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Changhong Jiahua Holdings Limited
(長虹佳華控股有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

**UPDATE ON RECENT DEVELOPMENT TO THE INVESTIGATION
REGARDING CHOD AND REPORT FROM THE INDEPENDENT
ACCOUNTANT**

This announcement is issued by Changhong Jiahua Holdings Limited (the “**Company**”) pursuant to Rule 17.10 of the GEM Listing Rules and the Inside Information Provisions (as defined in the GEM Listing Rules) under Part XIVA of the SFO.

**UPDATE ON RECENT DEVELOPMENT TO THE INVESTIGATION REGARDING CHOD
AND REPORT FROM THE INDEPENDENT ACCOUNTANT**

Reference is made to the announcement of the Company dated 19 June 2015 and the announcement of the Company dated 20 July 2015 (the “**Announcement**”) in relation to the incident where it was discovered and reported to the Board that a former employee (the “**Former Employee**”) of CHOD, a wholly owned subsidiary of the Company, has misappropriated certain assets of CHOD (the “**Incident**”). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as ascribed to it in the Announcement.

As stated in the Announcement, the Independent Committee, comprising all the independent non-executive Directors of the Company, namely Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin, has appointed an Independent Accountant to perform the Independent Review.

For the purpose of investigating into the Incident, the Independent Accountant has undertaken the following work:

- (i) conducting interviews with the relevant staffs of CHOD for the purpose of obtaining basis information relating to CHOD, the purchase and sales procedure, financial management and business operation of CHOD as well as details in relation to the Incident and the Former Employee;

- (ii) conducting background check against the Former Employee;
- (iii) reviewing and analysing internal documents and financial statements of CHOD during the years 2010 to 2015;
- (iv) conducting interviews with major business partners of CHOD;
- (v) acquiring images of the computers and reviewing the electronic data of the Former Employee; and
- (vi) reviewing the claim documents from suppliers and customers of CHOD for the purpose of ascertaining the level of amount payables and/or outstanding payment due from CHOD as a result of the Incident.

During the course of the Independent Review, the Independent Accountant identified the following:

- (i) the Former Employee indicated that he had since early 2013, used the name of one of CHOD's customers ("**CHOD Customer A**"), who had a pre-agreed credit term of 30 days with CHOD, for arranging shipments of products. The shipments which alleged to be made to CHOD Customer A were mostly made to other customers unknown to CHOD (the "**Unknown Customers**") whom the Former Employee then requested to settle the relevant purchasing orders by depositing cash in the bank account designated by the Former Employee. As a result, the Former Employee was able to possess the payments made by the Unknown Customers for up to 30 days. The Former Employee alleged that he had utilised the payments made by the Unknown Customers for his private investment purpose;
- (ii) according to the financial data of CHOD, sales allegedly having made to CHOD Customer A during the period since May 2010 amounted to approximately HK\$280.50 million, among which, approximately HK\$1.45 million was deposited from the bank account of CHOD Customer A directly to the bank account of CHOD. According to the interview conducted by the Independent Accountant with CHOD Customer A, it is estimated that the time period during which there were actual sales between CHOD Customer A and CHOD was the period between 7 May 2010 and 26 January 2011. Accordingly, aside from the aforesaid HK\$1.45 million, it is possible that the remaining HK\$279.05 million were all false sales forged by the Former Employee in the manner as described in (i) above;
- (iii) apart from CHOD Customer A, there are evidence showing that the Former Employee had also entered into false sales with other customers of CHOD in the manner similar to the manner as described in (i) above;
- (iv) there are evidence showing that, upon the expiry of the credit period as agreed between CHOD and CHOD Customer A, the Former Employee, through a company whose address was the same as the Former Employee, made payment to the bank account of CHOD to settle the account

receivables to CHOD for CHOD Customer A. According to the documents reviewed by the Independent Accountant, the total amount deposited by such company into bank account of CHOD during the period from 2011 to 2015 amounted to approximately HK\$7.8 million;

- (v) upon completion of the forensic review of the electronic data on the computers of the Former Employee, it was also discovered that the Former Employee had various type of sales invoice, payment collection voucher as well as documents bearing company chops of various CHOD's customers; and
- (vi) apart from the Former Employee, there are no evidence during the Independent Review which indicate that the remaining three employees of CHOD were involved in the Incident.

On the basis of the information provided to the Independent Accountant and the work undertaken by them as described above, the Independent Accountant estimated that the financial losses to CHOD as a result of the Incident would amount to approximately HK\$81 million. CHOD is in the course of seeking legal advice regarding the claims from its suppliers.

IMPACT ON THE GROUP'S FINANCIALS

Based on the information currently available to the audit committee of the Company, the audit committee of the Company is of the view that the Incident does not have a material impact on any financial statements of the Group for the prior years and no adjustments thereof is expected at this stage.

THE BOARD'S VIEW ON THE REPORT OF THE INDEPENDENT ACCOUNTANT

Based on the report from the Independent Accountant on the Independent Review, the Board wishes to emphasise to the Shareholders and potential investors of the Company that the Incident has no material impact to the daily operation of the principal business of the Group, and the operation of the Group (excluding CHOD) remains unaffected by the Incident.

Save as disclosed in this announcement, the Company has no other information that it is required to disclose pursuant to the Inside Information Provisions (as defined in the GEM Listing Rules) under Part XIVA of the SFO as at the date of this announcement.

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

Hong Kong, 19 October 2015

As at the date of this announcement, the executive directors of the Company are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yu Xiao, Mr. Tang Yun, Mr. Wu Xiangtao and Ms. Shi Ping and the independent non-executive directors of the Company are Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin.

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

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