
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional adviser.

If you have sold or transferred all your shares in Changhong Jiahua Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser and transferee.



CHANGHONG JIAHUA HOLDINGS LIMITED
(長虹佳華控股有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE RENEWAL OF
EXISTING FINANCIAL SERVICES AGREEMENT
AND
NOTICE OF SPECIAL GENERAL MEETING**

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



Crescendo Capital Limited

A letter from the Board is set out on pages 5 to 16 of this circular. A letter from the Independent Board Committee is set out on pages 17 to 18 of this circular. A letter from the Independent Financial Adviser is set out on pages 19 to 32 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 on Friday, 29 December 2017 at 11 a.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon. The form of proxy should be returned to the Hong Kong branch share registrar of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time fixed for holding of 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 any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcement" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at <http://www.changhongit.com.hk>.

12 December 2017

CHARACTERISTICS OF THE GEM

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

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

CONTENT

	<i>Page</i>
DEFINITIONS	1
 LETTER FROM THE BOARD	
Introduction	5
2018 Financial Services Agreement	6
Proposed Annual Caps and Basis of Determination	7
Historical Amounts under 2015 Financial Services Agreement	10
Reasons for and Benefits of Entering into the 2018 Financial Services Agreement	11
Internal Control	12
Implications under the GEM Listing Rules	13
Information on the Relevant Parties	14
SGM	14
Recommendations	15
Additional Information	16
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	17
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	19
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	I-1
APPENDIX II – GENERAL INFORMATION	II-1
NOTICE OF SGM	SGM-1

DEFINITIONS

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

“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
“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 the Financial Services to Changhong IT during the period from 1 January 2018 and ending on 31 December 2020
“associates”	has the meaning ascribed thereto in 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 as at the Latest Practicable Date
“Changhong (Hong Kong)”	Changhong (Hong Kong) Trading Limited, a wholly-owned subsidiary of Sichuan Changhong. As at the Latest Practicable Date, 16,000,000 Shares were held by Changhong (Hong Kong)

DEFINITIONS

“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
“Crescendo” or “Independent Financial Adviser”	Crescendo Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2018 Financial Services Agreement and the transactions contemplated thereunder
“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
“Fit Generation”	Fit Generation Holding Limited, a wholly-owned subsidiary of Changhong (Hong Kong). As at the Latest Practicable Date, 897,000,000 Shares were held by Fit Generation
“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

DEFINITIONS

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising of all the independent non-executive Directors, namely Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin
“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
“Latest Practicable Date”	7 December 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion herein
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC”	the People’s Republic of China
“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 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 2017 at 11 a.m. or any adjournment thereof
“Shareholder(s)”	holder(s) of the Shares
“Shares”	shares of HK\$0.025 each of the Company

DEFINITIONS

“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 owned, together with its wholly-owned subsidiaries, approximately 69.32% of the Company as at the Latest Practicable Date
“Sichuan Changhong Electric”	Sichuan Changhong Electronics 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 held approximately 23.22% equity interest in Sichuan Changhong as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

LETTER FROM THE BOARD



CHANGHONG JIAHUA HOLDINGS LIMITED

(長虹佳華控股有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

Executive Directors:

Mr. Zhao Yong (*Chairman*)

Mr. Zhu Jianqiu (*President*)

Mr. Li Jin

Mr. Yang Jun

Ms. Shi Ping

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-executive Directors:

Mr. Jonathan Chan Ming Sun

Mr. Robert Ip Chun Chung

Mr. Sun Dongfeng

Mr. Cheng Yuk Kin

*Head office and principal place
of business:*

Unit 1502, 15/F

West Tower, Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

12 December 2017

To the Shareholders:

Dear Sir or Madam,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE RENEWAL OF
EXISTING FINANCIAL SERVICES AGREEMENT
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcements of the Company dated 27 November 2017 and 29 November 2017 in relation to, among other things, the 2018 Financial Services Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the 2018 Financial Services Agreement and the Financial Services contemplated thereunder and the proposed annual caps for the relevant Financial Services for the three years ending 31 December 2020; (ii) the recommendation from the Independent Board Committee in respect of the 2018 Financial Services Agreement; (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; and (iv) a notice of the SGM.

LETTER FROM THE BOARD

2018 FINANCIAL SERVICES AGREEMENT

As the 2015 Financial Services Agreement will expire on 31 December 2017, 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 (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 Latest Practicable Date); 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.

LETTER FROM THE BOARD

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 Latest Practicable Date); 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 are 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.

LETTER FROM THE BOARD

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:

	Annual cap for the year ending 31 December 2018 (RMB'000 per day)	Annual cap for the year ending 31 December 2019 (RMB'000 per day)	Annual cap for the year ending 31 December 2020 (RMB'000 per day)
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 (i) the maximum month-end bank balances of Changhong IT and its subsidiaries which amounted to approximately RMB727 million for the ten months ended 31 October 2017; and (ii) 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. The Board considers that the annual caps for the deposit services should be sufficient to cover the loans that may be drawn from Changhong Finance, such that Changhong IT may fully utilise the credit line made available to it by Changhong Finance as and when necessary. While Changhong Finance may gain a stable source of income from providing deposit and loan services to a customer with good credit standing, Changhong IT benefits from the possible higher interest income and lower financing cost. The proposed annual caps for the deposit services are therefore expected to foster the strategic cooperation between Changhong IT and Changhong Finance and hence increase the effectiveness and reasonableness of the financial management of each of Changhong IT and Changhong Finance. Changhong IT and Changhong Finance should jointly cooperate in monitoring the compliance of the proposed annual caps.

LETTER FROM THE BOARD

Loan Services

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

	Annual cap for the year ending 31 December 2018 (RMB'000)	Annual cap for the year ending 31 December 2019 (RMB'000)	Annual cap for the year ending 31 December 2020 (RMB'000)
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. While the actual transactional amounts 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 reasons set forth under the paragraph headed "Historical Amounts under 2015 Financial Services Agreement" below, the maximum outstanding borrowings of Changhong IT and its subsidiaries for each of the years ended 31 December 2015 and 2016 and the ten months ended 31 October 2017 (including those obtained from parties other than Changhong Finance) amounted to approximately RMB573 million, RMB504 million and RMB798 million, respectively. The borrowings were primarily used as working capital for Changhong IT's daily operation. Changhong IT's revenue achieved an averaged growth rate of approximately 8% in the past three years. As Changhong IT plans to further strengthen its IT distribution business and enhance the quality of its services in the coming years at a growth rate similar to the previous three years, the Directors believe that the financing needs of Changhong IT and its subsidiaries may continue to increase. In view of the historical amounts of borrowings and expected growth of Changhong IT, the Directors believe that the proposed annual caps for the loan services are fair and reasonable. Changhong IT and Changhong Finance should jointly cooperate in monitoring the compliance of the maximum outstanding balance.

