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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: 8016)**

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

**RENEWAL OF EXISTING FINANCIAL SERVICES AGREEMENT**

Reference is made to the announcement of the Company dated 26 March 2015 and the circular of the Company dated 28 April 2015 in relation to the 2015 Financial Services Agreement.

As the 2015 Financial Services Agreement will expire on 31 December 2017, the Board announces that, on 27 November 2017, Changhong IT and Changhong Finance entered into the 2018 Financial Services Agreement, pursuant to which Changhong Finance agreed to provide the Financial Services to Changhong IT in accordance with the terms and conditions of the 2018 Financial Services Agreement.

## **Implications under the GEM Listing Rules**

Changhong Finance is a company owned as to 50% by Sichuan Changhong, the controlling shareholder of the Company and 50% by Sichuan Changhong Electric, a company which holds approximately 23.22% of the equity interest of Sichuan Changhong. Accordingly, Changhong Finance is an associate of a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules, and accordingly the transactions contemplated under the 2018 Financial Services Agreement constitute continuing connected transactions of the Company for the purpose of the GEM Listing Rules.

As the highest of the applicable percentage ratios of the proposed annual caps in respect of the deposit services under the 2018 Financial Services Agreement exceeds 5% on an annual basis, the deposit services under the 2018 Financial Services Agreement and the proposed annual caps constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. In addition, as the relevant percentage ratios in respect of the provision of the deposit services under the 2018 Financial Services Agreement exceed 25% but are less than 100%, the provision of the deposit services also constitutes major transaction for the Company under Chapter 19 of the GEM Listing Rules and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

The loan services under the 2018 Financial Services Agreement will constitute financial assistance provided by a connected person. As such loan services will be provided on normal commercial terms or on terms which are more favorable to Changhong IT and will not be secured by the assets of the Group, the loan services under the 2018 Financial Services Agreement are exempt from the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

As the highest of the applicable percentage ratios of the proposed annual caps in respect of the settlement services under the 2018 Financial Services Agreement is more than 0.1% but less than 5%, such settlement services are exempt from the circular and Independent Shareholders' approval requirements but subject to reporting, announcement and annual review requirements under Chapter 20 of the GEM Listing Rules.

In the event that Changhong Finance provides any further financial services to Changhong IT under the 2018 Financial Services Agreement, the Company will determine the percentage ratios and re-comply with the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules if and to the extent that such requirements apply.

## **General**

Pursuant to the GEM Listing Rules, the Independent Board Committee will be established to advise the Independent Shareholders as to whether the terms of transactions contemplated under the 2018 Financial Services Agreement and the proposed annual caps for the deposit services thereunder for the periods ending 31 December 2018, 2019 and 2020 are fair and reasonable and in the interest of the Company and its Shareholders as a whole, and the Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, (i) further details of the transactions contemplated under the 2018 Financial Services Agreement and the proposed annual caps for the relevant financial services thereunder for the periods ending 31 December 2018, 2019 and 2020; (ii) the recommendation from the Independent Board Committee in respect of the 2018 Financial Services Agreement; and (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2018 Financial Services Agreement, together with a notice of the SGM, will be despatched to the Shareholders on or before 12 December 2017.

## **RENEWAL OF EXISTING MASTER SUPPLY AGREEMENT AND MASTER PURCHASE AGREEMENT**

Reference is made to the announcement of the Company dated 14 December 2016 in relation to the 2017 Master Supply Agreement and the 2017 Master Purchase Agreement.

As the 2017 Master Supply Agreement and the 2017 Master Purchase Agreement will expire on 31 December 2017, the Board further announces that, on 27 November 2017, the Company and Sichuan Changhong Electric entered into (i) the 2018 Master Supply Agreement pursuant to which the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group; and (ii) the 2018 Master Purchase Agreement pursuant to which the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group.

### **Implications under the GEM Listing Rules**

As at the date of this announcement, Sichuan Changhong Electric held approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company. Sichuan Changhong and Sichuan Changhong Electric are controlling shareholders of the Company under the GEM Listing Rules, and accordingly the transactions contemplated under each of the 2018 Master Supply Agreement and the 2018 Master Purchase Agreement constitute continuing connected transactions for the Company for the purpose of the GEM Listing Rules.

