
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 you should take, you should consult a 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 enclosed form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

长虹佳华
CHANGHONGIT

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

**DISCLOSEABLE AND CONNECTED TRANSACTIONS AND
CONTINUING CONNECTED TRANSACTIONS RELATING TO
THE ENTRY OF THE VIE AGREEMENTS
AND NOTICE OF SPECIAL GENERAL MEETING**

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



Giraffe Capital Limited

A letter from the Board is set out on pages 6 to 39 of this circular. A letter from the Independent Board Committee is set out on pages 40 to 41 of this circular. A letter from the Independent Financial Adviser is set out on pages 42 to 67 of this circular.

A notice convening the SGM of Changhong Jiahua Holdings Limited to be held at 9th Floor, Beijing Changhong Sci-Tech Tower, Building 26, Zone 18, No. 188 West Road, South Fourth Ring Road, Fengtai District, Beijing, China on Friday, 17 May 2019 at 10:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of the power of attorney or authority, to the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjourned meeting thereof should you so wish.

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

30 April 2019

CHARACTERISTICS OF THE GEM

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

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

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DEFINITIONS

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

“%”	per cent;
“Announcement”	the announcement of the Company dated 12 April 2019 in relation to the entry of the VIE Agreements;
“associate”	has the meaning as ascribed thereto in the GEM Listing Rules;
“Board”	the board of Directors;
“Business Cooperation Agreement”	the business cooperation agreement (業務合作協議) dated 12 April 2019 entered into among the WFOE, the PRC Equity Owner and the OPCO, details of which are set out in the section headed “VIE Agreements” in this circular;
“Commitment Letter”	the commitment letter dated 12 April 2019 entered into by the PRC Equity Owner, details of which are set out in the section headed “VIE Agreements” in this circular;
“Company”	Changhong Jiahua Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM;
“connected person(s)”	has the meaning as ascribed thereto in the GEM Listing Rules;
“connected transaction(s)”	has the meaning as ascribed thereto in the GEM Listing Rules;
“continuing connected transaction(s)”	has the meaning as ascribed thereto in the GEM Listing Rules;
“controlling shareholder(s)”	has the meaning as ascribed thereto in the GEM Listing Rules;
“Director(s)”	the director(s) of the Company;

DEFINITIONS

“Equity Pledge Agreement”	the equity pledge agreement (股份質押協議) dated 12 April 2019 entered into among the WFOE, the PRC Equity Owner and the OPCO, details of which are set out in the section headed “VIE Agreements” in this circular;
“Exclusive Consultancy and Services Agreement”	the exclusive consultancy services agreement (獨家諮詢和服務協議) dated 12 April 2019 entered into between the WFOE and the OPCO, details of which are set out in the section headed “VIE Agreements” in this circular;
“Exclusive Purchase Right Agreement”	the exclusive purchase right agreement (獨家購買權協議) dated 12 April 2019 entered into among the WFOE, the PRC Equity Owner and the OPCO, details of which are set out in the section headed “VIE Agreements” in this circular;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM;
“GEM”	GEM of the Stock Exchange;
“Giraffe Capital Limited” or “Independent Financial Adviser”	Giraffe Capital Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China;
“ICP License”	a value-added telecommunications service operating license for internet information services of PRC* (互聯網信息服務的《中華人民共和國增值電信業務經營許可證》)
“ICT”	information and communications technology;
“Independent Board Committee”	a committee under the Board established for the purpose of advising the Independent Shareholders on the entry of the VIE Agreements, including independent non-executive Directors, Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin;

DEFINITIONS

“Independent Shareholder(s)”	the Shareholders other than those with material interest in the VIE Agreements who are required to abstain from voting under the GEM Listing Rules to approve the transactions under the VIE Agreements;
“Intellectual Property Rights Authorisation Agreement”	the intellectual property rights authorisation agreement (知識產權授權使用協議) dated 12 April 2019 entered into between the WFOE and the OPCO, details of which are set out in the section headed “VIE Agreements” in this circular;
“Latest Practicable Date”	30 April 2019, being the latest practicable date for ascertaining certain information in this circular prior to the printing of this circular;
“Loan Agreement”	the loan agreement (借款合同) dated 12 April 2019 entered into between the WFOE and the PRC Equity Owner, details of which are set out in the section headed “VIE Agreements” in this circular;
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部);
“OPCO Group”	the OPCO and its subsidiaries (if any) to be controlled by the WFOE through the VIE Agreements;
“OPCO”	Sichuan Changhong Cloud Computing Company Limited* (四川長虹雲計算有限公司), a company incorporated in the PRC with limited liability, which is 100% held by the PRC Equity Owner;
“Platform”	the business-to-business online e-commerce platform to be established by the OPCO;
“Power of Attorney”	the power of attorney (授權協議) dated 12 April 2019 entered into between the WFOE and the PRC Equity Owner, details of which are set out in the section headed “VIE Agreements” in this circular;

DEFINITIONS

“PRC Equity Owner”	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 Latest Practicable Date;
“PRC Laws”	any and all laws, regulations, statutes, rules, orders, decrees, circulars, notices, supreme court’s judicial interpretations and subordinate legislations currently in force and publicly available in the PRC as of the date hereof;
“PRC Legal Adviser”	Shu Jin Law Firm (廣東信達律師事務所), the PRC legal adviser to the Company;
“PRC”	the People’s Republic of China and for the purpose of this circular, excluding Hong Kong, Macau Administrative Region and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“SGM”	the special general meeting of the Company to be convened to approve the VIE Agreements and the transactions contemplated thereunder;
“Share(s)”	ordinary share(s) of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Sichuan Changhong Electric Group”	PRC Equity Owner and its subsidiaries;

DEFINITIONS

“Sichuan Changhong”	Sichuan Changhong Electric Co., Limited (四川長虹電器股份有限公司), a company established under the laws of the PRC with limited liability, the issued A-shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600839) and owns, together with its wholly owned subsidiaries, approximately 69.32% of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“VIE Agreements”	collectively, the Exclusive Consultancy and Services Agreement, the Business Cooperation Agreement, the Loan Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreement, the Power of Attorney, the Intellectual Property Rights Authorisation Agreement and the Commitment Letter, details of which are set out in the section headed “VIE Agreements” in this circular;
“VIE Structure”	the structure established through the entering into of the VIE Agreements, which enables the Group to effectively hold and control the OPCO;
“VIE”	variable interest entity, being an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights; and
“WFOE”	Changhong IT Digital Technology Co., Ltd.* (四川長虹佳華數字技術有限公司), a wholly-foreign owned enterprise invested company (外商投資企業再投資企業) incorporated in the PRC with limited liability, which is an indirect wholly owned subsidiary of the Company.

LETTER FROM THE BOARD



CHANGHONG JIAHUA HOLDINGS LIMITED

(長虹佳華控股有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

Executive Directors:

Mr. Zhao Yong
Mr. Zhu Jianqiu
Mr. Yang Jun
Mr. Luo Yongping

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

Mr. Jonathan Chan Ming Sun
Mr. Robert Ip Chun Chung
Mr. Sun Dongfeng
Mr. Cheng Yuk Kin

*Head office and Principal place of
business in Hong Kong:*

Unit 1412, 14/F
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

30 April 2019

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS AND
CONTINUING CONNECTED TRANSACTIONS RELATING TO
THE ENTRY OF THE VIE AGREEMENTS
AND NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement dated 12 April 2019 in relation to the entry into the VIE Agreements.

The purpose of this circular is to provide you with, among other thing, (i) further details of the VIE Structure contemplated thereunder; (ii) the recommendation from the Independent Board Committee in respect of the terms of the VIE Agreements; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the VIE Agreements; and (iv) a notice of the SGM.

LETTER FROM THE BOARD

INFORMATION ABOUT THE PARTIES

The WFOE is a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company. The WFOE is positioned as a new type of comprehensive IT service provider. It is a professional IT solutions service provider, an IT products distributor, as well as a professional manufacturer and service provider of intelligent terminal products that consolidates and enhances domestic resources.

The PRC Equity Owner is a limited liability company established in the PRC. The principal business of the PRC Equity Owner is investment holding. The PRC Equity Owner holds approximately 23.22% equity interest in Sichuan Changhong and Sichuan Changhong owns, together with its wholly-owned subsidiaries, approximately 69.32% of the Company. The Sichuan Changhong Electric Group (i.e the PRC Equity Owner and its subsidiaries) holds interests in various businesses, including, among others, manufacturing and sales of consumer electronic appliances (held through Sichuan Changhong). Aside from holding equity interest in Sichuan Changhong, the PRC Equity Owner is invested in areas including in the defense industry, real estate, finance and environmental protection industry.

The OPCO is a limited liability company established in the PRC. The OPCO is currently a wholly-owned subsidiary of the PRC Equity Owner. The OPCO is principally engaged in cloud computing services and has obtained ICP License. Apart from the requirements on an operator of an ICP License under Regulation on Telecommunications of the PRC* (《中華人民共和國電信條例》), Administrative Measures for the Licensing of Telecommunication Business Operations* (《電信業務經營許可管理辦法》) and Regulation on Internet Information Service of the PRC* (《互聯網信息服務管理辦法》), the ICP License held by OPCO is not subject to other licensing conditions.

The scope of the ICP License is information services business (internet information service only), which does not cover information search and query services, information community services, information instant interaction services and information protection and processing services. The ICP License was issued by Sichuan Telecommunications Regulatory Agency of the province on 19 December 2018, and is valid for a term of five years, expiring on 19 December 2023. Upon expiration of the term of the ICP License, the holder should submit an application to the issuing authority 90 days in advance to apply for renewal.

VIE AGREEMENTS

A summary of the principal terms of the VIE Agreements is set out below:

(1) The Exclusive Purchase Right Agreement

Date: 12 April 2019

Parties: (i) the PRC Equity Owner;

LETTER FROM THE BOARD

(ii) the WFOE; and

(iii) the OPCO.

Term: The Exclusive Purchase Right Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules) and shall remain in effect as long as the OPCO exists unless terminated (i) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owner to the WFOE or such nominee as designated by the WFOE pursuant to this agreement or (ii) by the WFOE at any time with thirty (30) days advance written notice to the PRC Equity Owner and OPCO.

Subject: The PRC Equity Owner irrevocably grants the WFOE an exclusive right, to be exercised according to the WFOE's discretion, at any time in one instance or across multiple instances, to purchase all or part of the PRC Equity Owner's equity interests in the OPCO at the lowest price permissible under applicable PRC laws and regulations at the time. The WFOE may elect to satisfy the purchase price by setting off outstanding amounts under the Loan Agreement (described below).

Without prior written consent from the WFOE, the PRC Equity Owner shall not sell, transfer, pledge or otherwise dispose of its equity interests in the OPCO, or allow other security interests to be created on such equity interest unless pursuant to the Equity Pledge Agreement.

Without prior written consent from the WFOE, the PRC Equity Owner and OPCO shall not sell, transfer, pledge or otherwise dispose of any of the OPCO's substantial asset, business or rights to income that is greater than RMB500,000 in value, or allow other security interest to be created on the above.

This agreement shall be binding on, and inures to the benefit of, the respective successors and permitted assigns of the parties, including but not limited to situations where the PRC Equity Owner is wound-up, is absorbed through a merger, is de-registered for other reasons, or ceases to exist due to any reason.

LETTER FROM THE BOARD

(2) The Loan Agreement

Date: 12 April 2019

Parties: (i) the WFOE (as lender); and
(ii) the PRC Equity Owner (as borrower).

Principal: The WFOE shall provide a non-interest bearing loan in an aggregate amount of RMB60 million to the PRC Equity Owner, of which (i) RMB2 million will go towards the PRC Equity Owner's initial contribution to the paid-up capital to the OPCO, to be drawn down within 5 business days from the day that the Loan Agreement becomes effective, and (ii) the remaining RMB58 million will be used for the PRC Equity Owner's future contribution to the OPCO's paid-up capital, to be drawn down within three (3) years from the day that the Loan Agreement becomes effective. The Loan Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules) by the WFOE and the PRC Equity Owner.

Term: 10 years from the effective date of the Loan Agreement and automatically renewable for a term of 10 years upon the expiry of the initial term and all subsequent terms. The loan will become due and payable under any of the following circumstances:

(i) the winding-up, liquidation, closing down or the revocation of the business license of the PRC Equity Owner;

(ii) the PRC Equity Owner engaging or being involved in any criminal activity which affects the continued operations of the OPCO; and

LETTER FROM THE BOARD

- (iii) according to applicable PRC laws, a foreign investor may invest in the business of the OPCO as a controlling and/or sole shareholder, the PRC authorities begin to process approvals for this type of business, and the WFOE exercises its rights to purchase the equity interest in the OPCO pursuant to the Exclusive Purchase Right Agreement. In such a case, if the purchase price for such equity interest transfer is less than the loan amount, then the WFOE waives the difference between the two amounts. On the other hand, if the purchase price for such equity interest transfer is higher than the loan amount, then the PRC Equity Owner shall, without seeking any compensation, pay the difference between the two amounts to the WFOE.

