
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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Characteristics of The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

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 GEM mean that it is a market more suited to professional and other sophisticated investors.

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



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

**MAJOR AND CONTINUING CONNECTED
TRANSACTIONS IN RELATION TO THE
FINANCIAL SERVICES AGREEMENT BETWEEN
CHANGHONG IT INFORMATION PRODUCTS CO., LTD AND
SICHUAN CHANGHONG GROUP FINANCE CO., LTD
AND
NOTICE OF SPECIAL GENERAL MEETING**

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



REORIENT Financial Markets Limited

A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee is set out on pages 13 to 14 of this circular. A letter from the Independent Financial Adviser is set out on pages 15 to 29 of this circular. A notice convening the SGM to be held at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 15 May 2015 at 11:00 a.m. is set out on pages 39 to 40 of this circular. A form of proxy for use at the SGM, together with the reply slip, is enclosed with this circular.

A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed on it. The form of proxy should be returned to the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the SGM or any adjournment thereof. If you intend to attend the SGM in person or by proxy, you are required to complete and return the reply slip to the share registrar of the Company, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, on or before 4:30 p.m., 12 May 2015.

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.

Date: 28 April 2015

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DEFINITIONS

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

“associates”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission
“Changhong Finance”	Sichuan Changhong Group Finance Co., Ltd, a company established in the PRC and owned as to 50% by Sichuan Changhong, and 50% by Sichuan Changhong Electric
“Changhong (Hong Kong)”	Changhong (Hong Kong) Trading Limited, a wholly-owned subsidiary of Sichuan Changhong Electric. As at the Latest Practicable Date, 16,000,000 Shares were held by Changhong (Hong Kong)
“Fit Generation”	Fit Generation Holding Limited, a wholly-owned subsidiary of Changhong (Hong Kong). As at the Latest Practicable Date, 897,000,000 Shares were held by Fit Generation
“Changhong IT”	Changhong IT Information Products Co., Ltd, a company established under the laws of the PRC and a wholly-owned subsidiary of the Company
“Company”	Changhong Jiahua Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM
“Director(s)”	director(s) of the Company
“Financial Services”	the financial services to be provided by Changhong Finance to Changhong IT pursuant to the Financial Services Agreement, including (i) deposit services; (ii) loan services; and (iii) settlement services
“Financial Services Agreement”	the financial services agreement entered into on 26 March 2015 by Changhong IT and Changhong Finance pursuant to which Changhong Finance agreed to provide certain Financial Services to Changhong IT
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited

DEFINITIONS

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising of all the independent non-executive Directors, namely Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin
“Independent Financial Adviser” or “REORIENT”	REORIENT Financial Markets Limited, the independent financial adviser to the Independent Board Committee and the independent Shareholders, a corporation licensed under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) activities
“Independent Shareholders”	the Shareholders other than those with material interest in the Financial Services Agreement who are required to abstain from voting under the GEM Listing Rules to approve the transactions under the Financial Services Agreement
“Latest Practicable Date”	24 April 2015, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion herein
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at 11:00 a.m. on Friday, 15 May 2015 at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, or any adjournment thereof
“Shareholder(s)”	holder(s) of the Shares
“Shares”	shares of HK\$0.025 each of the Company

DEFINITIONS

“Sichuan Changhong”	Sichuan Changhong Electric Co., Limited, a company established under the laws of the PRC with limited liability, the issued A-shares of which are listed on the Shanghai Stock Exchange (stock code: 600839.SH) and owns, together with its wholly-owned subsidiaries, 69.32% of the Company
“Sichuan Changhong Electric”	Sichuan Changhong Electronics Group Co., Ltd., a company established under the laws of the PRC and which holds approximately 23.19% of the equity interest of Sichuan Changhong as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	supervisor(s) of the Company

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. Zhao Yong
Mr. Zhu Jianqiu
Mr. Yu Xiao
Mr. Tang Yun
Mr. Wu Xiangtao
Ms. Shi Ping

Independent Non-Executive Directors:

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

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Unit 3701, 37/F West Tower
Shun Tak Centre
168-200 Connaught Road Central

28 April 2015

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONTINUING CONNECTED
TRANSACTIONS IN RELATION TO THE
FINANCIAL SERVICES AGREEMENT BETWEEN
CHANGHONG IT INFORMATION PRODUCTS CO., LTD AND
SICHUAN CHANGHONG GROUP FINANCE CO., LTD
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 26 March 2015 in relation to the Financial Services Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Financial Services Agreement and the Financial Services contemplated thereunder and the proposed annual caps for the relevant Financial Services for the three years ending 31 December 2017; (ii) the

LETTER FROM THE BOARD

recommendation from the Independent Board Committee in respect of the Financial Services Agreement; and (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement.

FINANCIAL SERVICES AGREEMENT

On 26 March 2015, the Financial Services Agreement was entered into between Changhong IT and Changhong Finance, pursuant to which Changhong Finance agreed to provide Financial Services to Changhong IT in accordance with the terms and conditions of the Financial Services Agreement.

Particulars of the Financial Services Agreement are as follows:

Date:	26 March 2015
Parties:	Changhong IT, a wholly-owned subsidiary of the Company Changhong Finance
Term:	A fixed term from the date of the Financial Services Agreement and ending on 31 December 2017 (both dates inclusive)
Nature of transactions:	Provision of Financial Services, including but not limited to, (i) deposit services; (ii) loan services; and (iii) settlement services
Effectiveness	If approval of the Independent Shareholders is required under the GEM Listing Rules, the Financial Services Agreement will only become effective upon obtaining such approval.
Pricing and Payment terms:	In relation to the deposit services pursuant to the Financial Services Agreement, the interest rate applicable to any deposits made available by Changhong IT to Changhong Finance will be determined in the ordinary course of business and shall not be less than (i) the minimum interest rate prescribed by PBOC at such relevant time, which is 0.35% per annum as at the Latest Practicable Date; and (ii) the interest rate available to Changhong IT from other major commercial banks in the PRC independent to Changhong IT in respect of the same type of deposits. The Group is at its own discretion to elect the amount of deposit to be deposited with Changhong Finance it requires. Funds to be deposited by the Group under the Financial Services Agreement are from the internal resources of the Group.

LETTER FROM THE BOARD

In relation to the loan services pursuant to the Financial Services Agreement, the interest rate of the loans to be granted by Changhong Finance to Changhong IT will be determined in the ordinary course of business and shall not be higher than (i) the maximum interest rate prescribed by PBOC at such relevant time, which is 5.35% per annum as at the Latest Practicable Date; and (ii) the interest rate charged against Changhong IT by other major commercial banks in the PRC independent to Changhong IT in respect of the same type of loans.

In relation to the settlement services pursuant to the Financial Services Agreement, the settlement service fees to be charged by Changhong Finance will be determined in the ordinary course of business and shall not exceed the fees charged by other settlement services providers independent to Changhong IT in respect of the same type of settlement services.

PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION FOR ANNUAL CAPS

The proposed annual caps for the periods ending 31 December 2015, 2016 and 2017 for each of (i) deposit services; (ii) loan services; and (iii) settlement services are determined with reference to their respective market rates. Changhong IT will continue to observe the rates from other similar service providers to ensure that the services provided pursuant to the Financial Services Agreement is fair and reasonable and in the interests of its Shareholders as a whole and that the fair market principles for the Company using such financial services is maintained.

The annual caps for each of (i) deposit services; (ii) loan services; and (iii) settlement services under the Financial Services Agreement are set forth as below:

Deposit Services

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

	Annual cap for the year ending 31 December 2015 <i>(RMB'000 per day)</i>	Annual cap for the year ending 31 December 2016 <i>(RMB'000 per day)</i>	Annual cap for the year ending 31 December 2017 <i>(RMB'000 per day)</i>
Maximum daily outstanding balance of deposits to be deposited by Changhong IT with Changhong Finance (including interest accrued and handling fees thereon)	500,000	600,000	800,000

LETTER FROM THE BOARD

The above annual caps are subject to the conditions that (i) the total deposit amount deposited by Changhong IT not exceeding 30% of the total deposit amount taken by Changhong Finance; and (ii) the total deposits by Changhong IT with Changhong Finance not exceeding the maximum amount of credit line to be provided by Changhong Finance to Changhong IT (including loans, guarantees and acceptances issued).

The annual caps for the deposit amount was determined based on arm's length negotiation between the parties to the Financial Services Agreement, taking into account the effectiveness and reasonableness of the financial management of Changhong IT and Changhong Finance. The annual caps for the deposit amount were determined based on the maximum amount of credit line available by Changhong Finance to Changhong IT. Changhong IT and Changhong Finance should jointly cooperate in monitoring the compliance of the proposed annual caps.