As one or more of the applicable percentage ratios of the proposed annual caps in respect of the annual transaction amount under each of the 2018 Master Supply Agreement and the 2018 Master Purchase Agreement is more than 0.1% but less than 5%, the entering into each of the 2018 Master Purchase Agreement and the 2018 Master Supply Agreement as well as the transactions contemplated thereunder are exempt from the circular and independent shareholders' approval requirements but subject to the reporting, announcement and annual review requirements under Chapter 20 of the GEM Listing Rules.

## **RENEWAL OF EXISTING FINANCIAL SERVICES AGREEMENT**

Reference is made to the announcement of the Company dated 26 March 2015 and the circular of the Company dated 28 April 2015 in relation to the 2015 Financial Services Agreement.

As the 2015 Financial Services Agreement will expire on 31 December 2017, the Board announces that, on 27 November 2017, Changhong IT and Changhong Finance entered into the 2018 Financial Services Agreement, pursuant to which Changhong Finance agreed to provide the Financial Services to Changhong IT in accordance with the terms and conditions of the 2018 Financial Services Agreement.

Particulars of the 2018 Financial Services Agreement are as follows:

- Date:** 27 November 2017
- Parties:**
- (1) Changhong IT, a wholly-owned subsidiary of the Company
  - (2) Changhong Finance
- Term:** A fixed term from 1 January 2018 and ending on 31 December 2020 (both dates inclusive), subject to the approval from the Independent Shareholders being obtained at the SGM
- Nature of transactions:** Provision of the Financial Services, including but not limited to, (i) deposit services; (ii) loan services; and (iii) settlement services

**Pricing and Payment terms:** In relation to the deposit services pursuant to the 2018 Financial Services Agreement, the interest rate applicable to any deposits made available by Changhong IT to Changhong Finance will be determined in the ordinary course of business and shall not be less than (i) the minimum interest rate prescribed by PBOC at such relevant time (the benchmark interest rate for savings deposit set by the PBOC is 1.5% per annum as at the date of this announcement); and (ii) 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. The Group is at its own discretion to elect the amount of deposit to be deposited with Changhong Finance it requires. Funds to be deposited by the Group under the 2018 Financial Services Agreement are from the internal resources of the Group.

In relation to the loan services pursuant to the 2018 Financial Services Agreement, the interest rate of the loans to be granted by Changhong Finance to Changhong IT will be determined in the ordinary course of business and shall not be higher than (i) the maximum interest rate prescribed by PBOC at such relevant time (the benchmark interest rate for short-term loan set by the PBOC is 4.35% per annum as at the date of this announcement); and (ii) the interest rate charged against Changhong IT by other major commercial banks in the PRC independent to Changhong IT in respect of the same type of loans.

In relation to the settlement services pursuant to the 2018 Financial Services Agreement, the settlement service fees to be charged by Changhong Finance will be determined in the ordinary course of business and shall not exceed the fees charged by other settlement services providers independent to Changhong IT in respect of the same type of settlement services.

### **Proposed annual caps and basis of determination**

The proposed annual caps for the periods ending 31 December 2018, 2019 and 2020 for each of (i) deposit services; (ii) loan services; and (iii) settlement services are determined with reference to their respective market rates. Changhong IT will continue to observe the rates from other similar service providers to ensure that the services provided pursuant to the 2018 Financial Services Agreement is fair and reasonable and in the interests of its Shareholders as a whole and that the fair market principles for the Company using such financial services are maintained.

The annual caps for each of (i) deposit services; (ii) loan services; and (iii) settlement services under the 2018 Financial Services Agreement are set forth as below:

### ***Deposit Services***

The annual caps for the deposit services pursuant to the 2018 Financial Services Agreement are as follows:

	<b>Annual cap for the year ending 31 December 2018 <i>(RMB'000 per day)</i></b>	<b>Annual cap for the year ending 31 December 2019 <i>(RMB'000 per day)</i></b>	<b>Annual cap for the year ending 31 December 2020 <i>(RMB'000 per day)</i></b>
Maximum daily outstanding balance of deposits to be deposited by Changhong IT with Changhong Finance (including interest accrued and handling fees thereon)	800,000	800,000	800,000

The above annual caps are subject to the conditions that (i) the total deposit amount deposited by Changhong IT not exceeding 30% of the total deposit amount taken by Changhong Finance; and (ii) the total deposits by Changhong IT with Changhong Finance not exceeding the maximum amount of credit line to be provided by Changhong Finance to Changhong IT (including loans, guarantees and acceptances issued).