Based on the two-way waiver arrangement as described above, considering that (i) the Company has control over OPCO under the VIE Agreements and (ii) the loan amounts under the Loan Agreement will be used for OPCO's paid-up capital, the loan amounts are expected to be booked under the line item "long term equity investment" in the accounts of the WFOE once the pledge over OPCO's paid-up capital is registered pursuant to the Equity Pledge Agreement, and to continue to be treated as long term equity investment of the WFOE when the WFOE acquires OPCO's equity interest. Therefore, the Company retains its original investment in the OPCO when it acquires OPCO. Further, pursuant to the Exclusive Purchase Right Agreement, the WFOE may elect to satisfy the purchase price by setting off the outstanding amount under the Loan Agreement. Therefore, the consideration to be received by the PRC Equity Owner would effectively be nil. Based on the above, the Board considers that the waiver arrangement is in the interest of the Company and its shareholders as a whole.

The loan under the Loan Agreement is one-off in nature. If there are changes to the loan amount under the Loan Agreement in the future, the Company will comply with relevant requirements under Chapters 19 and 20 of the GEM Listing Rules, where necessary.

(3) The Equity Pledge Agreement

Date: 12 April 2019

Parties: (i) the WFOE (as pledgee);
(ii) the PRC Equity Owner (as pledgor); and
(iii) the OPCO.

LETTER FROM THE BOARD

Term: The equity pledge will be effective from registration of the pledged equity with the corresponding industrial and commercial administration until all of the PRC Equity Owner and the OPCO's obligations under the VIE Agreements (as the case may be) (the "Contractual Obligations") are performed in full and all losses suffered by the WFOE in relation to breaches of the VIE Agreement by the PRC Equity Owner or the OPCO (the "Guaranteed Liabilities") have been paid in full. The Equity Pledge Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules).

Subject: The PRC Equity Owner agrees to pledge all of its shares in the OPCO to the WFOE to secure the Contractual Obligations and the Guaranteed Liabilities.

During the term of the Equity Pledge Agreement, the PRC Equity Owner will not induce the OPCO to distribute any dividend or other distributions. If there is any dividend or bonus generated by the pledged equity during the term of the Equity Pledge Agreement and while the VIE Agreements continue to be effective, such dividend or bonus generated shall be returned to the WFOE.

The PRC Equity Owner can increase the capital of the OPCO only with the prior written consent of the WFOE. Any such increased capital amount will also become part of the pledged equity.

If the OPCO must be dissolved or liquidated based on requirements of the laws of the PRC, when the PRC Equity Owner is distributed any interest in the OPCO after dissolution or liquidation in accordance with the law, the PRC Equity Owner shall, in accordance with the WFOE's request (i) deposit such interest in the designated account of the WFOE so that it is under the supervision of the WFOE, to be applied to guarantee the Contractual Obligations and to first pay Guaranteed Liabilities; or (ii) to the extent that it would not violate the laws of the PRC, transfer such interest to the WFOE or its designated person. With respect to the above, the Company has been advised by its PRC Legal Adviser that pursuant to relevant PRC Laws, where the OPCO undergoes dissolution or liquidation, the OPCO's registered shareholder, being the PRC Equity Owner, is entitled to the remaining assets of OPCO.

LETTER FROM THE BOARD

As set out above, under the Equity Pledge Agreement, the PRC Equity Owner can increase the capital of the OPCO only with the prior written consent of the WFOE. If there are such increases in the capital of the OPCO, further loan agreements may be entered into to finance such increase in capital, as necessary.

(4) The Exclusive Consultancy and Services Agreement

Date: 12 April 2019

Parties: (i) the WFOE; and
(ii) the OPCO.

Term: 10 years from effectiveness of the Exclusive Consultancy and Services Agreement, which is automatically renewable for a term of 10 years upon expiry of the initial term and every subsequent term, unless terminated by the WFOE at any time with ninety (90) days advance notice to the OPCO, otherwise the OPCO shall not unilaterally terminate this agreement. The Exclusive Consultancy and Services Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules).

Subject: The WFOE shall provide the OPCO with exclusive consultancy and services, including but not limited to:

- (i) Consultancy as to the corporate management and business strategy of the OPCO;
- (ii) Consultancy as to setting good business standards and practices;
- (iii) Consultancy as to research and marketing strategies;
- (iv) Technical consultancy as to server maintenance and network platform operation;
- (v) Research, development, maintenance and update services in relation to key business software;

LETTER FROM THE BOARD

- (vi) Leasing computers, other office materials, and relevant operational equipment to the OPCO;
- (vii) Providing brand promotion and marketing services;
- (viii) Providing technical training and support to employees of the OPCO;
- (ix) Granting the OPCO the right to use the intellectual property of the WFOE;
- (x) Providing personnel support upon the OPCO's request; and
- (xi) Other services as agreed between the WFOE and the OPCO.

Fee: The OPCO shall pay to the WFOE on a quarterly basis, a service fee that is equal to 100% of the total before-income-tax consolidated profits of the OPCO after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes.

The WFOE may adjust the scope and amount of the service fee according to PRC tax law and tax practices, and the OPCO will accept such adjustments. The WFOE may adjust the payment time and payment method, and the OPCO will accept such adjustments.

(5) The Business Cooperation Agreement

Date: 12 April 2019

Parties: (i) the PRC Equity Owner;

(ii) the WFOE; and

(iii) the OPCO.

LETTER FROM THE BOARD

Term: The Business Cooperation Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules). The OPCO and the PRC Equity Owner shall not unilaterally terminate the agreement. The agreement terminates on (i) the WFOE completes acquisition of all of the PRC Equity Owner's equity interest in the OPCO pursuant to the Exclusive Purchase Right Agreement or (ii) the WFOE's thirty (30) days' advance written notice to the PRC Equity Owner and the OPCO.

Subject: The PRC Equity Owner undertakes to the WFOE that it shall, and shall procure the OPCO to:

- (i) Prudently and effectively operate the OPCO's value-added telecommunications business in accordance with good financial and business standards and usual practices;
- (ii) Follow the WFOE's instructions when formulating the OPCO's development plan and annual work plan;
- (iii) Develop value-added telecommunications business and other relevant business under the assistance of the WFOE;
- (iv) Follow the suggestions, opinions, rules and other guidance in carrying out the daily operation and financial management;
- (v) Follow the WFOE's instructions and suggestions in appointing directors and supervisors of the OPCO;
- (vi) Follow the WFOE's instructions and suggestions in relation to the recruitment and dismissal of the senior management and employees of the OPCO;
- (vii) Accept suggestions, guidance and proposals raised by the WFOE in relation to business development;
- (viii) Carry out the value-added telecommunications business and update and maintain the necessary qualification certificates, including but not limited to the ICP License; and
- (ix) Perform the obligations under the VIE Agreements.

LETTER FROM THE BOARD

To prevent the losses to the assets and value of the OPCO, the PRC Equity Owner and the OPCO undertake that, without the prior written consent from the WFOE, the OPCO would not (and the PRC Equity Owner would not procure the OPCO to) enter into any transaction that may affect the OPCO's assets, obligations, business or operations, including but not limited to the following:

- (i) Conducting business that is beyond the usual and normal scope or is inconsistent with the past practice of the OPCO;
- (ii) Conducting merger, consolidation, acquisition or restructuring of the OPCO's main business or assets, or otherwise any kind of acquisition or investment;
- (iii) Providing loans to any third party or incurring any liability from any third party which is not within the usual and normal scope of business of the OPCO;
- (iv) Appointing, re-designating or dismissing any director, general manager, chief financial officer or any other senior management of the OPCO;
- (v) Outside the OPCO's usual and normal scope of business, selling, transferring, pledging or otherwise disposing of any substantial asset, business or rights to income that is greater than RMB500,000 in value, or allow other security interests to be created on the above;
- (vi) Incurring, inheriting, assuming or providing guarantee for any liability that is not within the OPCO's usual and normal scope of business, and providing any form of guarantee in favor of any third party with its assets or creating any other encumbrance on any of its assets;
- (vii) Supplementing or modifying the articles of association of the OPCO, increasing or decreasing the OPCO's registered capital or otherwise changing the OPCO's registered capital structure;

LETTER FROM THE BOARD

- (viii) Adjusting the OPCO's business model, marketing strategy, operation guidelines or customer relationships;
- (ix) Changing the OPCO's normal operating procedure or modifying its internal rules or guidance;
- (x) Distributing dividends or equity interests;
- (xi) Entering into any material agreements, except for agreements entered into in the ordinary course of business (any agreements involving an amount of RMB500,000 or above will be deemed as material agreements);
- (xii) Selling, transferring, pledging or otherwise disposing of the OPCO's business or income; and
- (xiii) Dissolving or liquidating the OPCO and distributing its remaining assets.

As the OPCO may only appoint, redesignate or dismiss directors and senior management with the prior written consent from the WFOE, the Group will be able to control the appointment and dismissal of the directors and management of the OPCO. The Company currently intends that Mr. Zhu Jianqiu, executive Director and the President of the Company, will serve as one of the three directors on the board of the OPCO, and the other two OPCO directors will be appointed from the management personnel of the Group. It is also intended that (i) the Group's person in charge for its online e-commerce business will be appointed as the OPCO general manager; and (ii) the Group will appoint personnel to be in charge of managing the OPCO's finances. Each of the above persons will not be an officer or director of the PRC Equity Owner or Sichuan Changhong.

Apart from the WFOE's control over the OPCO's board and senior management as discussed above, internal control measures to enable the Company to retain its interest in the assets and operations of the OPCO in the event of dissolution or liquidation of the OPCO include the following:-

- (i) pursuant to the Exclusive Purchase Right Agreement, unless otherwise mandatorily required under PRC laws, the OPCO shall not dissolve or liquidate without prior written approval by the WFOE;

LETTER FROM THE BOARD

- (ii) pursuant to the Business Cooperation Agreement, during the effective period of the Loan Agreement, in the event of dissolution or liquidation of OPCO, (a) the WFOE may exercise all shareholders' rights of the PRC Equity Owner over the OPCO; (b) subject to applicable PRC laws, the WFOE shall direct the OPCO to transfer all assets to the WFOE; and (c) upon completion of the dissolution or liquidation, all proceeds of such dissolution or liquidation shall belong to the WFOE and the WFOE will be released from all repayment obligations under the Loan Agreement; and
- (iii) pursuant to the Equity Pledge Agreement, upon completion of proceedings of dissolution or liquidation of OPCO, all benefits received from OPCO shall be deposited in an account designed by the WFOE and held under custody of the WFOE or, subject to compliance with applicable PRC laws, transferred to WFOE or its designated transferee.

(6) Power of Attorney

Date: 12 April 2019

Parties: (i) the PRC Equity Owner; and
(ii) the WFOE.

Term: The Power of Attorney takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules). The PRC Equity Owner shall have no right to unilaterally terminate the Power of Attorney. The Power of Attorney terminates on the date of completion of the sale of all the equity interests in the OPCO held by the PRC Equity Owner pursuant to the Exclusive Purchase Right Agreement.

Subject: The PRC Equity Owner irrevocably authorizes the WFOE (and its successors (including a liquidator replacing the WFOE, if any) to exercise the following shareholder rights:

- (i) Convening, attending and participating in shareholders' meetings of the OPCO, receiving relevant notices or documents relating to the shareholders' meetings;

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- (ii) Representing the PRC Equity Owner to exercise voting rights in all matters requiring shareholder's discussion and resolution, including but not limited to nominating and appointing directors, supervisors, the general manager and other senior management positions that shall be decided by shareholders;
- (iii) Signing and delivering any written resolutions and minutes of shareholders' meetings of the OPCO and any other documents required to be signed by the shareholders of the OPCO, and submitting documents to relevant industrial and commerce administration for filing purposes;
- (iv) other shareholders' voting rights under the articles of association of the OPCO (including any shareholders' voting rights adopted after amendments to the articles of association of the OPCO) under the laws of the PRC;
- (v) Selling, transferring, pledging or disposing of the shares in the OPCO;
- (vi) Approving the register of new shareholders or the exit of the existing shareholder of the OPCO;
- (vii) Directing directors and the legal representative of the OPCO to perform their duties as requested;
- (viii) Supervising the economic performance of the OPCO;
- (ix) Exercising full usage rights of the OPCO's financial information;
- (x) Instituting any legal proceedings or taking any legal action against the OPCO's directors or shareholders who act against the interest of the OPCO and its shareholders;
- (xi) Approving the annual budget;
- (xii) Managing or disposing of the assets of the OPCO;

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- (xiii) Exercising full rights to control and manage the finance, accounting and daily operation of the OPCO;
- (xiv) Approving any documents that have to be submitted to the relevant government departments or supervising authorities for filing purpose; and
- (xv) Exercising all other shareholders' rights under laws and regulations and the OPCO's articles of association.

Officers or directors of the WFOE who make decisions in relation to the actions of the OPCO pursuant to the aforementioned rights shall not be officers or directors of the PRC Equity Owner or Sichuan Changhong.

