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

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

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

THE VIE AGREEMENTS

The Board is pleased to announce that on 12 April 2019, the WFOE, the OPCO and the PRC Equity Owner entered into the VIE Agreements. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. The financial results of the OPCO will be consolidated into the consolidated financial statements of the Group as if the OPCO is a wholly-owned subsidiary of the Company.

IMPLICATIONS UNDER THE GEM LISTING RULES

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

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

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

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

A circular containing, among other things, (i) details about the VIE Structure; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice convening the SGM will be despatched to the Shareholders on or before 30 April 2019.

INTRODUCTION

On 12 April 2019, the WFOE entered into the VIE Agreements with the OPCO and the PRC Equity Owner. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO.

INFORMATION ABOUT THE PARTIES

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

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

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

VIE AGREEMENTS

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

(1) The Exclusive Purchase Right Agreement

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

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

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

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

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

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

(2) The Loan Agreement

- Parties:
- (i) the WFOE (as lender); and
 - (ii) the PRC Equity Owner (as borrower).
- Principal:
- The WFOE shall provide a non-interest bearing loan in an aggregate amount of RMB60 million to the PRC Equity Owner, of which (i) RMB2 million will go towards the PRC Equity Owner's initial contribution to the paid-up capital to the OPCO, to be drawn down within 5 business days from the day that the Loan Agreement becomes effective, and (ii) the remaining RMB58 million will be used for the PRC Equity Owner's future contribution to the OPCO's paid-up capital, to be drawn down within three (3) years from the day that the Loan Agreement becomes effective. The Loan Agreement takes effect upon signing and after fulfillment of statutory approval procedures (including the Company receiving Shareholders' approval pursuant to the GEM Listing Rules) by the WFOE and the PRC Equity Owner.
- Term:
- 10 years from the effective date of the Loan Agreement and automatically renewable for a term of 10 years upon the expiry of the initial term and all subsequent terms. The loan will become due and payable under any of the following circumstances:
- (i) the winding-up, liquidation, closing down or the revocation of the business license of the PRC Equity Owner;
 - (ii) the PRC Equity Owner engaging or being involved in any criminal activity which affects the continued operations of the OPCO; and
 - (iii) according to applicable PRC laws, a foreign investor may invest in the business of the OPCO as a controlling and/or sole shareholder, the PRC authorities begin to process approvals for this type of business, and the WFOE exercises its rights to purchase the equity interest in the OPCO pursuant to the Exclusive Purchase Right Agreement. In such a case, if the purchase price for such equity interest transfer is less than the loan amount, then the WFOE waives the difference between the two amounts. On the other hand, if the purchase price for such equity interest transfer is higher than the loan amount, then the PRC Equity Owner shall, without seeking any compensation, pay the difference between the two amounts to the WFOE.

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

(3) The Equity Pledge Agreement

Parties: (i) the WFOE (as pledgee)

(ii) the PRC Equity Owner (as pledgor); and

(iii) the OPCO.

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

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

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

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

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

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

(4) The Exclusive Consultancy and Services Agreement

Parties: (i) the WFOE; and

 (ii) the OPCO.

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

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

- (i) Consultancy as to the corporate management and business strategy of the OPCO;
- (ii) Consultancy as to setting good business standards and practices;
- (iii) Consultancy as to research and marketing strategies;
- (iv) Technical consultancy as to server maintenance and network platform operation;
- (v) Research, development, maintenance and update services in relation to key business software;
- (vi) Leasing computers, other office materials, and relevant operational equipment to the OPCO;
- (vii) Providing brand promotion and marketing services;
- (viii) Providing technical training and support to employees of the OPCO;
- (ix) Granting the OPCO the right to use the intellectual property of the WFOE;
- (x) Providing personnel support upon the OPCO's request; and
- (xi) Other services as agreed between the WFOE and the OPCO.

