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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant 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 and the accompanying proxy form and reply slip to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**CHANGHONG JIAHUA HOLDINGS LIMITED**

**長虹佳華控股有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 3991)**

**(I) CONTINUING CONNECTED TRANSACTION IN RELATION TO  
RENEWAL OF THE MASTER SUPPLY AGREEMENT;**

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

**AND**

**(III) NOTICE OF SPECIAL GENERAL MEETING**

**Independent financial adviser to  
the Independent Board Committee and the Independent Shareholders**



**Giraffe Capital Limited**

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A letter from the Board is set out on pages 5 to 19 of this circular. A letter from the Independent Board Committee is set out on pages 20 to 21 of this circular. A letter from Giraffe Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 49 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, the PRC at 10:00 a.m. on Thursday, 31 December 2020 is set out on pages SGM -1 to SGM -2 of this circular at which ordinary resolutions will be proposed to approve the 2021 Master Supply Agreement, the deposit services under the 2021 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps).

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

11 December 2020

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## DEFINITIONS

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

“2018 Financial Services Agreement”	the financial services agreement dated 27 November 2017 entered into between Changhong IT and Changhong Finance in relation to the provision of Financial Services by Changhong Finance to Changhong IT
“2020 Master Purchase Agreement”	the master purchase agreement dated 30 December 2019 entered into between the Company and Sichuan Changhong Holding in relation to the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group
“2020 Master Supply Agreement”	the master supply agreement dated 30 December 2019 entered into between the Company and Sichuan Changhong Holding in relation to the supply of ICT Products and Services by the Group to the Sichuan Changhong Electric Group
“2021 Financial Services Agreement”	the financial services agreement dated 17 November 2020 entered into between Changhong IT and Changhong Finance in relation to the provision of Financial Services by Changhong Finance to Changhong IT
“2021 Master Purchase Agreement”	the master purchase agreement dated 17 November 2020 entered into between the Company and Sichuan Changhong Holding in relation to the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group
“2021 Master Supply Agreement”	the master supply agreement dated 17 November 2020 entered into between the Company and Sichuan Changhong Holding in relation to the supply of ICT Products and Services by the Group to the Sichuan Changhong Electric Group
“Agreements”	collectively, the 2021 Financial Services Agreement, 2021 Master Purchase Agreement and the 2021 Master Supply Agreement
“Announcement”	the announcement dated 17 November 2020 made by the Company in relation to the Agreements and the transactions contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CAGR”	compound annual growth rate

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## DEFINITIONS

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“CBIRC”	China Banking and Insurance Regulatory Commission
“Changhong Finance”	Sichuan Changhong Group Finance Co., Ltd (四川長虹集團財務有限公司), a company established under the laws of the PRC and owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively as at the Latest Practicable Date
“Changhong Huayi”	Changhong Huayi Compressor Co., Ltd (長虹華意壓縮機股份有限公司), a company established under the laws of the PRC with limited liability and principally engaged in the manufacturing and sale of compressors, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000404) and is owned as to approximately 30.6% by Sichuan Changhong as at the Latest Practicable Date
“Changhong IT”	Sichuan Changhong IT Information Products Co., Ltd (四川長虹佳華信息產品有限責任公司), a company established under the laws of the PRC and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Changhong Meiling”	Changhong Meiling Co., Ltd (長虹美菱股份有限公司), a company established under the laws of the PRC with limited liability and principally engaged in the manufacturing and sale of consumer electronic appliances, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000521) and is owned as to approximately 23.79% by Sichuan Changhong as at the Latest Practicable Date
“Company”	Changhong Jiahua Holdings Limited (長虹佳華控股有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 3991)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Financial Services”	the financial services, including but not limited to (i) deposit services, (ii) loan services, and (iii) settlement services to be provided by Changhong Finance to Changhong IT and its subsidiaries
“GEM”	the GEM board of the Stock Exchange

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## DEFINITIONS

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“Giraffe Capital”	Giraffe Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the 2021 Master Supply Agreement, the deposit services under the 2021 Financial Services Agreement and each of the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IBMS”	intelligent building management system
“ICT”	information and communication technology
“ICT Products and Services”	ICT products and technical services, including mainly (i) storage products such as storage devices, (ii) servers, (iii) networking products such as switches and routers, (iv) personal computers, and (v) installation and maintenance services for the abovementioned categories of the ICT products to be provided by the Group to the Sichuan Changhong Electric Group
“Independent Board Committee”	the independent board committee of the Board comprising all the independent non-executive Directors
“independent third party”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with the Company or any of its connected persons
“Independent Shareholders”	the Shareholders other than Sichuan Changhong and its associates, namely Changhong (Hong Kong) Trading Limited and Fit Generation Holding Limited
“Latest Practicable Date”	9 December 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules
“Mr. Yang”	Mr. Yang Jun (楊軍), an executive Director

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## DEFINITIONS

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“Mr. Zhao”	Mr. Zhao Yong (趙勇), an executive Director
“PBOC”	The People’s Bank of China
“PC”	personal computer
“PRC”	the People’s Republic of China
“Purchase Products”	products including TV, intelligent devices, software and services to be purchased by the Group from the Sichuan Changhong Electric Group
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened for the approval of the 2021 Master Supply Agreement and the deposit services under the 2021 Financial Services Agreement and each of the transactions contemplated thereunder
“Shareholder(s)”	shareholder(s) of the Company
“Sichuan Changhong”	Sichuan Changhong Electric Co., Limited (四川長虹電器股份有限公司), a company established under the laws of the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600839) and owns, together with its wholly-owned subsidiaries, approximately 65.20% of the Company as at the Latest Practicable Date
“Sichuan Changhong Electric Group”	Sichuan Changhong Holding and its subsidiaries
“Sichuan Changhong Holding”	Sichuan Changhong Electronics Holding Group Co., Ltd. (四川長虹電子控股集團有限公司), a company established under the laws of the PRC and holds approximately 23.22% equity interest in Sichuan Changhong as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“UC&CC”	unified communication and contact centre
“US\$”	United States dollars, the lawful currency of United States of America
“%”	per cent.

*Note:* For the purpose of illustration only, RMB is translated to HK\$ at the illustrative rate of RMB1.00 = HK\$1.17899.

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LETTER FROM THE BOARD

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**CHANGHONG JIAHUA HOLDINGS LIMITED**

**長虹佳華控股有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 3991)**

**The Board of Directors:**

*Executive Directors:*

Mr. Zhao Yong

Mr. Zhu Jianqiu

Mr. Yang Jun

Mr. Luo Yongping

*Independent Non-executive Directors:*

Mr. Jonathan Chan Ming Sun

Mr. Gao Xudong

Mr. Meng Qingbin

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place  
of business:*

Unit 1412, 14/F,

West Tower, Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

11 December 2020

*To the Shareholders*

Dear Sir or Madam,

**(I) CONTINUING CONNECTED TRANSACTION IN RELATION TO  
RENEWAL OF THE MASTER SUPPLY AGREEMENT;**

**AND**

**(II) MAJOR AND CONTINUING CONNECTED TRANSACTION IN  
RELATION TO RENEWAL OF THE DEPOSIT SERVICES  
UNDER THE FINANCIAL SERVICES AGREEMENT**

**INTRODUCTION**

Reference is made to the Announcement.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) further details of the 2021 Master Supply Agreement, the deposit services under the 2021 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps); (ii) a letter of recommendation from the Independent Board Committee in relation to the 2021 Master Supply Agreement, the deposit services under the 2021 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps); (iii) a letter of advice from Giraffe Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the SGM.

### **THE 2021 MASTER SUPPLY AGREEMENT**

#### **Date**

17 November 2020

#### **Parties**

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

#### **Subject matter**

Pursuant to the 2021 Master Supply Agreement, the Group has agreed to supply the ICT Products and Services to the Sichuan Changhong Electric Group. The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of the ICT Products and Services.

#### **Term**

The term commences from 1 January 2021 until 31 December 2023.

#### **Pricing**

As a general principle, the price and terms of the individual orders in respect of the supply of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, or on a similar basis as the Group transacts business with other independent third party customers, and shall be on terms which are no less favourable to the Group than those provided to independent third party customers. The terms of the individual orders will be consistent with the principles and the terms of the 2021 Master Supply Agreement. If there is any conflict between the terms of an individual order and the 2021 Master Supply Agreement, the latter shall prevail.



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## LETTER FROM THE BOARD

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

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

### **Payment**

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

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## LETTER FROM THE BOARD

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### Previous/existing annual cap amounts

The previous/historical annual cap amounts for the provision of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group for the two years ended 31 December 2019 and the year ending 31 December 2020 are as follows:

	For the year ended 31 December		For the year ending
	2018	2019	31 December 2020
	<i>(RMB'000)</i>		
Previous/existing annual cap amounts	<u>49,000</u>	<u>40,000</u>	<u>56,000</u>

### Historical transaction amounts

The historical transaction amounts for the provision of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group for the two years ended 31 December 2019 and the ten months ended 31 October 2020 are as follows:

	For the year ended 31 December		For the ten months ended
	2018	2019	31 October 2020
	<i>(RMB'000)</i>		
Historical transaction amounts	<u>27,080</u>	<u>30,900</u>	<u>47,345</u>

The Board confirms that as at the Latest Practicable Date, the total transaction amount with the Sichuan Changhong Electric Group has not exceeded the existing annual cap under the 2020 Master Supply Agreement for the year ending 31 December 2020.

### Proposed annual caps

The proposed annual caps for the fee to be paid by the Sichuan Changhong Electric Group for each of the three years ending 31 December 2023 shall not exceed RMB200,000,000, RMB220,000,000 and RMB242,000,000, respectively.

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## LETTER FROM THE BOARD

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The above proposed annual caps under the 2021 Master Supply Agreement were determined after having taken into account the following factors:

- (a) the expected quantity of the ICT Products and Services to be ordered from the Group by the Sichuan Changhong Electric Group based on the communication and understanding, and the upcoming supply contracts to be entered into between the two parties in 2021, of which the Sichuan Changhong Electric Group targets to develop its external project-related business by acquiring approximately RMB120 million to RMB140 million of ICT products, specifically ICT corporate products such as storage and networking products in 2021, so as to extend its “5G+ industrial internet” production line to the construction of 5G information systems in areas such as smart education, smart transportation, smart healthcare and smart home;
- (b) according to industry analysis such as the PRC ICT market forecasts for 2021 and beyond issued by the International Data Corporation (China) in November 2020, the total spending on business digital transformation is expected to increase to approximately US\$1.5 trillion in 2024, representing a CAGR of 17%. The market size of the ICT industry is also estimated to reach US\$711.1 billion in 2021, representing a growth rate of 9.3% from 2020. Such growth is propelled by the emerging national economic strategy of the “new infrastructure” plan in the PRC, which will promote the commercialization of technology and open up opportunities in the construction of new digital infrastructure across the country. According to estimates from the white paper on new infrastructure development (新基建發展白皮書) published by the PRC government-affiliated CCID Think Tank Electronic Information Institute\* (賽迪智庫電子信息研究所), the investment associated with new infrastructure projects is expected to total around RMB10 trillion from 2020 to 2025. Commended as one of the “leading market participants of the new infrastructure plan” by the 2020 Industry Digitalization and Technological Innovation and Development Summit\* (行業信息化技術創新發展峰會), it is anticipated that such momentum shall also be found in Sichuan Changhong Electric Group’s demand for ICT Products and Services from ICT Products and Service suppliers including the Group, based on its expanding operation needs to cater for the growing market size of the ICT industry, and to invest in key areas of the new infrastructure plan, including the building of 5G networks, industrial internet, cloud computing, the Internet of Things and artificial intelligence etc.. The increase in the proposed annual caps under the 2021 Master Supply Agreement shall allow the Group to cater for and grasp these ample and sustainable business opportunities in the future;
- (c) the prevailing open market prices and projected rise of similar ICT Products and Services in the PRC due to inflation, which were sourced from the (i) regular market observation and analysis of the Company; and (ii) past dealings of the Company with independent third party customers; and

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## LETTER FROM THE BOARD

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- (d) the growing trend for the Group's supply of ICT Products and Services observed from the (i) historical transaction amounts between the Company and the Sichuan Changhong Electric Group and (ii) the annual cap utilization rates for the two years ended 31 December 2019 and the ten months ended 31 October 2020, respectively. In respect of (i), the historical transaction amount for the provision of ICT Products and Services increased from approximately RMB27.1 million for the year ended 31 December 2018 to RMB47.3 million for the ten months ended 31 October 2020, representing an increase of approximately 53.1%. In respect of (ii), it is noted that the supply of ICT Products and Services to the Sichuan Changhong Electric Group is on a non-exclusive basis, and the annual cap utilization rates of the Company are determined on the principle of fair competition with other independent third party suppliers, as well as the commercial decisions made by the Sichuan Changhong Electric Group after considering factors such as the price and the category of the ICT Products and Services to be supplied. The annual caps utilized by the Group increased from 55.3% for the year ended 31 December 2018 to 84.5% for the ten months ended 31 October 2020, which indicates the Sichuan Changhong Electric Group's growing and viable demand for ICT Products and Services from the Group.