Loan Services

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

	Annual cap for the year ending 31 December 2015 (RMB'000)	Annual cap for the year ending 31 December 2016 (RMB'000)	Annual cap for the year ending 31 December 2017 (RMB'000)
Maximum daily outstanding balance of loans to be granted by Changhong Finance to Changhong IT (including interest accrued and handling fees thereon)	500,000	600,000	800,000

The annual cap for the loans amount to be provided by Changhong Finance to Changhong IT pursuant to the Financial Services Agreement are determined with reference to the expected business development needs and the increasing funding requirement in light of the business demand of Changhong IT, taking into account of the source of funding required that is necessary for Changhong IT's operations and expected growth. Changhong IT should assist Changhong Finance in monitoring the implementation of the maximum outstanding balance.

LETTER FROM THE BOARD

Settlement Services

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

	Annual cap for the year ending 31 December 2015 (RMB'000)	Annual cap for the year ending 31 December 2016 (RMB'000)	Annual cap for the year ending 31 December 2017 (RMB'000)
Maximum service fees for the settlement services to be provided by Changhong Finance to Changhong IT	5,000	5,000	5,000

The annual cap for the service fees for the settlement services to be provided by Changhong Finance to Changhong IT pursuant to the Financial Services Agreement is determined with reference to the expected settlement fees that will be derived from the maximum expected deposit and loan services required by Changhong IT from Changhong Finance.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCIAL SERVICES AGREEMENT

Changhong Finance is a non-bank financial institution established in the PRC on 23 August 2013 and approved by CBRC on 20 August 2013 to provide a range of financial services including but not limited to depository, loan, settlement, bill discounting, guarantees and other financial services approved by the CBRC. The standing of Changhong Finance as a financial institution in the PRC is subject to annual review by the CBRC and the relevant regulations in the PRC, and its pricing policies and the operation of which are subject to guidelines issued by CBRC. Accordingly, despite that Changhong Finance is not a licensed bank in the PRC, it is a regulated financial institution subject to compliance of the relevant regulations in the PRC. Based on the foregoing, the Directors are of the view that the interests of the shareholders will not be hindered as a result of the deposit arrangement with Changhong Finance under the Financial Services Agreement.

The deposit interest rates and the lending rates offered by Changhong Finance to Changhong IT will be equal to or more favorable to Changhong IT than those offered by independent commercial banks in the PRC to Changhong IT for comparable deposits or, as the case may be, loans. The Financial Services Agreement is therefore expected not only to provide Changhong IT with new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. Changhong IT is also expected to be in a better position to manage the security of its funds since it is not considered to be exposed to any significant capital risk. Further, by entering into the Financial Services Agreement, the Group could increase its fund utilisation efficiency and reduce the need to rely on third party financing, which will in turn help the Group to achieve a lower cost of funding and maximise cost and operational efficiencies. On the other hand, benefited from the cooperation with Changhong Finance pursuant to the entering of the Financial Services Agreement, the Group could also enhance its bargaining power with other financial institutions.

LETTER FROM THE BOARD

The Financial Services Agreement does not preclude Changhong IT from using the services of other financial institutions. Changhong IT still has the right to select any other major and independent PRC commercial banks as its financial services providers as it, from time to time, thinks fit and appropriate for the benefit of Changhong IT. Accordingly, Changhong IT will potentially be able to enjoy with potentially better interest rates than those available from other major financial institutions in the PRC pursuant to the arrangement under the Financial Services Agreement, and therefore in a better position to manage the security of its funds under such arrangement.

INTERNAL CONTROL

Subject to the general pricing principle and payment terms disclosed above, the pricing policy will be supervised and monitored by the relevant personnel of the Group in charge to ensure the Financial Services Agreement is conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Shareholders as a whole. The relevant personnel of the Group will also conduct regular checks twice a year to review and assess whether the transactions contemplated under the Financial Services Agreement are conducted in accordance with the terms of each of the Financial Services Agreement and in accordance with the aforesaid pricing policy. Further, the Group's treasury group will contact commercial banks in the PRC to obtain interest rate quotes and compare the quotes with those offered by Changhong Finance. The rates and the decision of making any deposits with Changhong Finance will also be reviewed and approved by the chief financial officer of Changhong IT. The Company will also engage its auditors to conduct an annual review of the transactions thereunder the Financial Services Agreement.

IMPLICATIONS UNDER THE GEM LISTING RULES

Changhong Finance is a company owned as to 50% by Sichuan Changhong, the controlling shareholder of the Company and 50% by Sichuan Changhong Electric, a company which holds approximately 23.19% of the equity interest of Sichuan Changhong. Accordingly, Changhong Finance is an associate of a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules, and accordingly the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company for the purpose of the GEM Listing Rules.

As the highest of the applicable percentage ratios of the proposed annual caps in respect of the deposit services under the Financial Services Agreement exceed 5% on an annual basis, the deposit services under the Financial Services Agreement and the proposed annual caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. In addition, as the relevant percentage ratios in respect of the provision of the deposit services under the Financial Services Agreement exceed 25% but are less than 100%, the provision of the deposit services also constitutes major transactions for the Company under Chapter 19 of the GEM Listing Rules and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

The loan services under the Financial Services Agreement will constitute financial assistance provided by a connected person. As such loan services will be provided on normal commercial terms or on terms which are more favorable to Changhong IT and will not be secured by the assets of the Group, the loan services under the Financial Services Agreement are exempt from announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

LETTER FROM THE BOARD

As the highest of the applicable percentage ratios of the proposed annual caps in respect of each of the settlement services and other services under the Financial Services Agreement is more than 0.1% but less than 5%, the settlement services are exempt from independent shareholders' approval requirements but subject to announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules.

In the event that Changhong Finance provides any further financial services to Changhong IT under the Financial Services Agreement, the Company will determine the percentage ratios and re-comply with the announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules if and to the extent that such requirement apply.

OTHERS

Mr. Zhao Yong is a director of both Sichuan Changhong and Sichuan Changhong Electric, the two shareholders of Changhong Finance. Mr. Yu Xiao is a director of Changhong Finance. Mr. Tang Yun is a director of a company which is 60% owned by Sichuan Changhong Electric. Further, Mr. Wu Xiangtao is a director of the wholly-owned subsidiary of Sichuan Changhong. Accordingly, each of Mr. Zhao Yong, Mr. Yu Xiao, Mr. Tang Yun and Mr. Wu Xiangtao, each being an executive Director, is considered to be interested in the transactions contemplated under each of the Financial Services Agreement. Each of Mr. Zhao Yong, Mr. Yu Xiao, Mr. Tang Yun and Mr. Wu Xiangtao therefore has abstained from voting for the Board resolution to approve the Financial Services Agreement and the transactions contemplated thereunder.

INFORMATION ON THE RELEVANT PARTIES

The Company has been listed on GEM since 24 January 2000. The Group is principally engaged in the distribution of IT consumer products and corporate products.

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

Changhong Finance is a company owned as to 50% by Sichuan Changhong, the controlling shareholder of the Company and 50% by Sichuan Changhong Electric, a company which holds approximately 23.19% of the equity interest of Sichuan Changhong. It has strong financial strength and experience in providing financial services. Changhong Finance has obtained the relevant financial license in the PRC on 20 August 2013, pursuant to which it is permitted to provide range of financial services including but not limited to depository, loan, settlement, bill discounting, guarantees and other financial services approved by the CBRC.

LETTER FROM THE BOARD

SGM

The SGM will be held at 11:00 a.m. on Friday, 15 May 2015 at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong for the purpose of allowing the Independent Shareholders to consider and, if thought fit, approve the Financial Services Agreement and the Financial Services contemplated thereunder together with the proposed annual caps for the Financial Services contemplated thereunder for the three years ending 31 December 2015, 2016 and 2017.

In accordance with the GEM Listing Rules, Sichuan Changhong Electric, Changhong (Hong Kong) and Fit Generation, being connected persons of the Company and having material interest (which are different from those of the Independent Shareholders) in the Financial Services Agreement, will abstain from voting at the SGM for the relevant resolution. As at the Latest Practicable Date, each of Sichuan Changhong Electric, 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 39 to 40 of this circular. The SGM will be held at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 15 May 2015 at 11:00 a.m.