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

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

(5) The Business Cooperation Agreement

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

- (vii) Accept suggestions, guidance and proposals raised by the WFOE in relation to business development;
- (viii) Carry out the value-added telecommunications business and update and maintain the necessary qualification certificates, including but not limited to the ICP License; and
- (ix) Perform the obligations under the VIE Agreements.

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

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

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

(6) Power of Attorney

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

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

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

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

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

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

(7) The Intellectual Property Rights Authorisation Agreement

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

In addition to the VIE Agreements entered into between the WFOE, the PRC Equity Owner and the OPCO, the WFOE and the OPCO have also entered into a Domain Name Transfer Agreement to transfer certain internet domain names in relation to the Platform from the WFOE to the OPCO.

(8) The Commitment Letter

Parties: the PRC Equity Owner.

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

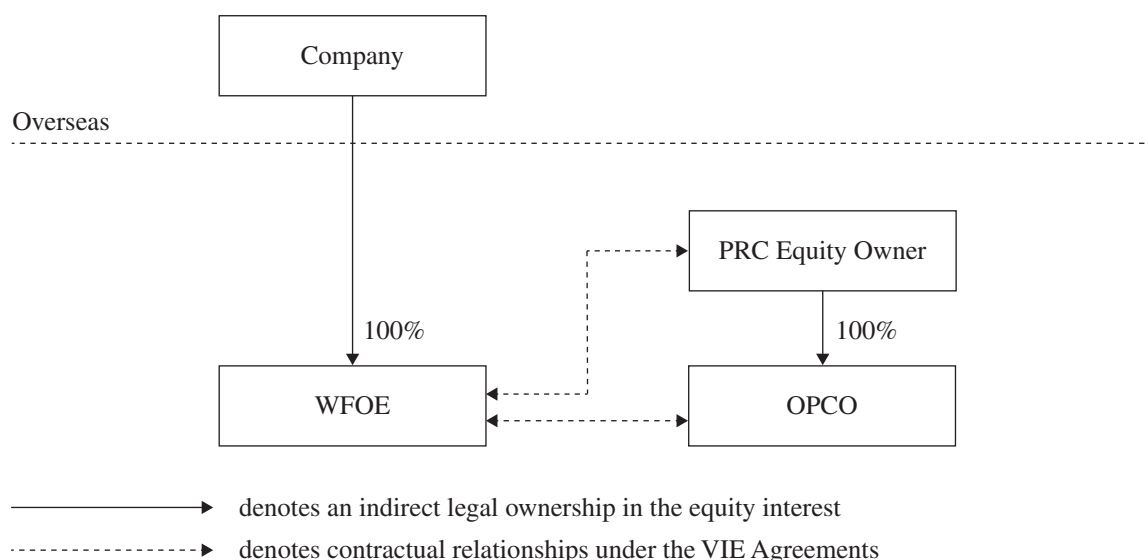
- (i) pursuant to the Exclusive Purchase Right Agreement, the WFOE has an exclusive right to purchase all of the PRC Equity Owner's interests in the OPCO at the agreed price;
- (ii) pursuant to the Equity Pledge Agreement, if there is any dividend or bonus generated by the pledged equity during the term of the Equity Pledge Agreement and while the VIE Agreements continue to be effective, such dividend or bonus generated shall be returned to the WFOE;
- (iii) pursuant to the Exclusive Consultancy and Services Agreement, the OPCO shall pay to the WFOE a service fee that is equal to 100% of the total before-income-tax consolidated profits of the OPCO, after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes;
- (iv) pursuant to the Exclusive Consultancy and Services Agreement, the WFOE may adjust the scope and amount of the service fee according to PRC tax law and tax practices and the PRC Equity Owner shall induce the OPCO to accepting such adjustments. The WFOE has the right to calculate the service fee on a quarterly basis and issue a corresponding invoice to the OPCO. The WFOE may adjust the payment time and payment method, and the OPCO will unconditionally accept such adjustments;