Based on the communication and understanding between the Company and the Sichuan Changhong Electric Group in respect of its future development plan, and considering factors such as the overall expansion of the ICT industry, the historical growth of Sichuan Changhong's business, inflation rates, and the uprising trend in the transaction amounts and utilization rates of the Group's supply of ICT Products and Services to the Sichuan Changhong Electric Group since 2016, the Company has included a buffer of 10% increase on the annual caps for each of the two years ending 31 December 2023 for prudence purposes.

With regards to the Sichuan Changhong Electric Group's projected surge in demand for ICT Products and Services in the coming years, the inflation in the market prices of similar ICT Products and Services, as well as the actual historical transaction amounts and the recorded upward trend for ICT Products and Services supplied to the Sichuan Changhong Electric Group in the past years, the Directors (excluding the Independent Board Committee whose views are set out below and Mr. Zhao and Mr. Yang) are of the view that the proposed annual caps of the 2021 Master Supply Agreement are fair and reasonable.

### **Reasons for and benefits in the entering of the 2021 Master Supply Agreement**

The Group has a long-standing business relationship with Sichuan Changhong, and has been supplying ICT Products and Services to the Sichuan Changhong Electric Group since 19 April 2016. Taking into account the Sichuan Changhong Electric Group's broad distribution network and well-established market, the 2021 Master Supply Agreement will enable the Company to continue its capitalization on such business relationship, and to maintain a stable income stream with a reliable and committed source of orders from the Sichuan Changhong Electric Group, which in turn will benefit the Group's revenue growth and future development. With the rapid development of the ICT industry and the widespread use of digital technology, it is also anticipated that Sichuan Changhong Electric Group's general demand for ICT Products and Services will increase correspondingly.

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## LETTER FROM THE BOARD

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### THE 2021 FINANCIAL SERVICES AGREEMENT

#### Date

17 November 2020

#### Parties

1. Changhong IT; and
2. Changhong Finance.

#### Subject matter

Pursuant to the 2021 Financial Services Agreement, Changhong Finance has agreed to provide the Financial Services to Changhong IT and its subsidiaries.

#### Term

The term commences from 1 January 2021 until 31 December 2023.

#### Pricing

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

#### Existing annual cap amounts

The existing annual cap amounts for the provision of the deposit services under the 2018 Financial Services Agreement for the two years ended 31 December 2019 and the year ending 31 December 2020 are as follows:

	Existing annual cap amounts		
	For the year ended		For the year
	31 December		ending
	2018	2019	31 December
			2020
	<i>(RMB'000)</i>		
Deposit services – Maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon)	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>

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## LETTER FROM THE BOARD

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### Historical transaction amounts

The historical transaction amounts for the provision of the deposit services for the two years ended 31 December 2019 and the ten months ended 31 October 2020 are as follows:

	<b>Historical transaction amounts</b>		
	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>		<b>ten months</b>
	<b>2018</b>	<b>2019</b>	<b>ended</b>
			<b>31 October</b>
			<b>2020</b>
	<i>(RMB'000)</i>		
Deposit services – Maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon)	<u>240,000</u>	<u>500,000</u>	<u>750,000</u>

The Board confirms that as at the Latest Practicable Date, the existing annual cap for the deposit services under the 2018 Financial Services Agreement for the year ending 31 December 2020 has not been exceeded.

### Proposed annual caps

The proposed annual caps for the deposit services for each of the three years ending 31 December 2023 shall be as follows:

	<b>Annual cap for the year ending</b>		
	<b>31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>(RMB'000)</i>		
Maximum daily outstanding balance of deposits to be deposited by Changhong IT with Changhong Finance (including interest accrued and handling fees thereon)	<u>1,500,000</u>	<u>2,000,000</u>	<u>2,500,000</u>

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## LETTER FROM THE BOARD

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The above proposed annual caps for the deposits to be deposited by Changhong IT were determined based on arms' length negotiations between the parties to the 2021 Financial Services Agreement, of which the following considerations are taken:

- (a) the interest rate on deposits made available to Changhong IT by Changhong Finance shall not be less than those offered by other major commercial banks and no restriction is imposed on the cash flow of deposits by Changhong Finance on the account. As a result, the Group can enjoy free access to the account, and adopt different periods of cash deposits to generate a possible higher interest income of deposits and ensure a flexible cash flow;
- (b) a growing trend for deposit services was recorded from the historical transaction amounts of the maximum daily outstanding balance of deposits placed by Changhong IT with Changhong Finance, which increased from approximately RMB240,000,000 for the year ended 31 December 2018 to RMB750,000,000 for the ten months ended 31 October 2020;
- (c) the Group's cash and bank balance, pledged bank deposits and trade and bills receivables as at 30 June 2020 amounted to approximately HK\$717.9 million, HK\$557.9 million and HK\$2,837.5 million respectively, the sum of which (i.e. approximately HK\$4,113.3 million) is significantly higher than the proposed annual caps for the deposit services under the 2021 Financial Services Agreement, which indicates the Group's valid and sustainable needs for more deposit services to be provided by deposit-taking financial institutions like Changhong Finance;
- (d) the operating income and expenditure of Changhong IT are estimated to grow steadily, which is driven predominantly by the Group's strengthened collaboration with major e-commerce platforms in the PRC, empowering it to sell its more of its ICT products through these diversified sales channels. E-commerce platforms have drastically expanded in recent years, and Changhong IT has to provide for the growing consumer demand for ICT Products, smart phones in particular during large sales events of e-commerce platforms such as the annual "singles' day" and "6.18" shopping festivals, which warrants for an increase in both the annual caps of deposit services and loan services under the 2021 Financial Services Agreement; and
- (e) there is an increase in the maximum credit amount to be made available by Changhong Finance to Changhong IT. The annual caps of the deposit services shall be able to cater for the daily bank balance of Changhong IT and any unexpected influx in bank balance, particularly, in the event that Changhong IT fully utilizes the credit line provided by Changhong Finance as and when necessary.

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## LETTER FROM THE BOARD

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### **Reasons for and benefits in the entering of the 2021 Financial Services Agreement**

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

The Board believes that the proposed annual caps under the 2021 Financial Services Agreement are in the interests of the Company and its Shareholders as a whole since (i) the credit amount of RMB1.5 billion (or more for the two years ending 31 December 2023) will be made available from Changhong Finance to Changhong IT given the latter's good credit standing; (ii) in the event that Sichuan Changhong requests for a single loan in the full credit amount from Changhong Finance under the 2021 Financial Services Agreement, such amount can be deposited with Changhong Finance subsequently; and (iii) the Board considers the proposed annual caps will provide Changhong IT with 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.

Taking into account its ability to offer deposits or loans with rates equal to or more favourable to Changhong IT than those offered by independent commercial banks in the PRC, the 2021 Financial Services Agreement is expected to provide Changhong IT with new means of financing, as well as improvement in the efficiency of the use of its funds through higher interest income and lower costs of financing. Changhong IT is also anticipated to be in a better position to manage the security of its funds since it is not considered to be exposed to any significant capital risk.

### **INTERNAL CONTROL**

#### **The 2021 Master Supply Agreement**

The Group will adopt the following internal control measures in connection with the 2021 Master Supply Agreement:

- (a) the senior manager of the Group's internal audit department and relevant personnel and management of the Group in charge will closely monitor and supervise the pricing policies for all continuing connected transactions of the Group. To ensure that the relevant transactions are conducted on normal commercial terms under the 2021 Master Supply Agreement and not prejudicial to the interests of the Company and its Shareholders as a whole, they will (i) conduct regular checks on a quarterly basis to review and assess whether the relevant continuing connected transactions are conducted in accordance with the terms of the 2021 Master Supply Agreement, and (ii) regularly update the market price of relevant ICT Products and Services for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policies;



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## LETTER FROM THE BOARD

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- (b) the sales management department of the Group will monitor the continuing connected transactions under the 2021 Master Supply Agreement consistently to ensure that the total transaction amount does not exceed the stipulated annual caps. In this connection, they will (i) carry out daily reviews of the actual transaction amounts of the relevant transactions; and (ii) provide monthly statistical updates (with data of the aggregate transaction amounts and the utilization rate of the annual caps under the 2021 Master Supply Agreement) to be reviewed by the Board;
- (c) the independent non-executive Directors will review the transactions contemplated under the 2021 Master Supply Agreement continuously; and
- (d) the external auditors of the Company will conduct an annual review on the pricing terms and annual caps under the 2021 Master Supply Agreement.

### **The 2021 Financial Services Agreement**

The Group will adopt the following internal control measures in connection with the 2021 Financial Services Agreement:

- (a) the financial management department of the Group will (i) closely monitor and supervise the pricing policy under the 2021 Financial Services Agreement, subject to the pricing terms as disclosed above, and (ii) conduct regular checks twice a year to review and assess whether the transactions contemplated under the 2021 Financial Services Agreement are conducted in accordance with its terms and the aforesaid pricing policy, to ensure that the 2021 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;
- (b) the financial management department of the Group will monitor the continuing connected transactions under the 2021 Financial Services Agreement consistently to ensure that the total transaction amount does not exceed the stipulated annual caps. In this connection, they will (i) carry out daily reviews of the actual transaction amounts of the relevant transactions; and (ii) provide monthly statistical updates (with data of the aggregate transaction amounts and the utilization rate of the annual caps under the 2021 Financial Services Agreement) to be reviewed by the Board;
- (c) the treasury team of the financial management department of the Group will contact commercial banks in the PRC to obtain and compare interest rate quotes with those offered by Changhong Finance under the 2021 Financial Services Agreement;
- (d) the chief financial officer of Changhong IT will regularly review the interest rates and decisions of making any deposits before approval under Changhong Finance; and

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## LETTER FROM THE BOARD

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- (e) the external auditors of the Company will conduct an annual review of the transactions contemplated under the 2021 Financial Services Agreement.

### **LISTING RULES IMPLICATIONS**

#### **The 2021 Master Supply Agreement**

As at the Latest Practicable Date, Sichuan Changhong Holding holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company, and has control over Sichuan Changhong. Both Sichuan Changhong Holding and Sichuan Changhong are controlling shareholders of the Company. Sichuan Changhong is a connected person of the Company under Chapter 14A of the Listing Rules. Sichuan Changhong Holding is an associate of a connected person of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2021 Master Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios (excluding the profits ratio) under the Listing Rules in respect of the highest annual cap for the transactions contemplated under the 2021 Master Supply Agreement exceeds 5%, the transactions contemplated under the 2021 Master Supply Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **The 2021 Financial Services Agreement**

As at the Latest Practicable Date, Changhong Finance is owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively. Changhong Finance is an associate of a connected person of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2021 Financial Services Agreement also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios under the Listing Rules in respect of the maximum daily outstanding balance of the deposit services under the 2021 Financial Services Agreement exceed 5%, the deposit services under the 2021 Financial Services Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, the deposits made in Changhong Finance are provision of financial assistance by the Company under Rule 14.04(1)(e) of the Listing Rules. As certain percentage ratios in respect of the placing of deposits in Changhong Finance exceed 25%, such placing of deposits also constitute a major transaction of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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## LETTER FROM THE BOARD

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In the event that Changhong Finance provides any further financial services not contemplated under the 2021 Financial Services Agreement to Changhong IT, the Company will determine the percentage ratios and comply with the reporting, annual review, announcement, circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules if and to the extent that such requirements apply.