LETTER FROM THE BOARD

Settlement Services

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

	Annual cap for the year ending 31 December 2018 (RMB'000)	Annual cap for the year ending 31 December 2019 (RMB'000)	Annual cap for the year ending 31 December 2020 (RMB'000)
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.

HISTORICAL AMOUNTS UNDER 2015 FINANCIAL SERVICES AGREEMENT

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 ten-month period ended 31 October 2017 (RMB'000)
	For the year ended 31 December 2015 (RMB'000)	For the year ended 31 December 2016 (RMB'000)	For the year ending 31 December 2017 (RMB'000)	For the year ended 31 December 2015 (RMB'000)	For the year ended 31 December 2016 (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	272,605
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	90,369
Settlement services – Maximum service fees for the settlement services provided/to be provided	5,000	5,000	5,000	-	-	25

As at the Latest Practicable Date, the annual caps under the 2015 Financial Services Agreement for the three financial years ending 31 December 2017 have not been exceeded.

LETTER FROM THE BOARD

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 Finance, 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. RMB 800 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.

LETTER FROM THE BOARD

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 officers of the finance department of Changhong IT, who are independent of Changhong Finance and its associates, 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. Such officers will (i) check the current deposit and lending benchmark rates published by the PBOC from time to time; (ii) prepare an analysis and assessment based on the comparison of the deposit and loan interest rates offered by Changhong Finance and those offered by commercial banks in the PRC on a monthly basis; (iii) prepare a report on the actual transactional amounts of the Financial Services on a monthly basis; and (iv) 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.

In addition, before making the deposits with Changhong Finance, the finance department of Changhong IT shall (i) obtain quotations from three commercial banks in the PRC independent from the Group regarding similar deposit services and compare the interest rate offered by Changhong Finance with those offered by the banks and check the minimum interest rate prescribed by PBOC at such relevant time; and (ii) check the report which records, among others, the outstanding balance of deposits placed by Changhong IT with Changhong Finance to ensure that the maximum daily outstanding balance of deposits placed by Changhong IT with Changhong Finance will not exceed the annual caps. 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.

To monitor the risk associated with the deposit services provided by Changhong Finance pursuant to the 2018 Financial Services Agreement, Changhong IT will assess the financial position of Changhong Finance regularly with reference to the monthly management accounts and annual audited financial statements of Changhong Finance, as well as the risk assessment report on Changhong Finance verified by qualified organisation.

LETTER FROM THE BOARD

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 not contemplated under the 2018 Financial Services Agreement 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.

LETTER FROM THE BOARD

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.

SGM

The SGM 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 2017 at 11 a.m. for the purpose of allowing the Independent Shareholders to consider and, if thought fit, approve the 2018 Financial Services Agreement and the Financial Services contemplated thereunder together with the proposed annual caps for the Financial Services contemplated thereunder for the three years ending 31 December 2018, 2019 and 2020.

In accordance with the GEM Listing Rules, Sichuan Changhong, Changhong (Hong Kong) and Fit Generation, being connected persons of the Company and having material interest (which are different from those of the Independent Shareholders) in the 2018 Financial Services Agreement, will abstain from voting at the SGM for the relevant resolution. As at the Latest Practicable Date, each of Sichuan Changhong, Changhong (Hong Kong) and Fit Generation held as to 95,368,000 Shares, 16,000,000 Shares and 897,000,000 Shares, respectively, representing an aggregate of 1,008,368,000 Shares and approximately 69.32% of the issued share capital of the Company.

A notice of the SGM is set out on page SGM-1 to SGM-3 of this circular. The SGM 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 2017 at 11 a.m..

LETTER FROM THE BOARD

A form of proxy for use at the SGM are enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrar of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time fixed for holding of 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 any adjournment thereof should you so wish.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, the votes of the Shareholders at the SGM shall be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. An announcement of the poll results will be made by the Company after the SGM in the manner prescribed under Rule 17.47(5) of the GEM Listing Rules and will be published on the websites of the Company and the Stock Exchange thereafter.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 17 to 18 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 19 to 32 of this circular in connection with the transactions contemplated under the 2018 Financial Services Agreement, the proposed annual caps of the Financial Services contemplated thereunder and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

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. Save as disclosed above, none of the other Directors has a material interest in the 2018 Financial Services Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors whose recommendation is contained in the Letter from the Independent Board Committee on pages 17 to 18 of this circular) are of the view that the 2018 Financial Services Agreement was entered into on normal commercial terms and the terms of the 2018 Financial Services Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, 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 favour of the proposed ordinary resolution regarding the 2018 Financial Services Agreement and the transactions contemplated thereunder (including the proposed annual caps), as set out in the notice of the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to (i) the letter from the Independent Board Committee, (ii) the letter from the Independent Financial Adviser; and (iii) the additional information set out in the appendix to this circular.

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



CHANGHONG JIAHUA HOLDINGS LIMITED

(長虹佳華控股有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

12 December 2017

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE RENEWAL OF
EXISTING FINANCIAL SERVICES AGREEMENT**

We refer to the circular issued by the Company to its Shareholders dated 12 December 2017 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to advise the Independent Shareholders as to whether the 2018 Financial Services Agreement was entered into in the ordinary and usual course of business of the Group on normal commercial terms, and the terms of the 2018 Financial Services Agreement and the proposed annual caps under such agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Crescendo has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2018 Financial Services Agreement. The text of the letter of advice from the Independent Financial Adviser containing their recommendations and the principal factors they have taken into account in arriving at their recommendations are set out from pages 19 to 32 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the 2018 Financial Services Agreement and the advice of the Independent Financial Adviser, we are of the opinion that (i) the 2018 Financial Services Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the 2018 Financial Services Agreement are normal commercial terms and are fairly and reasonably determined; and (iii) the proposed annual caps for the Financial Services under the 2018 Financial Services Agreement for the three years ending 31 December 2018, 2019 and 2020 are determined based on the reasonable estimation and after due and careful consideration. We therefore recommend the Independent Shareholders to vote in favor of the relevant resolution to be proposed at the SGM to approve the 2018 Financial Services Agreement and the transactions contemplated under the 2018 Financial Services Agreement (including the proposed annual caps for the Financial Services thereunder).