The annual caps for the deposit amount were determined based on arm's length negotiation between the parties to the 2018 Financial Services Agreement, taking into account the effectiveness and reasonableness of the financial management of Changhong IT and Changhong Finance, and the maximum amount of credit line made available by Changhong Finance to Changhong IT pursuant to the 2018 Financial Services Agreement, as the loan amount may be deposited with Changhong Finance when it is drawn down. Changhong IT and Changhong Finance should jointly cooperate in monitoring the compliance of the proposed annual caps.

## ***Loan Services***

The annual caps for the loans services pursuant to the 2018 Financial Services Agreement are as follows:

	<b>Annual cap for the year ending 31 December 2018 (RMB'000)</b>	<b>Annual cap for the year ending 31 December 2019 (RMB'000)</b>	<b>Annual cap for the year ending 31 December 2020 (RMB'000)</b>
Maximum daily outstanding balance of loans to be granted by Changhong Finance to Changhong IT (including interest accrued and handling fees thereon)	800,000	800,000	800,000

The annual caps for the loans amount to be provided by Changhong Finance to Changhong IT pursuant to the 2018 Financial Services Agreement were determined with reference to the expected business development needs and the increasing funding requirement in light of the business demand of Changhong IT, taking into account of the source of funding required that is necessary for Changhong IT's operations and expected growth. Changhong IT and Changhong Finance should jointly cooperate in monitoring the compliance of the maximum outstanding balance.

## ***Settlement Services***

The annual caps for the settlement services pursuant to the 2018 Financial Services Agreement are as follows:

	<b>Annual cap for the year ending 31 December 2018 (RMB'000)</b>	<b>Annual cap for the year ending 31 December 2019 (RMB'000)</b>	<b>Annual cap for the year ending 31 December 2020 (RMB'000)</b>
Maximum service fees for the settlement services to be provided by Changhong Finance to Changhong IT	5,000	5,000	5,000

The annual caps for the service fees for the settlement services to be provided by Changhong Finance to Changhong IT pursuant to the 2018 Financial Services Agreement were determined with reference to the expected settlement fees that will be derived from the maximum expected deposit and loan services required by Changhong IT from Changhong Finance.

The table below sets out the existing annual caps in respect of each of the financial services contemplated under the 2015 Financial Services Agreement for the three years ending 31 December 2017 as approved by the then Independent Shareholders and the historical figures of each of such financial services for the two years ended 31 December 2016 and the ten-month period ended 31 October 2017:

	Existing annual caps			Historical figures		
	For the year	For the year	For the year	For the year	For the year	For the
	ended	ended	ending	ended	ended	ten-month
	31 December	31 December	31 December	31 December	31 December	period ended
2015	2016	2017	2015	2016	2017	
(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	
Deposit services – Maximum daily outstanding balance of deposits deposited/to be deposited (including interest accrued and handling fees thereon)	500,000	600,000	800,000	23,000	55,002	90,369
Loan services – Maximum daily outstanding balance of loans granted/to be granted (including interest accrued and handling fees thereon)	500,000	600,000	800,000	200,024	10,000	272,605
Settlement services – Maximum service fees for the settlement services provided/to be provided	5,000	5,000	5,000	–	–	25

As at the date of this announcement, the annual caps under the 2015 Financial Services Agreement for the three financial years ending 31 December 2017 have not been exceeded.

The actual transactional amount of the financial services obtained from Changhong Finance were significantly lower than the annual caps as contemplated under the 2015 Financial Services Agreement for the following reasons: (i) in determining whether to obtain loans from or deposit amounts with Changhong IT, the Group's treasury group obtained interest rate quotes from independent commercial banks in the PRC from time to time and compared the quotes with those offered by Changhong Finance, and Changhong IT elected the respective financial services from Changhong Finance only when the interest rates offered by it were more favourable as those offered by other independent commercial banks; and (ii) while Changhong IT deposited the amount of loans obtained from Changhong Finance with Changhong Finance, Changhong IT drew down such loans in batches and therefore the maximum daily outstanding balance of the amounts deposited with Changhong Finance was smaller than the amount of loans obtained from Changhong Finance.



