragraphs headed “2. Reasons for and benefits of the Non-exempt CCTs” above, the entering into of the 2024 Master Supply Agreement is to extend the term 2021 Master Supply Agreement, which expires on 31 December 2023, to allow the Group to continue its capitalisation on the long-standing business relationship with Sichuan Changhong and maintain a stable income stream. Based on our discussion with the management of the Company and the review of the 2024 Master Supply Agreement and the 2021 Master Supply Agreement, no material changes were made to the principal terms of the 2024 Master Supply Agreement.

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As stated in the Letter from the Board, the ICT Products and Services supplied by the Group to the Sichuan Changhong Electric Group can be divided into project-related and wholesale-related areas. Based on our discussion with the management of the Company, the major category of products/services under project-related ICT Products and Services includes installation and maintenance of the ICT Products and Services. The prices of which are determined based on the project requirement, time frame and anticipated project costs (including but not limited to labour costs, equipment costs). Whilst the major category of products under wholesale-related ICT Products and Services includes storage devices, servers, networking products and PCs. The prices of which are determined on a cost-plus basis, with the minimum acceptable gross profit margins determined by the management and sales management department taking into account the prevailing market prices of similar ICT Products and Services.

In assessing the terms of the 2024 Master Supply Agreement, we have obtained and reviewed, on random basis, five sample contracts for each period of the year ended 31 December 2021 and 2022 and the ten months ended 31 October 2023 (the “**Relevant Period**”) pursuant to the 2021 Master Supply Agreement and comparable contracts entered into between the Group and independent third party customers for the provision of similar services/products. As the sample contracts covered each major type of the ICT Products and Services provided by the Group to the Sichuan Changhong Electric Group, including (i) storage products such as storage devices, (ii) servers, (iii) networking products, (iv) personal computers, and (v) installation and maintenance services, we are of the view that the fifteen selected sample contracts are fair and representative to assess the fairness and reasonableness of the pricing policy of the 2024 Master Supply Agreement. We have discussed with and understood from the management of the Company that as certain services/products were tailored for individual order in accordance with the specific requirements of the customers, prices might not be comparable across orders for similar type of services/products. However, the Group shall negotiate the terms for each contract, including those with Sichuan Changhong Holding and other independent third party customers, on arm’s length basis and on normal commercial terms according to the same pricing principal of the Company, which was mainly determined based on a cost-plus basis with a gross profit margin level maintained by the Group. As such, we have also obtained and compared the gross profit margin for each of the sample contracts and the respective comparable contracts. From our review, we noted that (i) the gross profit margins of the sample contracts were not less than that of the comparable contracts entered into between the Group and independent third party customers for similar services/products; and (ii) the payment terms of the sample contracts are generally in line with those offered to independent third party customers of the Group for similar services/products. Based on the above, we are of the view that the principal terms of the 2024 Master Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

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Proposed annual caps

The table below sets forth the historical transaction amounts and the respective annual caps for the provision of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group under the 2021 Master Supply Agreement for the two years ended 31 December 2022 and the ten months ended 31 October 2023:

	For the year ended 31 December		For the year ending 31 December
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical transaction amounts	25,233	11,092	12,531 ^(Note)
Previous/existing annual cap amounts	200,000	222,000	242,000

Note: The actual transaction amounts for the year ending 31 December 2023 represent the amounts for the ten months ended 31 October 2023.

The following table sets forth the proposed annual caps for the fee to be paid by the Sichuan Changhong Electric Group to the Group for the ICT Products and Services under the 2024 Master Supply Agreement for each of the three years ending 31 December 2026:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proposed annual caps	100,000	105,000	110,000

As set out in the Letter from the Board, the proposed annual caps under the 2024 Master Supply Agreement were determined after having taken into account the following factors:

- (a) the proposed new annual caps are significantly lower than the existing annual cap for the year ending 31 December 2023 considering the low utilisation rates of the previous/existing annual caps under the 2021 Master Supply Agreement as set out above, which was mainly due to (i) adjustment to the business strategies of the Sichuan Changhong Electric Group during 2021 to 2023, whereby some original projects which required the ICT Products and Services were put on hold; and (ii) the COVID-19 epidemic which hit the global economy hard, inevitably slowing down the business growth and affecting the business activities of various enterprises to a certain extent. For example, the Sichuan Changhong Electric Group had adopted a more stringent control over its investment in fixed assets during that period and reduced acquisition of ICT Products and Services. Since the impact of the COVID-19 epidemic is dissipating and the global economy is gradually recovering, the Group is more

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optimistic about the future business prospects and development, which will be accompanied by a growing and viable demand for the ICT Products and Services provided by the Group;