Yours faithfully,

For and on behalf of the

Independent Board Committee

Jonathan

Chan Ming Sun

*Independent non-
executive Director*

Robert

Ip Chun Chung

*Independent non-
executive Director*

Sun Dongfeng

*Independent non-
executive Director*

Cheng Yuk Kin

*Independent non-
executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Crescendo, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders in relation to the deposit services contemplated under the 2018 Financial Services Agreement for inclusion in this Circular.



1506 Tai Tung Building
8 Fleming Road
Wanchai, Hong Kong

12 December 2017

Changhong Jiahua Holdings Limited
Unit 1502, 15th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE RENEWAL OF EXISTING FINANCIAL SERVICES AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the deposit services under the 2018 Financial Services Agreement (the “**Deposit Services**”) and the related annual caps thereof for the three years ending 31 December 2020 (the “**Annual Caps**”), details of which are set out in the Letter from the Board contained in the circular of the Company dated 12 December 2017 to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 27 November 2017, Changhong IT, a wholly-owned subsidiary of the Company, and Changhong Finance, a company owned by the controlling shareholder of the Company, entered into the 2018 Financial Services Agreement, pursuant to which Changhong Finance agreed to provide Financial Services (including deposit services, loan services and settlement services) to Changhong IT and its subsidiaries (collectively, “Changhong IT Group”) in accordance with the terms and conditions stated therein.

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 holding 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 Annual Caps exceeds 5% on an annual basis, the Deposit Services 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 Deposit Services exceed 25% but are less than 100%, the use of the Deposit Services also constitutes a 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.

In compliance with the GEM Listing Rules, Sichuan Changhong, Changhong (Hong Kong) and Fit Generation, being connected persons of the Company and having material interests (which are different from those of the Independent Shareholders) in the 2018 Financial Services Agreement, will abstain from voting at the SGM for the relevant resolution. As at the Latest Practicable Date, Sichuan Changhong, Changhong (Hong Kong) and Fit Generation were interested in 95,368,000 Shares, 16,000,000 Shares and 897,000,000 Shares, respectively. The aggregate 1,008,368,000 Shares held by them represent approximately 69.32% of the issued share capital of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin, has been established to advise the Independent Shareholders as to whether the terms of the Deposit Services under the 2018 Financial Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned, the Deposit Services will be conducted on normal commercial terms and in the ordinary and usual course of business of the Group, and whether the terms and the Annual Caps are in the interests of the Company and Shareholders as a whole. We, Crescendo Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard and on how to vote on the resolution to be proposed at the SGM.

We are not associated with the Group and its associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. We have not acted as a financial adviser or an independent financial adviser to the Company and its associates in the past two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from the Group and its associates. We were not aware of any relationship or interest between us and the Company or any other parties that could be reasonably regarded as hindrance to our independence as defined under Rule 17.96 of the GEM Listing Rules to act as an independent financial adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the SGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, the information contained in the 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 in the Circular misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. We have not, however, for the purposes of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the 2018 Financial Services Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Deposit Services and the Annual Caps, we have considered the following principal factors and reasons:

1. Background of the Group and Changhong Finance

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. Changhong IT Group 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, computer servers, intelligent building management system products and unified communication & contact center products) in the PRC.

In the management of liquidity risk, Changhong IT Group monitors and maintains a level of cash and cash equivalent deemed adequate by the management to finance its operations and mitigate the effects of fluctuations in cash flows. Cash of Changhong IT Group is usually deposited with banks and/or financial institutions in the PRC. According to Changhong IT Group's audited financial statements, which have been prepared in accordance with the generally accepted accounting principles in the PRC ("PRC GAAP"), for the years ended 31 December 2015 and 2016 and the management accounts for the ten months ended 31 October 2017, Changhong IT Group had bank balances (including deposits and pledged deposits for guarantee) of approximately RMB186 million, RMB240 million and RMB727 million as at 31 December 2015, 31 December 2016 and 31 October 2017 respectively, of which approximately RMB181 million, RMB231 million and RMB721 million were RMB deposits respectively, which accounted for over 96% of the total bank balances of Changhong IT Group for the respective year/period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Changhong Finance is a non-bank financial institution established in the PRC. Subject to the regulations of the PBOC and the CBRC, Changhong Finance is authorized 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. As at the Latest Practicable Date, Changhong Finance was owned as to 50% by Sichuan Changhong, the controlling shareholder of the Company, and 50% by Sichuan Changhong Electric, a company holding approximately 23.22% of the equity interest of Sichuan Changhong.

With reference to the audited financial statements of Changhong Finance for the year ended 31 December 2016, which was prepared in accordance with the PRC GAAP, the total assets of Changhong Finance amounted to approximately RMB11,146 million, of which approximately RMB2,308 million were cash and cash deposits placed with other banks/financial institutions and approximately RMB8,746 million were loans and advances receivables while the total liabilities of Changhong Finance amounted to approximately RMB8,953 million, of which approximately RMB7,431 million were deposits taken from customers. As at 31 December 2016, the net assets of Changhong Finance amounted to approximately RMB2,193 million.

2. Reasons for using the Deposit Services

On 26 March 2015, Changhong IT and Changhong Finance entered into the 2015 Financial Services Agreement which sets out the major terms and conditions for the deposit services, loan services and settlement services to be provided by Changhong Finance. Since then, Changhong IT Group has been maintaining deposits with, and engaging financial services of, Changhong Finance during its ordinary and usual course of business. The 2015 Financial Services Agreement will expire on 31 December 2017. The Directors consider that Changhong Finance is able to provide financial services in support of the Group's treasury activities and development and it is the intention of the Group to continue, among others, the Deposit Services with Changhong Finance after the expiry of the 2015 Financial Services Agreement.