The Board believes that the proposed annual caps in respect of the financial services contemplated under the 2018 Financial Services Agreement are in the interest of the Company and its Shareholders as a whole since (i) Changhong Finance made available a credit line of RMB800 million to Changhong IT taking into account of the good credit standing of Changhong IT; (ii) in the event that Changhong IT takes out one-off loan in full from the credit line made available to it by Changhong Finance pursuant to the 2018 Financial Services Agreement, i.e. RMB800 million, such amount can be deposited with Changhong Finance; and (iii) the Board considers that the proposed annual caps will provide Changhong IT with greater flexibility to improve the 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.

### **Reasons for and benefits of entering into the 2018 Financial Services Agreement**

Changhong Finance is a non-bank financial institution which is subject to the regulations of the PBOC and the CBRC and is authorised to provide a range of financial services including but not limited to depository, loan, settlement, bill discounting, guarantees and other financial services approved by the CBRC.

The deposit interest rates and the lending rates offered by Changhong Finance to Changhong IT will be equal to or more favourable to Changhong IT than those offered by independent commercial banks in the PRC to Changhong IT for comparable deposits or, as the case may be, loans. The 2018 Financial Services Agreement is therefore expected not only to provide Changhong IT with new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. Changhong IT is also expected 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 2018 Financial Services Agreement does not preclude Changhong IT from using the services of other financial institutions. Changhong IT still has the right to select any other major and independent PRC commercial banks as its financial services providers as it, from time to time, thinks fit and appropriate for the benefit of Changhong IT.

## **Internal control**

Subject to the general pricing principle and payment terms disclosed above, the pricing policy will be supervised and monitored by the relevant personnel of the Group in charge to ensure that the 2018 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. The relevant personnel of the Group will also conduct regular checks twice a year to review and assess whether the transactions contemplated under the 2018 Financial Services Agreement are conducted in accordance with the terms of the 2018 Financial Services Agreement and in accordance with the aforesaid pricing policy. Further, the Group's treasury group will contact commercial banks in the PRC to obtain interest rate quotes and compare the quotes with those offered by Changhong Finance. The rates and the decision of making any deposits with Changhong Finance will also be reviewed and approved by the chief financial officer of Changhong IT. The Company will also engage its auditors to conduct an annual review of the transactions contemplated under the 2018 Financial Services Agreement.

## **Implications under the GEM Listing Rules**

Changhong Finance is a company owned as to 50% by Sichuan Changhong, the controlling shareholder of the Company and 50% by Sichuan Changhong Electric, a company which holds approximately 23.22% of the equity interest of Sichuan Changhong. Accordingly, Changhong Finance is an associate of a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules, and accordingly the transactions contemplated under the 2018 Financial Services Agreement constitute continuing connected transactions of the Company for the purpose of the GEM Listing Rules.

As the highest of the applicable percentage ratios of the proposed annual caps in respect of the deposit services under the 2018 Financial Services Agreement exceeds 5% on an annual basis, the deposit services under the 2018 Financial Services Agreement and the proposed annual caps constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. In addition, as the relevant percentage ratios in respect of the provision of the deposit services under the 2018 Financial Services Agreement exceed 25% but are less than 100%, the provision of the deposit services also constitutes major transaction for the Company under Chapter 19 of the GEM Listing Rules and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

The loan services under the 2018 Financial Services Agreement will constitute financial assistance provided by a connected person. As such loan services will be provided on normal commercial terms or on terms which are more favorable to Changhong IT and will not be secured by the assets of the Group, the loan services under the 2018 Financial Services Agreement are exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

As the highest of the applicable percentage ratios of the proposed annual caps in respect of the settlement services under the 2018 Financial Services Agreement is more than 0.1% but less than 5%, the settlement services are exempt from Independent Shareholders' approval requirements but subject to reporting, announcement and annual review requirements under Chapter 20 of the GEM Listing Rules.

In the event that Changhong Finance provides any further financial services to Changhong IT under the 2018 Financial Services Agreement, the Company will determine the percentage ratios and re-comply with the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules if and to the extent that such requirements apply.