Mr. Zhao is a director of both Sichuan Changhong Holding and Sichuan Changhong, the two controlling shareholders of Changhong Finance, whereas Mr. Yang is a senior management member of Sichuan Changhong Holding and a director of Sichuan Changhong. Accordingly, Mr. Zhao and Mr. Yang, both being executive Directors, are considered to be interested in the transactions contemplated under each of the 2021 Master Supply Agreement and the 2021 Financial Services Agreement. Each of Mr. Zhao and Mr. Yang has therefore abstained from voting for the Board resolutions to approve each of the 2021 Master Supply Agreement and the 2021 Financial Services Agreement and each of the transactions contemplated thereunder.

### INFORMATION ON THE PARTIES

#### (1) The Company and the Group

The Company has been listed on GEM since 24 January 2000. Since 18 March 2020, the Company has transferred its listing from GEM to the main board of the Stock Exchange. The Group is principally engaged in the distribution of ICT consumer products and corporate products.

#### (2) Sichuan Changhong Holding

Sichuan Changhong Holding is principally engaged in investment holding. The Sichuan Changhong Electric Group holds interests in various businesses, including but not limited to the manufacturing and sale of consumer electronic appliances (through Sichuan Changhong) and property development (through other business entities).

#### (3) Changhong IT

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

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## LETTER FROM THE BOARD

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### (4) Changhong Finance

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

### THE SGM

The SGM will be held at 10:00 a.m. on Thursday, 31 December 2020, at 9th Floor, Beijing Changhong Sci-Tech Tower, Building 26, Zone 18, No. 188 West Road, South Fourth Ring Road, Fengtai District, Beijing, the PRC for the purpose of considering and, if thought fit, approving the 2021 Master Supply Agreement, the deposit services under the 2021 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps for the three years ending 31 December 2023). A notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular.

Pursuant to the Rule 13.39(4) of the Listing Rules, the vote of the shareholders at a general meeting would be taken by poll As at the Latest Practicable Date, Sichuan Changhong and its associates, namely Changhong (Hong Kong) Trading Limited and Fit Generation Holding Limited, were interested in an aggregate of 948,368,000 Shares, representing approximately 65.20% of the total issued Shares. Save for Sichuan Changhong and its associates, none of the other Shareholders has a material interest in the 2021 Master Supply Agreement, the deposit services under the 2021 Financial Services Agreement and each of the transactions contemplated thereunder and is required to abstain from voting on the relevant resolutions in the SGM.

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

In order to determine the list of Shareholders who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Monday, 28 December 2020 to Thursday, 31 December 2020 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of the Shareholders of the Company on Thursday, 31 December 2020 will be entitled to attend and vote at the SGM.

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## LETTER FROM THE BOARD

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### RECOMMENDATIONS

The Independent Board Committee, having taken into account the advice of Giraffe Capital, has been established and considers that (i) the terms of the 2021 Master Supply Agreement and the deposit services under the 2021 Financial Services Agreement are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated under the 2021 Master Supply Agreement and the deposit services under the 2021 Financial Services Agreement are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions in relation to the 2021 Master Supply Agreement and the deposit services under the 2021 Financial Services Agreement proposed at the SGM. The Independent Board Committee's recommendation is set out on pages 20 to 21 of this circular.

Having considered the reasons set out herein, the Directors (excluding the Independent Board Committee, and Mr. Zhao and Mr. Yang who have abstained from voting on the relevant Board resolutions) are also of the opinion that the 2021 Master Supply Agreement, the deposit services under the 2021 Financial Services Agreement and each of the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the SGM.

### ADDITIONAL INFORMATION

Your attention is also drawn to (i) the letter from the Independent Board Committee on pages 20 to 21 of this circular, (ii) the letter from Giraffe Capital on pages 22 to 49 of this circular, and (iii) additional information set out in the appendices to this circular.

Yours faithfully,  
By Order of the Board  
**Changhong Jiahua Holdings Limited**  
**Mr. Zhao Yong**  
*Chairman and Executive Director*

\* *For identification purposes only*



**CHANGHONG JIAHUA HOLDINGS LIMITED**

**長虹佳華控股有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 3991)**

11 December 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**(I) CONTINUING CONNECTED TRANSACTION IN RELATION TO  
RENEWAL OF THE MASTER SUPPLY AGREEMENT;**

**AND**

**(II) MAJOR AND CONTINUING CONNECTED TRANSACTION IN  
RELATION TO RENEWAL OF THE DEPOSIT SERVICES UNDER THE  
FINANCIAL SERVICES AGREEMENT**

We refer to the circular issued by the Company to the Shareholders dated 11 December 2020 (the “**Circular**”) which this letter forms a part of. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the 2021 Master Supply Agreement and the deposit services under the 2021 Financial Services Agreement and to advise the Independent Shareholders in respect of the 2021 Master Supply Agreement and the deposit services under the 2021 Financial Services Agreement, the transactions contemplated thereunder and the proposed annual caps, details of which are set out in the “Letter from the Board” on pages 5 to 19 of the Circular. Giraffe Capital has been appointed as the independent financial adviser in this regard.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We wish to draw your attention to the “Letter from the Board” and the “Letter from Giraffe Capital” as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Giraffe Capital as set out in their letter of advice, we consider that (i) the terms of the 2021 Master Supply Agreement and the deposit services under the 2021 Financial Services Agreement are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated under the 2021 Master Supply Agreement and the deposit services under the 2021 Financial Services Agreement are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions approving the 2021 Master Supply Agreement and the deposit services under the 2021 Financial Services Agreement, the transactions contemplated thereunder and the proposed annual caps for such transaction for the three years ending 31 December 2023 at the special general meeting.

Yours faithfully,

For and on behalf of the Independent Board Committee of

**Changhong Jiahua Holdings Limited**

**Jonathan Chan Ming Sun**

*Independent*

*Non-Executive Director*

**Gao Xudong**

*Independent*

*Non-Executive Director*

**Meng Qingbin**

*Independent*

*Non-Executive Director*

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## LETTER FROM GIRAFFE CAPITAL

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*The following is the full text of the letter received from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.*



**Giraffe Capital Limited**

11 December 2020

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

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

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the 2021 Master Supply Agreement, the deposit services under the 2021 Financial Services Agreement (the “**Deposit Services**”) and each of the transactions contemplated thereunder (including the proposed annual caps), details of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular issued by the Company to the Shareholders dated 11 December 2020 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As the 2020 Master Supply Agreement will expire on 31 December 2020, the Company entered into the 2021 Master Supply Agreement with Sichuan Changhong Holding on 17 November 2020 for a fixed term commencing from 1 January 2021 until 31 December 2023 (both dates inclusive).

As the 2018 Financial Services Agreement will also expire on 31 December 2020, Changhong IT, a wholly-owned subsidiary of the Company, entered into the 2021 Financial Services Agreement with Changhong Finance on 17 November 2020 for a fixed term commencing from 1 January 2021 until 31 December 2023 (both dates inclusive).



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## LETTER FROM GIRAFFE CAPITAL

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As at the Latest Practicable Date, Sichuan Changhong Holding holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company, and has control over Sichuan Changhong. Both Sichuan Changhong Holding and Sichuan Changhong are controlling shareholders of the Company. Sichuan Changhong is a connected person of the Company under Chapter 14A of the Listing Rules. Sichuan Changhong Holding is an associate of a connected person of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2021 Master Supply Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios (excluding the profits ratio) under the Listing Rules in respect of the highest annual cap for the transactions contemplated under the 2021 Master Supply Agreement exceeds 5%, the transactions contemplated under the 2021 Master Supply Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Changhong Finance is owned as to approximately 35.04% by each of Sichuan Changhong, and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively. Changhong Finance is an associate of a connected person of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2021 Financial Services Agreement also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios under the Listing Rules in respect of the maximum daily outstanding balance of the deposit services under the 2021 Financial Services Agreement exceed 5%, the deposit services under the 2021 Financial Services Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, the deposits made in Changhong Finance are provision of financial assistance by the Company under Rule 14.04(1)(e) of the Listing Rules. As certain percentage ratios in respect of the placing of deposits in Changhong Finance exceed 25%, such placing of deposits also constitute a major transaction of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Mr. Zhao is a director of both Sichuan Changhong Holding and Sichuan Changhong, the two controlling shareholders of Changhong Finance, whereas Mr. Yang is a senior management member of Sichuan Changhong Holding and a director of Sichuan Changhong. Accordingly, Mr. Zhao and Mr. Yang, both being executive Directors, are considered to be interested in the transactions contemplated under each of the 2021 Master Supply Agreement and the 2021 Financial Services Agreement. Each of Mr. Zhao and Mr. Yang has therefore abstained from voting for the Board resolutions to approve each of the 2021 Master Supply Agreement and the 2021 Financial Services Agreement and each of the transactions contemplated thereunder.

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## LETTER FROM GIRAFFE CAPITAL

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### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Jonathan Chan Ming Sun, Mr. Gao Xudong and Mr. Meng Qingbin, has been established to advise the Independent Shareholders in relation to the 2021 Master Supply Agreement, the deposit services under the 2021 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps). We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

### OUR INDEPENDENCE

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we have acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in respect of the discloseable and connected transactions and continuing connected transactions in relation to the entry of variable interest entity agreements as detailed in circular of the Company dated 30 April 2019. Notwithstanding the above engagement, as at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, to give independent advice on the terms of the 2021 Master Supply Agreement, the Deposit Services and the transactions contemplated thereunder (including the proposed annual caps).

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

### BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, (i) the announcement of the Company dated 17 November 2020 in relation to, amongst others, the 2021 Master Supply Agreement, the 2021 Financial Services Agreement and each of the transactions contemplated thereunder (including the proposed annual caps); (ii) the announcement of the Company dated 15 July 2020 in relation to the revision of annual cap under the 2020 Master Agreement (the “**Revised Annual Cap Announcement**”); (iii) the announcement of the Company dated 9 March 2020 in relation to the transfer of listing from GEM to the Main Board of the Stock Exchange (the “**Transfer of Listing Announcement**”); (iv) the annual report of the Company for the year ended 31 December 2018; (v) the annual report of the Company for the year ended 31 December 2019 (the “**Annual Report 2019**”); (vi) the interim report of the Company for the six months ended 30 June 2020 (the “**Interim Report 2020**”); (vii) the annual reports of Sichuan Changhong for the years ended 31 December 2019 (the “**Sichuan Changhong Annual Report 2019**”); (viii) the interim reports of Sichuan Changhong for the six months ended

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## LETTER FROM GIRAFFE CAPITAL

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30 June 2020 (the “**Sichuan Changhong Interim Report 2020**”) and have enquired with and reviewed the information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company. We have also discussed with the management of the Company with respect to the terms of and reasons for the renewal of the 2021 Master Supply Agreement and the 2021 Financial Services Agreement, and the business and future outlook and development of the Group.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management and/or the Directors were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date. We have no reason to believe that any statements, information, opinions and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group or their respective subsidiaries or associates (if applicable), nor have we carried out any independent verification of the information provided by the Group and/or its management and/or the Directors. 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 our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm 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. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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## LETTER FROM GIRAFFE CAPITAL

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This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the 2021 Master Supply Agreement, the Deposit Services and the transactions contemplated thereunder (including the proposed annual caps), and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation with regard to the regarding the 2021 Master Supply Agreement, the Deposit Services and the transactions contemplated thereunder (including the proposed annual caps), we have taken into consideration the following principal factors and reasons:

#### **1. Information of the Group**

##### ***1.1 Business of the Group***

As disclosed in the Letter from the Board, the Group is principally engaged in the distribution of ICT consumer products (including personal computers, digital products and ICT accessories) and ICT corporate products (including storage products, minicomputers, network products, PC servers, IBMS products and UC&CC products) in the PRC.