A reply slip and 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 to the Hong Kong share registrar of the Company, Hong Kong Registrars Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the SGM or any adjournment thereof. If you intend to attend the SGM, you are required to complete and return the reply slip to the Hong Kong share registrar of the Company, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m., 12 May 2015.

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 Listing Rules and will be published on the websites of the Company and the Stock Exchange thereafter.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 13 to 14 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 15 to 29 of this circular in connection with the transactions contemplated under the Financial Services Agreement, the proposed annual caps of the Financial Services contemplated thereunder and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that (i) the transactions contemplated under the Financial Services Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Financial Services Agreement are normal commercial terms and are fairly and reasonably determined; and (iii) the proposed annual caps for the deposits, loan and settlement services under the Financial Services Agreement for the three years ending 31 December 2015, 2016 and 2017 are determined based on the reasonable estimation and after due and careful consideration and that it is fair and reasonable for the management of the Company to make reference to the aforesaid factors as the bases to determine such caps. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the resolution to approve the Financial Services Agreement and the transactions contemplated under such agreements (including the proposed annual caps of the deposit, loan and settlement services thereunder) at the SGM.

ADDITIONAL INFORMATION

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

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

长虹佳华
CHANGHONG IT
Changhong Jiahua Holdings Limited
(长虹佳华控股有限公司)
(Incorporated in Bermuda with limited liability)
(Stock Code: 8016)

28 April 2015

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONTINUING CONNECTED
TRANSACTIONS IN RELATION TO THE
FINANCIAL SERVICES AGREEMENT BETWEEN
CHANGHONG IT INFORMATION PRODUCTS CO., LTD AND
SICHUAN CHANGHONG GROUP FINANCE CO., LTD**

We refer to the circular issued by the Company to its Shareholders dated 28 April 2015 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

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

REORIENT has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement. The text of the letter of advice from the Independent Financial Adviser containing their recommendations and the principal factors they have taken into account in arriving at their recommendations are set out from pages 15 to 29 of the Circular.

Having considered the terms of the Financial Services Agreement and the advice of the Independent Financial Adviser, we are of the opinion that (i) the Financial Services Agreement are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Financial Services Agreement are normal commercial terms and are fairly and reasonably determined; and (iii) the proposed annual caps for the Financial Services under the Financial Services Agreement for the three years ending 31 December 2015, 2016 and 2017 are determined based on the reasonable estimation and after due and careful consideration. We therefore recommend the Independent

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Shareholders to vote in favor of the relevant resolution to be proposed at the SGM to approve the Financial Services Agreement and the transactions contemplated under the Financial Services Agreement (including the proposed annual caps for the Financial Services thereunder).

Yours faithfully,

For and on behalf of the

Independent Board Committee

Jonathan Chan Ming Sun

*Independent non-
executive Directors*

Robert Ip Chun Chung

*Independent non-
executive Directors*

Sun Dongfeng

*Independent non-
executive Directors*

Cheng Yuk Kin

*Independent non-
executive Directors*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from REORIENT Financial Markets Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, for the purpose of incorporation into this circular.



11/F Far East Finance Centre
16 Harcourt Road, Admiralty
Hong Kong

28 April 2015

*The Independent Board Committee and
the Independent Shareholders
Changhong Jiahua Holdings Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS FINANCIAL SERVICES AGREEMENT BETWEEN CHANGHONG IT INFORMATION PRODUCTS CO., LTD AND SICHUAN CHANGHONG GROUP FINANCE CO., LTD

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the deposit services under the Financial Services Agreement (the “**Deposit Services**”) and the proposed annual caps in respect of the Deposit Services for the three years ending 31 December 2017 (the “**Proposed Annual Caps**”), details of which are set out in the circular of the Company dated 28 April 2015 (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

As at the Latest Practicable Date, Changhong Finance is a company owned as to 50% by Sichuan Changhong, the controlling Shareholder and 50% by Sichuan Changhong Electric, a company which holds approximately 23.19% of the equity interest of Sichuan Changhong. Accordingly, Changhong Finance is an associate of a connected person of the Company under the GEM Listing Rules. As the highest of the applicable percentage ratios of the Proposed Annual Caps exceeds 5%, the Deposit Services constitute non-exempt continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules. The Deposit Services and the Proposed Annual Caps are subject to approval by the Independent Shareholders at general meeting by way of poll.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 and Mr. Cheng Yuk Kin, has been established to give advice and recommendation to the Independent Shareholders in relation to the Deposit Services and the Proposed Annual Caps.

REORIENT Financial Markets Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Deposit Services and the Proposed Annual Caps are fair and reasonable and whether the Deposit Services are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) whether to vote for or against the Deposit Services and the Proposed Annual Caps.

In formulating our opinion, we have relied upon the information, facts and representations contained in the Announcement, the Circular and those supplied or made by the Directors and management of and advisers to the Company to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the Directors and management of the Company that no material facts have been withheld or omitted from such information and representations.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 17.92 of the GEM Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group, Changhong Finance and their respective associates.

During the past two years, we acted as the independent financial adviser of the Company in respect of the other two transactions providing our independent view to the Company's independent board committee and the independent shareholders. Apart from normal professional fees for our services to the Company in connection with the engagements described above, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. As at the Latest Practicable Date, we are not aware of any relationships or interests between us and the Company or its substantial Shareholders, Directors or chief executive, or any of their respective associates. We are independent under Rule 17.96 of the GEM Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Deposit Services and the Proposed Annual Caps.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion on the Deposit Services and the Proposed Annual Caps, we have taken into consideration the following principal factors:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Information on the Group

The Group is principally engaged in the distribution of IT consumer products and corporate products in the PRC (“**IT Business**”). We understand from the Company that other than the IT Business, which is the main income stream of the Group, the Group also generates revenue from the distribution of consumer electronic products and related parts and components.

We set out below a summary of the financials of the Group’s (i) unaudited results for the 3 months ended 31 March 2015 and 31 March 2014 prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) extracted from the 2105 first quarterly results announcement for the period ended 31 March 2015 of the Company dated 17 April 2015 (the “**2015 First Quarter Results**”); (ii) audited results for year ended 31 December 2014 prepared in accordance with HKFRS extracted from the annual report of the Company for the year ended 31 December 2014 (the “**2014 Annual Report**”); and (iii) audited results for the two years ended 31 December 2012 and 2013 prepared in accordance with HKFRS extracted from the annual report of the Company for the year ended 31 December 2013 (the “**2013 Annual Report**”):

	3 months ended 31 March 2015	3 months ended 31 March 2014	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i> <i>(Restated)</i>
Turnover	3,900,394	4,452,460	18,152,710	18,343,541	14,928,822
Cost of sales	(3,724,930)	(4,258,759)	(17,388,303)	(17,566,550)	(14,322,736)
Gross profit	175,464	193,701	764,407	776,991	606,086
Gross profit margin	4.50%	4.35%	4.21%	4.24%	4.06%
Profit before tax	65,083	80,424	273,692	256,171	240,304
Profit for the period/year	48,263	60,488	193,296	197,498	173,040
Net profit margin	1.24%	1.36%	1.06%	1.08%	1.16%
Profit for the year attributable to:					
Owners of the Company	48,263	54,331	185,110	178,090	154,728
Non-controlling interests	–	6,157	8,186	19,408	18,312

On 28 March 2012, the Company entered into an acquisition agreement to acquire a 90% equity interest in Changhong IT from Fit Generation (the “**First Acquisition**”). The First Acquisition was completed on 22 January 2013. For the purpose of the Group’s consolidated financial statements, the First Acquisition is regarded as a business combination under common control since 20 March 2012 and the Group has adopted merger accounting for common control combinations in respect of the First Acquisition. We are given to understand that this means it is assumed that the Group had owned the 90% interest in Changhong IT since 20 March 2012 which, as per the Company’s accounting policies for the purposes of preparing the Group’s financial statements after completion of the First Acquisition, was the date when Sichuan Changhong obtained control over the Board and thus the date when the Company and Changhong IT became under the common control of Sichuan Changhong. The Group’s income statement for the year

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ended 31 December 2013 reflects the full year results of Changhong IT in 2013; whilst the Group's restated comparable income statement for the year ended 31 December 2012 reflecting the results of Changhong IT from 20 March 2012 to 31 December 2012.

On 5 June 2014, the Group completed the acquisition of the remaining 10% shareholding in Changhong IT (the "**Second Acquisition**") and Changhong IT became a wholly-owned subsidiary of the Group. After the completion of the Second Acquisition, 100% of the profit and loss from Changhong IT have been consolidated to the accounts of the Company without any share of non-controlling interests. This led to a reduction in the amount of profit attributable to non-controlling interests of the year ended 31 December 2014.