- (b) the Sichuan Changhong Electric Group has made in-depth layout in new infrastructure such as 5G, artificial intelligence and big data, and so far has achieved intermediate results in 5G station construction, industrial Internet, artificial intelligence and other aspects. It is expected that the Sichuan Changhong Electric Group's demand for ICT products and services such as cloud computing products and services, data storage and data security for its own use or for project operations will increase. Based on the communication and understanding between the Sichuan Changhong Electric Group and the Group, the expected quantity of ICT products and services to be ordered by the Sichuan Changhong Electronics Group from the Group in 2024 is estimated to be approximately RMB50,000,000 to RMB100,000,000. As at the Latest Practicable Date, the known amount of supply contract which will be entered into by the two parties in 2024 was approximately RMB10,000,000;
- (c) the proposed annual caps under the 2024 Master Supply Agreement will still provide sufficient flexibility for the Group to cater for and grasp the abundant business opportunities in the PRC ICT market in the coming three years. According to industry analysis such as the PRC ICT market forecasts for 2024 and beyond issued by the International Data Corporation (China) in August 2023, the total spending in the global ICT market is expected to increase to approximately US\$6.2 trillion in 2027, representing a five-year CAGR of 5.7%. In particular, the total spending in the PRC ICT market is expected to increase from approximately US\$530 billion in 2022 to approximately US\$720 billion in 2027, representing a five-year CAGR of 6.2%. Furthermore, the Sichuan Changhong Electric Group has integrated new technologies such as the Internet of Things, 5G, big data, artificial intelligence and blockchain to continuously promote the construction and application of "5G+ Industrial Internet" smart factories for home appliances, and to accelerate the digital transformation of various businesses, in order to enhance production and operation efficiency and to propel the transformation and upgrading of the manufacturing industry. In view of its operational needs to cater for the growing market size of the ICT industry and investment in digital transformation, it is anticipated that the Sichuan Changhong Electric Group's demand for the ICT Products and Services from relevant suppliers including the Group will increase accordingly; and
- (d) the prevailing open market prices and projected rise of similar ICT Products and Services in the PRC due to inflation, which were sourced from the (i) regular market observation and analysis of the Company; and (ii) past dealings of the Company with independent third party customers. According to the statistics published by the International Monetary Fund in October 2023, it was projected that the global inflation rate will be around 6.9% in 2023 and around 5.8% in 2024. The supply price of similar ICT Products and Services by the Group had seen an increase ranging from 5% to 10% from 2022 to 2023.

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Based on the communication and understanding between the Company and the Sichuan Changhong Electric Group in respect of its future development plan, and considering factors such as the overall expansion of the ICT industry, the historical growth of Sichuan Changhong's business, the historical transaction amounts under the 2021 Master Supply Agreement and inflation rates, the Company has proposed an annual cap for the year ending 31 December 2024 which is over 50% lower than the existing annual cap for the year ending 31 December 2023, with a buffer of approximately 5% increase for the annual caps for each of the two years ending 31 December 2026, for prudence purposes and to maintain flexibility for the Group's business.

As set out in the table above, the historical transaction amounts of the provision of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group for the two years ended 31 December 2022 and the ten months ended 31 October 2023 amounted to approximately RMB25.2 million, RMB11.1 million, and RMB12.5 million, representing the utilisation rate of approximately 12.6%, 5.0% and 6.2% (on pro-rata basis) of the respective annual caps, for the two years ended 31 December 2022 and the ten months ended 31 October 2023. As advised by the management of the Company, the low utilisation rates were mainly due to (i) the Group's strategic plan to put on hold certain development plans and projects which required the ICT Products and Services; and (ii) the negative impact from COVID-19 epidemic on the business activities of the Sichuan Changhong Electric Group. We have further discussed with the Group and understand that taking into account the anticipated growth in the business of Sichuan Changhong Holding, the Group will continue to enhance its operating efficiency to grasp business opportunities and meet the growing demand of Sichuan Changhong Holding.

Based on the communication and understanding between the Sichuan Changhong Electric Group and the Group, the expected quantity of ICT products and services to be ordered by the Sichuan Changhong Electronics Group from the Group in 2024 is estimate'd to be approximately RMB50 million to RMB100 million. As at the Latest Practicable Date, the known amount of supply contract which will be entered into by the two parties in 2024 was approximately RMB10 million, representing approximately 10% of the relevant proposed annual cap for the year ending 31 December 2024. We have discussed with the management of the Company and were given to understand that the amount of approximately RMB10 million of supply contract to be entered into by the two parties in 2024 was estimated based on the discussion between the Group and the Sichuan Changhong Electric Group. Such transaction amount is expected to be derived from a contract entered into by the Group and the Sichuan Changhong Electric Group in respect of the provision of cloud computing and storage services by the Group from time to time as required by the Sichuan Changhong Electric Group. We have obtained and reviewed such contract and the relevant historical transaction amount incurred therefrom in the year ended 31 December 2021 and 2022 and the ten months ended 31 October 2023, which amounted to approximately RMB4 million, RMB4 million and RMB6 million respectively. As advised by the management of the Company, the ICT Products and Services planned to be sold to the Sichuan Changhong Electric Group for the three years ending 31 December 2026 are mainly ICT corporate products including storage products and network products. The storage products include server switches, tape cartridges, storage servers, storage software, host bus adapters and data backup software while the

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network products include routers, hubs, network switches, cables and security products such as firewalls, PC servers. Despite the low utilisation rates of the annual caps under the 2021 Master Supply Agreement resulted from the negative impact of the COVID-19 pandemic, the Sichuan Changhong Electric Group expects a recovery in the coming years.