Pursuant to the 2018 Financial Services Agreement, the deposit interest rates and the lending rates offered by Changhong Finance to Changhong IT Group will be equal to or more favourable to Changhong IT Group than those offered by independent commercial banks in the PRC to Changhong IT Group for comparable deposits or, as the case may be, loans. The 2018 Financial Services Agreement does not preclude Changhong IT Group from using the services of other banks/financial institutions. Changhong IT Group has the right to select any other major and independent PRC commercial banks as its financial service providers as it, from time to time, thinks fit and appropriate for the benefit of Changhong IT Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We were advised by management of the Company that Changhong IT Group is expecting to get a credit line from Changhong Finance and the amount of deposit with Changhong Finance will not be higher than the credit line made available by Changhong Finance to Changhong IT Group. The Group considers that the entering into of the 2018 Financial Services Agreement provides Changhong IT Group with alternative means of financing for its continuous business development, and enables Changhong IT Group to enjoy potentially better interest rates (for both deposit and loan services) than those available from other major banks/financial institutions in the PRC, which in return improve the efficiency of the use of funds through higher interest income and lower costs of financing. It is also expected that Changhong IT Group would be in a better position to manage the security of its funds since it is not considered to be exposed to significant capital risk.

Given that (i) the Group has the practical needs for the Deposit Services to satisfy its business needs in its ordinary and usual course of business; (ii) Changhong Finance is a financial institution in the PRC approved by the CBRC to provide various financial services including the Deposit Services, and its operations are subject to the relevant regulations in the PRC; (iii) Changhong Finance has been providing the Deposit Services to Changhong IT Group from time to time and the Group is satisfied with its quality of services; (iv) the entering into of the 2018 Financial Services Agreement shall not limit the Group's choice of banks or financial institutions for any financial services and the Group is free to make its selection of service provider based on the interest rates and/or other criteria as it thinks fit; and (v) the Deposit Services offer a greater flexibility for the Group to manage its treasury activities with terms no less favourable than those offered by independent banks/financial institutions, we consider that the Deposit Services are normal commercial transactions conducted in the ordinary and usual course of business of the Group and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

3. Principal terms of the Deposit Services contemplated under the 2018 Financial Services Agreement

Pursuant to the 2018 Financial Services Agreement, Changhong Finance shall provide the Financial Services including deposit services, loan services and settlement services to Changhong IT Group for a fixed term from 1 January 2018 to 31 December 2020 (both dates inclusive), subject to the approval from the Independent Shareholders being obtained at the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Under the 2018 Financial Services Agreement, the interest rate applicable to any deposit made available by Changhong IT Group 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 PBOC is 1.5% per annum as at the Latest Practicable Date); and (ii) the interest rate available to Changhong IT Group from other major commercial banks in the PRC independent to Changhong IT Group in respect of the same type of deposits. The Group is at its own discretion to decide the amount of deposit to be deposited with Changhong Finance. In addition, the maximum daily outstanding balance of deposits to be deposited by Changhong IT Group with Changhong Finance (including interest accrued and handling fees thereon) for each of the three years ending 31 December 2020 shall not exceed RMB800 million, and are subject to the conditions that the total deposit amount deposited by Changhong IT Group with Changhong Finance shall not exceed (i) 30% of the total deposit amount taken by Changhong Finance (“**30% Limit**”); and (ii) the maximum amount of the credit line to be provided by Changhong Finance to Changhong IT Group (including loans, guarantees and acceptances issued).

We have discussed with management of the Company regarding the 30% Limit and noted that such limit was set with reference to the information disclosure memorandum in respect of connected transactions between listed issuers and connected finance companies issued by the Shenzhen Stock Exchange. Pursuant to the memorandum, if a listed issuer’s deposits placed with a connected finance company exceed 30% of the total amount of deposits taken by that connected finance company, the listed issuer is required to make appropriate disclosure. Although the information disclosure memorandum is not applicable to Changhong IT Group, management of the Company considers that it is a reasonable benchmark for good corporate governance of a listed issuer. Therefore, the 30% Limit was set as part of the conditions for the Deposit Services. We were also advised by management of the Company that Changhong Finance would inform Changhong IT Group to reduce the deposit amount if the 30% limit was exceeded.

Having considered that (i) the interest rate of deposits to be offered by Changhong Finance to Changhong IT Group was committed to be not less favourable than those offered by independent third parties at the relevant time; (ii) the Changhong IT Group is at its own discretion to decide the amount of deposit to be placed with Changhong Finance, subject to a cap which was set with reference to a 30% benchmark recommended by the Shenzhen Stock Exchange and the maximum amount of credit line made available by Changhong Finance to Changhong IT Group; and (iii) the 2018 Financial Services Agreement does not preclude Changhong IT Group from using the services of other banks/financial institutions, we consider that the terms of the Deposit Services are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Internal Control Measures

We understand from management of the Company that in order to ensure the Deposit Services are conducted on normal commercial terms and will not be prejudicial to the interests of the Company and Shareholders as a whole, the Group has established various internal control measures for the Deposit Services. According to the Group's policy, before making the deposits with Changhong Finance, finance department of Changhong IT Group shall obtain quotations from three commercial banks in the PRC independent from the Group regarding similar deposit services and compare the interest rate offered by Changhong Finance with those offered by the banks and the minimum interest rate prescribed by PBOC at such relevant time. Finance department of Changhong IT Group shall also check with the connected transaction report, which recorded, among others, the outstanding balance of deposits placed by Changhong IT Group with Changhong Finance, to ensure that the maximum daily outstanding balance of deposits placed by Changhong IT Group with Changhong Finance will not exceed the respective annual caps. The rates and the decision of making any deposit with Changhong Finance shall be reviewed and approved by the chief financial officer of Changhong IT Group. The connected transaction report shall be submitted to the Company monthly. Furthermore, regular checks will be conducted twice a year by the officers of the finance department of Changhong IT Group to assess whether the deposit services were conducted in accordance with the terms of the relevant financial services agreement and the policy of the Group. The auditors of the Company will also conduct an annual review of the deposit services.

We have reviewed ten samples of approval documents, including quotations from Changhong Finance and three independent banks in the PRC regarding Changhong IT Group's deposits and the approval from the chief financial officer of Changhong IT Group, which we considered are representative, and noted that the procedures mentioned above were properly followed, and the interest rates offered by Changhong Finance were comparable to other banks in the PRC and in compliance with the relevant interest rate policies imposed by PBOC for similar type of deposits at the relevant time. Management of the Company confirmed us that the above-mentioned internal control policies were, and would be, consistently applied to all deposit services and on terms no less favourable to the Group than those made available from independent third parties.