(7) The Intellectual Property Rights Authorisation Agreement

- Date: 12 April 2019
- Parties: (i) the WFOE; and
(ii) the OPCO.
- Term: 10 years from effectiveness of the Intellectual Property Rights Authorisation Agreement, and is automatically renewable for a term of 10 years upon expiry of the initial term and every subsequent term, unless the WFOE notifies the OPCO that the term will not be renewed ninety (90) days before the end of the term. The Intellectual Property Rights Authorisation Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules). The WFOE may at any time, by giving thirty (30) days advance written notice, terminate the agreement. The OPCO may not unilaterally terminate the agreement.
- Subject: The WFOE agrees to grant to the OPCO the non-exclusive, non-sublicensable, non-transferrable right to use certain intellectual property rights in the PRC in relation to the Platform. The OPCO may only use such intellectual property rights in operating a value-added telecommunications business.

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Such intellectual property rights include such trademarks, patents, copyright, know-how and other intellectual property rights (if any) currently or in the future owned by, created by or transferred to WFOE, including any new achievements derived from WFOE's improvements and updates.

Upon adoption of the VIE Structure, it is intended that certain subsidiaries of the Company will enter into license agreements with the WFOE, to grant certain the technical licenses in connection with the Platform and strategic plans, technical plans, platform technology system, website design and implementation results in relation to the Platform. As such, the OPCO will in turn be authorised to use among others, such technical licenses pursuant to the arrangements under the Intellectual Property Rights Authorisation Agreement.

(8) The Commitment Letter

- Date: 12 April 2019
- Parties: the PRC Equity Owner.
- Subject: The PRC Equity Owner irrevocably undertakes and confirms to the WFOE that:
- (i) pursuant to the Exclusive Purchase Right Agreement, the WFOE has an exclusive right to purchase all of the PRC Equity Owner's interests in the OPCO at the agreed price;
 - (ii) pursuant to the Equity Pledge Agreement, if there is any dividend or bonus generated by the pledged equity during the term of the Equity Pledge Agreement and while the VIE Agreements continue to be effective, such dividend or bonus generated shall be returned to the WFOE;
 - (iii) pursuant to the Exclusive Consultancy and Services Agreement, the OPCO shall pay to the WFOE a service fee that is equal to 100% of the total before-income-tax consolidated profits of the OPCO, after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes;

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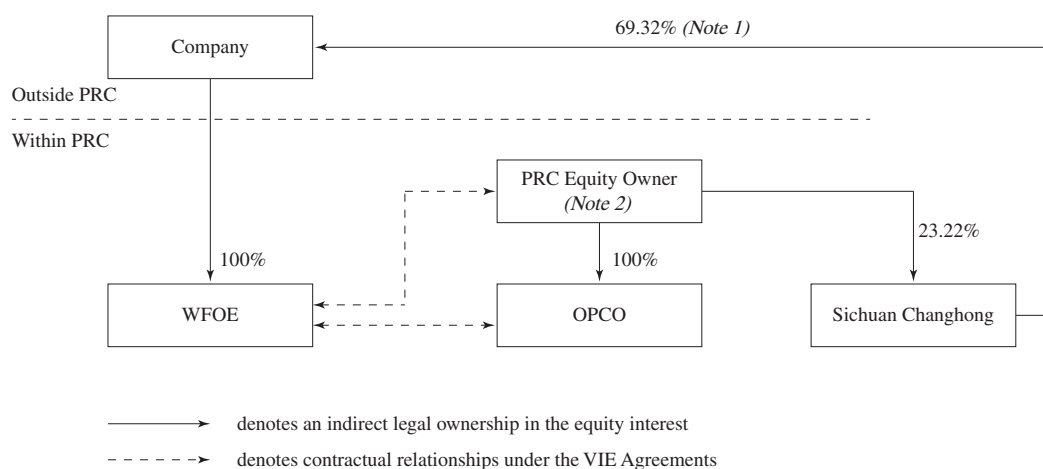
- (iv) pursuant to the Exclusive Consultancy and Services Agreement, the WFOE may adjust the scope and amount of the service fee according to PRC tax law and tax practices and the PRC Equity Owner shall induce the OPCO to accepting such adjustments. The WFOE has the right to calculate the service fee on a quarterly basis and issue a corresponding invoice to the OPCO. The WFOE may adjust the payment time and payment method, and the OPCO will unconditionally accept such adjustments;
- (v) the PRC Equity Owner will not directly or indirectly through any person or entity, participate in, carry out, acquire or hold any interest in any business which is or may be in competition with the OPCO, WFOE and WFOE's affiliates, and shall not do anything which gives rise to any conflict of interest in relation to the operation of the OPCO between the PRC Equity Owner and the WFOE. In the event of any conflict of interests as mentioned above between the PRC Equity Owner and the WFOE, the PRC Equity Owner will take any actions as instructed by the WFOE to eliminate such conflict provided that such action is compliant with the applicable laws;
- (vi) no conflict of interest exists in relation to the PRC Equity Owner's authorization of the WFOE (and its successors (including a liquidator replacing the WFOE, if any)) to exercise OPCO shareholder rights under the Power of Attorney; and
- (vii) if the PRC Equity Owner is ordered to be dissolved, is abolished, is closed, declares bankruptcy or for other reasons its capacity as an entity ceases to exist, the PRC Equity Owner shall use all efforts to procure that the PRC Equity Owner's successor (including, but not limited to a liquidator replacing the PRC Equity Owner (if any) or other entity that succeeds the PRC Equity Owner's obligations due to the above situations) continues to perform the PRC Equity Owner's obligations under the VIE Agreements.

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With respect to (vii) above, the Company has been advised by its PRC Legal Adviser that pursuant to relevant PRC Laws, the PRC Equity Owner's successor (including, but not limited to, a liquidator replacing the PRC Equity Owner (if any) or other entity that succeeds the PRC Equity Owner's obligations due to the above situations) replacing the PRC Equity Owner could assume the obligations of the PRC Equity Owner.

DIAGRAM OF THE VIE STRUCTURE

The following diagram sets out the VIE Structure:



Notes:

1. As at the Latest Practicable Date, the PRC Equity Owner holds approximately 23.22% equity interest in Sichuan Changhong, which in turn owns, together with its wholly-owned subsidiaries, approximately 69.32% of the Company.
2. The PRC Equity Owner is ultimately held by Mianyang Municipality State-owned Assets Supervision and Administration Commission* (綿陽市國有資產監督管理委員會).

BACKGROUND AND REASONS FOR THE VIE AGREEMENTS

Background

The Company has been listed on GEM since 24 January 2000. The Group is principally engaged in the distribution of IT consumer products and IT corporate products. Among other things, the Group is engaged in online e-commerce business that provides transaction platform services and one-stop procurement solutions to upstream and downstream partners in the ICT industry. Presently, the Group sells its own products through this online e-commerce business.

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To expand the Group's e-commerce business, the Group intends for the OPCO to establish a new business-to-business e-commerce platform (the "**Platform**"), which will connect third-party merchants with each other. These third party merchants include, among others, upstream and downstream secondary distributors, resellers and manufacturers in the ICT industry.

The Platform allows third-party merchants to establish their own online shops within the Platform, and third-party merchants will be able to buy and sell their products amongst each other. In return for access to the Platform, these third-party merchants will pay fees to the Group for secured transaction payment services and interaction mechanism services, for assistance to third-party merchants in their interactions with each other, as well as for other value-added services like financial, marketing and big data analysis services.

More specifically, it is expected that the following revenue streams will be generated from the operation of the Platform:

1. Commissions on profits from sales of third-party merchants' products on the Platform;
2. Store management fees from providing online shops to third-party merchants;
3. Transaction service fees from providing services to third-party merchants like auctions, group buying, combined orders and pre-orders;
4. Income generated from procuring a third party financial services institution to provide financial management services for account balances of third-party merchants;
5. Promotion and marketing fees from providing promotional and marketing services to third-party merchants;
6. Data service fees from providing Platform sales data analysis to third-party merchants; and
7. System service fees charged according to transaction amounts.

The establishment of the Platform will also aid the Group in promoting the "Changhong IT" business brand to the IT industry and in promoting the development of the Group's distribution business.

Pursuant to relevant PRC Laws as described in the section "Relevant laws and regulations in the PRC" below, an ICP License is necessary before commercial third-party merchants may join the Platform. As the OPCO has obtained an ICP License, the Company intends for OPCO to operate the Platform.

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Relevant laws and regulations in the PRC

The following is a summary of the principal PRC relevant laws and regulations in relation to the transactions in relation to the VIE Agreements.

Pursuant to the Notice of the General Office of the Ministry of Commerce on the Relevant Issues concerning the Examination, Approval and Administration of Projects of Foreign Investment in Internet and Vending Machine Sales (商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知)(the “Notice”) issued by the MOFCOM in August 2010, foreign-invested enterprises directly engaging in the sales of its own products with its online platform have to report to the relevant authorities for record, while foreign-invested enterprises providing online services for other parties with its online platform have to apply for an ICP License from the relevant authorities.

The Administrative Measures on Internet Information Services* (互聯網信息服務管理辦法)(the “Measures”) issued by PRC State Council on 25 September 2000 and amended on 8 January 2011 regulates the provision of internet information services. Under the Measures, providers of operation internet information services (經營性互聯網信息服務) must obtain an ICP License.

According to the Catalogue of Telecommunications Business (2015)* (電信業務分類目錄(2015年版)), information service business* (信息服務業務) falls under the category of “value-added telecommunications business”* (增值電信業務) and is regarded as a “restricted” business according to the Special Administrative Measures for Foreign Investment Access (Negative List) (2018)* (外商投資准入特別管理措施(負面清單)(2018年版)) issued by the National Development and Reform Commission (中華人民共和國國家和發展改革委員會) and the MOFCOM on 28 June 2018 and effective on 28 July 2018. The Negative List provides that value-added telecommunications business (other than e-commerce) is restricted for foreign investors. The foreign ownership in such business cannot exceed 50%. Accordingly, the WFOE is not eligible to apply for the ICP License for the value-added telecommunications business (other than e-commerce).

According to the Regulations on the Administration of Foreign-invested Telecommunication Enterprises (2016 Amended)* (外商投資電信企業管理規定(2016年修訂)), which were promulgated by the PRC State Council on 11 December 2001 and amended on 10 September 2008 and on 6 February 2016 respectively, (i) the ratio of investment by a foreign investor in a company providing value-added telecommunications services shall not exceed 50%, and (ii) a foreign investor who invests in a value-added telecommunications services company shall have a good track record and experience in providing value-added telecommunications business (the “Qualification Requirement”). Currently, no clear guidance as to the interpretation of the Qualification Requirement has been issued.

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The Circular regarding Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business* (信息產業部關於加強外商投資經營增值電信業務管理的通知)(the “Circular”) issued by the PRC Ministry of Information Industry* (中華人民共和國信息產業部) on 13 July 2006 reiterates the regulations on foreign investment in telecommunications business. Under the Circular, a foreign investor who wishes to conduct any value-added telecommunications business in the PRC must first set up a foreign-invested enterprise and obtain an ICP License. The Circular further provides that a domestic company holding an ICP License is prohibited from leasing, transferring or selling the license to foreign investors in any form, and providing any assistance to foreign investors for illegal operation of telecommunications business in the PRC.

Reasons for adopting the VIE Structure

As described above, foreign investors holding more than 50% of a company cannot hold an ICP License, and as a result, the WFOE and its subsidiaries are not eligible to apply for such a license. In order to comply with PRC Laws, the VIE Agreements were entered into among the WFOE, the OPCO and the PRC Equity Owner. Through the VIE Agreements, the WFOE will have effective control over the finances and operations of the e-commerce business of the Platform under the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

Presently, there is a lack of clear guidance or interpretation on the abovementioned Qualification Requirement. The Group faces difficulties and uncertainties in obtaining an ICP License through holding equity interests (whether directly or indirectly) in a PRC foreign-invested enterprise, and would face prolonged application processes with unknown results, which would incur extra costs to the Group. Because there is great difficulty and uncertainty for a PRC foreign-invested enterprise to obtain an ICP License from the relevant authority in the PRC, the current method of adopting the VIE Agreements to gain effective control over the entire equity interest of the OPCO will minimize the time and financial burden for obtaining the ICP License, and is in the interests of the Company and the Shareholders as a whole.

Consolidation in Company’s consolidated accounts

The Directors have discussed with the auditor of the Company and are of the view that the Company has control over the OPCO under the VIE Agreements and has the right to consolidate its financial results and financial position to the consolidated financial statements of the Company as if the OPCO is a wholly-owned subsidiary of the Company under the prevailing accounting standards adopted by the Company in preparing its consolidated financial statements.

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Internal Control

The Company will put in place internal controls to safeguard its assets held through the VIE Agreements, including:

- (i) the directors and senior management of the OPCO shall be nominated by WFOE by exercising its rights under the Power of Attorney and the Business Cooperation Agreement and actively involve in the daily managerial and operational activities of OPCO;
- (ii) the Power of Attorney has been granted to, and exercisable by, WFOE, which is under the control of the Board; and
- (iii) the seals, chops, incorporation documents of OPCO will be kept at the offices of the WFOE to the extent permitted by PRC Laws.

Conflict of interests

The PRC Equity Owner has given irrevocable undertakings in the Power of Attorney and in the Commitment Letter which addresses potential conflicts of interest that may arise in connect with the VIE Agreements. For further details, please see the paragraphs headed “VIE Agreements – (6) Power of Attorney” and “VIE Agreements – (8) the Commitment Letter” above.