According to the Interim Report 2020, the Group is committed to continuously promoting the strategic upgrade of transformation to an ICT integrated service provider, exploring new opportunities in fields such as cloud computing, big data, virtual technology and interconnection of all things, focusing on development, being a good link in the ICT ecosystem, and making new contributions to its partners and shareholders.

##### ***1.2 Business of Changhong IT***

As disclosed in the Letter from the Board, Changhong IT is a company established under the laws of the PRC and a wholly-owned subsidiary of the Company as at the Latest Practicable Date. It is principally engaged in the distribution of ICT consumer products (including personal computers, digital products and ICT accessories) and ICT corporate products (including storage products, minicomputers, network products, PC servers, IBMS products and UC&CC products) in the PRC.

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## LETTER FROM GIRAFFE CAPITAL

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### 1.3 Financial performance of the Group

Set out below is a summary of the Group's operating results as extracted from the Annual Report 2019 and the Interim Report 2020:

#### *Financial performance of the Group*

	<b>For the year ended</b>		<b>For the six months ended</b>	
	<b>31 December</b>		<b>30 June</b>	
	<b>2018</b>	<b>2019</b>	<b>2019</b>	<b>2020</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
<b>Revenue</b>				
ICT consumer products	11,053,217	12,255,497	5,437,385	5,715,475
ICT corporate products	6,976,552	8,099,728	3,657,271	3,756,289
Others ( <i>Note</i> )	<u>4,068,307</u>	<u>9,644,444</u>	<u>3,926,788</u>	<u>7,951,755</u>
	<b>22,098,076</b>	<b>29,999,669</b>	<b>13,021,444</b>	<b>17,423,519</b>
<b>Gross profit</b>	<b>831,395</b>	<b>959,199</b>	<b>443,503</b>	<b>462,644</b>
<i>Gross profit margin</i>	<i>3.8%</i>	<i>3.2%</i>	<i>3.4%</i>	<i>2.7%</i>
<b>Profit for the year</b>				
<b>attributable to the</b>				
<b>owners of the Company</b>				
	<b>270,150</b>	<b>289,166</b>	<b>163,055</b>	<b>149,094</b>

*Note:* Others include distribution of smartphones and development of its own brand products including mobile location-based service products, sales of warranty packages and professional integrated IT solutions and provision of IT services.

For the years ended 31 December 2018 and 2019, and the six months ended 30 June 2019 and 2020, the Group generated revenue mainly from three operating segments, namely, (i) distribution of ICT consumer products which include mainly personal computers, digital products and IT accessories (the “**ICT consumer product distribution business**”); (ii) distribution of ICT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system products and unified communications and contact centre products (the “**ICT corporate product distribution business**”); and (iii) distribution of smartphones and development of its own brand products including but not limited to mobile location-based service products, sales of warranty packages and professional integrated IT solutions and provision of IT services.

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## LETTER FROM GIRAFFE CAPITAL

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### *Comparison of financial performance between the six months ended 30 June 2019 and 2020*

Based on the Interim Report 2020, the Group's revenue increased from approximately HK\$13,021.4 million for the six months ended 30 June 2019 (“**1H2019**”) to approximately HK\$17,423.5 million for the six months ended 30 June 2020 (“**1H2020**”), representing an increase of approximately 33.8%, primarily due to the expansion of the e-commerce sales business. Revenue from the ICT consumer product distribution business and ICT corporate product distribution business increased from approximately HK\$5,437.4 million and HK\$3,657.3 million in 1H2019, respectively, to approximately HK\$5,715.5 million and HK\$3,756.3 million in 1H2020, respectively, representing an increase of approximately 5.1% and 2.7%, respectively. Revenue from the sales of smartphone and own brand products increased from approximately HK\$3,926.8 million in 1H2019 to approximately HK\$7,951.8 million in 1H2020, representing an increase of approximately 102.5%.

As shown from the table above and as disclosed in the Interim Report 2020, the Group's gross profit increased from approximately HK\$443.5 million in 1H2019 to approximately HK\$462.6 million in 1H2020, primarily due to the increase in sales from the Group's distribution of smartphones and development of its own brand products and provision of IT services.

The Group's profit for the year attributable to owners of the Company decreased from approximately HK\$163.1 million in 1H2019 to approximately HK\$149.1 million in 1H2020 despite the increase in gross profit was primarily due to the combined effects of the (i) decrease in other income from approximately HK\$28.9 million in 1H2019 to approximately HK\$23.0 million in 1H2020; (ii) increase in research and development expenses from approximately HK\$4.1 million in 1H2019 to approximately HK\$10.3 million in 1H2020; (iii) increase in administrative expenses; and (iv) increase in finance costs from approximately HK\$47.8 million in 1H2019 to approximately HK\$59.8 million in 1H2020.

### *Comparison of financial performance between the year ended 31 December 2018 and 2019*

Based on the Annual Report 2019, the Group's revenue increased from approximately HK\$22,098.1 million for the year ended 31 December 2018 (“**FY2018**”) to approximately HK\$29,999.7 million for the year ended 31 December 2019 (“**FY2019**”), representing an increase of approximately 35.8%, primarily due to the expansion of the e-commerce sales business and the growth of ICT corporate products sales. Revenue from the sales of ICT consumer products and ICT corporate products increased from approximately HK\$11,053.2 million and HK\$6,976.6 million in FY2018, respectively, to approximately HK\$12,555.5 million and HK\$8,099.7 million in FY2019, respectively, representing an increase of approximately 10.9% and 16.1%, respectively.

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## LETTER FROM GIRAFFE CAPITAL

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As shown in the table above and disclosed in the Annual Report 2019, the Group's gross profit increased from approximately HK\$831.4 million in FY2018 to approximately HK\$959.2 million in FY2019, primarily due to the increase in sales from the Group's ICT consumer product distribution business and distribution of smartphones and development of its own brand products and provision of IT services.

The Group's profit for the year attributable to owners of the Company increased from approximately HK\$270.2 million in FY2018 to approximately HK\$289.2 million in FY2019, which was in line with the increase in the Group's gross profit.

### **1.4 Business outlook**

#### *Market size of the ICT Product distribution industry*

According to the industry report of China's Information and Communications Technology Product Distribution Industry prepared by a market research and consulting company (the "**Industry Report**"), the market size of the ICT Product distribution industry increased from RMB336.1 billion in 2014 to RMB440.7 billion in 2018, representing a CAGR of 7.0%. Although traditional ICT consumer products including personal computers and tablets have reached market saturation, the shipment of digital products such as smart wearables, virtual reality headsets, e-readers and unmanned aerial vehicles is expected to witness strong growth momentum. It is expected that the distribution of ICT consumer products will increase from approximately RMB264.8 billion in 2018 to RMB309.6 billion in 2023, representing a CAGR of 3.2%. On the other hand, the rapid development of China's internet industry and the digitalisation trend in the traditional industries has stimulated significant demand and the emergence of cutting-edge technologies, such as cloud computing, artificial intelligence and the internet of things ("**IoT**s") has led to the continuous growth of investment in ICT corporate products by enterprises. The market size of the ICT corporate product distribution market has increased continuously during recent years, reaching approximately RMB175.9 billion in 2018 and is expected to increase to approximately RMB305.6 billion by 2023, with the higher popularity of intelligent digital products. Digital transformation relies on investment in IT corporate products such as intelligent hardware, network products, servers, and storage products that are used to digitalise information, transmit data, store data, analyse data and ultimately to achieve business improvement.



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## LETTER FROM GIRAFFE CAPITAL

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### *Market drivers*

As disclosed in the Transfer of Listing Announcement, the overall distribution of ICT corporate products is expected to maintain double-digit growth in the coming few years mainly driven by the digital transformation and the promotion of cloud computing.

Since digitalisation unlocks new levels of prosperity for both industry and society, enterprises have been consistently investing in digital transformation in recent years, which drives demand for ICT products and continues to promote the development of the ICT distribution industry for the near future. According to the White Paper on the Development of Cloud Computing\* (雲計算發展白皮書) published by the China Academy of Information and Communications Technology\* (中國信息通信研究院) in July 2020, the market size of worldwide cloud computing has reached approximately US\$188.3 billion in 2019, representing an annual growth of approximately 20.9%. It is estimated to further increase to approximately US\$350.0 billion in 2023, representing a CAGR of approximately 16.8%.

As a large number of hardware and software elements are needed to establish the infrastructure for cloud computing, ICT Product distributors will benefit from the rapid development of the cloud computing services industry by providing related products, services and solutions. To promote the use of new-generation information technology to complete digital and intelligent upgrades, different governmental authorities have successively issued statements to encourage the integration of cloud computing with emerging technologies such as big data, artificial intelligence, and fifth generation technology. According to the Special Action Plan for Digitalised Empowerment of Small and Medium-sized Enterprises\* (中小企業數字化賦能專項行動方案) published by Ministry of Industry and Information Technology of the PRC\* (中華人民共和國工業和信息化部) in March 2020, a faster integration of “cloud + smartness”\* (雲+智能) shall be supported to help small and medium enterprises enjoy more services from cloud computing. Digital service providers shall be encouraged to make digital resources (such as platform interfaces, data, and computing capacity) available to small and medium enterprises and startup companies. According to the Implementation Plan for Promoting the Actions of “Migrating to Cloud, Using Digital Tools and Enabling Intelligence” and Fostering the Development of New Economy\* (關於推進“上雲用數賦智”行動培育新經濟發展實施方案) jointly published by National Development and Reform Commission of the PRC\* (中華人民共和國國家發展改革委) and the Office of the Central Cyberspace Affairs Commission\* (中央網絡安全和信息化委員會辦公室) in April 2020, the PRC government encourages the exploration of innovative application and integration of new-generation digital technologies such as cloud computing, artificial intelligence, big data, fifth generation technology, IoT and blockchain to enable digital service providers to build cloud service platforms, open digital resources, and develop digital solutions in response to the digital transformation needs of enterprises.

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\* For identification purpose only

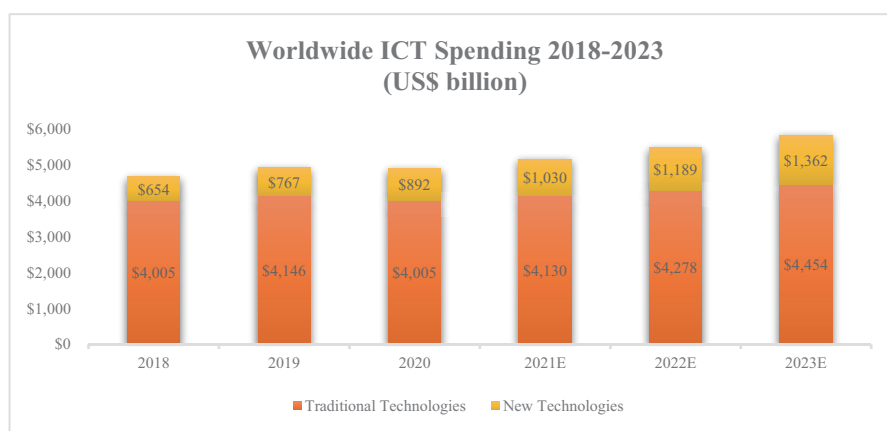


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## LETTER FROM GIRAFFE CAPITAL

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As the communication bridge between technology giants and downstream customers, ICT Product distributors can provide customised solutions for enterprises across various industries by combining particular technologies and products. According to a research on global ICT spending conducted by International Data Corporation (“**IDC**”), a global provider of market intelligence, advisory services and events for information technology, telecommunications and consumer technology markets (the “**Research on ICT Spending**”), the spending on new technologies such as robotics, artificial intelligence, and augmented reality and virtual reality will continue to expand and contribute over 25% of the worldwide ICT spending within the coming few years.



Source: Research on ICT Spending

The growth in traditional tech spending, such as, hardware, software, services and telecom is expect to be driven by four platforms, namely, cloud, mobile, social and big data/analytics. Cost savings generated by cloud and automation will cause more spending diverted towards new technologies such as artificial intelligence, robotics, augmented reality/virtual reality, and blockchain, and the next-generation endpoint security related to those new technologies will also continue to drive significant growth.