We understood that, when determining the proposed annual caps for the 2024 Master Supply Agreement, the Company has taken into consideration (i) favourable government regulations and policies to promote the use of new-generation information technology are in place; (ii) the expected recovery of the economy including the ICT Product distribution and ICT consumer product distribution industry; and (iii) the increase in the Sichuan Changhong Electric Group's general demand for ICT Products and Services with the rapid development of the ICT industry and the widespread use of digital technology. As set out in the Letter from the Board, according to industry analysis such as the PRC ICT market forecasts for 2024 and beyond issued by the International Data Corporation (China) in August 2023, the total spending in the global ICT market is expected to increase to approximately US\$6.2 trillion in 2027, representing a five-year CAGR of 5.7%. In particular, the total spending in the PRC ICT market is expected to increase from approximately US\$530 billion in 2022 to approximately US\$720 billion in 2027, representing a five-year CAGR of 6.2%. We noted that the State Council of the PRC published the "Plan for Development of the Digital Economy During the 14th Five-Year Period" ("十四五"數字經濟發展規劃) (the "**14th Five-Year Plan for Digital Economy**") in December 2021, which highlighted the importance and promoted the development of digital economy. It is expected that digital economy in the PRC will enter into a phase of comprehensive expansion and the contribution of core industries of digital economy to the gross domestic product (GDP) is expected to reach 10% in 2025, compared to that of approximately 7.8% in 2020. In particular, (i) the market scale of software and information technology services industry in the PRC is expected to increase from approximately RMB8.16 trillion in 2020 to approximately RMB14 trillion in 2025, representing a 5-year compound annual growth rate of approximately 11.4%; and (ii) the industrial internet platform application penetration rate in the PRC is expected to increase from approximately 14.7% in 2020 to approximately 45% in 2025. We also noted that the "Industrial Internet Special Working Group Office" (工業互聯網專項工作組辦公室) published its work plan in accordance with the 14th Five-Year Plan for Digital Economy in May 2023, which includes, among others, (i) enacting favorable tax policies for the industry; (ii) supporting research and development of industrial internet; (iii) strengthening 5G network and big data infrastructure; and (iv) encouraging applications and digital transformation. The management of the Company believed that such policies and measures are favorable to the business development of the Sichuan Changhong Electric Group resulting in an increased demand for ICT Products and Services from the Group during the term of the 2024 Master Supply Agreement.

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We further understand that the amounts for ICT Products and Services to be purchased by the Sichuan Changhong Electric Group is expected to grow by approximately 5% each year for the year ending 31 December 2025 and 2026. As set out in the quarterly report of Sichuan Changhong for the nine months ended 30 September 2023, the revenue of Sichuan Changhong increased by approximately 4.4% to approximately RMB70.1 billion for the nine months ended 30 September 2023 as compared to the corresponding period in the prior year.

Given that (i) the expected recovery of the economy after the COVID-19 pandemic; (ii) the anticipated growing demand for ICT Products and Services by the Sichuan Changhong Electric Group, driven by the increasing trend in its revenue and costs of sales of IT product distribution and solution business; and (iii) the fact that the proposed annual caps provide the Group with flexibility to conduct business with the Sichuan Changhong Electric Group, we are of the view that such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. The 2024 Master Purchase Agreement

4.1. Principal terms of the 2024 Master Purchase Agreement

The following sets forth the principal terms of the 2024 Master Purchase Agreement. For detailed terms of the 2024 Master Purchase Agreement, please refer to the section headed “THE 2024 MASTER PURCHASE AGREEMENT” in the Letter from the Board.

Date:	14 November 2023
Parties:	(i) the Company; and (ii) Sichuan Changhong Holding.
Subject matter:	Pursuant to the 2024 Master Purchase Agreement, the Company has agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group. The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of the Purchase Products.
Term:	The term commences from 1 January 2024 until 31 December 2026.

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Pricing: As a general principle, the price and terms of the individual orders in respect of the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, or on a similar basis as the Group transacts business with other independent third party suppliers, and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers. The terms of the individual orders will be consistent with the principles and the terms of the 2024 Master Purchase Agreement. If there is any conflict between the terms of an individual order and the 2024 Master Purchase Agreement, the latter shall prevail.

Payment: The credit term for the fee payable by the Group in relation to project-related business is determined in accordance with the payment terms of each individual order, with reference to the timing of the relevant project. For other trading-related business, the credit term is within a normal credit period upon the date of invoice.

Our assessment of the terms of the 2024 Master Purchase Agreement

As set out in the paragraphs headed "2. Reasons for and benefits of the Non-exempt CCTs" above, the entering into of the 2024 Master Purchase Agreement is to extend the term 2021 Master Purchase Agreement, which expires on 31 December 2023, to allow the Group to continue purchase relevant software and services from the Sichuan Changhong Electric Group. Based on our discussion with the management of the Company and the review of the 2024 Master Purchase Agreement and the 2021 Master Purchase Agreement, no material changes were made to the principal terms of the 2024 Master Purchase Agreement.

As stated in the Letter from the Board, the Purchase Products procured by the Group from the Sichuan Changhong Electric Group mainly includes software, services and ancillary equipment. The prices of which are mainly determined based on the project specifications taking into account, among others, material costs, labour costs, transportation costs and special requirements. We understood from the Company that the Group would compare the terms offered by the Sichuan Changhong Electric Group to those offered by independent third party suppliers to ensure the terms are no less favourable to the Group.

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In assessing the terms of the 2024 Master Purchase Agreement, we have obtained and reviewed, on random basis, five sample contracts for each period of the Relevant Period pursuant to the 2021 Master Purchase Agreement and compared with relevant quotations obtained by the Group from other independent third party suppliers for similar services/products. As the sample contracts covered each major type of the Purchase Products purchased by the Group from the Sichuan Changhong Electric Group, including software, services and ancillary equipment, we are of the view that the fifteen selected sample contracts are fair and representative to assess the fairness and reasonableness of the pricing policy of the 2024 Master Purchase Agreement. From our review, we noted that the prices offered by the Sichuan Changhong Electric Group are no less favorable to the Group than those offered/quoted by independent third party suppliers of the Group for similar services/products. As such, we are of the view that the pricing policies of the 2024 Master Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

4.2. Proposed annual caps

The table below sets forth the historical transaction amounts for the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group for the two years ended 31 December 2022 and the ten months ended 31 October 2023:

	For the year ended		For the
	31 December		year ending
	2021	2022	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	2023
			<i>RMB'000</i>
Historical transaction amounts	1,789	3,998	2,233 ^(Note)
Previous/existing annual cap amounts	40,000	44,000	47,900

Note: The actual transaction amounts for the year ending 31 December 2023 represent the amounts for the ten months ended 31 October 2023.

