

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



Changhong Jiahua Holdings Limited

長虹佳華控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3991)

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO REVISION OF ANNUAL CAP OF
THE 2020 MASTER SUPPLY AGREEMENT**

BACKGROUND

Reference is made to the announcement of the Company dated 30 December 2019 in relation to, among others, the 2020 Master Supply Agreement.

On 30 December 2019, the Company entered into the 2020 Master Supply Agreement with Sichuan Changhong Electric. Due to the increase in the products under the Group's agency and the demand from Sichuan Changhong Electric Group, it is expected that the Existing Annual Cap will not be sufficient for the supply target of 2020 as required by Sichuan Changhong Electric Group. On 15 July 2020 (after trading hours of the Stock Exchange), the Company entered into the Supplemental Agreement with Sichuan Changhong Electric to revise the Existing Annual Cap of the 2020 Master Supply Agreement to the Revised Annual Cap. Save for the revision of the Existing Annual Cap, all other terms and conditions of the 2020 Master Supply Agreement shall remain unchanged.

Listing rules implications

As at the date of this announcement, Sichuan Changhong Electric held approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company. Sichuan Changhong and Sichuan Changhong Electric are connected persons of the Company under the Listing Rules, and accordingly the transactions contemplated under the 2020 Master Supply Agreement as amended by the Supplemental Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Revised Annual Cap is more than 0.1% but less than 5%, the revision of the Existing Annual Cap is exempt from the circular and independent Shareholders' approval but subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 30 December 2019 in relation to, among others, the 2020 Master Supply Agreement.

On 30 December 2019, the Company entered into the 2020 Master Supply Agreement with Sichuan Changhong Electric. Due to the increase in the products under the Group's agency and the demand from Sichuan Changhong Electric Group, it is expected that the Existing Annual Cap will not be sufficient for the supply target of 2020 as required by Sichuan Changhong Electric Group. On 15 July 2020 (after trading hours of the Stock Exchange), the Company entered into the Supplemental Agreement with Sichuan Changhong Electric to revise the Existing Annual Cap of the 2020 Master Supply Agreement to the Revised Annual Cap. Save for the revision of the Existing Annual Cap, all other terms and conditions of the 2020 Master Supply Agreement shall remain unchanged.

The Company is making this announcement due to revision of the Existing Annual Cap pursuant to Rule 14A.54 of the Listing Rules.

The 2020 Master Supply Agreement (as amended by the Supplemental Agreement)

Date: 30 December 2019 (as amended by the Supplemental Agreement)

Parties: (1) the Company (as the supplier)

(2) Sichuan Changhong Electric (as the purchaser)

Term: A fixed term commencing from 1 January 2020 to 31 December 2020 (both days inclusive)

Subject matter: Pursuant to the 2020 Master Supply Agreement, the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group.

The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of Supply Products. The terms of the individual orders will be consistent with the principles and the terms of the 2020 Master Supply Agreement. If there is any conflict between the terms of an individual order and the 2020 Master Supply Agreement, the latter shall prevail.

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

Proposed annual caps and basis of determination

Pursuant to the Supplemental Agreement, the revised transaction amount of all the Supply Products supplied under the 2020 Master Supply Agreement for the year ending 31 December 2020 shall not exceed RMB56,000,000.

The revised annual cap under the 2020 Master Supply Agreement (as amended by the Supplemental Agreement) was determined based on the following factors:

- (1) the expected quantity of the Supply Products to be ordered by the Sichuan Changhong Electric Group based on preliminary negotiations with Sichuan Changhong Electric;
- (2) the prevailing open market prices of the Supply Products in the PRC; and
- (3) the historical transaction amounts between the Company and Sichuan Changhong Electric for the period from 1 January 2020 to 30 June 2020 and the historical transaction amounts between the Company and Sichuan Changhong Electric Group for the financial years ended 31 December 2017, 2018 and 2019, respectively.

The historical transaction amounts of supply of the Supply Products by the Group to Sichuan Changhong Electric Group for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were as follows:

	For the financial year ended 31 December 2017 (RMB'000) <i>Audited</i>	For the financial year ended 31 December 2018 (RMB'000) <i>Audited</i>	For the financial year ended 31 December 2019 (RMB'000) <i>Audited</i>	For the six months ended 30 June 2020 (RMB'000) <i>Unaudited</i>
Previous/existing annual caps	60,000	49,000	40,000	40,000
Historical transaction amounts	<u>15,930</u>	<u>27,080</u>	<u>30,900</u>	<u>29,673</u>

As at the date of this announcement, the annual cap under the 2020 Master Supply Agreement for the year ending 31 December 2020 has not been exceeded.