We were also given to understand that Changhong IT Group would monitor the risk associated with the Deposit Services by assessing the financial position of Changhong Finance regularly with reference to the monthly management accounts and annual audited financial statements of Changhong Finance and the risk assessment report on Changhong Finance verified by qualified organization.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the internal control measures implemented by the Group and the fact that Changhong Finance is a regulated non-bank financial institution subject to the regulations of the PBOC and the CBRC, we concur with the Directors' view that (i) adequate internal control measures have been implemented by the Group to ensure the terms of the Deposit Services offered by Changhong Finance are not less favourable than those offered by independent third parties; and (ii) appropriate procedures have been implemented to assess the risk associated with the Deposit Services and the interests of the Shareholders under the Deposit Services will be well protected although Changhong Finance is not a licensed bank in the PRC.

5. The Annual Caps

Pursuant to the 2018 Financial Services Agreement, the maximum daily outstanding balance of deposits to be deposited by Changhong IT Group with Changhong Finance (including interest accrued and handling fees thereon) for each of the three years ending 31 December 2020 shall not exceed RMB800 million, and are subject to the conditions that the total deposit amount deposited by Changhong IT Group with Changhong Finance shall not exceeding (i) 30% of the total deposit amount taken by Changhong Finance; and (ii) the maximum amount of credit line to be provided by Changhong Finance to Changhong IT Group (including loans, guarantees and acceptances issued). The Annual Caps were determined based on arm's length negotiation between the parties to the 2018 Financial Services Agreement, taking into account (i) the maximum month-end bank balances of Changhong IT Group which amounted to approximately RMB727 million for the ten months ended 31 October 2017; and (ii) the maximum amount of credit line made available by Changhong Finance to Changhong IT Group of RMB800 million pursuant to the 2018 Financial Services Agreement, as the loan amount may be deposited with Changhong IT Group when it is drawn down.

To assess whether the Annual Caps are fair and reasonable, we have discussed with management of the Company the determination basis for the Annual Caps, including the historical figures for the deposit services, the cash positions of Changhong IT Group and the financing needs of Changhong IT Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) Historical figures

The historical figures of the maximum daily outstanding balance of deposits placed by Changhong IT Group with Changhong Finance (including interest accrued and handling fees thereon) during the years ended 31 December 2015 and 2016 and the ten months ended 31 October 2017 and the respective annual caps for the years ended 31 December 2015, 2016 and 2017 are set out as follows:

	Historical figures			Existing annual caps		
	For the year ended		For the	For the year ended 31 December		
	31 December		ten months	31 December		
	2015	2016	ended 31	2015	2016	2017
<i>RMB' million</i>	<i>RMB' million</i>	<i>October</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	
Maximum daily outstanding balance of deposits (including interest accrued and handling fees thereon) placed with Changhong Finance	23	55	273	500	600	800

As shown in the above table, the historical figures of maximum daily outstanding balance of deposits placed by Changhong IT Group with Changhong Finance (including interest accrued and handling fees thereon) showed an increasing trend from approximately RMB23 million for the year ended 31 December 2015 to approximately RMB273 million for the ten months ended 31 October 2017. However, we noted that the actual transaction amount of the deposit services for the review periods were significantly lower than the annual caps under the 2015 Financial Services Agreement. We were given to understand that interest rate is a critical factor for determining whether to obtain loans from, or place deposits with, Changhong Finance. Changhong IT Group 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 Group would use the respective financial services from Changhong Finance only when the interest rates offered by it were more favourable than those offered by other independent commercial banks. As Changhong Finance might not always be able to provide interest rates more favourable than those offered by independent banks, the historical utilization rates of the annual caps were relatively low.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Cash positions of Changhong IT Group

According to Changhong IT Group's audited reports, prepared in accordance with the PRC GAAP, for the year ended 31 December 2015 and 31 December 2016 and the management accounts for the ten months ended 31 October 2017, Changhong IT Group had bank balances (including deposits and pledged deposits for guarantee) of approximately RMB186 million, RMB240 million and RMB727 million as at 31 December 2015, 31 December 2016 and 31 October 2017 respectively, of which approximately RMB181 million, RMB231 million and RMB721 million were RMB deposits respectively, which accounted for over 96% of the total bank balances of Changhong IT Group for the respective year/period. With reference to the information provided by the Group, the minimum month-end bank balances (including deposits and pledged deposits for guarantee) of Changhong IT Group for the years ended 31 December 2015 and 2016 and the ten months ended 31 October 2017 amounted to approximately RMB127 million, RMB177 million and RMB125 million respectively while the maximum month-end bank balances (including deposits and pledged deposits for guarantee) of Changhong IT Group for the years ended 31 December 2015 and 2016 and the ten months ended 31 October 2017 amounted to approximately RMB709 million, RMB293 million and RMB727 million respectively.

We understand from management of the Company that Changhong IT Group may not place all the available cash with Changhong Finance for better risk management and maintaining business relationships with other banks. However, the Company considers that it is reasonable to determine the Annual Caps with reference to the overall bank balance of Changhong IT Group, and to cover the daily bank balance of Changhong IT Group for catering any unexpected fluctuation in bank balance, particularly, in the event of drawing of loans from Changhong Finance.

Based on the above and having considered the historical fluctuations of bank balances from time to time and the maximum month-end bank balances in 2017 of approximately RMB727 million, we are of the view that it is reasonable for the Company to set the Annual Caps at RMB800 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(c) Financing needs of Changhong IT Group

Based on the audit reports of Changhong IT Group for the years ended 31 December 2015 and 31 December 2016 and the management accounts for the ten months ended 31 October 2017, Changhong IT Group had borrowings amounted to approximately RMB417 million, RMB282 million and RMB238 million as at 31 December 2015, 31 December 2016 and 31 October 2017 respectively. Among the borrowings as at 31 October 2017, RMB180 million shall be repayable within four months from the Latest Practicable Date. According to the information provided by the Group, the maximum outstanding borrowings of Changhong IT Group for the years ended 31 December 2015 and 2016 and the ten months ended 31 October 2017 amounted to approximately RMB573 million, RMB504 million and RMB798 million respectively. It is expected that the financing needs of Changhong IT Group may increase in the coming years in view of its future business development.