The following table sets forth the proposed annual caps for the price of the Purchase Products to be paid by the Group to the Sichuan Changhong Electric Group under the 2024 Master Purchase Agreement for each of the three years ending 31 December 2026:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proposed annual caps	47,900	50,300	52,800

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As set out in the Letter from the Board, the proposed annual caps under the 2024 Master Purchase Agreement were determined after having taken into account the following factors:

- (a) while based on the historical transaction amounts for the two years ended 31 December 2022 and the ten months ended 31 October 2023 as set out above, the utilisation rate of the previous or existing annual caps under the 2021 Master Purchase Agreement was low, it was mainly due to the COVID-19 epidemic which hit the global economy hard, inevitably slowing down the business growth and affecting the business activities of various enterprises to a certain extent. Since the impact of the COVID-19 epidemic is dissipating and the global economy is gradually recovering, the Group is optimistic about the future business prospects and development, which will be necessitated by a growing and viable demand of the Group for the Purchase Products; and
- (b) the Sichuan Changhong Electric Group has professional software development, consulting and implementation capabilities in the fields of smart enterprises, smart cities, etc. and it is devoted to improving the overall solutions for smart homes and smart manufacturing. It also possesses product design and high-end manufacturing capabilities in the fields of Internet of Things and smart terminals. Based on the communication and understanding between the Sichuan Changhong Electric Group and the Group, the expected quantity of the Purchase Products to be ordered by the Group from the Sichuan Changhong Electric Group in 2024 is estimated to be approximately RMB20,000,000 to RMB47,900,000. As at the Latest Practicable Date, the known amount of purchase contract which will be entered into by the two parties in 2024 was approximately RMB5,000,000; and
- (c) the prevailing open market prices and projected rise of similar Purchase Products in the PRC due to inflation, which were sourced from the (i) regular market observation and analysis of the Company; and (ii) past dealings of the Company with independent third party suppliers. According to the statistics published by the International Monetary Fund in October 2023, it was projected that the global inflation rate will be around 6.9% in 2023 and around 5.8% in 2024. The procurement price of similar Purchase Products by the Group had seen an increase ranging from 5% to 10% from 2022 to 2023.

Based on the communication and understanding between the Company and the Sichuan Changhong Electric Group in respect of the Group's future development plan, the Company has proposed to maintain the annual cap for the year ending 31 December 2024, with a buffer of approximately 5% increase for the annual caps for each of the two years ending 31 December 2026, for prudence purposes and to maintain flexibility for the Group's business.

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As set out in the table above, the historical transaction amounts of the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group for the two years ended 31 December 2022 and the ten months ended 31 October 2023 amounted to approximately RMB1.8 million, RMB4.0 million, and RMB2.2 million, representing the utilisation rate of approximately 4.5%, 9.1% and 5.6% (on pro-rata basis) of the respective annual caps, for the two years ended 31 December 2022 and the ten months ended 31 October 2023. As discussed with the management of the Company, the low utilisation rates were mainly due to the reduced demand of the Group's customers for the Purchase Products during 2021 to 2023.

Based on the communication and understanding between the Sichuan Changhong Electric Group and the Group, the expected quantity of the Purchase Products to be ordered by the Group from the Sichuan Changhong Electric Group in 2024 is estimated to be approximately RMB20 million to RMB47.9 million. As at the Latest Practicable Date, the known amount of purchase contract which will be entered into by the two parties in 2024 was approximately RMB5 million, representing approximately 10% of the relevant proposed annual cap for the year ending 31 December 2024. We have discussed with the management of the Company and were given to understand that the amount of approximately RMB5 million of purchase contract to be entered into by the two parties in 2024 is mainly attributable to the procurement of software and services in relation to the cloud computing business of the Group. We were advised that such demand is expected to be driven by the potential business opportunities with an existing customer of the Group, which is a globally renowned technology company. We have obtained and reviewed (i) the existing contract entered into between the Group and such customer; and (ii) the list of upcoming projects of the customer in which the Group has applied to be one of the potential suppliers, of which the Group has derived the expected demand of Purchase Products required in providing services to such customer. As advised by the management of the Company, the Purchase Products planned to be purchased from the Sichuan Changhong Electric Group for the three years ending 31 December 2026 are mainly software, services and ancillary equipment. Despite the low utilisation rates of the annual caps under the 2021 Master Supply Agreement resulted from the negative impact of the COVID-19 pandemic, the Company expects a recovery in the coming years.