LEGAL COMPLIANCE OF VIE AGREEMENTS

As advised by the PRC Legal Adviser of the Company, the VIE Agreements do not violate any PRC Laws, rules and regulations applicable to the business of the OPCO and would not be deemed as “concealing illegal intentions with a lawful form” and void under the PRC Contract Law* (中華人民共和國合同法). The VIE Agreements are legally binding on each party in accordance with their terms and provisions under the PRC Laws except certain terms of the VIE Agreements as set out in the paragraph headed “Risk factors in relation to the VIE Agreements – Certain terms of the VIE Agreements may not be enforceable under PRC Laws” below.

DISPUTE RESOLUTION UNDER THE VIE AGREEMENTS

The VIE Agreements are governed by and will be constructed in accordance with the PRC Laws. Any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within 30 days, any party may submit the said dispute to the Mianyang Arbitration Commission* (綿陽仲裁委員會) in accordance with its arbitration rules. The results of the arbitration shall be final and binding. When the arbitral award is granted, any party can apply for its enforcement in any court with jurisdiction over the location of the relevant parties’ assets.

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In relation to those VIE Agreements to which the OPCO is a party, the arbitrator may award the equity interest or land assets of the OPCO as compensation, impose restrictions and prohibit transfer or disposal of the OPCO's equity interest or assets, and/or liquidate the OPCO.

In addition, the VIE Agreements provide that parties may seek interim remedies from courts with jurisdiction. For this purpose, in addition to courts in the PRC, courts in Hong Kong and Bermuda are deemed to have jurisdiction.

POSSIBLE IMPACT OF THE 2015 DRAFT LAW (AS DEFINED BELOW) ON THE VIE AGREEMENTS AND THE BUSINESS OF THE OPCO GROUP

On 19 January 2015, the MOFCOM published the draft PRC Foreign Investment Law* (中華人民共和國外國投資法(草案徵求意見稿)) and the Explanation on the draft PRC Foreign Investment Law* (關於〈中華人民共和國外國投資法(草案徵求意見稿)〉的說明)(collectively the "2015 Draft Law"), which contain changes to the PRC foreign investment legal regime and the treatment of the VIE arrangement. The 2015 Draft Law clearly defines VIE arrangements as a form of foreign investment. When the 2015 Draft Law is adopted, the PRC Foreign Investment Law* (中華人民共和國外國投資法) shall apply to investments using VIE arrangements.

There is no concrete guidance on how the existing and new VIE arrangements should be treated in the 2015 Draft Law. For investments using the VIE arrangements which exist before the 2015 Draft Law is adopted and becomes law, if the underlying businesses are still being categorized as prohibited or restricted foreign investment businesses after the 2015 Draft Law is adopted and becomes law, there are three suggested available alternatives in dealing with such VIE arrangements pursuant to the 2015 Draft Law:

- (a) the foreign investment enterprise under the VIE arrangement shall declare to the foreign investment authority under the State Council of the PRC that it is effectively controlled by PRC investors. After such declaration, the VIE arrangement can be retained and the relevant parties can continue the operation;
- (b) the foreign investment enterprise under the VIE arrangement shall file an application with the foreign investment authority under the State Council of the PRC for being recognized as a party under the effective control of PRC investors. If the foreign investment authority recognizes it as being effectively controlled by PRC investors, the VIE arrangement can be retained and the relevant parties can continue the operation;
or
- (c) the foreign investment enterprise under the VIE arrangement shall apply for an entry permit from the foreign investment authority under the State Council of the PRC, and the foreign investment authority and relevant authorities will consider factors including the actual controller of the foreign investment enterprise and make a decision on how the relevant VIE arrangement should be handled.

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For the purpose of the 2015 Draft Law, “control” refers to the circumstances that any of the following conditions is met with respect to an enterprise: (i) holding, directly or indirectly, not less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise; (ii) holding, directly or indirectly, less than 50% of shares, equities, share of properties, voting rights or other similar rights of the enterprise, but falling under any of the following circumstances: (a) having the right to directly or indirectly appoint not less than half of the members of the board of directors or other similar decision-making body of the enterprise; (b) having the ability to ensure that its nominees occupy not less than half of the seats on the board of directors or other similar decision-making body of the enterprise; or (c) holding voting rights sufficient to impose significant impacts on any resolution of the meetings of shareholders, at the general meeting of shareholders, or of the board of directors or other decision-making body of the enterprise; or (iii) imposing decisive impacts on the operation, finance, personnel or technology of the enterprise by contract, trust, or other means. For the purpose of the 2015 Draft Law, “actual controllers” refer to natural persons or enterprises that directly or indirectly control any foreign investor or foreign-invested enterprise.

As defined in the 2015 Draft Law, “PRC investors” refer to the following subjects: (i) natural persons with PRC nationality; (ii) the PRC government and the departments or agencies thereunder; or (iii) domestic enterprises under the control of the subjects as mentioned in the preceding two categories. Meanwhile, “foreign investors” refer to the following subjects making investments within the territory of the PRC: (i) natural persons without the PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than the PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; or (iv) international organizations. Domestic enterprises under the control of foreign investors as mentioned in the preceding sentence are deemed as foreign investors.

The 2015 Draft Law is published for consultation purposes and has not yet become legally binding. As there are uncertainties on the final content and interpretations of the 2015 Draft Law if and when it is adopted and becomes law, there is no assurance that the VIE Agreements and the business of the OPCO Group will not be materially affected in the future. In order to continuously monitor the development of the 2015 Draft Law to assess the possible impact on the VIE Agreements and the business of the OPCO Group, the Board will monitor the updates of the 2015 Draft Law and discuss with the Company’s PRC legal adviser. In case there would be material impact on the Group or the business of the OPCO Group, the Company will timely publish announcements in relation to material developments of and arising from the 2015 Draft Law.

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On 15 March 2019, the 13th Standing Committee of National People's Congress approved the Foreign Investment Law of the People's Republic of China (《外商投資法》) (the "2019 Law") which will become effective from 1 January 2020. The 2019 Law regulates foreign investment within the PRC, including the form of foreign investment, investment promotion, investment protection, investment management and legal liability. The 2019 Law does not clearly define VIE arrangements as a form of foreign investment like the 2015 Draft Law. However, the 2019 Law generally defines foreign investment in the PRC very widely to include a foreign investor investing within the PRC in any "other modes of investment" stipulated under laws, administrative regulations or provisions of the State Council, and contains no specific regulations on implementation rules or the term "other modes of investment" or VIE arrangements, as well as the definition of "control" and "actual controllers".

THE BOARD'S VIEW ON THE VIE AGREEMENTS

Based on the above, the Board is of the view that the VIE Agreements are narrowly tailored to achieve the OPCO's business purpose and to minimize the potential conflicts and are enforceable under the relevant PRC Laws.

The VIE Agreements enable the WFOE to gain control over the OPCO, and to be entitled to the economic interests and benefits of the OPCO. Pursuant to the relevant provisions of the VIE Agreements, the WFOE has the right to unwind the VIE Structure as soon as the relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO.

The Directors further believe that save as disclosed, the VIE Agreements are enforceable under the relevant PRC Laws, and that the VIE Agreements will provide a mechanism that enables the WFOE to exercise effective control over the OPCO.

RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

The Group may bear economic risks which may arise from difficulties in the operation of the OPCO

As the primary beneficiary of the OPCO, the Group will bear economic risks which may arise from difficulties in the operation of the OPCO's business. Pursuant to the Exclusive Consultancy and Services Agreement, the WFOE will have to provide financial support in the event of financial difficulty of the OPCO. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the OPCO and the need to provide financial support to the OPCO.

LETTER FROM THE BOARD

Interference or encumbrance from governing bodies and PRC government may determine that the VIE Agreements do not comply with applicable regulations

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of the announcement, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business.

Although there is currently no indication that the VIE Agreements will be interfered with or objected to by any PRC regulatory authorities. However, the PRC Legal Adviser has advised that there is a possibility that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the VIE Agreements comply with the current PRC Laws or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the VIE Agreements.

As discussed above, on 19 January 2015, the MOFCOM published the 2015 Draft Law pursuant to which foreign companies gaining control over domestic companies via contractual arrangements such as the VIE Agreements will be regarded as foreign investments and will be governed by the 2015 Draft Law if and when it is adopted and becomes law. According to the PRC Legal Adviser, the 2015 Draft Law has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the 2015 Draft Law, there is no assurance that the VIE Agreements will comply with the 2015 Draft Law if and when it is adopted and becomes law. If the PRC regulatory authorities deny the validity, effectiveness and enforceability of the VIE Agreements, the Group would lose control of the OPCO, and would be unable to consolidate the financial results of the OPCO Group, or properly safeguard or control the assets of the OPCO Group, which would, in turn, result in a material adverse effect on the Group's business, financial condition and results of operations.

In order to continuously monitor the development of the 2015 Draft Law to assess the possible impact on the VIE Agreements and the business of the OPCO Group, the Board will monitor the updates of the 2015 Draft Law and discuss with the PRC legal adviser on a regular basis. In case there would be material impact on the Group or the business of the OPCO Group, the Company will timely publish announcements in relation to material developments of the 2015 Draft Law.

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Limitations and substantial costs in exercising the option to acquire ownership of the OPCO to the Group under the Exclusive Purchase Right Agreement

In case the WFOE exercises its option to acquire all or part of the equity interests in the OPCO under the Exclusive Purchase Right Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC Laws and will be subject to necessary approvals and relevant procedures under the applicable PRC Laws. In addition, the abovementioned acquisitions may be subject to a minimum price limitation (such as an appraised value for the equity interests in the OPCO) or other limitations as imposed by the applicable PRC Laws. Further, a substantial amount of taxes, other necessary costs (if any), expenses and time may be involved in transferring the ownership of the OPCO, which may have a material adverse impact on the Group's business, prospects and results of operation.

The VIE Agreements may not be as effective as direct ownership in providing control over the OPCO

The Group will rely on the VIE Agreements to operate the business of the OPCO. Such contractual arrangement may not be as effective in providing the WFOE with control as compared to direct ownership of the OPCO. If the WFOE had direct ownership of the OPCO, the WFOE would be able to exercise its rights as a shareholder to effect changes in the board of directors of the OPCO, which in turn could effect changes, subject to any applicable directors' fiduciary obligations, at the management level. In comparison, under the VIE Agreements, the Group relies on the performance by the PRC Equity Owner of their obligations under the VIE Agreements to exercise control over the OPCO.

The PRC Equity Owner may potentially have a conflict of interests with the Group

The Group's control over the OPCO is based on the contractual arrangement under the VIE Agreements. Therefore, conflict of interests of the PRC Equity Owner will adversely affect the interests of the Company.

The interests of the PRC Equity Owner, being the registered owner of the OPCO, may not necessarily be the same as the Group and may conflict with that of the Group. There is no assurance that when such conflict arises, the PRC Equity Owner will act completely in the Group's interest or that the conflicts of interest will be resolved in the Group's favor.

LETTER FROM THE BOARD

The VIE Agreements may be subject to scrutiny of the PRC and additional tax may be imposed

The Group could face material adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Agreements were not entered into based on arm's length negotiations. If the PRC tax authorities determine that these agreements were not entered into on an arm's length basis, they may adjust income and expenses of the WFOE and/or the OPCO for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or the OPCO.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of the OPCO or those of the WFOE increase significantly or if they are required to pay interest on late payments and other penalties.

The Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of the VIE Agreements, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations.

Certain terms of the VIE Agreements may not be enforceable under PRC Laws

The VIE Agreements contain provisions wherein the arbitrator may award the equity interest or land assets of the OPCO as compensation, impose restrictions and prohibit transfer or disposal of OPCO's equity interest or assets, and/or liquidate the OPCO. In addition, the VIE Agreements provide that parties may seek interim remedies from courts with jurisdiction. For this purpose, in addition to courts in the PRC, courts in Hong Kong and Bermuda are deemed to have jurisdiction.

However, the PRC Legal Adviser considers that pursuant to the PRC Laws, the arbitrator may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the OPCO. In addition, even though the VIE Agreements provide that overseas courts (e.g. courts in Hong Kong and Bermuda) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognized or enforced under the PRC Laws. As a result, in the event that the OPCO or the PRC Equity Owners breaches the terms of the VIE Agreements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the OPCO could be materially and adversely affected

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

As discussed above, the Group intends to enter into the VIE Agreements so that it can introduce third-party merchants to the Platform through OPCO. The background and reasons have been further set out under the section “Background and Reasons for the VIE Agreements – Background” above.

The Group believes the entry of the VIE Agreements will generate more revenue to the Group and create more value for the Shareholders.

Notwithstanding that the loan extended by the WFOE to the PRC Equity Owner pursuant to the Loan Agreement is non-interest bearing, such loan is made for the purpose of making contribution to the paid-up capital of the OPCO to cover the OPCO’s initial and future paid-up capital contribution. Accordingly, the Board considers the terms of the Loan Agreement to be fair and reasonable.