As set out in the 2015 First Quarter Results, turnover and net profit of the Group decreased by approximately 12.40% and 20.21%, respectively for the 3 months ended 31 March 2015 as compared with those for the 3 months ended 31 March 2014. We understand from the Company that the decrease in both turnover and net profit were due to the difficult environment in the PRC with weaker domestic demand for the 3 months ended 31 March 2015 as compared with that for the 3 months ended 31 March 2014.

Gross profit margin for the Group for the 3 months ended 31 March 2015 and 31 March 2014 amounted to approximately 4.50% and 4.35%, respectively. We understand from the Company that the Group focused on cost control for the 3 months ended 31 March 2015 and maintained a stable level of gross margin. While the gross profit margin of the Group increased for the 3 months ended 31 March 2015, net profit margin for the Group for the 3 months ended 31 March 2015 decreased to approximately 1.24% for the 3 months ended 31 March 2015 from approximately 1.36% for the 3 months ended 31 March 2014. We understand from the Company that the decrease was mainly due to the increase in distribution and selling expenses of approximately 9.43% for the 3 months ended 31 March 2015 as compared with that for the 3 months ended 31 March 2014. As Changhong IT became a wholly-owned subsidiary of the Group, there was no profit attributable to non-controlling interests for the period ended 31 March 2015.

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We set out below the breakdown of turnover for the (i) period ended 31 March 2015 as extracted from the 2015 First Quarter Results; (ii) year ended 2014 as extracted from the 2014 Annual Report; and (iii) two years ended 31 December 2013 as extracted from the 2013 Annual Report:

	3 months end		Year ended		Year ended		Year ended	
	31 March 2015	% to total	31 December 2014	% to total	31 December 2013	% to total	31 December 2012	% to total
	HK\$'000		HK\$'000		HK\$'000		HK\$'000	
	(Unaudited)		(Audited)		(Audited)		(Audited)	(Restated)
IT Business:								
IT consumer products	2,605,398	66.8	12,138,903	66.9	11,168,587	60.9	7,452,974	49.9
IT corporate products	1,090,563	28.0	5,268,553	29.0	4,588,062	25.0	3,596,521	24.1
	<u>3,695,961</u>	<u>94.8</u>	<u>17,407,456</u>	<u>95.9</u>	<u>15,756,649</u>	<u>85.9</u>	<u>11,049,495</u>	<u>74.0</u>
Consumer electronic products	84,189	2.2	593,916	3.3	2,313,947	12.6	3,462,290	23.2
Others	<u>120,244</u>	<u>3.0</u>	<u>151,338</u>	<u>0.8</u>	<u>272,945</u>	<u>1.5</u>	<u>417,037</u>	<u>2.8</u>
Total	<u><u>3,900,394</u></u>	<u><u>100.0</u></u>	<u><u>18,152,710</u></u>	<u><u>100.0</u></u>	<u><u>18,343,541</u></u>	<u><u>100.0</u></u>	<u><u>14,928,822</u></u>	<u><u>100.0</u></u>

Changhong IT has become the most significant operating subsidiary of the Group since completion of the First Acquisition. For the three years ended 31 December 2014 and three months ended 31 March 2015, the scale of the consumer electronic product business was diminishing. For the year ended 31 December 2012, 2013 and 2014 and three months ended 31 March 2015, turnover generated from the IT Business represented approximately 74.0%, 85.9%, 95.9% and 94.8% of the total turnover of the Group respectively. We understand from the Company that the Group's IT Business were all derived from Changhong IT.

As at 31 March 2015 and 31 December 2014, the Group's net debts (which include the Group's total interest-bearing borrowings less cash) amounted to approximately HK\$600 million and HK\$415 million, respectively. As at 31 March 2015 and 31 December 2014, the net debts of Changhong IT (which include Changhong IT's total interest-bearing borrowings less cash) amounted to approximately RMB484 million and RMB335 million, respectively.

Information on Changhong IT

Changhong IT is a wholly-owned subsidiary of the Company. It is principally engaged in the distribution of IT consumer products (including personal computers, digital products and IT accessories) and IT corporate products (including storage products, minicomputers, network products, computer server, intelligent building management system products and unified communication & contact center products) in the PRC.

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We set out below a summary of Changhong IT's consolidated results for the year ended 31 December 2014 prepared in accordance with PRC GAAP extracted from the audited financial statements of Changhong IT for the year ended 31 December 2014 (the “**Changhong IT 2014 Financial Statements**”) and the two years ended 31 December 2013 prepared in accordance with PRC GAAP extracted from the audited financial statements of Changhong IT for the year ended 31 December 2013 (the “**Changhong IT 2013 Financial Statements**”):

	Year ended		Year-on-year change	Year ended		Year-on-year change	Year ended	
	31 December			31 December			31 December	
	2014			2013			2012	
	RMB'000	HK\$'000		RMB'000	HK\$'000		RMB'000	HK\$'000
Turnover	13,915,671	17,394,589	8.82%	12,787,960	15,984,950	6.90%	11,958,042	14,947,552
Cost of sales	13,703,398	17,129,248	8.75%	12,601,344	15,751,680	7.50%	11,721,741	14,652,176
Gross profit	212,273	265,341	13.7%	186,616	233,270	-21.03%	236,301	295,376
Gross profit margin	1.53%			1.46%			1.98%	
Profit before tax	220,196	275,245	9.47%	201,148	251,435	-19.40%	249,581	311,976
Profit for the year	156,521	195,651	1.01%	154,955	193,694	-16.10%	184,624	230,780
Net profit margin	1.12%			1.21%			1.54%	

Assumes an exchange rate of HK\$:RMB is 1:0.8

Turnover for the year ended 31 December 2014 increased by approximately 8.9% as compared with that for the year ended 31 December 2013, whilst profit for the year only increased by approximately 1.0% for the year ended 31 December 2014 as compared with that for the year ended 31 December 2013. For the year ended 31 December 2014, gross profit margin and net profit margin remained stable as compared with that for the year ended 31 December 2013. The Company advised us that they took initiatives to expand the scope of cooperation with core suppliers in order to maintain its market share and resulted in an increase in both the turnover and profit before taxation for the year ended 31 December 2014.

For the year ended 31 December 2013, turnover increased by approximately 6.9% as compared with that for the year ended 31 December 2012, whilst profit for the year decreased by approximately 16.1% for the year ended 31 December 2013 as compared with that for the year ended 31 December 2012. The Company confirmed that the decrease in gross profit for the year ended 31 December 2013 was mainly due to the increase in management and finance cost for the year ended 31 December 2013.

Whilst Changhong IT's profits decreased in 2013 as compared with that in 2012, the Group (as a whole) recorded a growth in net profits. We understand that this is mainly a result that the Group's consolidated financial statements for the year ended 31 December 2012 only consolidated the results of Changhong IT starting from 20 March 2012.

As set out in the 2014 Annual Report, in the next few years, the Company expects that the macro economy of the PRC would remain weak and downturn pressure would climb up. While the overall growth of the IT industry may slow down, the Company believes that great business potentials still exist in niche fields of the IT market like big data and cloud computing. With the significant changes in the existing industry landscape and business mode driven by new technologies of cloud computing, big data and mobile

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internet, corporate strategic transition is inevitable. In 2015, adhering to the principle of “exploring new ways, expanding the market territory through the internet platform, and offering a quality service to good partners”, the Group will proactively explore ways to add value and to expand its development as it follows economic and industry trends and enhances its existing distribution business. The Group will also expand its business scope to cover various markets by establishing extensive and quality partnership networks and leveraging on online marketing. Supported by the transition of “platform based added value”, the Group will realise business upgrade and value enhancement and become a professional provider in IT corporate products distribution and a comprehensive service provider in professional fields of big data and cloud computing. The Group will forge its core competitiveness and accelerate the business strategic transition.

We set out below certain balance sheet and cashflow information of Chanhong IT extracted from the Chanhong IT 2014 Financial Statements and the Chanhong IT 2013 Financial Statements:

	For the year ended 31 December		
	2014	2013	2012
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Cash inflow from operating activities	16,104	14,899	13,846
Cash outflow from operating activities	16,080	14,775	13,628
Net cash inflow from operating activities	24	124	218

	During the year ended 31 December		
	2014	2013	2012
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Maximum month end cash and bank balance during the year	425	487	202

Chanhong IT handles a high volume of cash inflow and outflow from its operations through different banks. We understand from the Company that in selecting banks for placing cash deposits, Chanhong IT will take into consideration of factors, such as the interest rates offered, credit rating, relationship with the bank and amount of credit facilities granted. The Company has also confirmed to us that according to the internal control policy of Chanhong IT regarding cash deposits to be placed with financial institutions (including Chanhong Finance), Chanhong IT will not deposit its available cash in only one single bank.