We understood that, when determining the proposed annual caps for the 2024 Master Purchase Agreement, the Company has taken into consideration (i) favourable government regulations and policies to promote the use of new-generation information technology are in place; (ii) the expected recovery of the economy including the ICT Product distribution and ICT consumer product distribution industry; and (iii) the increase in the Group's general demand for the Purchase Products with the rapid development of the ICT industry and the widespread use of digital technology. We noted that the State Council of the PRC published the 14th Five-Year Plan for Digital Economy in December 2021, which highlighted the importance and promoted the development of digital economy. It is expected that digital economy in the PRC will enter into a phase of comprehensive expansion and the contribution of core industries of digital economy to the gross domestic product (GDP) is expected to reach 10% in 2025, compared to that of approximately 7.8% in 2020. In particular, (i) the market scale of software and information technology services industry in the PRC is expected to increase from approximately RMB8.16 trillion

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in 2020 to approximately RMB14 trillion in 2025, representing a 5-year compound annual growth rate of approximately 11.4%; and (ii) the industrial internet platform application penetration rate in the PRC is expected to increase from approximately 14.7% in 2020 to approximately 45% in 2025. We also noted that the “Industrial Internet Special Working Group Office” (工業互聯網專項工作組辦公室) published its work plan in accordance with the 14th Five-Year Plan for Digital Economy in May 2023, which includes, among others, (i) enacting favorable tax policies for the industry; (ii) supporting research and development of industrial internet; (iii) strengthening 5G network and big data infrastructure; and (iv) encouraging applications and digital transformation. The management of the Company believed that such policies and measures are favorable to the business development of the Group resulting in an increased demand for Purchase Products from the Sichuan Changhong Electric Group during the term of the 2024 Master Purchase Agreement.

We further understand that the amounts for Purchase Products to be purchased from the Sichuan Changhong Electric Group by the Group is expected to grow by approximately 5% each year for the year ending 31 December 2025 and 2026. We understand the Group included such buffer to cater for factors such as inflation for prudence purposes.

Based on the above, we are of the view that such proposed annual caps under the 2024 Master Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

5. The 2024 Financial Services Agreement

5.1. Principal terms of the deposit services under the 2024 Financial Services Agreement

The following sets forth the principal terms of the 2024 Financial Services Agreement in respect of the deposit services. For detailed terms of the 2024 Financial Services Agreement, please refer to the section headed “THE 2024 FINANCIAL SERVICES AGREEMENT” in the Letter from the Board.

Date:	14 November 2023
Parties:	(i) Changhong IT, a wholly-owned subsidiary of the Company; and (ii) Changhong Finance.
Subject matter:	Pursuant to the 2024 Financial Services Agreement, Changhong Finance has agreed to provide the Financial Services to Changhong IT and its subsidiaries.
Term:	The term commences from 1 January 2024 until 31 December 2026.

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Pricing: In relation to the deposit services, the interest rate applicable to any deposits made available to Changhong Finance will be determined in the ordinary course of business and shall not be less than (a) the minimum interest rate prescribed by the PBOC at such relevant time, and (b) the interest rate available to Changhong IT from other major commercial banks in the PRC independent to Changhong IT in respect of the same type of deposits.

Our assessment of the terms of the deposit services under the 2024 Financial Services Agreement

As set out in the paragraphs headed “2. Reasons for and benefits of the Non-exempt CCTs” above, the entering into of the 2024 Financial Services Agreement is to extend the term 2021 Financial Services Agreement, which expires on 31 December 2023, to allow the Group to, among others, continue to have the flexibility to place deposits with Changhong Finance, if the interest rates offered by Changhong Finance are favourable to the Group. Based on our discussion with the management of the Company and the review of the 2024 Financial Services Agreement and the 2021 Financial Services Agreement, no material changes were made to the principal terms of the 2024 Financial Services Agreement in respect of the deposit services.

In assessing the pricing policies of the deposit services under the 2024 Financial Services Agreement, we have obtained and reviewed the interest rates of the five largest deposits placed by the Group with Changhong Finance for each period of the Relevant Period pursuant to the 2021 Financial Services Agreement, and compared with the interest rates of such type of deposits prescribed by the PBOC and offered by other major independent commercial banks in the PRC independent to Changhong IT in respect of the same type of deposits in similar period. As the samples represents largest deposits placed by the Group with Changhong Finance for each period of the Relevant Period, which includes deposits with different maturity placed at different timing, we are of the view that the fifteen selected sample deposits are fair and representative to assess the fairness and reasonableness of the pricing policy of the 2024 Financial Services Agreement. We noted that the above interest rates offered by Changhong Finance to the Group were not less than the deposit benchmark interest rates of such type of deposits set by the PBOC and the deposit interest rates of such type of deposits offered by the major independent PRC commercial banks in similar period.

Given that the deposit interest rates offered by Changhong Finance to the Group were not less than those prescribed by the PBOC and offered by major independent PRC commercial banks in similar period, we are of the view that the pricing policy of the deposit services under the 2024 Financial Services Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

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5.2. Proposed annual caps

The table below sets forth the historical transaction amounts and the respective annual caps for the deposit services provided by Changhong Finance to the Group for the two years ended 31 December 2022 and the ten months ended 31 October 2023:

	For the year ended		For the
	31 December		year ending
	2021	2022	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon)	694,108	842,412	1,283,221 ^(Note)
Previous/existing annual cap amounts	1,500,000	2,000,000	2,500,000

Note: The maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon) for the year ending 31 December 2023 were recorded as of 31 October 2023.