The Board (including the independent non-executive Directors but excluding the Directors who abstained from voting on the relevant Board resolutions as set out hereinafter) considers that the terms of the VIE Agreements and the transactions contemplated thereunder were determined after arm’s length negotiation between the parties thereto and are of the view that (i) the VIE Agreements are fundamental to the OPCO’s legal structure and business operations; and (ii) the terms of the VIE Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE GEM LISTING RULES

As at the Latest Practicable Date, the PRC Equity Owner holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company. Sichuan Changhong and the PRC Equity Owner are controlling shareholders of the Company under the GEM Listing Rules, and accordingly the transactions contemplated under the VIE Agreements (excluding the Loan Agreement) constitute continuing connected transactions and the transactions contemplated under the Loan Agreement constitute connected transactions for the Company for the purpose of the GEM Listing Rules. Accordingly, the transactions contemplated under the VIE Agreements are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

LETTER FROM THE BOARD

Others

Mr. Zhao Yong is a director of both the PRC Equity Owner and Sichuan Changhong, while Mr. Yang Jun is a senior management member of the PRC Equity Owner and a director of Sichuan Changhong. Accordingly, Mr. Zhao Yong and Mr. Yang Jun, each being an executive Director, are considered to be interested in the transactions contemplated under the VIE Agreements. Each of Mr. Zhao Yong and Mr. Yang Jun has therefore abstained from voting for the Board resolutions to approve the VIE Agreements and the transactions contemplated thereunder.

As one or certain of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the transactions contemplated under the Loan Agreement exceeds 5% but all of them are less than 25%, the transactions contemplated under the Loan Agreement are subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

APPLICATION FOR AND CONDITIONS OF WAIVER

In relation to the VIE Agreements (excluding the Loan Agreement), the Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 20.100 of the GEM Listing Rules from the requirements to (i) fix their terms for a period of not exceeding three years pursuant to Rule 20.50 of the GEM Listing Rules and (ii) set maximum aggregate annual caps pursuant to Rule 20.51 of the GEM Listing Rules for the services fees payable by the OPCO to the WFOE under the Exclusive Consultancy and Services Agreement subject to the following conditions:

- (a) No Change without Independent Non-Executive Directors' Approval: No changes to the terms of any of the VIE Agreements will be made without the approval of the independent non-executive Directors.
- (b) No Change without Independent Shareholders' Approval: Save as described in paragraph (d) below, no changes to the terms of any of the VIE Agreements will be made without the approval of the Independent Shareholders (to the extent that such approval is required under Chapter 20 of the GEM Listing Rules). Once Independent Shareholders' approval of any change has been obtained, no further announcement, circular or approval of the Independent Shareholders, will be required under Chapter 20 of the GEM Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the VIE Agreements in the annual reports of the Company (as set out in paragraph (e) below) will however continue to be applicable.

LETTER FROM THE BOARD

- (c) **Economic Benefits Flexibility:** The VIE Agreements shall continue to enable the Group to receive the economic benefits derived by the OPCO Group through (i) the Group's potential right (if and when so allowed under the applicable PRC Laws) to acquire the entire equity interest in the OPCO Group under the then applicable PRC Laws, (ii) the business structure under which the total before-income- tax profits generated by the OPCO Group after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes are substantially retained by the Group (such that no annual caps shall be set on the amount of the services fees payable to the WFOE under the relevant VIE Agreements), and (iii) the Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the OPCO Group.
- (d) **Renewal and reproduction:** On the basis that the VIE Agreements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has equity interest, on the one hand, and the OPCO Group, on the other hand, such framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business in the PRC as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Independent Shareholders, on substantially the same terms and conditions as the existing VIE Agreements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business that the Company may establish upon renewal and/or reproduction of the VIE Agreements will be treated as the connected persons of the Company and transactions between these connected persons and the Company other than those under similar VIE Agreements shall comply with Chapter 20 of the GEM Listing Rules. This condition is subject to relevant PRC Laws and approvals from the relevant PRC authorities.

LETTER FROM THE BOARD

- (e) Ongoing Reporting and Approvals: the Group will disclose details relating to the VIE Agreements on an ongoing basis as follows:
- (i) The VIE Agreements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the GEM Listing Rules.
 - (ii) The independent non-executive Directors will review the VIE Agreements annually and confirm in the Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the VIE Agreements, have been operated so that the revenue generated by the OPCO Group has been substantially retained by the WFOE; (ii) no dividends or other distributions have been made by the OPCO to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO Group during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.
 - (iii) The Company's auditors will carry out procedures annually on the transactions carried out pursuant to the VIE Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten business days before the Company bulk prints its annual report, confirming that the transactions carried out pursuant to the VIE Agreements have received the approval of the Directors, have been entered into in accordance with the relevant VIE Agreements and that no dividends or other distributions have been made by the OPCO Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

LETTER FROM THE BOARD

- (iv) For the purposes of Chapter 20 of the GEM Listing Rules, and in particular the definition of “connected person”, the OPCO and its subsidiaries (if any) will be treated as the Company’s subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the GEM Listing Rules) of the OPCO and its subsidiaries (if any) and their respective associates will be treated as the Company’s “connected persons” (excluding for this purpose, the OPCO Group). As such, the transactions between these connected persons and the Group (including for this purpose, the OPCO Group), other than those under the VIE Agreements, shall comply with Chapter 20 of the GEM Listing Rules.
- (v) The OPCO will undertake that, during the term of the relevant VIE Agreements, it will provide the Group’s management and the Company’s auditors with full access to its relevant records for the purpose of the Company’s auditors’ review on the continuing connected transactions.

GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the VIE Agreements. Giraffe Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements. In accordance with Rule 20.50 of the GEM Listing Rules, the Independent Financial Adviser has also explained why the duration of the VIE Agreements, which exceeds three years, constitutes a special circumstance under Rule 20.50 of the GEM Listing Rules and requires a longer period, and whether it is normal business practice for contracts of this type to be of such duration.

SGM

The SGM will be held at 9th Floor, Beijing Changhong Sci-Tech Tower, Building 26, Zone 18, No. 188 West Road, South Fourth Ring Road, Fengtai District, Beijing, China on Friday, 17 May 2019 at 10:00 a.m. for the Shareholders to consider and, if thought fit, pass the requisite resolution(s) to approve, among other things, the VIE Agreements and the transactions contemplated thereunder.

In accordance with the GEM Listing Rules, Shareholder and its associates with a material interest in the VIE Agreements are required to abstain from voting in respect of the VIE Agreements. As at the Latest Practicable Date, each of Sichuan Changhong, Changhong Hong Kong and Fit Generation held as to 95,368,000 Shares, 16,000,000 Shares and 897,000,000 Shares, respectively, representing an aggregate of 1,008,368,000 Shares and approximately 69.32% of the issued share capital of the Company.

A notice of the SGM is set out on page SGM-1 to SGM-2 of this circular.

LETTER FROM THE BOARD

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

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

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 40 to 41 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 42 to 67 of this circular in connection with the VIE Agreements and the transactions contemplated thereunder and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

The Directors (including all independent non-executive Directors whose recommendation is contained in the Letter from the Independent Board Committee on pages 40 to 41 of this circular) are of the view that the VIE Agreements and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, and the terms of the VIE Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Independent Shareholders to vote in favour of the proposed ordinary resolution regarding the VIE Agreements and the transactions contemplated thereunder, as set out in the notice of the SGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Changhong Jiahua Holdings Limited
Zhao Yong
Chairman



CHANGHONG JIAHUA HOLDINGS LIMITED

(長虹佳華控股有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

30 April 2019

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS AND
CONTINUING CONNECTED TRANSACTIONS RELATING TO
THE ENTRY OF THE VIE AGREEMENTS**

We refer to the circular of the Company dated 30 April 2019 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you the terms of the VIE Agreements and the transactions contemplated thereunder and whether such terms are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Giraffe Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the VIE Agreements were entered into on normal commercial terms; and in the ordinary and usual course of business of the Company and the terms of the VIE Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Independent Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 42 to 67 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 6 to 39 of the Circular and the additional information set out in the appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the VIE Agreements and the transactions contemplated thereunder and the principal factors and reasons considered by, and the advice of Giraffe Capital Limited, we are of the opinion that, although the VIE Agreements and the transactions contemplated are not entered into in the ordinary and usual course of business of the Group, the VIE Agreements were entered into on normal commercial terms; and the terms of the VIE Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

We therefore recommend that you vote in favour of the resolution to be proposed at the SGM to approve the VIE Agreements and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Independent Board Committee of

Changhong Jiahua Holdings Limited

Jonathan
Chan Ming Sun
Independent
non-executive
Director

Robert
Ip Chun Chung
Independent
non-executive
Director

Sun Dongfeng
Independent
non-executive
Director

Cheng Yuk Kin
Independent
non-executive
Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Giraffe Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the terms of the VIE Agreements prepared for the purpose of inclusion in this circular.



Giraffe Capital Limited

30 April 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS RELATING TO THE ENTRY OF THE VIE AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the VIE Agreements, 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 30 April 2019 (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 defined in the Circular.

Due to the foreign ownership restrictions under the PRC Laws, the Group was not able to engage in the operation internet information services (經營性互聯網信息服務) directly. On 12 April 2019, the WFOE, the OPCO and the PRC Equity Owner entered into the VIE Agreements. Through the VIE Agreements, the WFOE will have effective control over the finances and operations of the e-commerce business of the Platform under the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the PRC Equity Owner holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company. Sichuan Changhong and the PRC Equity Owner are controlling shareholders of the Company under the GEM Listing Rules, and accordingly the transactions contemplated under the VIE Agreements (excluding the Loan Agreement) constitute continuing connected transactions and the transactions contemplated under the Loan Agreement constitute connected transactions for the Company for the purpose of the GEM Listing Rules. Accordingly, the transactions contemplated under the VIE Agreements are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

As one or certain of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the transactions contemplated under the Loan Agreement exceeds 5% but all of them are less than 25%, the transactions contemplated under the Loan Agreement are subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng, Mr. Cheng Yuk Kin, has been established to advise the Independent Shareholders in relation to the terms of the VIE Agreements. 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

As at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 17.96 of the GEM Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Save for our appointment as the Independent Financial Adviser, there was no engagement between the Group and us in the past two years.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the management of the Company regarding the Group and the VIE Agreements, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and its associates nor have we carried out any independent verification of the information supplied. Our opinion is necessarily based on the market, financial, economic, political, industry-specific and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Company will notify the Shareholders of any material changes after the Latest Practicable Date and after the dispatch of the Circular.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the GEM 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background information

1.1 Information on the Group

The Group is principally engaged in the provision of information technology (IT) solutions and services and distribution of IT corporate products, digital products, own brand products and related parts and components. The Group operates its business through three segments. The IT consumer products segment is engaged in the distribution of IT consumer products, including personal computers, digital products and IT accessories (the “**IT Consumer Product**”). The IT corporate products segment is engaged in the distribution of IT corporate products, including storage products, minicomputers, networking products and personal computer servers (the “**IT Corporate Product**”). The others segment is engaged in the distribution of smart phones and development of its own brand products, including mobile location-based service products (“**Others**”).

The table below is a summary of financial highlights of the Group for the two years ended 31 December 2017 and 2018, as extracted from the annual report of the Company for the year 31 December 2018 (the “**2018 Annual Report**”).

<i>HK\$'000</i>	For the year ended 31 December	
	2017 (audited)	2018 (audited)
Revenue		
IT Consumer Products	10,809,340	11,053,217
IT Corporate Products	5,560,739	6,976,552
Others	<u>4,654,176</u>	<u>4,068,307</u>
	21,024,255	22,098,076
Gross profit	768,849	831,395
Gross profit margin	<u>3.7%</u>	<u>3.8%</u>
Profit for the year	<u>244,526</u>	<u>270,150</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the 2018 Annual Report, the Group's revenue increased from approximately HK\$21,024.3 million for the year ended 31 December 2017 to approximately HK\$22,098.1 million for the year ended 31 December 2018 due to the increase in sales of IT consumer products and IT corporate products. The Group's profit for the year increased from approximately HK\$244.5 million for the year ended 31 December 2017 to approximately HK\$270.2 million for the year ended 31 December 2018 due to the improvement of operational efficiency as a result of the Group's further control over its operational costs.

The Group's gross profit margins remained relatively stable at approximately 3.7% and 3.8% for the year ended 31 December 2017 and 2018.

1.2 Information on the OPCO and Sichuan Changhong Electronics Holding Group Co., Ltd.

The OPCO is a limited liability company established in the PRC. The OPCO is currently a wholly-owned subsidiary of the PRC Equity Owner. The OPCO is principally engaged in cloud computing services and has obtained a value-added telecommunications service operating license for internet information services of PRC* (互聯網信息服務的《中華人民共和國增值電信業務經營許可證》) (“**ICP License**”).