## 2. Information of Sichuan Changhong Holding

As disclosed in the Letter from the Board, Sichuan Changhong Holding is a company established under the laws of the PRC principally engaged in investment holding and holds approximately 23.22% equity interest in Sichuan Changhong. Sichuan Changhong Holding and its subsidiaries (the “**Sichuan Changhong Electric Group**”) hold interests in various businesses, including but not limited to the manufacturing and sale of consumer electronic appliances (through Sichuan Changhong) and property development (through other business entities).

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## LETTER FROM GIRAFFE CAPITAL

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Sichuan Changhong is a company established under the laws of the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange and owns, together with its wholly-owned subsidiaries, approximately 65.20% of the Company as at the Latest Practicable Date. Sichuan Changhong is principally engaged in the wholesale business of consumer home electronics products under the brand name of “Changhong”.

According to the Sichuan Changhong Annual Report 2019, Sichuan Changhong has become a comprehensive multinational corporation that mainly engaged in home appliances business, refrigerator compressors business, IT product distribution and solution business, electronic manufacturing service business and others. According to China Information Technology Industry Federation\* (中國電子信息行業聯合會), Sichuan Changhong Holding was ranked 7th among the PRCs Top 100 Information Technology Companies\* (電子信息百強企業) in 2019, in terms of overall strength including but not limited to, business scale, financial performance, technologies and social responsibility.

### **3. Information of Changhong Finance**

As disclosed in the Letter from the Board, Changhong Finance is a company established under the laws of the PRC and owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively as at the Latest Practicable Date. It is principally engaged in the provision of a wide range of financial services including but not limited to depository, loan, settlement, bill discounting, guarantees and other financial services approved by the CBRC.

### **4. Principal terms of the 2021 Master Supply Agreement and the Deposit Services under the 2021 Financial Services Agreement**

#### ***4.1 2021 Master Supply Agreement***

Details of the 2021 Master Supply Agreement are set out in the Letter from the Board. The principal terms and conditions of the 2021 Master Supply Agreement are as follows:

##### *4.1.1 Date:*

17 November 2020

##### *4.1.2 Parties:*

- (1) The Company; and
- (2) Sichuan Changhong Holding.

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### *4.1.3 Subject matter:*

Pursuant to the 2021 Master Supply Agreement, the Group has agreed to supply the ICT Products and Services to the Sichuan Changhong Electric Group. The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of the ICT Products and Services. As stated in the Letter from the Board, the ICT Products and Services supplied by the Group to Sichuan Changhong Electric Group can be divided into project-related and wholesale-related areas. The major category of products/services under project-related business includes installation and maintenance of the ICT Products and Services while the major category of products under wholesale-related business includes storage devices, servers, networking products and PCs.

### *4.1.4 Term:*

The term commences from 1 January 2021 until 31 December 2023.

### *4.1.5 Pricing:*

As a general principle, the price and terms of the individual orders in respect of the supply of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, or on a similar basis as the Group transacts business with other independent third party customers, and shall be on terms which are no less favourable to the Group than those provided to independent third party customers. The terms of the individual orders will be consistent with the principles and the terms of the 2021 Master Supply Agreement. If there is any conflict between the terms of an individual order and the 2021 Master Supply Agreement, the latter shall prevail. As advised by the management of the Company, the selling prices of the wholesale-related ICT Products and Services are determined on a cost-plus basis, which the management and sales management department would determine the minimum acceptable gross profit margins of the ICT Products and Services taking into account the prevailing market prices of similar ICT Products and Services. For project-related ICT Products and Services, the price will be determined based on the project requirement, time frame and anticipated project costs (including but not limited to labour costs, equipment costs).

According to the Letter from the Board, the Company maintains a gross profit margin level list for each category of the ICT Products and Services, including, among other things, (i) storage products such as storage devices, (ii) servers, (iii) networking products such as switches and routers, (iv) personal computers, and (v) installation and maintenance services for the above ICT products to be provided by the Group to both the Sichuan Changhong Electric Group and independent third party customers. Specifically, the gross profit margin levels are determined by the relevant business departments responsible for each category of the ICT Products and Services, and

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## LETTER FROM GIRAFFE CAPITAL

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subsequently approved by the senior management of the Company with reference to (i) the Group's overall historical profit margins based on its dealings with independent third party customers and the Sichuan Changhong Electric Group in the past year; and (ii) the prevailing market prices of similar ICT Products and Services. The gross profit margin levels list will be monitored by the relevant business departments from time to time, and be renewed in light of significant market changes.

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

### *4.1.6 Payment:*

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

## **4.2 2021 Financial Services Agreement**

Details of the 2021 Financial Services Agreement are set out in the Letter from the Board. The principal terms and conditions of the Deposit Services contemplated under the 2021 Financial Services Agreement are as follows:

### *4.2.1 Date:*

17 November 2020

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## LETTER FROM GIRAFFE CAPITAL

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### *4.2.2 Parties:*

- (1) Changhong IT; and
- (2) Changhong Finance.

### *4.2.3 Subject matter:*

Pursuant to the 2021 Financial Services Agreement, Changhong Finance has agreed to provide the Financial Services to Changhong IT and its subsidiaries.

### *4.2.4 Term:*

The term commences from 1 January 2021 until 31 December 2023.

### *4.2.5 Pricing:*

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

## **5. Reasons for and benefits in entering of the 2021 Master Supply Agreement and the Deposit Services under the 2021 Financial Services Agreement**

### ***5.1 2021 Master Supply Agreement***

According to the Letter from the Board, the Group has a long-standing business relationship with Sichuan Changhong, and has been supplying ICT Products and Services to the Sichuan Changhong Electric Group since 2016. We understood from the management of the Company that they have taken into account the Sichuan Changhong Electric Group's broad distribution network and well-established market and consider that the 2021 Master Supply Agreement will enable the Company to continue its capitalization on such business relationship, and to maintain a stable income stream with a reliable and committed source of orders from the Sichuan Changhong Electric Group, which in turn will benefit the Group's revenue growth and future development. With the rapid development of the ICT industry and the widespread use of digital technology, it is also anticipated that the Sichuan Changhong Electric Group's general demand for ICT products will increase correspondingly. We have reviewed the Sichuan Changhong Annual Report 2019 and the Sichuan Changhong Interim Report 2020, and noted that the revenue from its IT product distribution and solution business increased significantly from approximately RMB18,802.4 million in FY2018 to approximately RMB26,421.4 million in FY2019, representing a growth of approximately 40.5%, and from approximately RMB11,207.1 million in 1H2019 to approximately RMB15,808.6 million in 1H2020, representing a growth of approximately 41.1%, respectively.

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## LETTER FROM GIRAFFE CAPITAL

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We also understood from the management of the Company that the supply of ICT Products and Services under the 2021 Master Supply Agreement is on a non-exclusive basis. The Group shall supply ICT Products and Services to the Sichuan Changhong Electric Group when such supply is on terms which are no less favourable to the Group than those provided to independent third party customers.

Having considered (i) the selling of ICT Products and Services are principal business of the Group; (ii) the price and other major terms (including the payment terms) of the Sichuan Changhong Electric Group are no less favourable than that offered to other independent third parties; (iii) the flexibility for the Group to choose sale of the ICT Products and Services to independent third parties if the Group has better offer and the Group is not obliged to sell to the Sichuan Changhong Electric Group if the Group has better offer; and (iv) the 2021 Master Supply Agreement will enable the Company to continue its capitalization on such business relationship, and to maintain a stable income stream with a reliable and committed source of orders from the Sichuan Changhong Electric Group, which in turn will benefit the Group's revenue growth and future development, we concur with the Director's view that the terms of the 2021 Master Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole.

### **5.2 2021 Financial Services Agreement**

According to the Letter from the Board, Changhong Finance is a non-bank financial institution which is subject to the regulations of the PBOC and the CBIRC, and is authorised to provide a wide range of financial services. On 27 November 2017, Changhong IT and Changhong Finance entered into the 2018 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. The 2018 Financial Services Agreement will expire on 31 December 2020. 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 2018 Financial Services Agreement.

As discussed with the management of the Company, pursuant to the 2021 Financial Services Agreement, 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 for comparable deposits or, as the case may be, loans. The 2021 Financial Services Agreement does not preclude Changhong IT from engaging the services of other major commercial banks and/or financial institutions and Changhong IT has its own right to select any other independent commercial banks in the PRC as its financial service providers as it, from time to time, thinks fit and appropriate

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## LETTER FROM GIRAFFE CAPITAL

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for the benefit of Changhong IT. Considering that the entering into of the 2021 Financial Services Agreement provides Changhong IT with new means of financing for its continuous business development, and enables Changhong IT to enjoy potentially favourable interest rates for both deposit and loan services than those available from other major commercial banks and/or 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, we concur with the management of the Company that the 2021 Financial Services Agreement 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.

We have also reviewed the 2021 Financial Services Agreement and noted that the interest rate applicable to any deposit 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; 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 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 with Changhong Finance (including interest accrued and handling fees thereon) for each of the coming three years ending 31 December 2023 shall not exceed RMB1.5 billion, RMB2.0 billion and RMB2.5 billion, respectively.

Having considered that (i) 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; (ii) Changhong Finance is a non-bank financial institution regulated by the PBOC and CBIRC to provide a wide range of financial services; (iii) Changhong Finance has been providing the Deposit Services to Changhong IT from time to time and the Group is satisfied with its quality of services; (iv) the entering into of the 2021 Financial Services Agreement shall not restrict the Group's choice of other commercial banks and/or financial institutions for any financial services and the Group is free to make its selection of financial service providers based on the interest rates and/or other criteria as it thinks fit and appropriate; 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 commercial banks and/or financial institutions, we concur with the Directors' view that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole.

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**LETTER FROM GIRAFFE CAPITAL**

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**6. The proposed annual caps under the 2021 Master Supply Agreement and the Deposit Services under the 2021 Financial Services Agreement**

The historical transaction amounts and respective existing annual caps for transactions under the 2021 Master Supply Agreement and the Deposit Services under the 2021 Financial Services Agreement for the two years ended 31 December 2019 and for the ten months ended 31 October 2020 are set out as below:

	<b>For the year ended</b>		<b>For the year</b>
	<b>31 December</b>		<b>ending</b>
	<b>2018</b>	<b>2019</b>	<b>31 December</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>2021 Master Supply Agreement</b>			
Historical transaction amounts	27,080	30,900	47,345 <i>(Note)</i>
Existing annual caps	49,000	40,000	56,000
Utilisation rates (%)	55.3%	77.3%	84.5%
<b>2021 Financial Services Agreement</b>			
Historical transaction amounts	240,000	500,000	750,000 <i>(Note)</i>
Existing annual caps	800,000	800,000	800,000
Utilisation rates (%)	30.0%	62.5%	93.8%

*Note:* For the ten months ended 31 October 2020.

The proposed annual caps for transactions contemplated under the 2021 Master Supply Agreement and the Deposit Services under the 2021 Financial Services Agreement for three years ending 31 December 2023 are set out as below:

	<b>For the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2021 Master Supply Agreement	200,000	220,000	242,000
2021 Financial Services Agreement			
– Deposit Services	1,500,000	2,000,000	2,500,000



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## LETTER FROM GIRAFFE CAPITAL

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### **6.1 2021 Master Supply Agreement**

As disclosed in the Letter from the Board, the proposed annual caps under the 2021 Master Supply Agreement for the fee to be paid by the Sichuan Changhong Electric Group for each of the three years ending 31 December 2023 shall not exceed RMB200 million, RMB220 million and RMB242 million, respectively.