## **Others**

Each of Mr. Zhao Yong and Mr. Li Jin is a director of both Sichuan Changhong and Sichuan Changhong Electric, the two shareholders of Changhong Finance, while Mr. Yang Jun is a director of Sichuan Changhong and a senior management member of Sichuan Changhong Electric. Accordingly, Mr. Zhao Yong, Mr. Li Jin and Mr. Yang Jun, each being an executive Director, are considered to be interested in the transactions contemplated under the 2018 Financial Services Agreement. Each Mr. Zhao Yong, Mr. Li Jin and Mr. Yang Jun has therefore abstained from voting for the Board resolution to approve the 2018 Financial Services Agreement and the transactions contemplated thereunder.

## **Information on the relevant parties**

The Company has been listed on GEM since 24 January 2000. The Group is principally engaged in the distribution of IT consumer products and corporate products.

Changhong IT is a wholly-owned subsidiary of the Company. It is principally engaged in the distribution of IT consumer products (including personal computers, digital products and IT accessories) and IT corporate products (including storage products, minicomputers, network products, PC servers, IBMS products and UC&CC products) in the PRC.

Changhong Finance is a company owned as to 50% by Sichuan Changhong, the controlling shareholder of the Company and 50% by Sichuan Changhong Electric, a company which holds approximately 23.22% equity interest in Sichuan Changhong. It has strong financial strength and experience in providing financial services. After obtaining the Financial License and Business License of the Enterprise Legal Person, Changhong Finance will provide range of financial services including but not limited to depository, loan, settlement, bill discounting, guarantees and other financial services approved by the CBRC to Changhong IT.

## **General**

Pursuant to the GEM Listing Rules, the Independent Board Committee will be established to advise the Independent Shareholders as to whether the terms of transactions contemplated under the 2018 Financial Services Agreement and the proposed annual caps for the deposit services thereunder for the periods ending 31 December 2018, 2019 and 2020 are fair and reasonable and in the interest of the Company and its Shareholders as a whole, and the Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, (i) further details of the transactions contemplated under the 2018 Financial Services Agreement and the proposed annual caps for the relevant financial services thereunder for the periods ending 31 December 2018, 2019 and 2020; (ii) the recommendation from the Independent Board Committee in respect of the 2018 Financial Services Agreement; and (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2018 Financial Services Agreement, together with a notice of the SGM, will be despatched to the Shareholders on or before 12 December 2017.

## **RENEWAL OF EXISTING MASTER SUPPLY AGREEMENT AND MASTER PURCHASE AGREEMENT**

Reference is made to the announcement of the Company dated 14 December 2016 in relation to the 2017 Master Supply Agreement and the 2017 Master Purchase Agreement.

As the 2017 Master Supply Agreement and the 2017 Master Purchase Agreement will expire on 31 December 2017, the Board further announces that, on 27 November 2017, the Company and Sichuan Changhong Electric entered into (i) the 2018 Master Supply Agreement pursuant to which the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group; and (ii) the 2018 Master Purchase Agreement pursuant to which the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group.

Details of the 2018 Master Supply Agreement and the 2018 Master Purchase Agreement are set out as follows:

### **The 2018 Master Supply Agreement**

- Date:** 27 November 2017
- Parties:**
- (1) the Company (as the supplier)
  - (2) Sichuan Changhong Electric (as the purchaser)
- Term:** A fixed term commencing from 1 January 2018 to 31 December 2018 (both days inclusive)
- Subject matter:** Pursuant to the 2018 Master Supply Agreement, the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products 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 Supply Products. The terms of the individual orders will be consistent with the principles and the terms of the 2018 Master Supply Agreement. If there is any conflict between the terms of an individual order and the 2018 Master Supply Agreement, the latter shall prevail.

**Pricing policy:**

As a general principle, the price and terms of the individual orders in respect of the supply of the Supply Products by the Group to Sichuan Changhong Electric Group will be on normal commercial terms, negotiated on an arm's length basis, on 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 Group will take into account the following factors when determining the prices of the Supply Products:

- (1) the expected material costs and production costs to be incurred by the Group in providing the Supply Products;
- (2) the marginal profit to be made by the Group, which is expected to be comparable to the profit that can be realised by sales to independent third party customers; and
- (3) any adjustment based on expected quantity, quality, delivery plan, specification and market competition condition of the Supply Products.

***Proposed annual caps and basis of determination***

The transaction amount of all the Supply Products supplied under the 2018 Master Supply Agreement for the year ending 31 December 2018 shall not exceed RMB49,000,000.