Sichuan Changhong Electronics Holding Group Co., Ltd, the PRC Equity Owner, is a limited liability company established in the PRC and is ultimately held by Mianyang Municipality State-owned Assets Supervision and Administration Commission* (綿陽市國有資產監督管理委員會)(the “**Mianyang SASAC**”). The principal business of the PRC Equity Owner is investment holding. The PRC Equity Owner, holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company. Sichuan Changhong and the PRC Equity Owner are controlling shareholders of the Company under the GEM Listing Rules, and accordingly the transactions contemplated under the VIE Agreements (excluding the Loan Agreement) constitute continuing connected transactions and the transactions contemplated under the Loan Agreement constitute connected transactions for the Company for the purpose of the GEM Listing Rules. Accordingly, the transactions contemplated under the VIE Agreements are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

* For identification only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, the Administrative Measures on Internet Information Services* (互聯網信息服務管理辦法) (the “Measures”) issued by PRC State Council on 25 September 2000 and amended on 8 January 2011 regulates the provision of internet information services. Under the Measures, providers of operation internet information services (經營性互聯網信息服務) must obtain an ICP License.

As the OPCO has obtained an ICP License, the Company intends for the OPCO to operate the Platform. We have reviewed the ICP License which was issued by Sichuan Communications Administration* (四川省通信管理局) in December 2018.

We have reviewed the management accounts of the OPCO for the year ended 31 December 2018 and noted that the OPCO recorded an insignificant loss of approximately RMB62,124.3 due to the administrative expenses in relation to initial set-up costs.

2. Reasons for and benefits of entering into the VIE Agreements

As set out in the Letter from the Board, to expand the Group’s e-commerce business, the Group intends for the OPCO to operate the Platform, which will connect third-party merchants with each other. These third-party merchants include, among others, upstream and downstream secondary distributors, resellers and manufacturers in the ICT industry.

The Platform allows third-party merchants to establish their own online shops within the Platform, and third-party merchants will be able to buy and sell their products amongst each other. In return for access to the Platform, these third-party merchants will pay fees to the Group for secured transaction payment services and interaction mechanism services, for assistance to third-party merchants in their interactions with each other, as well as for other value-added services like financial, marketing and big data analysis services.

We understand from the management of the Company that the following revenue streams are expected to be generated from the operation of the Platform:

- 1 Commissions on profits from sales of third-party merchants’ products on the Platform;
- 2 Store management fees from providing online shops to third-party merchants;
- 3 Transaction service fees from providing services to third-party merchants like auctions, group buying, combined orders and pre-orders;
- 4 Income generated from procuring a third-party financial services institution to provide financial management services for account balances of third-party merchants;
- 5 Promotion and marketing fees from providing promotional and marketing services to third-party merchants;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- 6 Data service fees from providing Platform sales data analysis to third-party merchants; and
- 7 System service fees charged according to transaction amounts.

The establishment of the Platform will also aid the Group in promoting the “Changhong IT” business brand to the IT industry and in promoting the development of the Group’s distribution business.

Pursuant to relevant PRC Laws as described in the section “Relevant laws and regulations in the PRC” in the Letter from the Board, an ICP License is necessary before commercial third-party merchants may join the Platform. As the OPCO has obtained an ICP License, the Company intends for the OPCO to operate the Platform.

As stated in the Letter from the Board, due to the foreign ownership restrictions, the WFOE and its subsidiaries are not eligible to apply for such a license. In order to comply with PRC Laws, the VIE Agreements were entered into among the WFOE, the OPCO and the PRC Equity Owner. Through the VIE Agreements, the WFOE will have effective control over the finances and operations of the e-commerce business of the Platform under the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

Presently, there is a lack of clear guidance or interpretation on the qualification requirement on applying for ICP license for foreign investors holding less than 50% of a company. The Group faces difficulties and uncertainties in obtaining an ICP License through holding equity interests (whether directly or indirectly) in a PRC foreign-invested enterprise, and would face prolonged application processes with unknown results, which would incur extra costs to the Group. Because there is great difficulty and uncertainty for a PRC foreign-invested enterprise to obtain an ICP License from the relevant authority in the PRC, we concur with the Directors’ view that the current method of adopting the VIE Agreements to gain effective control over the entire equity interest of the OPCO will minimize the time and financial burden for obtaining the ICP License, and is in the interests of the Company and the Shareholders as a whole.

Based on the above, we are of the view that the OPCO is in line with the Group’s strategy to further expand the business. The Group can derive platform usage fee and transaction fee from the third-party merchants which establish their own online shops within the Platform. We understand from the Company that the Company has confirmed with its auditor that the financial results of the OPCO will be consolidated into the consolidated financial statements of the Company as if the OPCO is a wholly owned subsidiary of the Company under the prevailing accounting standards adopted by the Company in preparing its consolidated financial statements upon entering into the VIE Agreements and therefore the OPCO will bring an additional revenue stream to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. VIE Agreements

A summary of the principal terms of the VIE Agreements is set out below:

(1) *The Exclusive Purchase Right Agreement*

Parties: (i) the PRC Equity Owner;

(ii) the WFOE; and

(iii) the OPCO.

Term: The Exclusive Purchase Right Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules) and shall remain in effect as long as the OPCO exists unless terminated (i) upon the transfer of all the equity interests in the OPCO held by the PRC Equity Owner to the WFOE or such nominee as designated by the WFOE pursuant to this agreement or (ii) by the WFOE at any time with thirty (30) days advance written notice to the PRC Equity Owner and the OPCO.

Subject: The PRC Equity Owner irrevocably grants the WFOE an exclusive right, to be exercised according to the WFOE's discretion, at any time in one instance or across multiple instances, to purchase all or part of the PRC Equity Owner's equity interests in the OPCO at the lowest price permissible under applicable PRC laws and regulations at the time. The WFOE may elect to satisfy the purchase price by setting off outstanding amounts under the Loan Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(2) The Loan Agreement

- Parties: (i) the WFOE (as lender); and
- (ii) the PRC Equity Owner (as borrower).
- Principal: The WFOE shall provide a non-interest bearing loan in an aggregate amount of RMB60 million to the PRC Equity Owner, of which (i) RMB2 million will go towards the PRC Equity Owner's initial contribution to the paid-up capital to the OPCO, to be drawn down within 5 business days from the day that the Loan Agreement becomes effective, and (ii) the remaining RMB58 million will be used for the PRC Equity Owner's future contribution to the OPCO's paid-up capital, to be drawn down within three (3) years from the day that the Loan Agreement becomes effective. The Loan Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules) by the WFOE and the PRC Equity Owner.
- Term: 10 years from the effective date of the Loan Agreement and automatically renewable for a term of 10 years upon the expiry of the initial term and all subsequent terms.

As stated in the Letter from the Board, the loan will become due and payable, among others, if according to applicable PRC laws, a foreign investor may invest in the business of the OPCO as a controlling and/or sole shareholder, the PRC authorities begin to process approvals for this type of business, and the WFOE exercises its rights to purchase the equity interest in the OPCO pursuant to the Exclusive Purchase Right Agreement. In such a case, if the purchase price for such equity interest transfer is less than the loan amount, then the WFOE waives the difference between the two amounts. On the other hand, if the purchase price for such equity interest transfer is higher than the loan amount, then the PRC Equity Owner shall, without seeking any compensation, pay the difference between the two amounts to the WFOE.

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In order to assess the reasonableness of the two-way waiver arrangement as described above, we have discussed with the management of the Company and taken into account that (i) the WFOE has effective control over the OPCO under the VIE Agreements; (ii) the loan amounts is to be used for the OPCO's paid-up capital and are expected to be recorded under the caption of "long term equity investment" in the accounts of the WFOE upon the registration of the pledge over the OPCO's paid-up capital pursuant to the Equity Pledge Agreement, and will continue to be treated as long term equity investment when the WFOE acquires the OPCO's equity interest; (iii) under the Exclusive Purchase Right Agreement, the WFOE may elect to satisfy the purchase price by setting off the outstanding amount under the Loan Agreement; and (iv) we have reviewed the journal entries prepared by the Company illustrating the accounting treatment of the loan amounts to the OPCO and noted that the WFOE will retain its original investment in the OPCO when it acquires OPCO and the consideration to be received by the PRC Equity Owner would remain nil, irrespective of having the purchase price for acquiring the OPCO's equity interest being higher or lower than the original loan amount. Based on the above, we concur with the Directors' view that the two-way waiver arrangement is reasonable.

The loan under the Loan Agreement is one-off in nature. If there are changes to the loan amount under the Loan Agreement in the future, the Company will comply with relevant requirements under Chapters 19 and 20 of the GEM Listing Rules, where necessary.

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(3) The Equity Pledge Agreement

- Parties:
- (i) the WFOE (as pledgee);
 - (ii) the PRC Equity Owner (as pledgor); and
 - (iii) the OPCO.
- Term:
- The equity pledge will be effective from registration of the pledged equity with the corresponding industrial and commercial administration until all of the PRC Equity Owner and the OPCO's obligations under the VIE Agreements (as the case may be) (the "Contractual Obligations") are performed in full and all losses suffered by the WFOE in relation to breaches of the VIE Agreement by the PRC Equity Owner or the OPCO (the "Guaranteed Liabilities") have been paid in full. The Equity Pledge Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules).
- Subject:
- The PRC Equity Owner agrees to pledge all of its shares in the OPCO to the WFOE to secure the Contractual Obligations and the Guaranteed Liabilities.

Under the Equity Pledge Agreement, the PRC Equity Owner can increase the capital of the OPCO only with the prior written consent of the WFOE. If there are such increases in the capital of the OPCO, further loan agreements may be entered into to finance such increase in capital, as necessary.

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(4) *The Exclusive Consultancy and Services Agreement*

- Parties: (i) the WFOE; and
- (ii) the OPCO.
- Term: 10 years from effectiveness of the Exclusive Consultancy and Services Agreement, which is automatically renewable for a term of 10 years upon expiry of the initial term and every subsequent term, unless terminated by the WFOE at any time with ninety (90) days advance notice to the OPCO, otherwise the OPCO shall not unilaterally terminate this agreement. The Exclusive Consultancy and Services Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules).
- Subject: The WFOE shall provide the OPCO with exclusive consultancy and services.
- Fee: The OPCO shall pay to the WFOE on a quarterly basis, a service fee that is equal to 100% of the total before-income-tax consolidated profits of the OPCO after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes.

The WFOE may adjust the scope and amount of the service fee according to PRC tax law and tax practices, and the OPCO will accept such adjustments. The WFOE may adjust the payment time and payment method, and the OPCO will accept such adjustments.

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(5) *The Business Cooperation Agreement*

- Parties: (i) the PRC Equity Owner;
- (ii) the WFOE; and
- (iii) the OPCO.
- Term: The Business Cooperation Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules). The OPCO and the PRC Equity Owner shall not unilaterally terminate the agreement. The agreement terminates on (i) the WFOE completes acquisition of all of the PRC Equity Owner's equity interest in the OPCO pursuant to the Exclusive Purchase Right Agreement or (ii) the WFOE's thirty (30) days' advance written notice to the PRC Equity Owner and the OPCO.
- Subject: The PRC Equity Owner undertakes to the WFOE that it shall, and shall procure the OPCO to
- (i) Prudently and effectively operate the OPCO's value-added telecommunications business in accordance with good financial and business standards and usual practices;
- (ii) Follow the WFOE's instructions when formulating the OPCO's development plan and annual work plan;
- (iii) Develop value-added telecommunications business and other relevant business under the assistance of the WFOE;

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- (iv) Follow the suggestions, opinions, rules and other guidance in carrying out the daily operation and financial management;
- (v) Follow the WFOE's instructions and suggestions in appointing directors and supervisors of the OPCO;
- (vi) Follow the WFOE's instructions and suggestions in relation to the recruitment and dismissal of the senior management and employees of the OPCO;
- (vii) Accept suggestions, guidance and proposals raised by the WFOE in relation to business development;
- (viii) Carry out the value-added telecommunications business and update and maintain the necessary qualification certificates, including but not limited to the ICP License; and
- (ix) Perform the obligations under the VIE Agreements.

To prevent the losses to the assets and value of the OPCO, the PRC Equity Owner and the OPCO undertake that, without the prior written consent from the WFOE, the OPCO would not (and the PRC Equity Owner would not procure the OPCO to) enter into any transaction that may affect the OPCO's assets, obligations, business or operations.

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(6) Power of Attorney

- Parties: (i) the PRC Equity Owner; and
- (ii) the WFOE.
- Term: The Power of Attorney takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules). The PRC Equity Owner shall have no right to unilaterally terminate the Power of Attorney. The Power of Attorney terminates on the date of completion of the sale of all the equity interests in the OPCO held by the PRC Equity Owner pursuant to the Exclusive Purchase Right Agreement.
- Subject: The PRC Equity Owner irrevocably authorizes the WFOE (and its successors (including a liquidator replacing the WFOE, if any) to exercise shareholder rights.

(7) The Intellectual Property Rights Authorisation Agreement

- Parties: (i) the WFOE; and
- (ii) the OPCO.
- Term: 10 years from effectiveness of the Intellectual Property Rights Authorisation Agreement, and is automatically renewable for a term of 10 years upon expiry of the initial term and every subsequent term, unless the WFOE notifies the OPCO that the term will not be renewed ninety (90) days before the end of the term. The Intellectual Property Rights Authorisation Agreement takes effect upon signing and after fulfillment of statutory approval procedures (namely, the Company receiving Shareholders' approval pursuant to the GEM Listing Rules). The WFOE may at any time, by giving thirty (30) days advance written notice, terminate the agreement. The OPCO may not unilaterally terminate the agreement.