As set out in the Letter from the Board, the annual caps of loan services under the 2018 Financial Services Agreement for each of the three years ending 31 December 2020 amounting to RMB800 million. We were advised by management of the Company that the Annual Caps are the same as the credit lines made available to Changhong IT Group from Changhong Finance as it is important for the Annual Caps to cover the full amount of loans potentially available from Changhong Finance given the loan proceeds from Changhong Finance will be deposited with Changhong Finance before such proceeds were withdrawn and utilized by Changhong IT Group. If the Annual Caps are lower than the credit line made available by Changhong Finance, the Group may not be able to draw the necessary borrowings from Changhong Finance even the interest rates from Changhong Finance are more favourable than those offered by independent third parties.

In view of the maximum outstanding borrowings of Changhong IT Group for the ten months ended 31 October 2017 was approaching RMB800 million and the rationale for the Annual Caps to match with the credit line to be made available by Changhong Finance as mentioned above, we consider that it is reasonable to determine the Annual Caps with reference to the maximum amount that may be borrowed from Changhong Finance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given that (i) the historical bank positions of Changhong IT Group fluctuated significantly from time to time during the period from January 2015 to October 2017 with maximum month-end balance of approximately RMB727 million; (ii) the maximum historical outstanding borrowings of Changhong IT Group during the period from January 2015 to October 2017 amounted to approximately RMB798 million; (iii) the continuous growth and development of Changhong IT Group may increase its financing needs in future, and Changhong Finance may be able to provide loans to Changhong IT Group at terms no less favourable than those to be offered by independent third parties; (iv) it is reasonable and appropriate to set the Annual Caps at the same level as the maximum potential loans to be borrowed from Changhong Finance as the loans might be temporarily placed in the account of Changhong Finance prior to the withdrawal of loan proceeds by Changhong IT Group; (v) the Annual Caps only represent the highest daily amount that Changhong IT Group may place with Changhong Finance and there are no obligations for Changhong IT Group to deposit such amounts with Changhong Finance; (vi) it is commercially justifiable for Changhong IT Group to have a greater flexibility in selecting deposit service providers to earn a potentially higher return; and (vii) the terms of the Deposit Services are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned as detailed in the above section, we consider that the Annual Caps proposed by the Directors are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the principal factors and reasons stated above, we consider that the terms, including the Annual Caps, for the Deposit Services contemplated under the 2018 Financial Services Agreement are fair and reasonable, and such transactions are on normal commercial terms and conducted in the ordinary and usual course of business of the Group. We are also of the view that the Deposit Services are in the interests of the Company and Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favor of the resolution to be proposed at the SGM to approve the Deposit Services and the Annual Caps thereof.

Yours faithfully,

For and on behalf of

Crescendo Capital Limited

Amilia Tsang

Managing Director

Helen Fan

Associate Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. Ms. Amilia Tsang is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has approximately 14 years of experience in corporate finance.
2. Ms. Helen Fan is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has approximately 10 years of experience in corporate finance.

1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year of the Group.

The audited consolidated financial statements of the Group for the years ended 31 December 2014, 2015 and 2016 together with the relevant notes to the financial statements of the Group can be found on pages 35 to 122 of the annual report of the Company for the year ended 31 December 2014, pages 40 to 128 of the annual report of the Company for the year ended 31 December 2015, and pages 48 to 132 of the annual report of the Company for the year ended 31 December 2016. Please also see below the hyperlinks to the said annual reports.

2014: <http://www.hkexnews.hk/listedco/listconews/GEM/2015/0330/GLN20150330055.pdf>

2015: <http://www.hkexnews.hk/listedco/listconews/GEM/2016/0401/GLN20160401001.pdf>

2016: <http://www.hkexnews.hk/listedco/listconews/GEM/2017/0331/GLN20170331307.pdf>

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 October 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group's total unguaranteed interest-bearing borrowings of approximately HK\$356,432,000, comprising unsecured bank borrowings of approximately HK\$211,446,000, secured commercial paper discount of approximately HK\$46,988,000, unsecured corporate borrowings of approximately HK\$20,998,000 and secured bank borrowings of approximately HK\$77,000,000.

The Group had no significant contingent liabilities as at 31 October 2017. As at 31 October 2017, there were pledged deposits in the amount of approximately HK\$165,210,000 for margin financing, letter of credits, banking facilities and other financial instruments of the Group.

Save as aforesaid, the Group did not have any other outstanding indebtedness in respect of any debentures, loan capital, bank loans and overdrafts, term loans and other borrowings, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, whether guaranteed, unguaranteed, secured or unsecured, mortgages, charges, guarantees or other contingent liabilities as at the close of business on 31 October 2017.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group since 31 October 2017.

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 requirement, that is for at least the next 12 months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECTS

Heading to 2018, it is expected that the PRC economy will maintain a medium-to-high growth rate. By persisting to its strategy of developing as an IT integrated service provider, the Group will keep observing the industry development trend and changes in new market environment, capturing new market opportunities actively, improving its integrated service capability continuously in professional solutions, channel value management and internet distribution, so as to achieve an innovative and effective business development and continue to generate revenue for its shareholders.

5. EFFECT OF THE DEPOSIT TAKING SERVICES ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

Given the interest income expected to be earned from the Group's deposits with Changhong Finance under the 2018 Financial Services Agreement will unlikely to represent a significant contribution to the Group's earnings and assets, the Company anticipates that the interest income to be earned from the deposits for the three years ending 31 December 2020 will not have any material impact on its earnings, assets and liabilities.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief 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

(a) Directors' and chief executive's interests or short positions in the Shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

Interests in Shares of the Company:

Name of Director	Capacity	Class of shares	Number of Shares held (Note 1)	Approximate percentage of interest in relevant class of Shares (Note 1)
ZHU, Jianqiu ("Mr. Zhu")	Interests in a controlled corporation	Ordinary	82,415,762 (L) (Note 2)	5.67%

Notes:

- The percentage is calculated based on the total number of Shares in issue as at the Latest Practicable Date, being 1,454,652,000 Shares. The letter "L" denotes the person's long position in the Shares.
- Mr. Zhu is the sole shareholder of the Typical Faith Limited, which in turn held 82,415,762 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' interest and short positions in the Shares, underlying shares and debentures of the Company

So far as was known to the Directors, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) whose interests 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 were as follows:

Name of substantial shareholder	Capacity	Class of shares	Number of shares held (Note 1)	Approximate percentage of interest in relevant class of shares (Note 1)
Sichuan Changhong	Interests in a controlled corporation and beneficial owner	Ordinary	1,008,368,000 (L) (Note 2)	69.32%
		Preference	1,115,868,000 (L) (Note 3)	100.00%
Changhong (Hong Kong)	Interests in a controlled corporation and beneficial owner	Ordinary	913,000,000 (L) (Note 4)	62.76%
		Preference	1,115,868,000 (L) (Note 3)	100.00%
Fit Generation	Beneficial owner	Ordinary	897,000,000 (L)	61.66%
		Preference	1,115,868,000 (L)	100.00%
Sichuan Investment Management Company Limited ("Sichuan Investment Management")	Beneficial owner	Ordinary	83,009,340 (L) (Note 5)	5.70%

Name of substantial shareholder	Capacity	Class of shares	Number of shares held (Note 1)	Approximate percentage of interest in relevant class of shares (Note 1)
Sichuan Provisional Investment Group Company Limited (“Sichuan Investment”)	Interests in a controlled corporation	Ordinary	83,009,340 (L) (Note 5)	5.70%
Typical Faith Limited	Beneficial owner	Ordinary	82,415,762 (L) (Note 6)	5.67%

Notes:

- 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 Shares and 1,115,868,000 preference shares of the Company, respectively. The letter “L” denotes the person’s long position in the Shares.
- Of the 1,008,368,000 Shares held by Sichuan Changhong, 95,368,000 Shares were held directly, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong (Hong Kong) and 897,000,000 Shares were held through Fit Generation, a wholly-owned subsidiary of Changhong (Hong Kong). As Sichuan Changhong wholly-owns Changhong (Hong Kong), which in turn wholly-owns Fit Generation, Sichuan Changhong is deemed to be interested in the Shares held by Changhong (Hong Kong) and Fit Generation for the purposes of the SFO.
- 1,115,868,000 preference shares of the Company were held by Fit Generation. As Sichuan Changhong wholly-owns Changhong (Hong Kong), which in turn wholly-owns Fit Generation, each of Sichuan Changhong and Changhong (Hong Kong) is deemed to be interested in the preference shares of the Company held by Fit Generation for the purposes of the SFO.
- Of the 913,000,000 Shares held by Changhong (Hong Kong), 16,000,000 Shares were held directly and 897,000,000 Shares were held through Fit Generation. As Changhong (Hong Kong) wholly-owns Fit Generation, Changhong (Hong Kong) is deemed to be interested in the Shares held by Fit Generation for the purposes of the SFO.
- As Sichuan Investment wholly-owns Sichuan Investment Management, Sichuan Investment is deemed to be interested in the Shares held by Sichuan Investment Management for the purposes of the SFO.
- Typical Faith Limited is wholly-owned by Mr. Zhu, an executive Director.

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 as recorded in the register required to be kept under section 336 of the SFO.

3. INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up; and
- (ii) none of the Directors was materially interested in contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which will not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. COMPETING INTERESTS

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or the controlling shareholders (as defined in the GEM Listing Rules) of the Company, nor their respective close associates held any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group which would be required to be disclosed under the GEM Listing Rules.

7. EXPERT

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

Name	Qualification
Crescendo, the Independent Financial Adviser	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser had given and had not withdrawn its consent to the issue of this circular with the inclusion herein of its letter and the references to its names and its advice in the form and context in which they appear. The letter and recommendation issued by the Independent Financial Adviser is given as at the date of this circular for the incorporation herein.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interests in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. MATERIAL CONTRACTS

The following contract (being contract entered into outside the ordinary course of business carried on by the Group) has been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date:

- the share transfer agreement dated 14 December 2016 entered into between the Company and Mr. He Tao in relation to the transfer of the entire issued share capital in Changhong Overseas Development Limited from the Company to Mr. He Tao at a consideration of HK\$100.

9. LITIGATION

As at the Latest Practicable Date, none of the members of the Groups was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

10. AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) pursuant to Rule 5.28 of the GEM Listing Rules with written terms of reference. Currently, the Audit Committee is chaired by Mr. Jonathan Chan Ming Sun, who possesses professional accounting and financial qualifications. Its other members are Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin. All of the above four Directors are independent non-executive Directors, and none of them is a former partner of the external auditor of the Group.

Mr. Jonathan CHAN Ming Sun, aged 45, joined the Company as an independent nonexecutive Director in February 2007. Mr. Chan was appointed as the chairman of each of the Audit Committee and remuneration committee of the Company, and a member of the nomination committee of the Company. He is an Investment Manager of Sprint Asset Management Limited. He is also acting as the independent non-executive director of each of the following listed companies on the Stock Exchange, namely Shenyang Public Utility Holdings Company Limited (stock code: 747), China Dredging Environment Protection Holdings Limited (stock code: 871), Hao Tian Development Group Limited (stock code: 474), Up Energy Development Group Limited (stock code: 307)^(Note), Fujian Nuoqi Co., Ltd. (stock code: 1353) and Dining Concepts Holdings Limited (stock code: 8056). He was the independent non-executive director of each of the following listed companies on the Stock Exchange, namely Far East Holdings International Limited (stock code: 36), during 14 November 2014 to 18 July 2017, L&A International Holdings Limited (stock code: 8195), during 25 September 2014 to 3 March 2017, and Focus Media Network Limited (stock code: 8112), during 21 April 2015 to 27 November 2015. He obtained his Bachelor Degree of Commerce in Accounting and Computer Information System from University of New South Wales, Australia. He is also a fellow member of the Hong Kong Institute of Directors and a member of Hong Kong Institute of Certified Public Accountants and CPA, Australia. He has over 18 years of experience in investment and corporate finance.

Note:

The appointment of Mr. Jonathan CHAN Ming Sun as the independent non-executive director of Up Energy Development Group Limited (stock code: 307) (“Up Energy”) is under dispute. For details, please refer to the relevant announcements of Up Energy.