The following table sets forth the proposed annual caps for the deposit services under the 2024 Financial Services Agreement for each of the three years ending 31 December 2026:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proposed annual caps	1,500,000	1,500,000	1,500,000

As set out in the Letter from the Board, the proposed annual caps for the deposit services were determined based on arms' length negotiations between the parties to the 2024 Financial Services Agreement, of which the following considerations are taken:

- (a) the interest rate on deposits offered to Changhong IT by Changhong Finance shall not be less than those offered by other major commercial banks and no restriction is imposed on the cash flow of deposits by Changhong Finance on the account. As a result, the Group can enjoy free access to the account, and adopt different periods of cash deposits to generate a possible higher interest income of deposits and ensure a flexible cash flow;

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- (b) the expected amount of the deposit services required by the Group from the Sichuan Changhong Electric Group based on the (i) historical transaction amounts between the Company and the Sichuan Changhong Electric Group and (ii) the annual cap utilisation rates for the two years ended 31 December 2022 and the ten months ended 31 October 2023, respectively;
- (c) the Group's bank balance and cash, pledged bank deposits and trade and bills receivables as at 30 June 2023 amounted to approximately HK\$936,149,000, HK\$3,503,387,000 and HK\$4,650,247,000 respectively, the sum of which (i.e. approximately HK\$9,089,783,000) is significantly higher than the proposed annual caps for the deposit services under the 2024 Financial Services Agreement, which indicates the Group's valid and sustainable needs for more deposit services to be provided by deposit-taking financial institutions like Changhong Finance; and
- (d) the maximum credit amount to be made available by Changhong Finance to Changhong IT.

As shown in the above table, the historical transaction amounts of maximum daily outstanding balance of deposits placed by Changhong IT with Changhong Finance (including interest accrued and handling fees thereon) showed an increasing trend from approximately RMB694.1 million for the year ended 31 December 2021 to approximately RMB842.4 million for the year ended 31 December 2022 and to approximately RMB1,283.2 million for the ten months ended 31 October 2023. We also noted the existing annual caps were utilised by the Group as to approximately 46.3%, 42.1% and 51.3%, respectively for the two years ended 31 December 2022 and the ten months ended 31 October 2023.

As noted from the management of the Company, as at 30 June 2023, Changhong IT has cash and bank balance amounted to approximately HK\$4.4 billion, which is significantly higher than the proposed maximum daily outstanding balance of deposits deposited with Changhong IT for the three years ending 31 December 2026 of HK\$1.5 billion. We have discussed with the management of the Company and were given to understand that the Company had taken a prudent approach in determining the proposed annual caps. We also understood that interest rate is a critical factor for determining whether to place deposits with Changhong Finance. Changhong IT would obtain interest rate quotes from independent commercial banks in the PRC from time to time and compare the quotes with those offered by Changhong Finance, and Changhong IT would use the deposit with Changhong Finance only when the interest rates offered by it were more favourable to the Group than those offered by other independent commercial banks and/or financial institutes. However, Changhong IT may not place all the available cash with one single bank/financial institute, including Changhong Finance, for risk management and maintaining business relationships with other bank/financial institute.

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While Changhong IT maintains deposits with Changhong Finance mostly in the form of demand deposits, the management of the Company considers that it reasonable to determine the proposed annual caps with reference to the overall bank balance of Changhong IT to cater any unexpected fluctuations in bank balance, in particular, in the event of loans drawdown from Changhong Finance given the loans may be subsequently deposited with Changhong Finance. As disclosed in the Announcement, the maximum daily outstanding balance of loans granted by Changhong Finance to Changhong IT (including interest accrued and handling fees thereon) amounted to approximately RMB723.3 million, RMB1,524.1 million, and RMB1,708.0 million for the two years ended 31 December 2022 and the ten months ended 31 October 2023, indicating an increasing trend. As advised by the management, the credit amount available from Changhong Finance to Changhong IT for the three years ending 31 December 2026 is expected to increase to RMB3.5 billion. The increase in the loans available by Changhong Finance was determined based on the business development and funding needs of Changhong IT, which is driven by the Group's sales of ICT products through diversified sales channels and collaboration with major e-commerce platforms in the PRC.

Having considered the basis on which the proposed annual caps for the deposit services are determined as described above, and the fact that the deposit services under the 2024 Financial Services Agreement provide an option, but not an obligation, for the Group to deposit its cash with Changhong Finance, it would provide flexibility to the Group when sourcing deposit service providers with favourable interest rates in the future, we are of the view that such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

6. Internal control measures

The Company has established a comprehensive internal control system and adopted various internal control measures, including a management system on connected transactions and procurement and tender administration measures, to ensure that the Non-exempt CCTs are conducted in accordance with their terms and conditions. Details of the internal control measures of the Group are set out in the sections headed "INTERNAL CONTROL" in the Letter from the Board.

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Non-exempt CCTs are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Non-exempt CCTs every year and confirm in the annual report that the transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

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- (b) the Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Non-exempt CCTs:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Non-exempt CCTs involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing them; and
 - (iv) have exceeded the relevant annual caps;
- (c) the Company must allow, and ensure that the counterparties to the Non-exempt CCTs allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Non-exempt CCTs; and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required. The Stock Exchange may require the Company to re-comply with the announcement and Shareholders' approval requirements and may impose additional conditions.

In light of the reporting requirements attached to the Non-exempt CCTs, in particular, (i) the restriction of the transaction value by way of annual caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the relevant agreements in relation to the Non-exempt CCTs and the respective proposed annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Non-exempt CCTs and assist in safeguarding the interests of the Company and the independent Shareholders as a whole.