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Subject: The WFOE agrees to grant to the OPCO the non-exclusive, non-sublicensable, non-transferrable right to use certain intellectual property rights in the PRC in relation to the Platform. The OPCO may only use such intellectual property rights in operating a value-added telecommunications business.

Such intellectual property rights include such trademarks, patents, copyright, knowhow and other intellectual property rights (if any) currently or in the future owned by, created by or transferred to WFOE, including any new achievements derived from WFOE's improvements and updates.

Upon adoption of the VIE Structure, it is intended that certain subsidiaries of the Company will enter into license agreements with the WFOE, to grant certain the technical licenses in connection with the Platform and strategic plans, technical plans, platform technology system, website design and implementation results in relation to the Platform. As such, the OPCO will in turn be authorised to use among others, such technical licenses pursuant to the arrangements under the Intellectual Property Rights Authorisation Agreement.

(8) *The Commitment Letter*

Parties: the PRC Equity Owner.

Subject that: The PRC Equity Owner irrevocably undertakes and confirms to the WFOE

- (i) pursuant to the Exclusive Purchase Right Agreement, the WFOE has an exclusive right to purchase all of the PRC Equity Owner's interests in the OPCO at the agreed price;
- (ii) pursuant to the Equity Pledge Agreement, if there is any dividend or bonus generated by the pledged equity during the term of the Equity Pledge Agreement and while the VIE Agreements continue to be effective, such dividend or bonus generated shall be returned to the WFOE;

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- (iii) pursuant to the Exclusive Consultancy and Services Agreement, the OPCO shall pay to the WFOE a service fee that is equal to 100% of the total before-income-tax consolidated profits of the OPCO, after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes;
- (iv) pursuant to the Exclusive Consultancy and Services Agreement, the WFOE may adjust the scope and amount of the service fee according to PRC tax law and tax practices and the PRC Equity Owner shall induce the OPCO to accepting such adjustments. The WFOE has the right to calculate the service fee on a quarterly basis and issue a corresponding invoice to the OPCO. The WFOE may adjust the payment time and payment method, and the OPCO will unconditionally accept such adjustments;
- (v) the PRC Equity Owner will not directly or indirectly through any person or entity, participate in, carry out, acquire or hold any interest in any business which is or may be in competition with the OPCO, WFOE and WFOE's affiliates, and shall not do anything which gives rise to any conflict of interest in relation to the operation of the OPCO between the PRC Equity Owner and the WFOE. In the event of any conflict of interests as mentioned above between the PRC Equity Owner and the WFOE, the PRC Equity Owner will take any actions as instructed by the WFOE to eliminate such conflict provided that such action is compliant with the applicable laws;
- (vi) no conflict of interest exists in relation to the PRC Equity Owner's authorization of the WFOE (and its successors (including a liquidator replacing the WFOE, if any)) to exercise OPCO shareholder rights under the Power of Attorney; and

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- (vii) if the PRC Equity Owner is ordered to be dissolved, is abolished, is closed, declares bankruptcy or for other reasons its capacity as an entity ceases to exist, the PRC Equity Owner shall use all efforts to procure that the PRC Equity Owner's successor (including, but not limited to, a liquidator replacing the PRC Equity Owner (if any) or other entity that succeeds the PRC Equity Owner's obligations due to the above situations) continues to perform the PRC Equity Owner's obligations under the VIE Agreements.

With respect to (iii) and (iv) above, although the PRC Equity Owner is not a transacting party under the Exclusive Consultancy and Services Agreement, as the OPCO is 100% held by the PRC Equity Owner, the PRC Equity Owner has duly approved and authorized the execution of the respective VIE Agreements, including the Exclusive Consultancy and Services Agreement, by the OPCO, through the passing of the necessary shareholder's resolution of the OPCO. We have reviewed the shareholder's resolution of the OPCO approving the OPCO to enter into the respective VIE Agreements. We have also confirmed with the PRC Legal Adviser that (i) the PRC Equity Owner is a separate legal entity duly established and validly existing under the PRC Laws; (ii) the PRC Equity Owner has the power and capacity to enter into the respective VIE Agreements including the Commitment Letter; (iii) each of the VIE Agreements including the Commitment Letter is legal, valid and binding on the parties thereto; (iv) the terms of the Commitment Letter in relation to the Exclusive Consultancy and Services Agreement do not require any approvals from the PRC governmental authorities; and (v) the VIE Agreements do not violate the current PRC Laws. Therefore, we are of the view that the terms of the Commitment Letter in relation to the Exclusive Consultancy and Services Agreement are enforceable despite that the PRC Equity Owner is not a transacting party under the Exclusive Consultancy and Services Agreement.

In addition, under the Power of Attorney, the PRC Equity Owner has irrevocably authorized the WFOE (and its successors (including a liquidator replacing the WFOE, if any)) to exercise the OPCO shareholder's rights including, among others, representing the PRC Equity Owner to exercise voting rights in all matters requiring shareholder's discussion and resolution, including but not limited to nominating and appointing directors, supervisors, the general manager and other senior management positions that shall be decided by shareholders. We understand from the management of the Company that the terms of the Commitment Letter in relation to the Exclusive Consultancy and Services Agreement serve as additional assurance by the PRC Equity Owner to the WFOE to confirm its rights under the Exclusive Consultancy and

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Services Agreement. We concur with the Directors' view that the terms of the Commitment Letter with respect to the Exclusive Consultancy and Services Agreement are fair and reasonable.

With respect to (vii) above, the Company has been advised by its PRC Legal Adviser that pursuant to relevant PRC Laws, the PRC Equity Owner's successor (including, but not limited to, a liquidator replacing the PRC Equity Owner (if any) or other entity that succeeds the PRC Equity Owner's obligations due to the above situations) replacing the PRC Equity Owner could assume the obligations of the PRC Equity Owner.

We have reviewed the VIE Agreements and the PRC legal opinion issued by the PRC Legal Adviser and understand that the VIE Agreements do not violate any PRC Laws, rules and regulations and could not be deemed as "concealing illegal intentions with a lawful form" and void under the PRC Contract Law. We understand that the VIE Agreements have been constructed to give the WFOE effective control over the financial and operation of the OPCO and act as if the shareholders of the OPCO.

In assessing any impact on the legality and validity of the VIE Agreements of having the OPCO ultimately held by Mianyang SACAC, we have discussed and confirmed with the PRC Legal Adviser that (i) the fact of having the OPCO indirectly and ultimately held by Mianyang SASAC does not violate any PRC Laws; (ii) the PRC Equity Owner is a separate legal entity duly established and validly existing under the PRC Laws; (iii) the PRC Equity Owner has the power and capacity to enter into the respective VIE Agreements; (iv) each of the VIE Agreements is legal, valid and binding on the parties thereto; (v) the VIE Agreements do not violate the current PRC Laws; and (vi) the board of directors of the PRC Equity Owner has duly approved and authorized the execution of the respective VIE Agreements by the PRC Equity Owner, the WFOE and the OPCO. We have also reviewed the board of directors' resolution of the PRC Equity Owner approving the execution of the VIE Agreements. Based on the above, we concur with the Directors' view that the indirect and ultimate ownership of the OPCO by Mianyang SASAC will not affect the legality and validity of the VIE Agreements, and the interest of the Company and shareholders would therefore not be affected.

Pursuant to the relevant provisions of the VIE Agreements, (i) the WFOE has the right to unwind the VIE Structure as soon as the relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO; (ii) the Power of Attorney empowers the WFOE to exercise all of their rights as shareholders of the OPCO under the PRC Laws; (iii) the VIE Agreements include dispute resolutions which allows that any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within 30 days, any party may submit the said dispute to the Mianyang Arbitration Commission* (綿陽仲裁委員

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會) in accordance with its arbitration rules. The results of the arbitration shall be final and binding. When the arbitral award is granted, any party can apply for its enforcement in any court with jurisdiction over the location of the relevant parties' assets; (iv) the VIE Agreements have given the power and authorization to the WFOE in dealing with the OPCO's business and daily operation as well as the rights to assets and revenue, we are of the view that the VIE Agreements and the VIE Structure take into account of the principles set out in the listing decision HKEx-LD43-3 and the guidance letter HKEx-GL-77-14.

The VIE Agreements, which do not violate any PRC Laws, rules and regulations, enables the Group to expand its business through the OPCO and the business of the OPCO is in line with the development strategy of the Group. Moreover, the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group as if the OPCO is a wholly-owned subsidiary of the Company. We are of the view that the VIE Agreements are fair and reasonable and in the interests of the Company and its Shareholders. As a whole, the business of the Group can be further diversified and a new revenue stream will be generated for the Group, and we consider that the VIE Agreements were entered into in the ordinary and usual course of business.

4. The waiver from strict compliance with the GEM Listing Rules

In relation to the VIE Agreements (excluding the Loan Agreement), the Company has applied for, and the Stock Exchange has granted the following waivers:

(1) Waiver from fixing the term of the VIE Agreements and having a term of not exceeding three years pursuant to Rule 20.50 of the GEM Listing Rules

The VIE Structure is set up to enable the Group to provide the operation internet information services indirectly through the OPCO, thereby extending the Platform to the third-party merchants. Under the VIE Agreements, the financial results of the OPCO will be consolidated into the financial results of the Group. The entire economic benefits and the risks of the businesses of the OPCO will be effectively flowed to the WFOE. The VIE Structure will enable the WFOE to gain effective control over the finance and operation of the OPCO, which will be integrated into the ordinary course of business of the Group.

Given that the Group has the intention to further grow its business scale of the Platform, the Directors are of the view that the VIE Structure will be a long-term arrangement for the Group. The Directors are also of the view that it would be unduly burdensome and impracticable, and would add unnecessary administration costs for a renewal of the VIE Agreements every three years or less. It is commercially desirable for the WFOE to enter into the VIE Agreements with a duration of more than three years in order to secure revenue generated from the Platform and develop a stable business relationship with third-party merchants in the medium to long term until the current foreign ownership restriction in the operation internet information service business is removed under the PRC Laws.

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In assessing the duration of the VIE Agreements, we have conducted a research on variable interest entity structures adopted by companies listed on the Stock Exchange (the “**Comparable Companies**”) which enable the relevant listed company to obtain control over the operating businesses of the PRC companies in which foreign investment is restricted by relevant PRC Laws and regulations (the “**Comparable Transactions**”). We have identified Comparable Companies which (i) are listed on the Stock Exchange; (ii) disclosed in announcements and/or circulars in relation to the acquisition or establishment of variable interest entity structure during the period from 1 September 2018 to 31 March 2019; and (iii) the variable interest entity structures were established due to the restriction under the relevant PRC Laws and regulations. To the best of our knowledge, 6 Comparable Transactions have been found based on the aforementioned criteria. It is noted that the Comparable Transactions do not include variable interest entity arrangements which the businesses contemplated under are similar to that of the OPCO. However, in our opinion, the nature of variable-interest-entity arrangements, as against the nature of businesses contemplated under, is a more relevant criterion in selecting the Comparable Transactions.

The table below illustrates the details of the Comparable Transactions

Date of announcement/circular	Stock code	Company name	Business contemplated under the variable-interest entity agreements	Duration of variable-interest-entity agreements	Reasons to establish variable-interest structure	Undertakings on the variable interest entity agreements provided by the ultimate beneficial owner of the OPCO
7 Mar 2019	1089	Leyou Technologies Holdings Limited	Business of radio, television program and film production	<ul style="list-style-type: none"> • Equity Pledge Agreement: 10 Years (renewable) • Exclusive Business Cooperation Agreement, Exclusive Option Agreement, Powers of Attorney, Spousal Consent Letters: No fixed term 	Subject to foreign investment restrictions and prohibitions	Yes. The OPCO is directly owned by two individuals, who are also ultimate beneficial owners of the OPCO.

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Date of announcement/circular	Stock code	Company name	Business contemplated under the variable-interest entity agreements	Duration of variable-interest-entity agreements	Reasons to establish variable-interest structure	Undertakings on the variable interest entity agreements provided by the ultimate beneficial owner of the OPCO
28 Dec 2018	800	A8 New Media Group Limited	Mobile online game research and development and operation in the PRC and overseas	<ul style="list-style-type: none"> Exclusive Business Cooperation Agreement, Exclusive Call Option Agreement: 10 Years (renewable) Equity Pledge Agreement, Powers of Attorney, Spousal Consent Letters: No fixed term 	Subject to foreign investment restrictions and prohibitions	Undertakings on the variable interest entity agreements are provided by the immediate PRC equity owners of the OPCO instead of the ultimate beneficial owners. The PRC equity owners consist of two companies and one limited partnership.
28 Dec 2018	799	IGG Inc	Operation of online games in the PRC	No fixed term	Subject to foreign investment restrictions and prohibitions	Yes. The OPCO is directly owned by two individuals, who are also ultimate beneficial owners of the OPCO.
20 Nov 2018	1682	Hua Long Jin Kong Company Limited	P2P Financing business	No fixed term	Subject to foreign investment restrictions and prohibitions	Yes. The ultimate beneficial owners of the OPCO are two individuals.
2 Oct 2018	1718	Wan Kei Group Holdings Limited	Business of operation of e-sports events, production of videos of e-sports events broadcast online, and filming and production of dramas broadcast online in the PRC	<ul style="list-style-type: none"> Exclusive Call Option Agreement, Exclusive Business Cooperation Agreement: 10 years (renewable) Share Pledge Agreement, Shareholders' Voting Right Entrustment Agreement and Power of Attorney, Spousal Consent Letters: No fixed term 	Subject to foreign investment restrictions and prohibitions	Undertakings on the variable interest entity agreements are provided by the immediate PRC equity owners of the OPCO instead of the ultimate beneficial owners. The PRC equity owners consist of a number of individuals, companies and limited partnerships.