Mr. Robert IP Chun Chung, aged 61, joined the Company as an independent non-executive director in February 2007. Mr. Ip is the member of Audit Committee, remuneration committee and nomination committee of the Company. He is a practising solicitor in Hong Kong and is a non-executive director of Poly Property Group Co., Limited (stock code: 119), a company listed on the Stock Exchange. He was also an independent non-executive director of Value Convergence Holdings Limited (stock code: 821), a company listed on the Stock Exchange, during the period from 5 March 2012 to 7 October 2016. He obtained the Bachelor Degree in Arts from University of Hong Kong and held a CPE Diploma and Diploma in Law from the College of Law, UK. He is also a member of the Law Society of Hong Kong and the Law Society of England and Wales. He has over 35 years of experience in legal aspects.

Mr. SUN Dongfeng, aged 49, joined the Company as an independent non-executive Director in February 2007. Mr. Sun is the member of Audit Committee, remuneration committee and nomination committee of the Company. He is a senior partner of Guantao Law Firm as well as a legal advisor for a number of companies. He graduated from China University of Political Science and Law in the PRC, and obtained a Master Degree of Law in International Economics from the School of Law of University of Canberra, Australia. He has over 26 years of experience in legal aspects.

Mr. CHENG Yuk Kin, aged 42, joined the Company as an independent non-executive Director in November 2012. Mr. Cheng is a member of Audit Committee. He is the managing director of Luk Fook Capital (HK) Limited and was an independent non-executive director of On Real International Holdings Limited (stock code: 8245) during the period from 16 September 2015 to 31 July 2017, a company listed on the Stock Exchange. He obtained his Bachelor Degree of Business Administration in Finance from Hong Kong University of Science and Technology and obtained a Master Degree of Business Administration from the George Washington University School of Business in United States of America. He is also a member of American Institute of Certified Public Accountants. He has over 20 years of experience in corporate finance and audit.

11. MISCELLANEOUS

- (i) The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company in Hong Kong is at Unit 1502, 15/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (ii) Ms. Ko Nga Kit and Mr. Zhao Qilin are the joint company secretaries of the Company. Ms. Ko Nga Kit is a fellow member of both The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

- (iii) The compliance officer of the Company appointed pursuant to Rule 5.19 of the GEM Listing Rules is Mr. Zhu Jianqiu.
- (iv) The Company's Hong Kong branch share registrar and transfer office is Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (v) 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.

12. DOCUMENTS FOR INSPECTION

A copy of the following documents will be made available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Unit 1502, 15/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the SGM:

- (i) the 2018 Financial Services Agreement;
- (ii) the Bye-laws of the Company;
- (iii) the annual reports of the Company for the years ended 31 December 2015 and 2016;
- (iv) the material contract referred to under the paragraph headed "Material Contracts" in this Appendix II;
- (v) the written consent from the expert referred to in the paragraph headed "Expert" in this Appendix II;
- (vi) the letter from the Independent Board Committee dated 12 December 2017 setting out its advice to the Independent Shareholders in relation to the 2018 Financial Services Agreement, the text of which is set out in pages 17 to 18 this circular;
- (vii) the letter from the Independent Financial Adviser dated 12 December 2017 setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2018 Financial Services Agreement, the text of which is set out in pages 19 to 32 this circular; and
- (viii) this circular.

NOTICE OF SGM



CHANGHONG JIAHUA HOLDINGS LIMITED (長虹佳華控股有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the “SGM”) of Changhong Jiahua Holdings Limited 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 2017 at 11 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as ordinary resolution of the Company.

ORDINARY RESOLUTION

“THAT:

- (a) the form and substance of the financial services agreement (the “**Financial Services Agreement**”) dated 27 November 2017 entered into between Sichuan Changhong Group Finance Co., Ltd (“**Changhong Finance**”) and Changhong IT Information Products Co., Ltd (“**Changhong IT**”) (a copy of which is tabled at the SGM and initialed by the chairman of the SGM for identification purpose) and the Financial Services (as defined in the circular of the Company dated 12 December 2017 (the “**Circular**”)) contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps as set out in the Circular being the maximum daily outstanding balance of deposit, loan and settlement services to be placed by Changhong IT and its subsidiaries with Changhong Finance under the Financial Services Agreement for the three years ending 31 December 2018, 2019 and 2020, be and are hereby approved; and

NOTICE OF SGM

- (c) any one of the directors of the Company be and is hereby authorised to do all such acts and things, to sign and execute all documents or agreements under hand (and, where required, under the common seal of the Company together with any other director or the company secretary) for and on behalf of the Company as he/she/they may consider necessary, desirable, appropriate or expedient in connection with and/or to implement and/or give effect to the Financial Services Agreement including the new annual caps contemplated thereunder and to agree to such verification, announcement or waiver as are, in the opinion of the directors of the Company, in the interests of the Company.”

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

Hong Kong
12 December 2017

Notes:

1. Pursuant to Rule 17.47(4) of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, votes of the shareholders of the Company (the “Shareholders”) at the SGM shall be taken by poll.
2. A Shareholder entitled to attend and vote at the SGM may appoint one or more proxies to attend and vote in his stead. A proxy needs not to be a Shareholder.
3. The instrument appointing a proxy must be in writing under the hand of a Shareholder or his attorney duly authorized in writing. If the Shareholder is a corporation, that instrument must be either under its common seal or under the hand of its director(s) or duly authorised attorney(s). If that instrument is signed by an attorney of the Shareholder, the power of attorney authorising that attorney to sign or other authorisation document must be notarised.
4. In order to be valid, the form of proxy together with the power of attorney or other authorisation document (if any) must be deposited at the Hong Kong branch share registrar of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for holders of shares of the Company as soon as possible and in any event not less than 48 hours before the time fixed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a Shareholder from attending and voting in person at the SGM if he so wishes.

NOTICE OF SGM

5. The Hong Kong branch share register of members of the Company will be closed from Friday, 22 December 2017 to Friday, 29 December 2017, both days inclusive, during which period no transfer of the shares of the Company will be effected. Shareholders whose names appear on the register of members of the Company on Friday, 29 December 2017 are entitled to attend and vote at the SGM. In order to attend and vote at the SGM, all transfer documents accompanied by relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 21 December 2017.
6. Shareholders or their proxies attending the SGM shall produce their identity documents. If the attending shareholder is a corporate, its legal representative or person authorized by the board or other decision making authority shall present a copy of the relevant resolution of the board or other decision making authority in order to attend the SGM.
7. As at the date of this notice, the executive directors of the Company are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Li Jin, Mr. Yang Jun and Ms. Shi Ping and the independent non-executive directors of the Company are Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin.