

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



Changhong Jiahua Holdings Limited
(長 虹 佳 華 控 股 有 限 公 司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO RENEWAL OF
EXISTING MASTER SUPPLY AGREEMENT AND
MASTER PURCHASE AGREEMENT;
CHANGE OF DIRECTOR**

**RENEWAL OF EXISTING MASTER SUPPLY AGREEMENT AND MASTER
PURCHASE AGREEMENT**

Reference is made to the announcement of the Company dated 27 November 2017 in relation to the 2018 Master Supply Agreement and the 2018 Master Purchase Agreement.

As the 2018 Master Supply Agreement and the 2018 Master Purchase Agreement will expire on 31 December 2018, the Board further announces that, on 28 December 2018, the Company and Sichuan Changhong Electric entered into (i) the 2019 Master Supply Agreement pursuant to which the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group; and (ii) the 2019 Master Purchase Agreement pursuant to which the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group.

Implications under the GEM Listing Rules

As at the date of this announcement, Sichuan Changhong Electric held approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company. Sichuan Changhong and Sichuan Changhong Electric are controlling shareholders of the Company under the GEM Listing Rules, and accordingly the transactions contemplated under each of the 2019 Master Supply Agreement and the 2019 Master Purchase Agreement constitute continuing connected transactions for the Company for the purpose of the GEM Listing Rules.

As one or more of the applicable percentage ratios of the proposed annual caps in respect of the annual transaction amount under each of the 2019 Master Supply Agreement and the 2019 Master Purchase Agreement is more than 0.1% but less than 5%, the entering into each of the 2019 Master Purchase Agreement and the 2019 Master Supply Agreement as well as the transactions contemplated thereunder are exempt from the circular and independent shareholders' approval requirements but subject to the reporting, announcement and annual review requirements under Chapter 20 of the GEM Listing Rules.

CHANGE OF DIRECTOR

The Board announces that Ms. Shi Ping has tendered her resignation as executive Director with effect from 31 December 2018 in order to devote more time to her retirement.

Upon the resignation of Ms. Shi Ping, the Board is pleased to further announce that Mr. Luo Yongping has been appointed as executive Director with effect from 1 January 2019.

RENEWAL OF EXISTING MASTER SUPPLY AGREEMENT AND MASTER PURCHASE AGREEMENT

Reference is made to the announcement of the Company dated 27 November 2017 in relation to the 2018 Master Supply Agreement and the 2018 Master Purchase Agreement.

As the 2018 Master Supply Agreement and the 2018 Master Purchase Agreement will expire on 31 December 2018, the Board announces that, on 28 December 2018, the Company and Sichuan Changhong Electric entered into (i) the 2019 Master Supply Agreement pursuant to which the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group; and (ii) the 2019 Master Purchase Agreement pursuant to which the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group.

Details of the 2019 Master Supply Agreement and the 2019 Master Purchase Agreement are set out as follows:

The 2019 Master Supply Agreement

Date: 28 December 2018

Parties: (1) the Company (as the supplier)
(2) Sichuan Changhong Electric (as the purchaser)

Term: A fixed term commencing from 1 January 2019 to 31 December 2019 (both days inclusive)

Subject matter: Pursuant to the 2019 Master Supply Agreement, the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group.

The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of Supply Products. The terms of the individual orders will be consistent with the principles and the terms of the 2019 Master Supply Agreement. If there is any conflict between the terms of an individual order and the 2019 Master Supply Agreement, the latter shall prevail.

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

The Group will take into account the following factors when determining the prices of the Supply Products:

- (1) the expected material costs and production costs to be incurred by the Group in providing the Supply Products;
- (2) the marginal profit to be made by the Group, which is expected to be comparable to the profit that can be realised by sales to independent third party customers; and
- (3) any adjustment based on expected quantity, quality, delivery plan, specification and market competition condition of the Supply Products.

Proposed annual caps and basis of determination

The transaction amount of all the Supply Products supplied under the 2019 Master Supply Agreement for the year ending 31 December 2019 shall not exceed RMB40,000,000.

The annual cap under the 2019 Master Supply Agreement was determined based on the following factors:

- (1) the expected quantity of the Supply Products to be ordered by the Sichuan Changhong Electric Group based on preliminary negotiations with Sichuan Changhong Electric;
- (2) the prevailing open market prices of the Supply Products in the PRC; and
- (3) the historical transaction amounts between the Company and Sichuan Changhong Electric for the period from 1 January 2018 to 30 November 2018 and the historical transaction amounts between the Company and Sichuan Changhong for the financial years ended 31 December 2015, 2016 and 2017, respectively.

The historical transaction amounts of supply of the Supply Products by the Group to Sichuan Changhong Electric Group for each of the years ended 31 December 2015, 2016 and 2017 and the eleven months ended 30 November 2018 were as follows:

	For the financial year ended 31 December 2015 (HK\$'000)	For the financial year ended 31 December 2016 (RMB'000)	For the financial year ended 31 December 2017 (RMB'000)	For the period from 1 January 2018 to 30 November 2018 (RMB'000)
Previous/existing annual caps	2,942,637	65,000	60,000	49,000
Historical transaction amounts	<u>91,695</u>	<u>56,920</u>	<u>15,930</u>	<u>31,383</u>

As at the date of this announcement, the annual cap under the 2018 Master Supply Agreement for the financial year ending 31 December 2018 has not been exceeded.

Reasons for and benefits of entering into the 2019 Master Supply Agreement

The Group has historically been supplying IT products to Sichuan Changhong, which is owned as to approximately 23.22% by Sichuan Changhong Electric, and has been supplying IT products to the Sichuan Changhong Electric Group since 19 April 2016. The parties entered into the 2019 Master Supply Agreement to continue the business relationship upon expiry of the 2018 Master Supply Agreement taking into consideration that the Sichuan Changhong Electric Group has a broad distribution network as well as its established long-term and solid reputation in the market. The entering into of the 2019 Master Supply Agreement will enable the Company to continue capitalising on the stable and well-established strategic business relationship with the Sichuan Changhong Electric Group and maintain a stable income stream with a committed source of orders from the Sichuan Changhong Electric Group, which in turn will benefit the Group's revenue growth and future development.

Based on the above, the Directors (including independent non-executive Directors but excluding the Directors who abstained from voting on the relevant Board resolutions as set out hereinafter) are of the view that the 2019 Master Supply Agreement was entered into upon normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group, and the terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The 2019 Master Purchase Agreement

- Date:** 28 December 2018
- Parties:** (1) the Company (as the purchaser)
- (2) Sichuan Changhong Electric (as the supplier)
- Term:** A fixed term commencing from 1 January 2019 to 31 December 2019 (both days inclusive)
- Subject matter:** Pursuant to the 2019 Master Purchase Agreement, the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group. The Purchase Products to be purchased by the Group will be used for meeting the needs of customers in project business.
- The Group and the Sichuan Changhong Electric Group will enter into individual orders setting out specific terms of each individual purchase of Purchase Products. The terms of the individual orders will be consistent with the principles and the terms of the 2019 Master Purchase Agreement. If there is any conflict between the terms of an individual order and the 2019 Master Purchase Agreement, the latter shall prevail.
- Pricing policy:** Each individual purchase of the Purchase Products will be conducted on normal commercial terms negotiated on an arm's length basis, or on terms which are no less favourable than those provided by independent third party suppliers.
- When determining the purchase prices of the Purchase Products, the Group will take into account the prices offered by independent third party suppliers in normal course of business and on normal commercial terms.

Proposed annual caps and basis of determination

The transaction amount of all the Purchase Products purchased under the 2019 Master Purchase Agreement for the year ending 31 December 2019 shall not exceed RMB40,000,000.

The annual cap under the 2019 Master Purchase Agreement was determined based on the following factors:

- (1) the expected quantity of the Purchase Products to be purchased by the Group;
- (2) the prevailing open market prices of the Purchase Products in the PRC; and
- (3) the historical transaction amounts between the Company and Sichuan Changhong Electric for the period from 1 January 2018 to 30 November 2018 and the historical transaction amounts between the Company and Sichuan Changhong for the financial years ended 31 December 2015, 2016 and 2017, respectively.

The historical transaction amounts of purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group for each of the three financial years ended 31 December 2015, 2016 and 2017 and the eleven months ended 30 November 2018 were as follows:

	For the financial year ended 31 December 2015 (HK\$'000)	For the financial year ended 31 December 2016 (RMB\$'000)	For the financial year ended 31 December 2017 (RMB'000)	For the period from 1 January 2018 to 30 November 2018 (RMB'000)
Previous/existing annual caps	1,353,937	5,000	5,250	4,900
Historical transaction amounts	<u>N/A</u>	<u>358</u>	<u>287</u>	<u>2,021</u>

As at the date of this announcement, the annual cap under the 2018 Master Purchase Agreement for the financial year ending 31 December 2018 has not been exceeded.

Reasons for and benefits of entering into the 2019 Master Purchase Agreement

In the past, the Group has been purchasing software and services from Sichuan Changhong, which is owned as to approximately 23.22% by Sichuan Changhong Electric, and has been purchasing software and services from the Sichuan Changhong Electric Group since 19 April 2016. The parties entered into the 2019 Master Purchase Agreement to continue the business relationship upon expiry of the 2018 Master Purchase Agreement taking into consideration that Sichuan Changhong Electric has a wide scope of product offering. Accordingly, the entering into of the 2019 Master Purchase Agreement will enhance the diversification of products to be supplied to the Group. Taking into account that the Group has a stable and well-established strategic business relationship with Sichuan Changhong Electric Group, Sichuan Changhong Electric Group has a deep understanding as to the specifications of the Purchase Products required by the Group, and the entering into of the 2019 Master Purchase Agreement will continue to support the stable growth and expansion of the business of the Group. The Directors believe the entering into of the 2019 Master Purchase Agreement will benefit the Group's revenue growth and future development.

Based on the above, the Directors (including independent non-executive Directors but excluding the Directors who abstained from voting on the relevant Board resolution as set out hereinafter) are of the view that the 2019 Master Purchase Agreement was entered into upon normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group, and the terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Internal control

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

Implications under the GEM Listing Rules

As at the date of this announcement, Sichuan Changhong Electric held approximately 23.22% of the equity interest in Sichuan Changhong, the controlling shareholder of the Company. Therefore, Sichuan Changhong and Sichuan Changhong Electric are both controlling shareholders of the Company under the GEM Listing Rules, and the entering into of the 2019 Master Purchase Agreement and the 2019 Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company for the purpose of the GEM Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 19.06 of the GEM Listing Rules of the proposed annual caps in respect of the annual transaction amount under each of the 2019 Master Purchase Agreement and the 2019 Master Supply Agreement are more than 0.1% but less than 5%, the entering into each of the 2019 Master Purchase Agreement and the 2019 Master Supply Agreement as well as the transactions contemplated thereunder are exempt from the circular and independent shareholders' approval requirements but subject to the reporting, announcement and annual review requirements under Chapter 20 of the GEM Listing Rules.

Others

Each of Mr. Zhao Yong and Mr. Li Jin is a director of both Sichuan Changhong Electric and Sichuan Changhong, while Mr. Yang Jun is a senior management member of Sichuan Changhong Electric and a director of Sichuan Changhong. Accordingly, Mr. Zhao Yong, Mr. Li Jin and Mr. Yang Jun, each being an executive Director, are considered to be interested in the transactions contemplated under each of the 2019 Master Supply Agreement and the 2019 Master Purchase Agreement. Each of Mr. Zhao Yong, Mr. Li Jin and Mr. Yang Jun has therefore abstained from voting for the Board resolution to approve each of the 2019 Master Supply Agreement and the 2019 Master Purchase 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 IT corporate products.

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

CHANGE OF DIRECTOR

Resignation of Director

The Board announces that Ms. Shi Ping has tendered her resignation as executive Director with effect from 31 May 2018 in order to devote more time to her retirement.

Ms. Shi Ping has confirmed that she had no disagreement with the Board and there was no matters relating to her resignation that need to be brought to the attention of the Shareholders.

Appointment of Director

Upon the resignation of Ms. Shi Ping, the Board is pleased to further announce that Mr. Luo Yongping (“**Mr. Luo**”) has been appointed as executive Director with effect from 1 January 2019. The biographical details of Mr. Luo as follows:

Mr. Luo Yongping

Mr. Luo, aged 43, has over 10 years’ experience in corporate management. He holds a management position in Sichuan Provincial Investment Group Co., Ltd. (“**Sichuan Provincial Investment Group**”) and serves as directors in certain subsidiaries of Sichuan Provincial Investment Group (such as Sichuan Investment Management Co., Ltd.).

Mr. Luo obtained a bachelor’s degree in history from Sichuan University in July 1997 and a master’s degree in historical philology from Sichuan University in July 2000.

General

Mr. Luo did not hold any directorships in any other listed public companies in Hong Kong or overseas in the last three years.

Mr. Luo does not have any relationship with any Directors, senior management or substantial or controlling shareholders of the Company.

As at the date of this announcement, Mr. Luo did not have any interests or short positions in the Shares or underlying shares of the Company which are discloseable under Part XV of the Securities and Futures Ordinance.

Mr. Luo has entered into a service contract with the Company with no fixed term, and is terminable by either party giving not less than one month's written notice or payment in lieu. Mr. Luo is also subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company. Mr. Luo will be entitled to a director's emolument of HK\$60,000 per annum, which is determined by the remuneration committee of the Company with reference to Mr. Luo's relevant experience, responsibilities and duties in the Company and the prevailing market benchmarks.

Save as disclosed above, there is no other information relating to Mr. Luo that should be disclosed under Rule 17.50(2) of the GEM Listing Rules or any other matter that needs to be brought to the attention of the Shareholders.

The Board would like to take this opportunity to express its sincere gratitude to Ms. Shi Ping for her valuable contribution to the Company during their tenure of services, and extend its warmest welcome to Mr. Luo in joining the Board.

DEFINITIONS

“2018 Master Purchase Agreement”	the master purchase agreement dated 27 November 2017 entered into between Company and Sichuan Changhong Electric in relation to purchase of the Purchase Products during the period from 1 January 2018 and ending on 31 December 2018, details of which are set out in the announcement of the Company dated 27 November 2017
“2018 Master Supply Agreement”	the master supply agreement dated 27 November 2017 entered into between the Company and Sichuan Changhong Electric in relation to supply of the Supply Products during the period from 1 January 2018 and ending on 31 December 2018, details of which are set out in the announcement of the Company dated 27 November 2017
“2019 Master Purchase Agreement”	the master purchase agreement dated 28 December 2018 entered into between the Company and Sichuan Changhong Electric pursuant to which the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group during the period from 1 January 2019 and ending on 31 December 2019

“2019 Master Supply Agreement”	the master supply agreement dated 28 December 2018 entered into between the Company and Sichuan Changhong Electric pursuant to which the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group during the period from 1 January 2019 and ending on 31 December 2019
“Board”	the board of Directors
“Company”	Changhong Jiahua Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM
“connected person(s)”	has the meaning as ascribed to it under the GEM Listing Rules
“Director(s)”	director(s) of the Company
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited
“Group”	the Company and its subsidiaries
“IT “	Information technology
“PRC”	the People’s Republic of China
“Purchase Products”	including software, services and other ancillary products to be purchased by the Group from the Sichuan Changhong Electric Group
“Supply Products”	IT products and services such as personal computers, servers, storage devices, network equipment and relevant services to be supplied by the Group to the Sichuan Changhong Electric Group
“RMB”	Renminbi, the lawful currency of the PRC

“Sichuan Changhong”	Sichuan Changhong Electric Co., Limited (四川長虹電器股份有限公司), a company established under the laws of the PRC with limited liability, the issued A-shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600839) and owns, together with its wholly-owned subsidiaries, approximately 69.32% of the Company
“Sichuan Changhong Electric”	Sichuan Changhong Electronics Holding Group Co., Ltd. (四川長虹電子控股集團有限公司), a company established under the laws of the PRC and which holds approximately 23.22% equity interest in Sichuan Changhong as at the date of this announcement
“Sichuan Changhong Electric Group”	Sichuan Changhong Electric and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

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

Hong Kong, 28 December 2018

As at the date of this announcement, the executive Directors are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Li Jin, Mr. Yang Jun and Ms. Shi Ping and the independent non-executive Directors are Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin.

This announcement, for which the Directors 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 announcement 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 announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting thereon and on the website of the Company at www.changhongit.com.hk.