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OPINION AND RECOMMENDATIONS

Having taken into account the above principal factors and reasons, we consider that the entering into of 2024 Master Supply Agreement, the 2024 Master Purchase Agreement and the 2024 Financial Services Agreement in respect of the deposit services, including their respective proposed annual caps, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions in relation to the Non-exempt CCTs and their respective annual caps to be proposed at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Calvin Leung
Director

Mr. Calvin Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 19 years of experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022 and the unaudited financial information of the Group for the six months ended 30 June 2023 were disclosed in the following documents which have been published on the website of the Company (www.changhongit.com) and the website of the Stock Exchange (www.hkexnews.hk):

- (i) Annual report of the Company for the year ended 31 December 2020 (pages 62 to 146)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0420/2021042001499.pdf>
- (ii) Annual report of the Company for the year ended 31 December 2021 (pages 62 to 152)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0422/2022042201324.pdf>
- (iii) Annual report of the Company for the year ended 31 December 2022 (pages 57 to 140)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0421/2023042101553.pdf>
- (iv) Interim report of the Company for the six months ended 30 June 2023 (pages 15 to 28)
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0914/2023091400730.pdf>

2. STATEMENT OF INDEBTEDNESS

Debts and borrowings

As at the close of business on 31 October 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had interest-bearing borrowings of approximately HK\$2.2 billion, comprising unsecured bank and other borrowings of approximately HK\$1.9 billion, and secured bank borrowings and issued commercial papers of approximately HK\$0.3 billion respectively. The said secured bank borrowings of the Group as at 31 October 2023 were secured by deposits paid by certain PRC companies of the Group.

Contingent liabilities

As at the close of business on 31 October 2023, the Group had no material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits, guarantees or contingent liabilities outstanding at the close of business on 31 October 2023.

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since 31 October 2023.

3. WORKING CAPITAL

After due enquiry and taking into account the internal resources of the Group and the borrowing facilities available to the Group, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors has confirmed that, at the Latest Practicable Date, there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

In 2023, the PRC government increased the intensity of macro policy regulation and adopted more vigorous measures to facilitate economic recovery and improvement. The digital economy, given its scale of growth and strong and vibrant momentum, is an important engine for China's economic development. In the second half of 2023, the PRC's economy has gradually recovered, and the production and demand of its ICT industry have recovered steadily.

Upon the renewal of the 2024 Master Supply Agreement and the 2024 Financial Services Agreement, it is believed that the Group will maintain a stable income stream through its supply of the ICT Products and Services and alternate means of financing. Looking forward, the Group is committed to consolidating its existing business of distribution of ICT consumer products and corporate products, as well as to continuously promoting its transformation as a remarkable digitalized and intelligentized comprehensive service provider, utilizing new technologies such as cloud computing, big data, artificial intelligence and virtual technology to drive business growth.

6. FINANCIAL EFFECTS OF ENTERING INTO THE 2024 FINANCIAL SERVICES AGREEMENT

The interest income expected to be earned from the Group's placing of deposits with Changhong Finance under the 2024 Financial Services Agreement will unlikely constitute a significant contribution to the Group's overall earnings and assets. As a result, the Company anticipates that the interest income to be derived from such deposits for the three years ending 31 December 2026 will not have a material impact on the earnings, assets and liabilities of the Group.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

Directors and chief executives' interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Interest in shares of the Company

Name of Director	Capacity	Number of ordinary shares interested	Approximate percentage of interest (%)
Mr. Zhu Jianqiu	Beneficial owner	115,165,762 (L)	7.92
Mr. Zhao Qilin	Beneficial owner	750,000 (L)	0.05
Ms. Su Huiqing	Beneficial owner	34,589,636 (L)	2.38

Note: (L) represents long position.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Substantial shareholders' interests and short positions in the Shares, underlying shares and debentures of the Company

As at the Latest Practicable Date, so far as was known to the Directors, 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 provisions under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Name of substantial shareholders	Capacity	Class of shares	Number of shares interested <i>(Note a)</i>	Approximate percentage of interest in relevant class of shares (%) <i>(Note b)</i>
Sichuan Changhong	Interest of controlled corporation	Ordinary share	874,650,000 (L) <i>(Note c)</i>	60.13
		Preference share	1,115,868,000 (L) <i>(Note d)</i>	100.00
Changhong (Hong Kong) Trading Limited (“Changhong Hong Kong”)	Interest of controlled corporation and beneficial owner	Ordinary share	874,650,000 (L) <i>(Note e)</i>	60.13
		Preference share	1,115,868,000 (L) <i>(Note d)</i>	100.00
Fit Generation Holding Limited (“Fit Generation”)	Beneficial owner	Ordinary share	858,650,000 (L)	59.03
		Preference share	1,115,868,000 (L)	100.00
Sichuan Chuantou Assets Management Co., Ltd. (“Chuantou Assets Management”) <i>(Note f)</i>	Beneficial owner	Ordinary share	83,009,340 (L)	5.70
Sichuan Provincial Investment Group Company Limited (“Sichuan Provincial Investment Group”) <i>(Note f)</i>	Interest of controlled corporation	Ordinary shares	83,009,340 (L)	5.70