Information on Chanhong Finance

Chanhong Finance is a non-bank financial institution established in the PRC on 23 August 2013 and approved by CBRC on 20 August 2013 to provide, among others, deposit taking services in the PRC and is subject to the relevant regulations in the PRC. The standing of Chanhong Finance as a financial institution in the PRC is subject to annual review by the CBRC. Chanhong IT intends to place only RMB deposit with Chanhong Finance in the PRC.

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We understand from the Company that Changhong Finance aims to provide financial services including settlement services, loans and guarantees to the companies within the Sichuan Changhong Group and will take deposits from the companies within the Sichuan Changhong Group and borrow money from the mainland interbank markets to finance the above provision of loans.

Under the Financial Services Agreement, Changhong Finance will provide a wide range of financial services including but not limited to deposit taking, making loan, provision of settlement services, bill discounting, provision of guarantees and other financial services approved by the CBRC to Changhong IT.

In accordance with PRC GAAP, as at 31 December 2014, the audited consolidated total assets of Changhong Finance amounted to approximately RMB7.0 billion, in which approximately RMB4.3 billion were cash and cash deposits placed with other financial institutions. The audited consolidated total liabilities amounted to approximately RMB5.9 billion, in which approximately RMB5.2 billion were deposits taken from customers which are companies within the Sichuan Changhong Group. The audited consolidated net assets value amounted to approximately RMB1.1 billion.

Major Terms of the Deposit Services

Under the Financial Services Agreement, the interest rates applicable to any deposits made available by Changhong IT to Changhong Finance shall not be less than (i) the minimum interest rate prescribed by PBOC at such relevant time which is 0.35% per annum as at the Latest Practicable Date; and (ii) the interest rate available to Changhong IT from other major commercial banks in the PRC independent to Changhong IT in respect of the same type of deposits.

Under the Financial Services Agreement, at any time during the term of the Financial Services Agreement, (i) the total deposit amount deposited by Changhong IT shall not exceed 30% of the total deposit amount taken by Changhong Finance; and (ii) the total deposits placed by Changhong IT with Changhong Finance shall not exceed the maximum amount of credit facility to be provided by Changhong Finance to Changhong IT (including loans, guarantees and acceptances issued) from time to time.

We understand from the Company that the above 30% limit is determined with reference to the information disclosure memorandum issued by the Shenzhen Stock Exchange in relation to connected transactions between listed issuers and connected finance companies which requires specific risk disclosures to be made by a listed issuer listed on the Shenzhen Stock Exchange if its deposit placed with a connected finance company represents more than 30% of the total amount of deposits taken by the related finance company. Changhong IT will request Changhong Finance to confirm if the 30% limit is satisfied every time Changhong IT places a deposit with Changhong Finance and Changhong Finance will inform Changhong IT to reduce the amount of deposits in case the 30% limit is exceeded.

Internal Control

Subject to the general pricing principle and payment terms of the Deposit Services, the pricing policy will be monitored by the Group's treasury group to ensure transactions under the Financial Services Agreement will be conducted on normal commercial terms in accordance with the terms of each of the Financial Services Agreement (i.e. the interest rate of any deposit made by Changhong IT with Changhong Finance will at a rate no less than the minimum interest rate prescribed by PBOC and interest rates available

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to Changhong IT offered by other major commercial banks in the PRC) and will not otherwise be prejudicial to the interests of the Company and its Shareholders as a whole, in particular that the best interest rate is offered by Changhong Finance to Changhong IT.

The Company has confirmed that prior to a deposit of cash is made, the Group's treasury group will contact three major commercial banks in the PRC getting interest rate quotes and compared the quotes with those offered by Changhong Finance. We understand from the Company that the maximum amount of deposits to be placed in one single bank will not exceed the amount of credit facility granted by such single bank to the Group. The rates and the decision of making any deposits with Changhong Finance will be reviewed and approved by the chief financial officer of Changhong IT.

The Company will also engage its auditors to conduct an annual review of the transactions thereunder the Financial Services Agreement in accordance with the Listing Rules.

We have reviewed the internal control procedures and are of the view that the setting up of an internal control for the Deposit Services and the engagement of auditors to conduct an annual review of the transactions thereunder the Financial Services Agreement is fair and reasonable and help ensure that the terms of the deposits will be on normal commercial terms.

Reasons for and benefits of the Deposit Services

We understand that cash deposits is an important part of the ordinary and usual treasury activities of the Group. Changhong Finance is a financial institution duly established in the PRC approved by the CBRC and the pricing policies and the operation of which are subject to guidelines issued by CBRC. We understand from the Company that Changhong IT is also expecting to get credit facilities from Changhong Finance. The amount of deposit will not be higher than the credit facility made available by Changhong Finance to Changhong IT.

As set out in the Letter from the Board, the deposit interest rates and the lending rates offered by Changhong Finance to Changhong IT will be equal to or more favorable to Changhong IT than those offered by independent commercial banks in the PRC to Changhong IT for comparable deposits or, as the case may be, loans. The Financial Services Agreement is therefore expected not only to provide Changhong IT with new means of financing but also to improve the return on the use of its funds through higher interest income and lower costs of financing.

Similar to other commercial banks in the PRC, deposits with Changhong Finance are not guaranteed and are unsecured. The Company has confirmed that, for the purposes of the Financial Services Agreement, Changhong IT has set up internal guidelines to access the risk associated with the Deposit Services, mainly the credit risk of Changhong Finance including reviewing the monthly management accounts of Changhong Finance and audited annual reports of Changhong Finance. We understand from the Company that they have reviewed the audited annual reports of Changhong Finance for the two years ended 31 December 2014 and considered that Changhong IT was in a reasonable financial position as a potential service provider of the Deposit Services.

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However, we understand that the Company has not yet started the formal credit risk assessment on Changhong Finance but will carry out before any Deposit Services is carried out. We have discussed with the Company and understand that the audited financial statements of Changhong Finance for the two years ended 31 December 2014 are not qualified and given the standing of Changhong Finance as a financial institution in the PRC is subject to annual review by the CBRC and the relevant regulations in the PRC, and its pricing policies and the operation of which are subject to guidelines issued by CBRC. We concur with the Company that despite that Changhong Finance is not a licensed bank in the PRC, it is a regulated financial institution subject to compliance of the relevant regulations in the PRC and the interests of the Shareholders will not be hindered under the Deposit Services.

The Financial Services Agreement does not preclude Changhong IT from using the services of other financial institutions. Changhong IT has the right to select any other major and independent PRC commercial banks as its financial services providers as it, from time to time, thinks fit and appropriate for the benefit of Changhong IT.

Changhong Finance has been providing deposit services to other companies within the Sichuan Changhong Group since 2013. Currently, Changhong IT deposits its money in other major banks in the PRC such as China Construction Bank, Bank of Communication and China Minsheng Bank. The Deposit Services offer an possible good alternative to Changhong IT's treasury activities. The Company believes that Changhong Finance will be able to provide Changhong IT with satisfactory services, including better interest rates than those available from other major financial institutions in the PRC. We have reviewed the deposit rates (including the interest rates on term deposit, fixed deposits for 3 months, 6 months, 1 year, 2 years and 3 years, agreed deposits, 1-day call deposit and 7-day call deposit) offered by Changhong Finance and compare with 4 other major banks including Bank of China, China Construction Bank, China Minsheng Bank and Industrial and Commercial Bank of China in the PRC and noted that the deposit rates offered by Changhong Finance are comparatively higher than those major banks in the PRC for the same period.

We have searched and reviewed all the announcements issued by companies listed on the Main Board and the GEM Board of the Stock Exchange for a period of 12 months prior to and including the date of the Financial Services Agreement (the "**Relevant Period**") regarding those listed issuers placing deposits with their respective connected finance companies in the PRC which were non-bank financial institutions approved and supervised by CBRC serving group companies (the "**Comparable Transactions**"). Under the Comparable Transactions, those subject financial companies also offered lending or other credit facilities to the respective listed issuers. We have compared the terms on placing deposits with connected finance companies in terms of the deposit rates offered by the connected finance companies. We identified 24 Comparable Transactions which represent an exhaustive list of all transactions comparable to the Deposit Services announced during the Relevant Period and are representative comparables. We note that all the Comparable Transactions require the deposit interest rates offered by the relevant connected finance companies to the relevant listed issuers be not lower than (i) the deposit interest rates as announced by the PBOC from time to time; and/or (ii) the interest rates provided by other independent commercial banks in the PRC for deposits of similar nature and under similar terms which is similar to the relevant terms of the Financial Services Agreement. Accordingly, we are of the view that the term regarding the deposit rates offered by Changhong Finance to Changhong IT under the Deposit Services is fair and reasonable.

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Given (i) the Financial Services Agreement does not preclude Changhong IT from using the deposit and other services of other financial institutions and Changhong IT still has the right to select any other major and independent PRC commercial banks as its financial services providers as it, from time to time, thinks fit and appropriate for the benefit of Changhong IT; (ii) Changhong Finance will be able to provide Changhong IT with potentially better interest rates than those available from other major financial institutions in the PRC; and (iii) the terms regarding the deposit rates offered by Changhong Finance to Changhong IT under the Deposit Services are comparable to that of the Comparable Transactions, we concur with the Directors' view that the Deposit Services under the Financial Services Agreement are in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable.

Proposed Annual Caps and basis of determination

Set out below the Proposed Annual Caps for the three years ending 31 December 2017:

	Annual cap for the year ending 31 December 2015	Annual cap for the year ending 31 December 2016	Annual cap for the year ending 31 December 2017
Maximum daily outstanding balance of deposits to be deposited by Changhong IT with Changhong Finance (including interest accrued and handling fees thereon)	RMB500,000,000 (equivalent to HK\$625,000,000)	RMB600,000,000 (equivalent to HK\$750,000,000)	RMB800,000,000 (equivalent to HK\$1,000,000,000)

Assumes an exchange rate of HK\$:RMB is 1:0.8

The actual amount of any deposit placed by Changhong IT with Changhong Finance is subject to (i) the Proposed Annual Caps; (ii) 30% of the total deposit amount taken by Changhong Finance; and (iii) the amount of credit facilities provided by Changhong Finance to Changhong IT (including loans, guarantees and acceptances issued) from time to time. Changhong IT should assist Changhong Finance in monitoring the implementation of the above deposit limits.

We understand from the Company that the Proposed Annual Caps were determined based on arm's length negotiation between the parties to the Financial Services Agreement, taking into account the maximum amount of credit line which may be granted by Changhong Finance to Changhong IT which is RMB500 million for the year ending 31 December 2015, RMB600 million for the year ending 31 December 2016 and RMB800 million for the year ending 31 December 2017.

In order to assess the fairness and reasonableness of the Proposed Annual Caps, we have taken into consideration the following aspects:

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(i) *Expected daily average cash balance available for bank deposit for the three years ending 31 December 2017*

The Company projects the average daily cash balance available for bank deposit (including Changhong Finance) for the three years ending 31 December 2015, 2016 and 2017 to be approximately RMB370 million, RMB400 million and RMB430 million, respectively (the “**2015 Average Daily Deposit**”, the “**2016 Average Daily Deposit**” and the “**2017 Average Daily Deposit**”, respectively). We understand from the Company that the 2015 Average Daily Deposit was projected with reference to the actual amount of monthly average deposit placed by Changhong IT with financial institutions for the year ended 31 December 2014 of approximately RMB340 million with an estimated growth of approximately 8.8%. The 2016 Average Daily Deposit represents a growth from the 2015 Average Daily Deposit of approximately 8.1%. The 2017 Average Daily Deposit represents a growth from the 2016 Average Daily Deposit of 7.5%.

As set out in the Changhong IT 2014 Financial Statements and the Changhong IT 2013 Financial Statements, for the year ended 31 December 2014, 2013 and 2012, cash inflow from the sale of goods and services amounted to approximately RMB16,085 million, RMB14,869 million and RMB13,815 million respectively, representing an increase of approximately 7.63% for the year ended 31 December 2013 as compared with that of 2012, and an increase of approximately 8.18% for the year ended 31 December 2014 as compared with that of 2013. Such increase in cash received has a positive correlation to the increase in turnover of Changhong IT of approximately 8.82% for the year ended 31 December 2014 as compared with that for the year ended 31 December 2013, and 6.90% for the year ended 31 December 2013 as compared with that for the year ended 31 December 2012.

Given the positive co-relation between the expected increase in sales and the increase in cash inflow, we are of the view that it is fair and reasonable to project the 2015 Average Daily Deposit, the 2016 Average Daily Deposit and the 2017 Average Daily Deposit by referencing to the historical deposit with financial institutions and the expected increase in sales for the years ending 31 December 2017 which is compared to the historical growth in sales of Changhong IT of approximately 8.8% for the year ended 31 December 2014.

The 2015 Average Daily Deposit, the 2016 Average Daily Deposit and the 2017 Average Daily Deposit represent approximately 74.0%, 66.7% and 53.8% of the Proposed Annual Caps for the three years ending 31 December 2015, 2016 and 2017 respectively. We understand from the Company that Changhong IT may not place all the available cash with Changhong Finance for better control and maintaining good business relationships with other commercial banks. Accordingly, the percentage of the average deposit amount of Changhong IT at Changhong Finance to the related Proposed Annual Cap for a given year will likely to be lower than the percentages as shown above. However, we agree with the Company that the Proposed Annual Caps have to be set higher than the estimated average cash balance available for deposit at Changhong Finance to cater for any fluctuation in cash balance which may due to higher daily cash inflow from operation or cash inflow from other sources, in particular in the case of any borrowing being drawn down from Changhong Finance to Changhong IT as further discussed below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Historical cash deposits with banks*

We set out the breakdown of bank and cash of Changhong IT as at 31 December 2014, 2013 and 2012 as set out in the Changhong IT 2014 Financial Statements and the Changhong IT 2013 Financial Statements:

	2014		Year ended 31 December		2012	
	RMB'000	% to total	RMB'000	% to total	RMB'000	% to total
Cash on hand	296	0.09%	148	0.04%	547	0.28%
Bank deposits	158,280	44.88%	312,502	64.12%	101,121	52.35%
Other cash for guarantee*	<u>194,073</u>	<u>55.03%</u>	<u>174,683</u>	<u>35.84%</u>	<u>91,502</u>	<u>47.37%</u>
Total cash and bank	<u><u>352,649</u></u>	<u><u>100.00%</u></u>	<u><u>487,333</u></u>	<u><u>100.00%</u></u>	<u><u>193,170</u></u>	<u><u>100.00%</u></u>

* *Other cash for guarantee included cash deposits placed with banks guaranteeing letter of guarantee, bill acceptance and letter of credit granted by the related banks to Changhong IT which has not considered as bank deposits for accounting purposes. We understand from the Company that if the above trade finance products were granted by Changhong Finance, as no security would be required, the related cash for guarantee would become available for normal bank deposits with Changhong Finance.*

As set out in the Changhong IT 2014 Financial Statements and the Changhong IT 2013 Financial Statements, the audited consolidated cash balances as at 31 December 2014, 2013 and 31 December 2012 amounted to approximately RMB353 million, RMB487 million and RMB193 million respectively. Nearly all the cash and bank balances at year end for the three years ended 31 December 2014 were placed with banks as deposits or pledged deposits for guarantee. Among the cash of Changhong IT deposited at banks and other cash for guarantee as at 31 December 2014, 2013 and 2012, approximately RMB326 million, RMB462 million and RMB193 million were RMB deposits, representing approximately 92.3%, 94.7% and 99.7% of total cash balances of Changhong IT.

The maximum month end cash balance (including other cash for guarantee) of Changhong IT in 2014 amounted to approximately RMB425 million and during 2012 and 2014 amounted to approximately RMB487 million which are approximately 1.25 times and approximately 1.43 times higher than the average monthly bank deposits placed by Changhong IT in 2014 respectively.

In view of the actual historical fluctuations of cash balances from time to time, we are of the view that the Proposed Annual Caps higher than the estimated average cash balances for the next three years ending 31 December 2017 are necessary and appropriate to cover fluctuations in Changhong IT's daily cash balance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) *Total deposits by Changhong IT with Changhong Finance will not exceed the maximum amount of credit facilities provided by Changhong Finance to Changhong IT (including loans, guarantees and acceptances issued) from time to time*

As set out above and detailed in the letter from the Board in the Circular, the Company expects Changhong IT to get credit facilities (including loans, guarantees and acceptances issued) from Changhong Finance subject to caps of RMB500 million, RMB600 million and RMB800 million for the three years ending 31 December 2015, 2016 and 2017 respectively. The total deposits placed by Changhong IT with Changhong Finance will not exceed the amount of credit facilities provided by Changhong Finance to Changhong IT from time to time. The Proposed Annual Caps are equivalent to the proposed annual caps for any credit facilities which may be provided by Changhong Finance to Changhong IT. We understand from the Company that this is a very important basis when determining the Proposed Annual Caps as when Changhong IT borrows a loan from Changhong Finance, the loan proceeds will be placed in an account of Changhong IT retains with Changhong Finance as deposit before Changhong IT applies such amount of loan proceeds. Without sufficient Proposed Annual Caps, Changhong IT may not be able to draw down the necessary amount of loan borrowings from Changhong Finance.