The annual cap under the 2018 Master Supply Agreement was determined based on the following factors:

- (1) the expected quantity of the Supply Products to be ordered by the Sichuan Changhong Electric Group based on preliminary negotiations with Sichuan Changhong Electric;
- (2) the prevailing open market prices of the Supply Products in the PRC; and
- (3) the historical transaction amounts between the Company and Sichuan Changhong Electric for the period from 1 January 2017 to 31 October 2017 and the historical transaction amounts between the Company and Sichuan Changhong for the financial years ended 31 December 2014, 2015 and 2016, respectively.

The historical transaction amounts of supply of the Supply Products by the Group to Sichuan Changhong Electric Group for each of the years ended 31 December 2014, 2015 and 2016 and the ten months ended 31 October 2017 were as follows:

	For the financial year ended 31 December 2014 (HK\$'000)	For the financial year ended 31 December 2015 (HK\$'000)	For the financial year ended 31 December 2016 (RMB'000)	For the period from 1 January 2017 to 31 October 2017 (RMB'000)
Previous/existing annual caps	2,675,124	2,942,637	65,000	60,000
Historical transaction amounts	43,757	91,695	56,920	6,248

As at the date of this announcement, the annual cap under the 2017 Master Supply Agreement for the financial year ending 31 December 2017 has not been exceeded.

### ***Reasons for and benefits of entering into the 2018 Master Supply Agreement***

The Group has historically been supplying IT products to Sichuan Changhong, which is owned as to 23.22% by Sichuan Changhong Electric, and has been supplying IT products to the Sichuan Changhong Electric Group since 19 April 2016. The parties entered into the 2018 Master Supply Agreement to continue the business relationship upon expiry of the 2017 Master Supply Agreement taking into consideration that the Sichuan Changhong Electric Group has a broad distribution network as well as its established long-term and solid reputation in the market. The entering into of the 2018 Master Supply Agreement will enable the Company to continue capitalising on the stable and well-established strategic business relationship with the Sichuan Changhong Electric Group and maintain a stable income stream with a committed source of orders from the Sichuan Changhong Electric Group, which in turn will benefit the Group's revenue growth and future development.

Based on the above, the Directors (including independent non-executive Directors but excluding the Directors who abstained from voting on the relevant Board resolutions as set out hereinafter) are of the view that the 2018 Master Supply Agreement was entered into upon normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group, and the terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## **The 2018 Master Purchase Agreement**

- Date:** 27 November 2017
- Parties:**
- (1) the Company (as the purchaser)
  - (2) Sichuan Changhong Electric (as the supplier)
- Term:** A fixed term commencing from 1 January 2018 to 31 December 2018 (both days inclusive)
- Subject matter:** Pursuant to the 2018 Master Purchase Agreement, the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group. The Purchase Products to be purchased by the Group will be used for meeting the needs of customers in project business.
- The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of Purchase Products. The terms of the individual orders will be consistent with the principles and the terms of the 2018 Master Purchase Agreement. If there is any conflict between the terms of an individual order and the 2018 Master Purchase Agreement, the latter shall prevail.
- Pricing policy:** Each individual purchase of the Purchase Products will be conducted on normal commercial terms negotiated on an arm's length basis, or on terms which are no less favourable than those provided by independent third party suppliers.
- When determining the purchase prices of the Purchase Products, the Group will take into account the prices offered by independent third party suppliers in normal course of business and on normal commercial terms.



### ***Proposed annual caps and basis of determination***

The transaction amount of all the Purchase Products purchased under the 2018 Master Purchase Agreement for the year ending 31 December 2018 shall not exceed RMB49,000,000.

The annual cap under the 2018 Master Purchase Agreement was determined based on the following factors:

- (1) the expected quantity of the Purchase Products to be purchased by the Group;
- (2) the prevailing open market prices of the Purchase Products in the PRC; and
- (3) the historical transaction amounts between the Company and Sichuan Changhong Electric for the period from 1 January 2017 to 31 October 2017 and the historical transaction amounts between the Company and Sichuan Changhong for the financial years ended 31 December 2014, 2015 and 2016, respectively.