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Date of announcement/ circular	Stock code	Company name	Business contemplated under the variable-interest entity agreements	Duration of variable-interest-entity agreements	Reasons to establish variable-interest structure	Undertakings on the variable interest entity agreements provided by the ultimate beneficial owner of the OPCO
28 Sep 2018	82	V1 Group Limited	Development and operation of online and/or mobile game applications, live streaming platforms and online mobile interactive game applications, online information platforms and related products of sports nature in the PRC	<ul style="list-style-type: none"> • Exclusive Call Option Agreement: 10 years (renewable) • Exclusive Business Cooperation Agreement, Shareholders' Voting Right Entrustment Agreement, Equity Pledge Agreement and WFOE's Undertaking: No fixed term 	Subject to foreign investment restrictions and prohibitions	Undertakings on the variable interest entity agreements are provided by the immediate PRC equity owner of the OPCO instead of the ultimate beneficial owners. The PRC equity owner is a company substantially owned by an individual.

As shown above, the Comparable Companies entered into a series of variable interest entity agreements with relevant PRC companies and their shareholders such that the Comparable Companies can effectively control the variable interest entities and are therefore able to consolidate the financial results of the variable interest entities into the consolidated financial statements of the Comparable Companies.

The durations of variable interest entity agreements contemplated under the Comparable Transactions ranged were ten years or included an indefinite term. Among the 6 Comparable Transactions, four of the Comparable Transactions have individual variable interest entity agreements with durations of ten years and all of them have individual variable interest entity agreements without fixed terms. Two of the Comparable Transactions have a full set of variable interest entity agreements with no fixed term. In view of the above, we consider that it is a normal business practice for contracts of similar nature to the VIE Agreements to have a duration of more than three years.

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(2) Waiver from the setting maximum aggregate annual caps for the services fees payable by the OPCO to the WFOE under the Exclusive Consultancy and Services Agreement pursuant to Rule 20.51 of the GEM Listing Rules

As described in the Exclusive Consultancy and Services Agreement, the OPCO shall transfer 100% of the profits before income tax generated by the OPCO (after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes) to the WFOE. This arrangement is equivalent to the Group operating the OPCO as its own subsidiary and the Group can fully enjoy the economic benefits generated by the OPCO. Setting maximum annual caps for such service fees will limit the ability of the Group to operate the business and receive the economic benefits generated by the OPCO. We further understand from the management of the Company that (i) it would be unduly burdensome and would incur unnecessary administrative costs to set maximum aggregate annual caps for the service fees under the Exclusive Consultancy and Services Agreement; (ii) the intention of the Exclusive Consultancy and Services Agreement is to enable the Group to receive the entire economic benefits derived by the OPCO; and (iii) the PRC Equity Owner does not intend to and will not receive any economic benefits from the operation by the OPCO in excess of any maximum aggregate annual caps. Therefore, we concur with the Directors' view that it is reasonable for the Company not to set maximum aggregate annual caps for the services fees payable by the OPCO to the WFOE.

5. Conditions of the waivers

The Stock Exchange has granted the Waiver subject to the following conditions: (i) any changes to the terms of any of the VIE Agreements are subject to the approval from the independent non-executive Directors and the Independent Shareholders; (ii) the VIE Agreements shall continue to enable the Group to receive the economic benefits derived by the OPCO Group; (iii) the VIE Agreements may be renewed and/or reproduced upon the expiry of the existing arrangements, without the approval of Independent Shareholders, on substantially the same terms and conditions as the VIE Agreements; (iv) there will be ongoing reporting and approval procedures as disclosed in the Letter from the Board of the Circular. We consider that the abovementioned conditions safeguard the interests of the Company and the Shareholders, in particular any change to the terms of any of the VIE Agreements will require the approval from the independent non-executive Directors and the Independent Shareholders.

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6. Possible financial effects of the VIE Structure

Through the VIE Agreements, the WFOE will have effective control over the operation of the OPCO. As discussed with and advised by the auditor, the financial results of the OPCO will be consolidated into the Group's financial statements after entering into the VIE Agreements. Once the OPCO starts generating revenue, the Group will have an additional revenue stream.

RECOMMENDATION

Having considering that (i) the VIE Agreements allows the Group to engage in the operation internet information services through the OPCO; (ii) the two-way waiver arrangement under the Loan Agreement allows the WFOE and the PRC Equity Owner not to gain or lose regardless of the purchase price of the PRC Equity Owner's equity interests in the OPCO; (iii) the introduction of third-party merchants to the Platform is in line with the Group's business strategies capture more business opportunities; (iv) the OPCO will bring a new revenue stream to the Group and the financial results of the OPCO will be consolidated into the Group's consolidated financial statements, we are of the view that entering into the VIE Agreements is in the ordinary and usual course of the business of the Group.

We consider that the waiver for setting a maximum annual cap for the services fees payable by the OPCO to the WFOE will limit the flow of economic benefits generated by the the OPCO to the Group. In respect of the waiver from fixing the term of the VIE Agreements for a period of not exceeding three years, it is commercially desirable for the WFOE to enter into the VIE Agreements with a duration of more than three years in order to secure the economic benefits generated from the Platform and develop a stable business relationship with the third-party merchants. Given the result of the Comparable Transactions, it is a normal business practice for contracts of similar nature to the VIE Agreements to be of a term of more than three years.

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Having considered that the above factors, we consider that (i) the VIE Agreements were entered into on normal commercial terms and in the ordinary and usual course of the business of the Company; (ii) the terms of the VIE Agreements and the transactions contemplated are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole; (iii) the duration of VIE Agreements, being more than three years, is commercially reasonable and is in line with the normal business practice for contracts of similar nature to the VIE Agreements. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution for approving the VIE Agreements and the transactions contemplated thereunder at the SGM.

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 11 years of experience in the field of corporate finance advisory.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

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

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

Interests in the Shares of the Company:

Name of Director	Capacity	Number of Shares held (Note 1)	Approximate percentage of interest in relevant class of Shares (Note 2)
Mr. Zhu Jianqiu ("Mr. Zhu") (Note 3)	Interest in a controlled corporation	82,415,762 (L)	5.67%

Notes:

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

(b) Substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Long positions in Shares

Name of substantial shareholder	Capacity	Class of Shares	Number of Shares held (Note 1)	Approximate percentage of interest in relevant class of Shares (Note 2)
Sichuan Changhong	Interest of controlled corporation and beneficial owner	Ordinary	1,008,368,000 (L) (Note 3)	69.32%
		Preference	1,115,868,000 (L) (Note 4)	100.00%
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interest of controlled corporation and beneficial owner	Ordinary	913,000,000 (L) (Note 5)	62.76%
		Preference	1,115,868,000 (L) (Note 4)	100.00%
Fit Generation Holding Limited ("Fit Generation")	Beneficial owner	Ordinary	897,000,000 (L)	61.66%
		Preference	1,115,868,000 (L)	100.00%
Sichuan Investment Management Company Limited ("Sichuan Investment Management") (Note 6)	Beneficial owner	Ordinary	83,009,340 (L)	5.70%
Sichuan Provisional Investment Group Company Limited ("Sichuan Provisional Investment Group") (Note 6)	Interest of controlled corporation and beneficial owner	Ordinary	83,009,340 (L)	5.70%
Typical Faith Limited (Note 7)	Beneficial owner	Ordinary	82,415,762 (L)	5.67%

Notes:

1. (L) represents long position.
2. The percentage is calculated based on the total number of Shares and preference Shares of the Company in issue as at the Latest Practicable Date, which were 1,454,652,000 and 1,115,868,000, respectively.
3. Of the 1,008,368,000 Shares held by Sichuan Changhong, 95,368,000 Shares were held directly, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong Hong Kong and 897,000,000 Shares were held through Fit Generation, which is wholly-owned by Changhong Hong Kong. Sichuan Changhong is therefore deemed to be interested in the Shares held by Changhong Hong Kong and Fit Generation for the purpose of the SFO.
4. 1,115,868,000 preference Shares of the Company were held by Fit Generation, which is wholly-owned by Changhong Hong Kong, which is a wholly-owned subsidiary of Sichuan Changhong. Each of Sichuan Changhong and Changhong Hong Kong is therefore deemed to be interested in the preference Shares of the Company held by Fit Generation for the purpose of the SFO.
5. Of the 913,000,000 Shares held by Changhong Hong Kong, 16,000,000 Shares were held directly and 897,000,000 Shares were held through Fit Generation. As Fit Generation is wholly-owned by Changhong Hong Kong, Changhong Hong Kong is deemed to be interested in the Shares held by Fit Generation for the purpose of the SFO.
6. Sichuan Investment Management is wholly-owned by Sichuan Investment Group, which is deemed to be interested in the Shares held by Sichuan Investment Management for the purpose of the SFO.
7. Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at the Latest Practicable Date, the Directors of the Company were not aware of any other person who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract 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)).

4. EXPERT

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

Name	Qualification
Giraffe Capital Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they appear respectively.

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

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2018, being the date to which the latest published consolidated financial statements of the Group was made up.

6. DIRECTORS' AND CONTROLLING SHAREHOLDERS' COMPETING INTERESTS IN A COMPETING BUSINESS

Sichuan Changhong is a substantial shareholder of the Company established in the PRC of which shares are listed on the Shanghai Stock Exchange. Sichuan Changhong is principally engaged in the wholesale business of consumer home electronics items under the name of "Changhong".

Save as disclosed, as at the Latest Practicable Date, none of the Directors or the controlling shareholders of the Company or any of their respective close associates (as defined in the GEM Listing Rules) had any business or interest in a business which competes or may compete with the business of the Group and any other conflicts of interest which any person has or may have with the Group.

7. INTEREST OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.20 of the GEM Listing Rules, the Company has appointed Lego Corporate Finance Limited ("**Lego Corporate Finance**") as the compliance adviser. Lego Corporate Finance, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. Neither Lego Corporate Finance nor any of its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company or in the share capital of any member of the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules as at the Latest Practicable Date, except for the compliance adviser agreement entered into between the Company and Lego Corporate Finance.

8. MISCELLANEOUS

- (a) Save and except the VIE Agreements, there is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group as at the Latest Practicable Date.
- (b) Save as disclosed in (a) above, as at the Latest Practicable Date, neither the Independent Financial Adviser nor any Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2018, being the date to which the latest published consolidated financial statements of the Group were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on business days at the office of the Company at Unit 1412, 14/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including 17 May 2019:

- (a) the Bye-laws of the Company;
- (b) the VIE Agreements;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 40 to 41 of this circular;
- (d) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 42 to 67 of this circular;
- (e) the written consent of the Independent Financial Adviser as referred to in paragraph headed “4. Expert” of this Appendix; and
- (f) this circular.

NOTICE OF SGM



CHANGHONG JIAHUA HOLDINGS LIMITED

(長虹佳華控股有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an special general meeting (the “**SGM**”) of Changhong Jiahua Holdings Limited (“**Company**”) of the shareholders (the “**Shareholders**”) will be held at 9th Floor, Beijing Changhong Sci-Tech Tower, Building 26, Zone 18, No. 188 West Road, South Fourth Ring Road, Fengtai District, Beijing, China on Friday, 17 May 2019 at 10:00 a.m., for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the entering into of the VIE Agreements (as defined in the Company’s circular dated 30 April 2019 (the “**Circular**”), a copy of which has been produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any one of the directors of the Company (the “**Directors**”) be and is hereby authorised to do all such acts and things, to sign and execute all documents or agreements under hand (and, where required, under the common seal of the Company together with any other director or the company secretary) for and on behalf of the Company as he/she/they may consider necessary, desirable or appropriate or expedient in connection with and/or to implement and/or give effect to the VIE Agreements and the transactions contemplated thereunder, and to execute all such other documents, instruments and agreements (including the affixation of the Company’s common seal, if required) deemed by them to be incidental to, ancillary to or in connection with the entering into of the VIE Agreements and the transactions contemplated thereunder, in the opinion of the directors of the Company, in the interests of the Company.”

Yours faithfully,

By order of the Board

Changhong Jiahua Holdings Limited

Zhao Yong

Chairman

Hong Kong, 30 April 2019

NOTICE OF SGM

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 Tuesday, 14 May 2019 to Friday, 17 May 2019 (both days inclusive), during which no transfer of Shares can be registered. In order to qualify for attending and voting at the SGM, all transfer documents should be lodged for registration with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Friday, 10 May 2019.
- 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.
- iv. To be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited to the Company's branch registrar in Hong Kong, Hong Kong Registrars Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting (as the case may be).
- v. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the SGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- vi. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.
- vii. Attendants should bear their own travelling, accommodation and other expenses