Whilst Changhong IT may utilise different credit products offered by Changhong Finance, including loans and other trade finance products, we understand from the Company that Changhong IT may consider borrowing loans from Changhong Finance if it can offer better interest rates than other commercial banks in the PRC. As set out in the letter from the Board, the Company expects Changhong IT to have an increasing funding requirement in light of its growing business demand.

We also consider that these potential credit facilities from Changhong Finance offer Changhong IT possible better choices to refinance its existing debts. As at 31 March 2015, the Group had borrowings amounted to approximately RMB469.5 million and US\$37.4 million which were repayable within 12 months.

We agree with the Company that it will be fair and reasonable to assume that borrowings will be obtained by Changhong IT from Changhong Finance under the Financial Services Agreement and such borrowings may be placed as deposit with Changhong Finance (at least initially) upon the loan being drawn down for a short period of time for the purposes of determining the Proposed Annual Caps.

Based on the above consideration, we are of the view that the Proposed Annual Caps are fair and reasonable so far as the interests of the Independent Shareholders as a whole are concerned as (a) the Proposed Annual Caps only reflect the maximum amount that Changhong IT is able to deposit with Changhong Finance and Changhong IT is not obliged to place its available cash to Changhong Finance up to the annual cap amounts; (b) the Proposed Annual Caps give Changhong IT flexibility in choosing its deposit taking service providers, including Changhong Finance and other commercial banks; (c) the Proposed Annual Caps provide appropriate buffer to cover fluctuations in Changhong IT's cash balance including allowing loan proceeds be drawn down from Changhong Finance which will temporarily be placed in account of Changhong IT retains at Changhong Finance before Changhong IT withdraw and use such loan proceeds; (d) the Company expects Changhong IT to borrow loans from Changhong Finance under the Financial Services Agreement at terms comparable

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to or potentially better than those being offered by other commercial banks in the PRC to support the continual growth and development of Changhong IT's business; and (e) the Deposit Services will be conducted in the ordinary and usual course of business of the Group and shall be on arm's length basis and normal commercial terms (as discussed above in this letter).

CONCLUSION

Having considered the above principal factors and reasons, we are of the view that the terms of the Deposit Services and the Proposed Annual Caps are fair and reasonable and that the Deposit Services are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM in respect of the Deposit Services and the Proposed Annual Caps.

Yours faithfully,
For and on behalf of
REORIENT Financial Markets Limited
Allen Tze
Managing Director

Mr. Allen Tze is a licensed person registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and has over 17 years of experience in corporate finance industry.

1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

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

The audited consolidated financial statements of the Group for the years ended 31 December 2012, 2013 and 2014 together with the relevant notes to the financial statements of the Group can be found on pages 32 to 84 of the annual report of the Company for the year ended 31 December 2012, pages 32 to 118 of the annual report of the Company for the year ended 31 December 2013, and pages 36 to 122 of the annual report of the Company for the year ended 31 December 2014. Please also see below the hyperlinks to the said annual reports.

2012: <http://www.hkexnews.hk/listedco/listconews/GEM/2013/0328/GLN20130328165.pdf>

2013: <http://www.hkexnews.hk/listedco/listconews/GEM/2014/0401/GLN20140401003.pdf>

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

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2015, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group's total interest-bearing borrowings of approximately RMB469,483,455 and US\$37,416,187, comprising unsecured bank borrowings of approximately RMB319,000,000 and US\$37,416,187, unsecured corporate borrowings of approximately RMB69,000,000 and secured bank advances on factored trade receivables of approximately RMB81,483,455.

The Group had no significant contingent liabilities as at 31 March 2015. As at 31 March 2015, there were pledged deposits in the amount of approximately RMB141,000,000 for margin financing, letter of credits, banking facilities and other financial instruments of the Group.

Save as aforesaid, the Group did not have any other outstanding indebtedness in respect of any debentures, loan capital, bank loans and overdrafts, term loans and other borrowings, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, whether guaranteed, unguaranteed, secured or unsecured, mortgages, charges, guarantees or other contingent liabilities as at the close of business on 31 March 2015.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group since 31 March 2015.

3. WORKING CAPITAL

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

4. FINANCIAL AND TRADING PROSPECTS

In the next three quarters of 2015, the Directors expect that the PRC economy will continue to maintain weak momentum due to the uncertainty over global economy recovery. Adhering to the operating principle of “exploring new ways, expanding the market territory through the internet platform, and offering a quality service to partners”, the Group will continue to strengthen its strategic cooperation with core brands to explore new domains for added value; accelerate the establishment of online marketing platform to explore new markets under the innovative internet business model; and continue to develop more professional solutions and core technologies in the fields of big data and cloud computing so as to enhance its market competitiveness and expand industry coverage. Looking forward, while keeping on consolidating its distribution business, the Group will make efforts to explore and develop new business models and service value, seek new growth momentum, and improve its comprehensive service capabilities in order to achieve better results.

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

Given the interest income expected to be earned from the Group’s deposits with Changhong Finance under the Financial Services Agreement will unlikely to represent a significant contribution to the Group’s earnings and assets, the Company anticipates that the interest income to be earned from the deposits for the three years ending 31 December 2017 will not have any material impact on its earnings, assets and liabilities.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

a) Directors' and Supervisors interests or short positions in the Shares

Save as disclosed in this section, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the issuer and the Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions which he is taken or deemed to have under such provisions of the Securities and Futures Ordinance); or (b) pursuant to section 352 of the Securities and Futures Ordinance, 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 issuer and the Stock Exchange.

b) Long positions in the Shares, underlying Shares and debentures of the Company

Name of Director	Capacity	Nature of interests	Number of Shares	Class of Shares	Approximate percentage of total issued share capital of the Company
ZHU, Jianqiu	Interests in a controlled corporation	Personal	82,415,762	Ordinary	5.67%

Note: Mr. Zhu is the sole shareholder of the Typical Faith Limited, which in turn is holding the 82,415,762 Shares.

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

c) Directors' rights to acquire Shares or debentures

At no time during the period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate. No options have been granted to the directors up to the date of this announcement.

d) Interests of the substantial shareholders in the Company

So far as was known to the Directors, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) whose interests in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed or were notified to the Company and the Stock Exchange pursuant to the positions under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of 12 any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group were as follows:

Name of substantial shareholder	Capacity	Class of shares	Number of shares held	Approximate percentage of interest in relevant class of shares (Notes 1) %
Sichuan Changhong Electric Co., Limited ("Sichuan Changhong")	Interests in a controlled corporation and beneficial owner	Ordinary	1,008,368,000(L)	69.32
		Preference	(Note 2) 1,115,868,000(L)	100.00
Changhong (Hong Kong)	Interests in a controlled corporation and beneficial owner	Ordinary	913,000,000(L)	32.20
		Preference	(Note 4) 1,115,868,000(L)	100.00
Fit Generation	Beneficial owner	Ordinary	897,000,000(L)	28.79
		Preference	1,115,868,000(L)	100.00
Sichuan Investment Management Company Limited (Note 5)	Beneficial owner	Ordinary	83,009,340(L)	5.70
Typical Faith Limited (Note 6)	Beneficial owner	Ordinary	82,415,762(L)	5.67

Notes:

1. The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 30 June 2014, which were 1,454,652,000 and 1,115,868,000, respectively.
2. 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) Trading Limited.
3. 1,115,868,000 preference shares were held by Fit Generation, which is wholly-owned by Changhong (Hong Kong), which is a wholly-owned subsidiary of Sichuan Changhong Electric.
4. Of the 913,000,000 Shares, 16,000,000 Shares were held directly and 897,000,000 Shares were held through Fit Generation Holding Limited.
5. Upon completion the acquisition of the entire issued share capital of Wide Miracle Limited on 5 June 2014, Sichuan Investment Management Company Limited ceased to be a connected person of the Company and its shareholding in the Company is counted towards public float.
6. Typical Faith Limited is wholly-owned by Mr. Zhu. Save as disclosed above, as at 30 September 2014, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

3. INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up; and
- (ii) none of the Directors was materially interested in contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

4. SERVICE CONTRACTS

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

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. COMPETING INTERESTS

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

7. EXPERT

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

Name	Qualification
REORIENT, the Independent Financial Adviser	a corporation licensed under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) activities

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

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

As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interests in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. MATERIAL CONTRACTS

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

- (i) the sale and purchase agreement dated 21 April 2014 entered into between Changhong (Hong Kong) Enterprises Limited and Typical Faith Limited, Real Oasis Limited and Orient Axis Limited in relation to the acquisition of the 10,000 ordinary shares of HK\$0.2 each in the capital of Wide Miracle Limited, being its entire issued share capital, held by and Typical Faith Limited, Real Oasis Limited and Orient Axis Limited, for a total consideration of HK\$223,652,000; and

- (ii) the sale and purchase agreement dated 5 September 2014 entered into between the Company and Huang Pengcheng (黃鵬程), an independent third party to the Company, in relation to the disposal of the entire issued share capital of Apex Digital Inc. and the entire issued share capital of Apex Honor Resources Ltd. held by the Company to Huang Pengcheng (黃鵬程) at a consideration of HK\$1.00.

9. LITIGATION

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

10. AUDIT COMMITTEE

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

Mr. Jonathan CHAN Ming Sun, aged 43, joined the Company as Independent Non-Executive Director in February 2007. Mr. Chan was appointed as the Chairman of Audit Committee and Remuneration Committee, also the member of Nomination Committee. He is an Associate Director of Go-To-Asi Investment Limited. He also holds the position of an independent non-executive director of Xiangy Dredging Holdings Limited (stock code: 871) and Hao Tian Resources Group Limited (stock code: 474). He obtained his Bachelor Degree of Commerce in Accounting and Computer Information System from University of New South Wales, Australia. He is also a member of Hong Kong Institute of Certified Public Accountants and CPA, Australia. He has over 16 years of experience in investment and corporate finance.

Mr. Robert IP Chun Chung, aged 58, joined the Company as Independent Non-Executive Director in February 2007. Mr. Ip is the member of Audit Committee, Remuneration Committee and Nomination Committee. He is a practising solicitor in Hong Kong and is a non-executive director of Poly Property Group Co., Limited (stock code: 119). He also holds the position of an independent non-executive director of Value Convergence Holdings Limited (stock code: 821). He obtained the Bachelor Degree in Arts from University of Hong Kong and held a CPE Diploma and Diploma in Law from the College of Law, UK. He is also a member of the Law Society of Hong Kong and the Law Society of England and Wales. He has over 33 years of experience in legal aspects.

Mr. SUN Dongfeng, aged 47, joined the Company as Independent Non-Executive Director in February 2007. Mr. Sun is the member of Audit Committee, Remuneration Committee and Nomination Committee. He is a senior partner of Guantao Law Firm as well as a legal advisor for a number of companies. He graduated from China University of Political Science and Law in the PRC, and obtained a Master Degree of Law in International Economics from the School of Law of University of Canberra, Australia. He has over 22 years of experience in legal aspects.

Mr. CHENG Yuk Kin, aged 39, joined the Company as Independent Non-Executive Director in November 2012. Mr. Cheng is a member of Audit Committee. He is an executive director of Ivory Capital Private Limited. He obtained his Bachelor Degree of Business Administration in Finance from Hong Kong University of Science and Technology and obtained a Master Degree of Business Administration from the George Washington University School of Business in United States of America (“USA”). He is also a member of American Institutional Certified Public Accountants. He has over 17 years of experience in corporate finance and audit.

11. MISCELLANEOUS

- (i) The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company in Hong Kong is at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (ii) Mr. Lee Wing Lun is the company secretary of the Company. Mr. Lee is the Qualified Accountant and Secretary of the Company and is responsible for the financial and accounting management and secretarial affairs of the Company. Also Mr. Lee is an independent non-executive director of Vinco Financial Group Limited (stock code: 8340). He graduated from Australian National University with a Bachelor Degree in Commerce and obtained a Master Degree of Corporate Governance and Postgraduate Diploma in Corporate Administration from Polytechnic University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, the CPA Australia, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. He has over 20 years of working experience in auditing, accounting and finance matters including over 6 years in several audit firms and has been the financial controller of a trading group.
- (iii) The Company’s branch share registrar and transfer office in Hong Kong is Hong Kong Registrars Limited, at 17M Floor, Hopewell Center, 183 Queen’s Road East, Wanchai, Hong Kong.
- (iv) This circular has been prepared in both English and Chinese. In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS FOR INSPECTION

A copy of the following documents will be made available for inspection during normal business hours at the Company’s principal place of business in Hong Kong at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the SGM:

- (i) the Financial Services Agreement;
- (ii) the Bye-laws;
- (iii) the annual reports of the Company for the years ended 31 December 2013 and 2014;

- (iv) the material contracts referred to under the paragraph headed “Material Contracts” in this Appendix II;
- (v) the written consent from the expert referred to in the paragraph headed “Expert” in this Appendix II;
- (vi) the letter from the Independent Board Committee dated 28 April 2015 setting out its advice to the Independent Shareholders in relation to the Financial Services Agreement, the text of which is set out in pages 13 to 14 this circular;
- (vii) the letter from the Independent Financial Adviser dated 28 April 2015 setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Financial Services Agreement, the text of which is set out in pages 15 to 29 this circular; and
- (viii) this circular.

NOTICE OF SGM

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

长虹佳华
CHANGHONGIT
Changhong Jiahua Holdings Limited
(长虹佳华控股有限公司)
(Incorporated in Bermuda with limited liability)
(Stock Code: 8016)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the “SGM”) of Changhong Jiahua Holdings Limited will be held at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 15 May 2015 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as ordinary resolution of the Company.

ORDINARY RESOLUTION

“**THAT:**

- (a) the form and substance of the financial services agreement (the “**Financial Services Agreement**”) dated 26 March 2015 between Sichuan Changhong Group Finance Co., Ltd (“**Changhong Finance**”) and Changhong IT Information Products Co., Ltd (“**Changhong IT**”) (a copy of which is tabled at the SGM and initialed by the chairman of the SGM for identification purpose) and the Financial Services (as defined in the circular of the Company dated 28 April 2015 (the “**Circular**”)) contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) the proposed annual caps as set out in the Circular being the maximum daily outstanding balance of deposit, loan and settlement services to be placed by Changhong IT and its subsidiaries with Changhong Finance under the Financial Services Agreement for the three years ending 31 December 2015, 2016 and 2017, be and are hereby approved.”

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

Hong Kong
28 April 2015

NOTICE OF SGM

Notes:

1. Pursuant to Rule 17.47(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, votes of the shareholders of the Company (the “**Shareholders**”) at the SGM shall be taken by poll.
2. A Shareholder entitled to attend and vote at the SGM may appoint one or more proxies to attend and vote in his stead. A proxy needs not to be a Shareholder.
3. The instrument appointing a proxy must be in writing under the hand of a Shareholder or his attorney duly authorized in writing. If the Shareholder is a corporation, that instrument must be either under its common seal or under the hand of its director(s) or duly authorized attorney(s). If that instrument is signed by an attorney of the Shareholder, the power of attorney authorizing that attorney to sign or other authorization document must be notarized.
4. In order to be valid, the form of proxy together with the power of attorney or other authorization document (if any) must be deposited at the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for holders of shares of the Company as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a Shareholder from attending and voting in person at the SGM if he so wishes.
5. The Hong Kong share register of members of the Company will be closed from Wednesday, 13 May 2015 to Friday, 15 May 2015, both days inclusive, during which period no transfer of the shares of the Company will be effected. Shareholders whose names appear on the register of members of the Company on Friday, 15 May 2015 at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong are entitled to attend and vote at the SGM. In order to attend and vote at the SGM, all transfer documents accompanied by relevant share certificates must be lodged with the share registrar of the Company, Hong Kong Registrars Limited, 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 12 May 2015.
6. Shareholders who intend to attend the SGM in person or by proxy should return the reply slip to the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the SGM or any adjournment thereof.
7. Shareholders or their proxies attending the SGM shall produce their identity documents. If the attending shareholder is a corporate, its legal representative or person authorized by the board or other decision making authority shall present a copy of the relevant resolution of the board or other decision making authority in order to attend the SGM.
8. As at the date of this notice, 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.