The historical transaction amounts of purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group for each of the three financial years ended 31 December 2014, 2015 and 2016 and the ten months ended 31 October 2017 were as follows:

	For the financial year ended 31 December 2014 (HK\$'000)	For the financial year ended 31 December 2015 (HK\$'000)	For the financial year ended 31 December 2016 (RMB'000)	For the period from 1 January 2017 to 31 October 2017 (RMB'000)
Previous/existing annual caps	1,230,852	1,353,937	5,000	5,250
Historical transaction amounts	19,676	N/A	358	287

As at the date of this announcement, the annual cap under the 2017 Master Purchase Agreement for the financial year ending 31 December 2017 has not been exceeded.

## ***Reasons for and benefits of entering into the 2018 Master Purchase Agreement***

In the past, the Group has been purchasing software and services from Sichuan Changhong, which is owned as to 23.22% by Sichuan Changhong Electric, and has been purchasing software and services from the Sichuan Changhong Electric Group since 19 April 2016. The parties entered into the 2018 Master Purchase Agreement to continue the business relationship upon expiry of the 2017 Master Purchase Agreement taking into consideration that Sichuan Changhong Electric has a wide scope of product offering. Accordingly, the entering into of the 2018 Master Purchase Agreement will enhance the diversification of products to be supplied to the Group. Taking into account that the Group has a stable and well-established strategic business relationship with Sichuan Changhong Electric Group, Sichuan Changhong Electric Group has a deep understanding as to the specifications of the Purchase Products required by the Group, and the entering into of the 2018 Master Purchase Agreement will continue to support the stable growth and expansion of the business of the Group, the Directors believe the entering into of the 2018 Master Purchase Agreement will benefit the Group's revenue growth and future development.

Based on the above, the Directors (including independent non-executive Directors but excluding the Directors who abstained from voting on the relevant Board resolution as set out hereinafter) are of the view that the 2018 Master Purchase Agreement was entered into upon normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group, and the terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **Internal control**

The pricing policies for all the continuing connected transactions of the Group will be supervised and monitored by senior manager of the Group's internal audit department and the relevant personnel and management of the Group in charge to ensure the relevant continuing connected transactions are conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Shareholders as a whole. The senior manager of the Group's internal audit department and relevant personnel and management of the Group in charge will 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 their respective agreements and will also regularly update the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policies. The independent non-executive Directors would continue to review the transactions contemplated under the relevant continuing connected transactions. The Company's auditors would also conduct an annual review on the pricing terms and annual caps thereof. Accordingly, the Directors consider that the internal control mechanism is effective to ensure that the relevant continuing connected transactions have been and will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

## **Implications under the GEM Listing Rules**

As at the date of this announcement, Sichuan Changhong Electric held approximately 23.22% of the equity interest in Sichuan Changhong, the controlling shareholder of the Company. Therefore, Sichuan Changhong and Sichuan Changhong Electric are both controlling shareholders of the Company under the GEM Listing Rules, and the entering into of the 2018 Master Purchase Agreement and the 2018 Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company for the purpose of the GEM Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 19.06 of the GEM Listing Rules of the proposed annual caps in respect of the annual transaction amount under each of the 2018 Master Purchase Agreement and the 2018 Master Supply Agreement are more than 0.1% but less than 5%, the entering into each of the 2018 Master Purchase Agreement and the 2018 Master Supply Agreement as well as the transactions contemplated thereunder are exempt from the circular and independent shareholders' approval requirements but subject to the reporting, announcement and annual review requirements under Chapter 20 of the GEM Listing Rules.

## **Others**

Each of Mr. Zhao Yong and Mr. Li Jin is a director of both Sichuan Changhong Electric and Sichuan Changhong, while Mr. Yang Jun is a senior management member of Sichuan Changhong Electric and a director of Sichuan Changhong. Accordingly, Mr. Zhao Yong, Mr. Li Jin and Mr. Yang Jun, each being an executive Director, are considered to be interested in the transactions contemplated under each of the 2018 Master Supply Agreement and the 2018 Master Purchase Agreement. Each of Mr. Zhao Yong, Mr. Li Jin and Mr. Yang Jun has therefore abstained from voting for the Board resolution to approve each of the 2018 Master Supply Agreement and the 2018 Master Purchase Agreement and the transactions contemplated thereunder.

## **Information on the relevant parties**

The Company has been listed on GEM since 24 January 2000. The Group is principally engaged in the distribution of IT consumer products and IT corporate products.