According to the Letter from the Board, the above proposed annual caps under the 2021 Master Supply Agreement were determined after having taken into account (i) the growing trend for the Group's supply of ICT Products and Services observed from the historical transaction amounts between the Company and the Sichuan Changhong Electric Group and the annual cap utilisation rates for the two years ended 31 December 2019 and the ten months ended 31 October 2020, respectively; (ii) the expected quantity of the ICT Products and Services, to be ordered from the Group by the Sichuan Changhong Electric Group based on the communication and understanding, and the upcoming supply contracts to be entered into between the two parties in 2021, of which the Sichuan Changhong Electric Group targets to develop its external project-related business by acquiring approximately RMB120 million to RMB140 million of ICT products, specifically ICT corporate products such as storage and networking products in 2021, so as to extend its "5G + industrial internet" production line to the construction of 5G information systems in areas such as smart education, smart transportation, smart healthcare and smart home; (iii) according to industry analysis such as the PRC ICT market forecasts for 2021 and beyond issued by the IDC in November 2020, the total spending on business digital transformation is expected to increase to approximately US\$1.5 trillion in 2024, representing a CAGR of 17%. The market size of the ICT industry is also estimated to reach US\$711.1 billion in 2021, representing a growth rate of 9.3% from 2020. Such growth is propelled by the emerging national economic strategy of the "new infrastructure" plan in the PRC, which will promote the commercialisation of technology and open up opportunities in the construction of new digital infrastructure across the country. According to estimates from the white paper on new infrastructure development\* (新基建發展白皮書) published by the PRC government-affiliated CCID Think Tank Electronic Information Institute\* (賽迪智庫電子信息研究所), the investment associated with new infrastructure projects is expected to total around RMB10 trillion from 2020 to 2025. Commended as one of the "leading market participants of the new infrastructure plan" by the 2020 Industry Digitalisation and Technological Innovation and Development Summit\* (行業信息化技術創新發展峰會), it is anticipated that such momentum shall also be found in Sichuan Changhong Electric Group's demand for ICT Products and Services from ICT Products and Service suppliers including the Group, based on its expanding operation needs to cater for the growing market size of the ICT industry, and to invest in key areas of the new infrastructure plan, including the building of 5G networks, industrial internet, cloud computing, the Internet of Things and artificial intelligence etc.. The increase in the proposed annual caps under the 2021 Master Supply Agreement shall allow the Group to cater for and grasp these ample and sustainable business opportunities in the future; and (iv) the prevailing open market prices and projected

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## LETTER FROM GIRAFFE CAPITAL

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rise of similar ICT Products and Services in the PRC due to inflation, which were sourced from the (a) regular market observation and analysis of the Company; and (b) past dealings of the Company with independent third party customers.

In assessing the fairness and reasonableness of the proposed annual caps under the 2021 Master Supply Agreement, we have discussed with the Directors regarding the principal assumptions and basis adopted for determining the proposed annual caps, we were given to understand that the Company has considered the following factors:

(a) *Historical transaction amounts*

As shown in the above tables, the annual caps were utilised by the Group as to approximately 55.3%, 77.3% and 84.5%, respectively for the two years ended 31 December 2019 and the ten months ended 31 October 2020, which showed a growing trend and is expected to reach to nearly full utilisation for the year ending 31 December 2020.

The historical transaction amount for the provision of the ICT Products and Services increased from approximately RMB27.1 million for the year ended 31 December 2018 to approximately RMB30.9 million for the year ended 31 December 2019, representing an increase of approximately 14.0%. We understand from the management of the Company that such increase was mainly attributable the increase in the purchase of digital products and IT accessories under the ICT consumer product distribution business and IBMS products under the ICT corporate product distribution business by the Sichuan Changhong Electric Group. The historical transaction amount for the provision of the ICT Products and Services increased further to approximately RMB47.3 million for the ten months ended 31 October 2020, representing an increase of approximately 53.1%. We understood from the management of the Company that such increase was mainly attributable the increase in the purchase of personal computers under the ICT consumer products and network products under the ICT corporate products by the Sichuan Changhong Electric Group.

(b) *Anticipated growing demand of ICT Products and Services by the Sichuan Changhong Electric Group*

As advised by the management of the Company, the ICT Products and Services planned to be sold to the Sichuan Changhong Electric Group for the three years ended 31 December 2023 are mainly ICT corporate products including storage products and network products. The storage products includes server switches, tape cartridges, storage servers, storage software, host bus adapters and data backup software while the network products includes routers, hubs, network switches, cables and security products such as firewalls, PC servers.

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## LETTER FROM GIRAFFE CAPITAL

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According to the Sichuan Changhong Annual Report 2019 and the Sichuan Changhong Interim Report 2020, driven by the significant increase in the revenue from its IT product distribution and solution business, the corresponding costs of sales of IT product distribution and solution business also increased significantly from approximately RMB18,139.3 million in FY2018 to approximately RMB25,698.1 million in FY2019, representing a growth of approximately 41.7%, and from approximately RMB10,842.6 million in 1H2019 to approximately RMB15,370.4 million in 1H2020, representing a growth of approximately 41.8%, respectively. The historical transaction amounts for the provision of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group in FY2018 and FY2019 represented only approximately 0.15% and 0.12% of the cost of sales under IT product distribution and solution business of the Sichuan Changhong, respectively.

As discussed with the Directors, we understood that the assumptions in determining the proposed annual cap includes (i) favourable government regulations and policies to promote the use of new-generation information technology are in place, (ii) the steady growth of the market size of the ICT Product distribution and ICT consumer product distribution industry; and (iii) Sichuan Changhong Electric Group's general demand for ICT Products and Services will increase along with the rapid development of the ICT industry and the widespread use of digital technology. Given that (i) the market size of the ICT consumer and corporate products distribution segments in the PRC has increased continuously from 2014 to 2018; and (ii) the anticipated growing demand for ICT Products and Services by Sichuan Changhong Electric Group, driven by the increasing trend in its revenue and costs of sales of IT product distribution and solution business; and (iii) the Group has been supplying ICT Products and Services to the Sichuan Changhong Electric Group in increasing amounts since 2016, we concur with the management of the Company that the existing annual caps under the 2020 Master Supply Agreement would be insufficient for the Group to benefit from the fast-growing demand of the Sichuan Changhong Electric Group for ICT Products and Services along with its expansion of IT product distribution and solution business and restrict the Group's business development and potential growth of operating results.

We understood from the Directors that the information they considered when formulating the above assumptions include (i) historical financial performance of Sichuan Changhong; (ii) research and studies on the ICT Products and Services industry such as the Industry Report, which stated that the market size of the ICT corporate products distribution segment in the PRC has increased continuously over the past five years, from approximately RMB97.0 billion in 2014 to approximately RMB175.9 billion in 2018, representing a CAGR of approximately 16.0%; (iii) relevant government regulations and policies on the new-generation information technology; and (iv) communication and understanding with the Sichuan Changhong Electric Group.

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## LETTER FROM GIRAFFE CAPITAL

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We further understood from the management of the Company that the amounts for ICT Products and Services to be purchased by the Sichuan Changhong Electric Group is expected to grow by approximately 10% for the years ending 31 December 2022 and 2023. According to the Letter from the Board, based on the communication and understanding between the Company and the Sichuan Changhong Electric Group in respect of its future development plan, and considering factors such as the overall expansion of the ICT industry, the historical growth of Sichuan Changhong's business, inflation rates, and the uprising trend in the transaction amounts and utilisation rates of the Group's supply of ICT Products and Services to the Sichuan Changhong Electric Group since 2016, the Company has included a buffer of 10% increase on the annual caps for each of the two years ending 31 December 2023 for prudence purposes.

Taking into account the historical growth of revenue from the IT product distribution and solution business of Sichuan Changhong, the expected quantity of the ICT Products and Services to be ordered from the Group by the Sichuan Changhong Electric Group based on the communication and understanding, and the upcoming supply contracts to be entered into between the two parties in 2021, and the robust increase in the market size of the ICT corporate products distribution segment in the PRC, we consider the estimated growth in proposed annual caps for the years ending 31 December 2022 and 2023 is acceptable.

In addition, given that the proposed annual caps for the three years ending 31 December 2023 are expected to account for only less than 1% of the respective costs of sales of IT product distribution and solution business of Sichuan Changhong, assuming that there would be no growth in the revenue and costs of sales of its IT product distribution and solution business for the three years ending 31 December 2023, we concur with the Directors' view that the proposed annual caps are not substantial to the purchase of ICT Products and Services by Sichuan Changhong Electric Group and are justifiable.

In assessing the above assumptions made by the Directors in determining the proposed annual cap, we have reviewed the abovementioned documents considered by the Directors, including (i) financial reports of Sichuan Changhong; (ii) research and studies on the ICT Products and Services industry such as the Industry Report; and (iii) relevant government regulations and policies on the new-generation information technology. In addition, we have also noted from the Research on ICT Spending that the worldwide ICT spending diverted towards new technologies such as robotics, artificial intelligence, and augmented reality and virtual reality has increased from approximately US\$653.8 billion in 2018 to approximately US\$766.5 billion in 2019, representing a growth of approximately 17.2%, and is expected to drive significant growth within the coming few years. Therefore, we consider the assumptions are acceptable.

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## LETTER FROM GIRAFFE CAPITAL

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Based on the above, we concur with the Directors' view that the proposed annual caps under the 2021 Master Supply Agreement are fair and reasonable.

### **6.2 2021 Financial Services Agreement**

As disclosed in the Letter from the Board, the Board believes that the proposed annual caps under the 2021 Financial Services Agreement are in the interests of the Company and its Shareholders as a whole since (i) the credit amount of RMB1.5 billion (or more for the two years ending 31 December 2023) will be made available from Changhong Finance to Changhong IT given the latter's good credit standing; (ii) in the event that Sichuan Changhong requests for a single loan in the full credit amount from Changhong Finance under the 2021 Financial Services Agreement, such amount can be deposited with Changhong Finance subsequently; and (iii) the Board considers the proposed annual caps will provide Changhong IT with 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.

In assessing the fairness and reasonableness of the proposed annual caps, we have discussed with the management of the Company the determination basis for the proposed annual caps and reviewed the historical figures for the Deposit Services.

As advised by the management of the Company, the proposed annual caps for the deposits to be deposited by Changhong IT were determined on arms' length negotiations between the parties to the 2021 Financial Services Agreement, taking into account the primary factor of the maximum credit amount to be made available by Changhong Finance to Changhong IT, given the loan may subsequently be deposited with Changhong Finance when it is drawn down, as well as the effectiveness and reasonableness of Changhong IT and Changhong Finance's financial management. The increase in the loans to be made available by Changhong Finance was determined based on the exponential growth in the business development and funding requirements of Changhong IT, which is driven predominantly by the Group's strengthened collaboration with major ecommerce platforms in the PRC, empowering it to sell its more of its ICT products through these diversified sales channels. E-commerce platforms have drastically expanded in recent years, and Changhong IT has to provide for the growing consumer demand for ICT Products, smart phones in particular during large sales events of ecommerce platforms such as the annual "singles' day" and "6.18" shopping festivals.

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## LETTER FROM GIRAFFE CAPITAL

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As shown in the above table, the historical transaction amounts of maximum daily outstanding balance of deposits placed by Changhong IT with Changhong Finance (including interest accrued and handling fees thereon) showed an increasing trend from approximately RMB240 million for the year ended 31 December 2018 to approximately RMB750 million for the ten months ended 31 October 2020. We also noted the existing annual caps were utilised by the Group as to approximately 30.0%, 62.5% and 93.8%, respectively for the two years ended 31 December 2019 and the ten months ended 31 October 2020 and were very close to full utilisation for the ten months ended 31 October 2020, which implied that the Company had taken a prudent approach in estimating the transaction amounts and the existing annual caps in the past.

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 would obtain interest rate quotes from independent commercial banks in the PRC from time to time and compare the quotes with those offered by Changhong Finance, and Changhong IT would use the Deposit Services from Changhong Finance only when the interest rates offered by it were more favourable than those offered by other independent commercial banks and/or financial institutes.

As advised by the management of the Company, Changhong IT may not place all the available cash with Changhong Finance for better risk management and maintaining business relationships with other banks. Changhong IT maintains deposits with Changhong Finance mostly in the form of demand deposits. However, the Company considers that it is reasonable to determine the proposed annual caps with reference to the overall bank balance of Changhong IT, and to cover the daily bank balance of Changhong IT for catering any unexpected fluctuation in bank balance, particularly, in the event of drawing of loans from Changhong Finance.