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 the Latest Practicable Date, which were 1,454,652,000 and 1,115,868,000, respectively.
- (c) Among the 874,650,000 Shares interest held by Sichuan Changhong, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong Hong Kong and 858,650,000 Shares were held through Fit Generation, which is wholly-owned by Changhong Hong Kong. Sichuan Changhong is therefore deemed to be interested in the Shares held by Changhong Hong Kong and Fit Generation for the purpose of the SFO. Sichuan Changhong Holding is the single largest shareholder of Sichuan Changhong, which held approximately 23.22% of the entire issued share capital of Sichuan Changhong and has de facto control over the composition of the majority of the board of Sichuan Changhong.
- (d) 1,115,868,000 preference shares of the Company were held by Fit Generation, which is wholly-owned by Changhong Hong Kong, which is a wholly-owned subsidiary of Sichuan Changhong. Each of Sichuan Changhong and Changhong Hong Kong is therefore deemed to be interested in the preference shares of the Company held by Fit Generation for the purpose of the SFO.
- (e) Among the 874,650,000 Shares interest held by Changhong Hong Kong, 16,000,000 Shares were held directly and 858,650,000 Shares were held through Fit Generation. As Fit Generation is wholly-owned by Changhong Hong Kong, Changhong Hong Kong is deemed to be interested in the Shares held by Fit Generation for the purpose of the SFO.
- (f) Chuantou Assets Management is wholly-owned by Sichuan Provincial Investment Group, which is deemed to be interested in the Shares held by Chuantou Assets Management for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, 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.

As at the Latest Practicable Date, so far as was known to the Directors, no Director or proposed Director is a director or employee of a company which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in a business that competed or was likely to compete with the business of the Group.

4. SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company which cannot be terminated by the Company within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Group; and
- (b) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

6. MATERIAL CONTRACTS

No contracts (being contracts entered into outside the ordinary course of business carried on by the Company and its subsidiaries) have been entered into by any members of the Group within the two years immediately preceding the date of this circular.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. EXPERT, QUALIFICATIONS AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualifications
Somerley Capital	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As of the Latest Practicable Date, the expert mentioned above (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and the references to its names included herein in the form and context in which it is respectively included; (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is situated at Unit 1412, 14/F, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at Shops 1712–1716, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Mr. CHENG Ching Kit, an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.
- (e) This circular has been prepared in both English and Chinese. In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.changhongit.com) for the period of 14 days commencing from the date of this circular:

- (a) the Agreements;
- (b) the letter from the Independent Board Committee, the text of which is set out from pages 23 to 24 of this circular;
- (c) the letter of consent from Somerley Capital as referred to in paragraph headed “Expert, qualifications and consent” in this appendix; and
- (d) the letter from Somerley Capital, the text of which is set out from pages 25 to 51 of this circular.

NOTICE OF SPECIAL GENERAL MEETING



Changhong Jiahua Holdings Limited

長虹佳華控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3991)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Changhong Jiahua Holdings Limited (the “Company”) will be held at 9th Floor, Beijing Changhong Sci-Tech Tower, Building 26, Zone 18, No. 188 West Road, South Fourth Ring Road, Fengtai District, Beijing, China on Friday, 29 December 2023 at 10:30 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company.

Unless otherwise defined, capitalized terms used therein shall have the same meanings as those defined in the circular of the Company dated 11 December 2023 (the “Circular”).

ORDINARY RESOLUTIONS

1. “THAT

- (a) the master supply agreement (the “2024 Master Supply Agreement”) dated 14 November 2023 entered into between the Company and Sichuan Changhong Electronics Holding Group Co., Ltd., a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose, the terms thereof and the continuing connected transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps of the 2024 Master Supply Agreement as set out in the circular of the Company dated 11 December 2023 be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the 2024 Master Supply Agreement.”

2. “THAT

- (a) the master purchase agreement (the “2024 Master Purchase Agreement”) dated 14 November 2023 entered into between the Company and Sichuan Changhong Electronics Holding Group Co., Ltd., a copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purpose, the terms thereof and the continuing connected transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

NOTICE OF SPECIAL GENERAL MEETING

- (b) the proposed annual caps of the 2024 Master Purchase Agreement as set out in the circular of the Company dated 11 December 2023 be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the 2024 Master Purchase Agreement.”

3. “**THAT**

- (a) the financial services agreement (the “**2024 Financial Services Agreement**”) dated 14 November 2023 entered into between the Sichuan Changhong IT Information Products Co., Ltd and Sichuan Changhong Group Finance Co., Ltd, a copy of which is tabled at the meeting and marked “C” and initialed by the chairman of the meeting for identification purpose, the terms of the deposit services thereof and the continuing connected transaction of the deposit services contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps for the deposit services under the 2024 Financial Services Agreement as set out in the circular of the Company dated 11 December 2023 be and are hereby approved; and
- (c) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the deposit services under the 2024 Financial Services Agreement.”

Yours faithfully,
By order of the Board
Changhong Jiahua Holdings Limited
Zhu Jianqiu
Chairman and Executive Director

Hong Kong, 11 December 2023

Notes:

- i. For the purpose of determining the shareholders of the Company who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 27 December 2023 to Friday, 29 December 2023 (both days inclusive), during which no transfer of Shares can be registered. In order to qualify for attending and voting at the SGM, all transfer documents should be lodged for registration with the Company’s branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Friday, 22 December 2023.
- ii. Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holder of any class of shares in the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member holding two or more shares may appoint more than one proxy to attend on the same occasion.

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- iii. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorized.
- iv. To be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited to the Company's branch registrar in Hong Kong, Hong Kong Registrars Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting (as the case may be).
- v. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the SGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- vi. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.
- vii. Attendants should bear their own travelling, accommodation and other expenses.

As at the date of this notice, the executive directors of the Company are Mr. Zhu Jianqiu, Mr. Zhang Xiaolong, Mr. Zhao Qilin, Mr. Shao Min, Ms. Su Huiqing and Mr. Zhou Jiachao and the independent non-executive directors of the Company are Mr. Jonathan Chan Ming Sun, Mr. Gao Xudong and Mr. Meng Qingbin.