Reasons for and benefits of revision of annual cap

As disclosed in the announcement of the Company dated 30 December 2019, the parties entered into the 2020 Master Supply Agreement to continue the business relationship upon expiry of the 2019 Master Supply Agreement taking into consideration that the Sichuan Changhong Electric Group has a broad distribution network as well as its established long-term and solid reputation in the market. The entering into of the 2020 Master Supply Agreement will enable the Company to continue capitalising on the stable and well-established strategic business relationship with the Sichuan Changhong Electric Group and maintain a stable income stream with a committed source of orders from the Sichuan Changhong Electric Group, which in turn will benefit the Group's revenue growth and future development.

Due to the increase in the products under the Group's agency and the demand from Sichuan Changhong Electric Group, it is expected that the Existing Annual Cap will not be sufficient for the supply target of 2020 as required by Sichuan Changhong Electric Group. On 15 July 2020 (after trading hours of the Stock Exchange), the Company entered into the Supplemental Agreement with Sichuan Changhong Electric to revise the Existing Annual Cap of the 2020 Master Supply Agreement to the Revised Annual Cap.

Based on the above, the Directors (including independent non-executive Directors but excluding the Directors who abstained from voting on the relevant Board resolutions as set out hereinafter) are of the view that the 2020 Master Supply Agreement and the Supplemental Agreement were entered into upon normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group, and the terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Internal control

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

Listing rules implications

As at the date of this announcement, Sichuan Changhong Electric held approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company. Sichuan Changhong and Sichuan Changhong Electric are connected persons of the Company under the Listing Rules, and accordingly the transactions contemplated under the 2020 Master Supply Agreement as amended by the Supplemental Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Revised Annual Cap is more than 0.1% but less than 5%, the revision of the Existing Annual Cap is exempt from the circular and independent Shareholders' approval but subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

Mr. Zhao Yong is a director of both Sichuan Changhong Electric and Sichuan Changhong, while Mr. Yang Jun is a senior management member of Sichuan Changhong Electric and a director of Sichuan Changhong. Accordingly, Mr. Zhao Yong and Mr. Yang Jun, both being an executive Director, are considered to be interested in the transactions contemplated under the 2020 Master Supply Agreement as amended by the Supplemental Agreement. Each of Mr. Zhao Yong and Mr. Yang Jun has therefore abstained from voting for the Board resolution to approve the 2020 Master Supply Agreement and the transactions contemplated thereunder.

Information about the parties to the Lease

The Company had been listed on GEM of the Stock Exchange since 24 January 2000 and has been transferred to list on the Main Board of the Stock Exchange since 18 March 2020. The Group is principally engaged in the distribution of ICT consumer products and ICT corporate products and service.

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

DEFINITION

Unless the context otherwise requires, capitalised terms used in this announcement shall have the following meanings:

“2020 Master Supply Agreement”	the master supply agreement dated 30 December 2019 entered into between the Company and Sichuan Changhong Electric, details of which are set out in the announcement of the Company dated 30 December 2019
“Board”	board of the Directors
“Company”	Changhong Jiahua Holdings Limited, an exempted company incorporated in Bermuda with limited liability and issued Shares of which are listed and traded on Main Board
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meanings ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Existing Annual Cap”	the existing annual cap for the transactions under the 2020 Master Agreement
“Group”	the Company and its subsidiaries
“ICT”	information and communication technology
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“percentage ratio(s)”	has the meanings ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, which shall, for the purpose of this announcement, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Revised Annual Cap”	the revised annual cap for the transactions under the 2020 Master Agreement as amended by the Supplemental Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of the Company
“Shareholders”	holder(s) of the Share(s)
“Sichuan Changhong”	Sichuan Changhong Electric Co., Limited (四川長虹電器股份有限公司), a company established under the laws of the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600839) and owns, together with its wholly-owned subsidiaries, approximately 65.20% interest in the Company as at the date of this announcement
“Sichuan Changhong Electric”	Sichuan Changhong Electronics Holding Group Co., Ltd. (四川長虹電子控股集團有限公司), a company established under the laws of the PRC and which holds approximately 23.22% equity interest in Sichuan Changhong as at the date of this announcement
“Sichuan Changhong Electric Group”	Sichuan Changhong Electric and its subsidiaries
“Stock Exchange”	the Stock Exchange of Hong Kong Limited

“Supplemental Agreement”	the supplemental agreement entered into between the Company and Sichuan Changhong Electric on 15 July 2020 to amend the Existing Annual Cap to the Revised Annual Cap
“Supply Products”	ICT products, software and services such as personal computers, servers, storage devices, network equipment and relevant services to be supplied by the Group to the Sichuan Changhong Electric Group
“%”	per cent

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

Hong Kong, 15 July 2020

As at the date of this announcement, the executive directors of the Company are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yang Jun and Mr. Luo Yongping and the independent non-executive directors of the Company are Mr. Jonathan Chan Ming Sun, Mr. Gao Xudong and Mr. Meng Qingbin.

* *For identification purpose*