The proposed annual caps for Deposit Services represent a significant increase as compared to the existing annual caps of RMB800 million. To assess the fairness and reasonableness of such increase, we have reviewed the Annual Report 2019 and Interim Report 2020 and noted that (i) the Group's had cash and bank balance of approximately HK\$717.9 million and pledged bank deposits of approximately HK\$557.9 million as at 30 June 2020; and (ii) the Group's had trade and bills receivables (which will convert into cash if such receivables are settled) of approximately HK\$2,837.5 million as at 30 June 2020. The sum of the aforesaid two items amounted to approximately HK\$4,113.3 million as at 30 June 2020, which is larger than the amount of proposed annual caps for the Deposit Services and indicates that the Group's possible demand for deposit services to be provided by commercial banks/financial institutions and Changhong Finance. We further noted (i) the Group's revenue increased by approximately 33.8% from 1H2019 to 1H2020 primarily due to the expansion of the e-commerce sales business; and (ii) the Group's revenue increased by approximately 35.8% from FY2018 to FY2019 primarily due to the expansion of the e-commerce sales business, indicating a robust growth of the scale of the Group's business operations. To support the growing scale of operation, we understood from the management of the Company that it is expected that there will be an increased need in working capital management and treasury activities of the Group and the existing annual caps of RMB800 million would not be sufficient to satisfy the Group's possible demand for deposit services.



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## LETTER FROM GIRAFFE CAPITAL

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As advised by the management of the Company, it is difficult to forecast the total cash level for whole period of the three-year term of the 2021 Financial Services Agreement. However, should there be any substantial increase in total cash of the Group, the Group may opt to deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Listing Rules governing continuing connected transaction to revise the proposed annual caps.

Based on the above, we concur with the Directors' view that the proposed annual caps for the Deposit Services will provide Changhong IT with greater flexibility to manage its treasury activities and improve the return on its funds through higher interest income, if the interest rates offered by Changhong Finance are more favourable than those offered by other commercial banks/financial institutions in the PRC, and therefore are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Shareholders should note that as the above proposed annual caps under the 2021 Master Supply Agreement and the Deposit Services for the three years ending 31 December 2023 are related to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, they should not be construed as a forecast of any future income, expenditure or financial position of the Group. Consequently, we express no opinion as to how closely the actual transaction amounts to be incurred will correspond with the proposed annual caps.

### **7. Internal control measures**

As stated in the Letter from the Board, the Group will adopt the following internal control measures in connection with the 2021 Master Supply Agreement:

- (a) the senior manager of the Group's internal audit department and relevant personnel and management of the Group in charge will closely monitor and supervise the pricing policies for all continuing connected transactions of the Group. To ensure that the relevant transactions are conducted on normal commercial terms under the 2021 Master Supply Agreement and not prejudicial to the interests of the Company and its Shareholders as a whole, they will (i) conduct regular checks on a quarterly basis to review and assess whether the relevant continuing connected transactions are conducted in accordance with the terms of the 2021 Master Supply Agreement, and (ii) regularly update the market price of relevant ICT Products and Services for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policies;
- (b) the sales management department of the Group will monitor the continuing connected transactions under the 2021 Master Supply Agreement consistently to ensure that the total transaction amount does not exceed the stipulated annual caps. In this connection, they will (i) carry out daily reviews of the actual transaction amounts of the relevant transactions; and (ii) provide monthly statistical updates (with data of the aggregate transaction amounts and the utilisation rate of the annual caps under the 2021 Master Supply Agreement) to be reviewed by the Board;

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## LETTER FROM GIRAFFE CAPITAL

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- (c) the independent non-executive Directors will review the transactions contemplated under the 2021 Master Supply Agreement continuously; and
- (d) the external auditors of the Company will conduct an annual review on the pricing terms and annual caps under the 2021 Master Supply Agreement.

We understood from the management of the Company that the Group has adopted the above internal control measures when conducting the continuing connected transactions 2018 Master Supply Agreement, the master supply agreement dated 28 December 2018 entered into between the Company and the Sichuan Changhong Electric Group in relation to supply of the ICT products during the period from 1 January 2019 and ended on 31 December 2019 (the “**2019 Master Supply Agreement**”, together with the 2018 Master Supply Agreement and 2020 Master Supply Agreement, the “**Previous Master Supply Agreements**”).

Regarding the Previous Master Supply Agreements, we have reviewed and compared samples of historical transaction records entered into by the Group with the Sichuan Changhong Electric Group and independent third parties on the sale of ICT Products and Services and noted that their principal terms, including credit terms, are comparable with each other and prices are comparable and no less favourable than those offered by the Group to independent third parties for the same periods. As disclosed under paragraph headed “4.1.5 Pricing” above, we noted that the Company will, taking into account the gross profit margin level list as guidance and adjust the actual transaction price and payment terms of the ICT Products and Services based on factors such as the sales amount and the estimated costs to be incurred (e.g. costs of delivery, procurement and insurance) according to the pricing policy of the Group.

In assessing whether the gross profit margin and credit terms determined by the Group is fair and reasonable and no less favourable than those offered by the Group to independent third party customers, we have reviewed approximately 32.2%, 31.8% and 44.8% of the historical transactions of the supply of ICT Products and Services from the Group to the Sichuan Changhong Electric Group for the years ended 31 December 2018 and 2019 and for the ten months ended 31 October 2020, respectively to compare, among others, the gross profit margins and credit terms of ICT Products and Services to the Sichuan Changhong Electric Group versus independent third party customers, on a random sample basis for the period under the Previous Master Supply Agreements. We considered that the gross profit margins and the credit terms offered by the Group for the transaction under the Previous Master Supply Agreements was comparable and no more favourable than the those available to independent third party customers.

On the basis of a cost-plus pricing mechanism, the management of the Company believes and we concur that the Group will be protected from incurring any gross loss on the supply of ICT Products and Services to the Sichuan Changhong Electric Group and therefore we are of the view that the cost-plus pricing mechanism in relation to the supply of ICT Products and Services by the Company (or the ICT Products suppliers designated by the Company) to the Sichuan Changhong Electric Group is fair and reasonable.



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## LETTER FROM GIRAFFE CAPITAL

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Moreover, the sales by the Group to the Sichuan Changhong Electric Group under Previous Master Supply Agreements were on non-exclusive basis where the Group is not obligated to transact with to the Sichuan Changhong Electric Group and would only do so if it is in the commercial interest of the Group and it does not restrict the Group from selling to other independent third party customers. In light of the above, we considered the terms of the Previous Master Supply Agreements are fair and reasonable.

The Group will adopt the following internal control measures in connection with the 2021 Financial Services Agreement:

- (a) the financial management department of the Group will (i) closely monitor and supervise the pricing policy under the 2021 Financial Services Agreement, subject to the pricing terms as disclosed above, and (ii) conduct regular checks twice a year to review and assess whether the transactions contemplated under the 2021 Financial Services Agreement are conducted in accordance with its terms and the aforesaid pricing policy, to ensure that the 2021 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;
- (b) the financial management department of the Group will monitor the continuing connected transactions under the 2021 Financial Services Agreement consistently to ensure that the total transaction amount does not exceed the stipulated annual caps. In this connection, they will (i) carry out daily reviews of the actual transaction amounts of the relevant transactions; and (ii) provide monthly statistical updates (with data of the aggregate transaction amounts and the utilisation rate of the annual caps under the 2021 Financial Services Agreement) to be reviewed by the Board;
- (c) the treasury team of the financial management department of the Group will contact commercial banks in the PRC to obtain and compare interest rate quotes with those offered by Changhong Finance under the 2021 Financial Services Agreement;
- (d) the chief financial officer of Changhong IT will regularly review the interest rates and decisions of making any deposits before approval under Changhong Finance; and
- (e) the external auditors of the Company will conduct an annual review of the transactions contemplated under the 2021 Financial Services Agreement.

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Regarding the 2018 Financial Services Agreement, we have reviewed samples of approval documents, including quotations from Changhong Finance and three independent commercial banks in the PRC regarding Changhong IT's deposits and the approval from its chief financial officer, and noted that the required internal control procedures were properly followed, and the interest rates offered by Changhong Finance were comparable and not less favourable to other independent commercial banks in the PRC for similar type of deposits at the relevant time. As advised by the management of the Company, Changhong IT would also monitor the risk associated with the Deposit Services by reviewing the financial positions of Changhong Finance regularly with reference to the monthly management accounts and annual audited financial statements of Changhong Finance.

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 would obtain interest rate quotes from independent commercial banks in the PRC from time to time and compare the quotes with those offered by Changhong Finance, and Changhong IT would use the Financial Services from Changhong Finance only when the interest rates offered by it were more favourable than those offered by other independent commercial banks.

In respect of the deposits made, in assessing whether the interest rates offered by Changhong Finance and independent third parties for to Changhong IT are fair and reasonable, we have obtained the interest rates offered by Changhong Finance and independent third parties to Changhong IT for similar type of deposits and term of deposit at the relevant time for comparison purpose. The short-term deposit interest rates offered by Changhong Finance for the years ended 31 December 2018 and 2019 and for the ten months ended 31 October 2020 for demand deposits were ranging from approximately 0.35% to 2.70%, 0.35% to 3.32% and 0.35% to 2.61%, respectively and the interest rates offered by the independent commercial banks were ranging from approximately 0.35% to 1.15%, 0.35% to 1.73% and 0.35% to 1.78%, respectively. We noted that the interest rates offered by the Changhong Finance to Changhong IT were no less favourable to the Group than the interest rates offered to those independent third parties for similar type of deposits and term of deposit at the relevant time.

As discussed with the management of the Company, in order to minimize its exposure in respect of placing significant amount of deposits with Changhong Finance, Changhong IT also places deposits at different commercial banks. We have reviewed the Group's cash deposit reports on a sampling basis and noted that the Changhong IT had cash deposits at 13 to 19 commercial banks as at 31 December 2018, 31 December 2019 and 31 October 2020 and the amount of deposit placed at Changhong Finance amounted to approximately 4.0%, 24.9% and 21.3% of its total cash balance as at 31 December 2018, as at 31 December 2019 and as at 31 October 2020, respectively.

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Furthermore, we noted from the Annual Report 2019 that the independent non-executive Directors had reviewed the historical continuing connected transactions in relation to the Previous Master Supply Agreements and the 2018 Financial Services Agreement, and confirmed such continuing connected transactions were (i) in the ordinary and usual course of business of the Group; (ii) on normal or better commercial terms which are not less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. We also noted that the auditor of the Company had issued its unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in connection with the Previous Master Supply Agreements and the 2018 Financial Services Agreement.

Having considered that (i) the Group has implemented effective internal control measures to ensure the 2021 Master Supply Agreement and the Deposit Services under the 2021 Financial Services Agreement will be conducted in normal commercial terms; and (ii) the interest rates offered by the Changhong Finance to Changhong IT was no less favourable to the Group than the interest rates offered to the independent third parties for similar type of deposits and term of deposit at the relevant time, we concur with the Directors' view that the internal control measures are adequate and effective in ensuring that the transactions contemplated under the 2021 Master Supply Agreement and the Deposit Services will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

### RECOMMENDATION

Having considered the principal factors and reasons, we are of the opinion that (i) the terms of the 2021 Master Supply Agreement and the Deposit Services are on normal commercial terms and are fair and reasonable; and (ii) the transactions contemplated under the 2021 Master Supply Agreement and Deposit Services are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions to be proposed at the SGM to approve the 2021 Master Supply Agreement and the Deposit Services and the transactions contemplated thereunder (together with the proposed annual caps).

Yours faithfully,  
For and on behalf of  
**Giraffe Capital Limited**  
**Johnson Chen**  
*Managing Director*

*Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 12 years of experience in the field of corporate finance advisory.*

**1. FINANCIAL INFORMATION OF THE GROUP**

The audited consolidated financial statements of the Group for the three years ended 31 December 2019 together with the relevant notes thereto and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2020 can be found on pages 56 to 148 of the annual report of the Company for the year ended 31 December 2017, pages 49 to 146 of the annual report of the Company for the year ended 31 December 2018, pages 56 to 154 of the annual report of the Company for the year ended 31 December 2019 and pages 13 to 22 of the interim report of the Company for the six months ended 30 June 2020, respectively.