The principal business of Sichuan Changhong Electric is investment holding. The Sichuan Changhong Electric Group holds interests in various businesses, including, among others, manufacturing and sales of consumer electronic appliances (held through Sichuan Changhong) and property development (held through other business entities).

## DEFINITIONS

“2015 Financial Services Agreement”	the financial services agreement dated 26 March 2015 entered into between Changhong IT and Changhong Finance in relation to the provision of certain financial services by Changhong Finance to Changhong IT during the period from 26 March 2015 and ending on 31 December 2017, details of which are set out in the announcement of the Company dated 26 March 2015 and the circular of the Company dated 28 April 2015
“2017 Master Purchase Agreement”	the master purchase agreement dated 14 December 2016 entered into between Company and Sichuan Changhong Electric in relation to purchase of the Purchase Products during the period from 1 January 2017 and ending on 31 December 2017, details of which are set out in the announcement of the Company dated 14 December 2016
“2017 Master Supply Agreement”	the master supply agreement dated 14 December 2016 entered into between the Company and Sichuan Changhong Electric in relation to supply of the Supply Products during the period from 1 January 2017 and ending on 31 December 2017, details of which are set out in the announcement of the Company dated 14 December 2016
“2018 Financial Services Agreement”	the financial services agreement dated 27 November 2017 entered into between Changhong IT and Changhong Finance pursuant to which Changhong Finance agreed to provide certain Financial Services to Changhong IT during the period from 1 January 2018 and ending on 31 December 2020
“2018 Master Purchase Agreement”	the master purchase agreement dated 27 November 2017 entered into between the Company and Sichuan Changhong Electric pursuant to which the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group during the period from 1 January 2018 and ending on 31 December 2018

“2018 Master Supply Agreement”	the master supply agreement dated 27 November 2017 entered into between the Company and Sichuan Changhong Electric pursuant to which the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group during the period from 1 January 2018 and ending on 31 December 2018
“associate(s)”	has the meaning as ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking 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 50% by Sichuan Changhong and 50% by Sichuan Changhong Electric
“Changhong IT”	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
“Company”	Changhong Jiahua Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM
“connected person(s)”	has the meaning as ascribed to it under the GEM Listing Rules
“Director(s)”	director(s) of the Company
“Financial Services”	the financial services to be provided by Changhong Finance to Changhong IT pursuant to the 2018 Financial Services Agreement, including (i) deposit services; (ii) loan services; and (iii) settlement services
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

“Group”	the Company and its subsidiaries
“Independent Board Committee”	the independent committee of the Board comprising of all the independent non-executive Directors
“Independent Financial Adviser”	the independent financial adviser to be appointed to advise the Independent Board Committee
“Independent Shareholders”	the Shareholders other than those with material interest in the 2018 Financial Services Agreement who are required to abstain from voting under the GEM Listing Rules to approve the transactions under the 2018 Financial Services Agreement
“IT”	Information technology
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC”	the People’s Republic of China
“Purchase Products”	including software, services and other ancillary products to be purchased by the Group from the Sichuan Changhong Electric Group
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, passing ordinary resolutions regarding the 2018 Financial Services Agreement and the transactions contemplated thereunder
“Shareholder(s)”	holder(s) of the shares of the Company
“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 issued A-shares of which are listed on the Shanghai Stock Exchange (stock code: 600839.SH) and owns, together with its wholly-owned subsidiaries, approximately 69.32% of the Company

“Sichuan Changhong Electric”	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 which holds approximately 23.22% equity interest in Sichuan Changhong as at the date of this announcement
“Sichuan Changhong Electric Group”	Sichuan Changhong Electric and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Products”	IT products such as personal computers, servers, storage devices and network equipment to be supplied by the Group to the Sichuan Changhong Electric Group
“%”	per cent.

By Order of the Board  
**Changhong Jiahua Holdings Limited**  
**ZHAO Yong**  
*Chairman*

27 November 2017

*As at the date of this announcement, the Company’s executive Directors are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Li Jin, Mr. Yang Jun and Ms. Shi Ping and the independent non-executive Directors are Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin.*

*This announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement in this announcement or this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will appear on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the day of its posting thereon and on the website of the Company at [www.changhongit.com.hk](http://www.changhongit.com.hk).*