Each of the said financial statements of the Group for the three years ended 31 December 2019 and six months ended 30 June 2020 is incorporated by reference to this circular and forms part of this circular. Please see below the hyperlinks to the said annual reports and interim report:

Annual report for the year ended 31 December 2017:

<https://www1.hkexnews.hk/listedco/listconews/gem/2018/0328/gln20180328105.pdf>

Annual report for the year ended 31 December 2018:

<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0328/gln20190328505.pdf>

Annual report for the year ended 31 December 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0409/2020040900623.pdf>

Interim report for the six months ended 30 June 2020:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0904/2020090401168.pdf>

**2. STATEMENT OF INDEBTEDNESS****Debts and borrowings**

As at the close of business on 31 October 2020, being the latest practicable date for the purpose of determining the indebtedness of the Group prior to printing of this circular, the Group had interest-bearing borrowings of approximately HK\$2.5 billion, comprising unsecured bank and other borrowings of approximately HK\$1.3 billion, and secured bank borrowings and issued commercial papers of approximately HK\$1.2 billion respectively. The said secured bank borrowings of the Group as at 31 October 2020 were secured by deposits paid by certain PRC companies of the Group.

**Contingent liabilities**

As at 31 October 2020, the Group had no material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits, guarantees or contingent liabilities outstanding at the close of business on 31 October 2020.

As at the Latest Practicable Date, the Directors are not aware of any material changes in the indebtedness and contingent liabilities of the Group since the close of business on 31 October 2020 and up to the Latest Practicable Date.

### **3. WORKING CAPITAL**

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

### **4. FINANCIAL AND TRADING PROSPECTS**

Following the unexpected outbreak of the COVID-19 pandemic in early 2020, a series of precautionary and control measures have been implemented across the PRC, causing severe disruption to the overall market's business activities and economic performance. In response to such challenges, the Group has been proactive in working closely with upstream manufacturers and partners, so as to maintain stable operation of its business. In the second half of 2020, the PRC's economy has gradually recovered after a decline, and the production and demand of its ICT industry have recovered steadily. While the Group's operations are relatively unscathed, the Group has also been closely monitoring the market to foster its stable business development.

Upon the renewal of the 2021 Master Supply Agreement and the 2021 Financial Services Agreement, it is believed that the Group can maintain a stable income stream through its supply of ICT Products and Services and alternate means of financing. Coupled with the transfer of the Group's listing from GEM to the main board of the Stock Exchange this year, it is anticipated that the investors' confidence in the Group's credibility and financial strength will be strengthened, resulting in a higher trading liquidity and better financial performance of the Group. Looking forward, the Group is committed to consolidate its original distribution business, as well as to continuously promote its transformation as an ICT integrated service provider with the operation policy of "Gathering strength on network, cloud and intelligence to serve its partners", so as to explore new business opportunities in fields such as cloud computing, big data and virtual technology.

### **5. FINANCIAL EFFECTS OF ENTERING INTO THE 2021 FINANCIAL SERVICES AGREEMENT**

The interest income expected to be earned from the Group's placing of deposits with Changhong Finance under the 2021 Financial Services Agreement will unlikely constitute a significant contribution to the Group's overall earnings and assets. As a result, the Company anticipates that the interest income to be derived from such deposits for the three years ended 31 December 2023 shall not have a 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 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 misleading.

## 2. DISCLOSURE OF INTERESTS

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

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

Name of Director	Capacity	Number of ordinary shares interested <i>(Note a)</i>	Approximate percentage of interest
Mr. Zhu Jianqiu ("Mr. Zhu") <i>(Note b)</i>	Interest in a controlled corporation and beneficial owner	90,165,762 (L)	6.20%

Notes:

- (a) (L) represents long position.
- (b) Among the 90,165,762 Shares of the Company held by Mr. Zhu, 7,750,000 Shares were held by him directly and 82,415,762 were held through his wholly-owned subsidiary, Typical Faith Limited ("Typical Faith"). Mr. Zhu is therefore deemed to be interested in the Shares held by Typical Faith for the purpose of the SFO.

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

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

As the Directors were aware, as at the Latest Practicable Date, the interests or short positions of the persons, other than a Director or chief executive of the Company, in the Shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of the Part XV of the SFO and were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholders	Capacity	Class of Shares	Number of Shares interested (Note a)	Approximate percentage of interest in relevant class of shares (Note b)
Sichuan Changhong Electric Co, Limited ("Sichuan Changhong")	Interest of controlled corporation and beneficial owner	Ordinary share	948,368,000 (L) (Note c)	65.20%
		Preference share	1,115,868,000 (L) (Note d)	100.00%
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interest of controlled corporation and beneficial owner	Ordinary share	913,000,000 (L) (Note e)	62.76%
		Preference share	1,115,868,000 (L) (Note f)	100.00%
Fit Generation Holding Limited ("Fit Generation")	Beneficial owner	Ordinary share	897,000,000 (L)	61.66%
		Preference share	1,115,868,000 (L)	100.00%

Name of substantial shareholders	Capacity	Class of Shares	Number of Shares interested (Note a)	Approximate percentage of interest in relevant class of shares (Note b)
Sichuan Chuantou Assets Management Co., Ltd. ("Chuantou Assets Management") (Note f)	Beneficial owner	Ordinary share	83,009,340 (L)	5.70%
Sichuan Provincial Investment Group Company Limited ("Sichuan Provincial Investment Group") (Note f)	Interest of controlled corporation	Ordinary share	83,009,340 (L)	5.70%
Typical Faith Limited (Note g)	Beneficial owner	Ordinary share	83,009,340 (L)	5.67%

## Notes:

- (a) (L) represents long position.
- (b) The percentages are calculated based on the total number of 1,454,652,000 Shares and 1,115,868,000 preference shares of the Company in issue as at the Latest Practicable Date.
- (c) Among the 948,368,000 Shares held by Sichuan Changhong, 35,368,000 Shares were held by it directly, 16,000,000 Shares were held through Changhong Hong Kong, its wholly-owned subsidiary and 897,000,000 Shares were held through Fit Generation, a wholly-owned subsidiary of Changhong Hong Kong. Sichuan Changhong is therefore deemed to be interested in the Shares held by Changhong Hong Kong and Fit Generation for the purpose of the SFO.
- (d) 1,115,868,000 preference shares of the Company were held by Fit Generation, which is wholly-owned by Changhong Hong Kong. Each of Sichuan Changhong and Changhong Hong Kong is therefore deemed to be interested in the preference shares of the Company held by Fit Generation for the purpose of the SFO.
- (e) Among the 913,000,000 Shares held by Changhong Hong Kong, 16,000,000 Shares were held by it directly and 897,000,000 Shares were held through Fit Generation. As Fit Generation is wholly-owned by Changhong Kong Kong, Changhong Hong Kong is deemed to be interested in the Shares held by Fit Generation for the purpose of the SFO.



- (f) Chuantou Assets Management is wholly-owned by Sichuan Provincial Investment Group, which is deemed to be interested in the Shares held by Chuantou Assets Management for the purpose of the SFO.
- (g) Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which are required to be disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

### 3. COMPETING BUSINESS

As at the Latest Practicable Date, Sichuan Changhong is a substantial shareholder of the Company established in the PRC, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600839). Sichuan Changhong is principally engaged in the wholesale business of consumer home electronics products under the name of “Changhong”.

Save as disclosed above, so far as the Directors were aware, none of the Directors nor their respective close associates had any direct or indirect interests in any businesses that constitutes or may constitute a competing business of the Company.

### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director had entered into any service contract or letter of appointment with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

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

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Group; and
- (b) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

**6. QUALIFICATION OF EXPERT AND CONSENT**

The qualification of the expert who has given an opinion or advice in this circular is as follow:

<b>Name</b>	<b>Qualification</b>
Giraffe Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As of the Latest Practicable Date, the expert mentioned above (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and the references to its names included herein in the form and context in which it is respectively included; (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and (iii) has no direct or indirect interests in any assets which have been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

**7. NO MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Company since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Group were made up.

**8. MATERIAL CONTRACTS**

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

**9. LITIGATION**

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

**10. GENERAL**

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is situated at Unit 1412, 14/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) Mr. Cheng Ching Kit and Mr. Zhao Qilin are the joint company secretaries of the Company. Mr. Cheng Ching Kit is a company secretarial executive of SWCS Corporate Services Group (Hong Kong) Limited, and a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Zhao Qilin obtained the qualification of listed company board secretary issued by the Shanghai Stock Exchange in 2010.
- (e) This circular has been prepared in both English and Chinese. In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

**11. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION**

A copy of each of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 1412, 14/F, West Tower, Shun Tak Centre, 169-200 Connaught Road Central, Hong Kong for a period of 14 days from the date of this circular:

- (a) the bye-laws of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2019, and the interim report of the Company for the six months ended 30 June 2020;
- (c) the letter from the Independent Board Committee dated 11 December 2020, the text of which is set out on pages 20 to 21 of this circular;
- (d) the letter of recommendation from Giraffe Capital dated 11 December 2020, the text of which is set out on pages 22 to 49 of this circular;
- (e) the written consent of Giraffe Capital referred to in the section headed "Qualification of Expert and Consent" in this appendix;

- (f) the 2018 Financial Services Agreement;
- (g) the 2020 Master Supply Agreement;
- (h) the 2021 Master Supply Agreement;
- (i) the 2021 Financial Services Agreement; and
- (j) a copy of this circular.

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## NOTICE OF SPECIAL GENERAL MEETING

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### CHANGHONG JIAHUA HOLDINGS LIMITED

### 長虹佳華控股有限公司

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 3991)

#### NOTICE OF THE SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting of Changhong Jiahua Holdings Limited (the “**Company**”) will be held at 10:00 a.m. on Thursday, 31 December 2020, at 9th Floor, Beijing Changhong Sci-Tech Tower, Building 26, Zone 18, No. 188 West Road, South Fourth Ring Road, Fengtai District, Beijing, the PRC for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company. Unless otherwise defined, capitalized terms used herein shall have the same meaning as ascribed to them in the circular of the Company dated 11 December 2020:

#### ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the master supply agreement (the “**2021 Master Supply Agreement**”) dated 17 November 2020 entered into between the Company and Sichuan Changhong Electronics Holding Group Co., Ltd., a copy of which is tabled at the meeting and marked “**A**” and initialed by the chairman of the meeting for identification purpose, the terms thereof and the continuing connected transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps of the 2021 Master Supply Agreement as set out in the circular of the Company dated 11 December 2020 be and is hereby approved; and
- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the 2021 Master Supply Agreement.”

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## NOTICE OF SPECIAL GENERAL MEETING

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2. “**THAT**

- (a) the financial services agreement (the “**2021 Financial Services Agreement**”) dated 17 November 2020 entered into between the Sichuan Changhong IT Information Products Co., Ltd and Sichuan Changhong Group Finance Co., Ltd, a copy of which is tabled at the meeting and marked “**B**” and initialed by the chairman of the meeting for identification purpose, the terms of the deposit services thereof and the continuing connected transaction of the deposit services contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps of the deposit services under the 2021 Financial Services Agreement as set out in the circular of the Company dated 11 December 2020 be and is hereby approved; and
- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the deposit services under the 2021 Financial Services Agreement.”

Yours faithfully,  
By Order of the Board  
**Changhong Jiahua Holdings Limited**  
**Mr. Zhao Yong**  
*Chairman and Executive Director*

Hong Kong, 11 December 2020

*Notes:*

- i. For the purpose of determining the shareholders of the Company who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Monday, 28 December 2020 to Thursday, 31 December 2020 (both days inclusive), during which no transfer of Shares can be registered. In order to qualify for attending and voting at the SGM, all transfer documents should be lodged for registration with the Company’s branch share registrar in Hong Kong, Hong Kong Registrars Limited of 1712-1716, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 24 December 2020.
- ii. Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holder of any class of shares in the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member holding two or more shares may appoint more than one proxy to attend on the same occasion.
- iii. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorised.

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## NOTICE OF SPECIAL GENERAL MEETING

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