- (v) the PRC Equity Owner will not directly or indirectly through any person or entity, participate in, carry out, acquire or hold any interest in any business which is or may be in competition with the OPCO, WFOE and WFOE's affiliates, and shall not do anything which gives rise to any conflict of interest in relation to the operation of the OPCO between the PRC Equity Owner and the WFOE. In the event of any conflict of interests as mentioned above between the PRC Equity Owner and the WFOE, the PRC Equity Owner will take any actions as instructed by the WFOE to eliminate such conflict provided that such action is compliant with the applicable laws;
- (vi) no conflict of interest exists in relation to the PRC Equity Owner's authorization of the WFOE (and its successors (including a liquidator replacing the WFOE, if any)) to exercise OPCO shareholder rights under the Power of Attorney; and
- (vii) if the PRC Equity Owner is ordered to be dissolved, is abolished, is closed, declares bankruptcy or for other reasons its capacity as an entity ceases to exist, the PRC Equity Owner shall use all efforts to procure that the PRC Equity Owner's successor (including, but not limited to, a liquidator replacing the PRC Equity Owner (if any) or other entity that succeeds the PRC Equity Owner's obligations due to the above situations) continues to perform the PRC Equity Owner's obligations under the VIE Agreements.

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

DIAGRAM OF THE VIE STRUCTURE

The following diagram sets out the VIE Structure:



BACKGROUND AND REASONS FOR THE VIE AGREEMENTS

Background

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

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

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

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

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

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

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

Relevant laws and regulations in the PRC

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

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

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

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

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

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

Reasons for adopting the VIE Structure

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

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

Consolidation in Company's consolidated accounts

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

Internal Control

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

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

Conflict of interests

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

LEGAL COMPLIANCE OF VIE AGREEMENTS

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

DISPUTES RESOLUTIONS UNDER THE VIE AGREEMENTS

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

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

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

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

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

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

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

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

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

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

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

THE BOARD’S VIEW ON THE VIE AGREEMENTS

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

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

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

RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

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

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

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

IMPLICATIONS UNDER THE GEM LISTING RULES

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

Others

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

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

APPLICATION FOR AND CONDITIONS OF WAIVER

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

- (a) **No Change without Independent Non-Executive Directors' Approval:** No changes to the terms of any of the VIE Agreements will be made without the approval of the independent non-executive Directors.
- (b) **No Change without Independent Shareholders' Approval:** Save as described in paragraph (d) below, no changes to the terms of any of the VIE Agreements will be made without the approval of the Independent Shareholders (to the extent that such approval is required under Chapter 20 of the GEM Listing Rules). Once Independent Shareholders' approval of any change has been obtained, no further announcement, circular or approval of the Independent Shareholders, will be required under Chapter 20 of the GEM Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the VIE Agreements in the annual reports of the Company (as set out in paragraph (e) below) will however continue to be applicable.
- (c) **Economic Benefits Flexibility:** The VIE Agreements shall continue to enable the Group to receive the economic benefits derived by the OPCO Group through (i) the Group's potential right (if and when so allowed under the applicable PRC Laws) to acquire the entire equity interest in the OPCO Group under the then applicable PRC Laws, (ii) the business structure under which the total before-income-tax profits generated by the OPCO Group after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes are substantially retained by the Group (such that no annual caps shall be set on the amount of the services fees payable to the WFOE under the relevant VIE Agreements), and (iii) the Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the OPCO Group.

- (d) **Renewal and reproduction:** On the basis that the VIE Agreements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has equity interest, on the one hand, and the OPCO Group, on the other hand, such framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business in the PRC as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Independent Shareholders, on substantially the same terms and conditions as the existing VIE Agreements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business that the Company may establish upon renewal and/or reproduction of the VIE Agreements will be treated as the connected persons of the Company and transactions between these connected persons and the Company other than those under similar VIE Agreements shall comply with Chapter 20 of the GEM Listing Rules. This condition is subject to relevant PRC Laws and approvals from the relevant PRC authorities.
- (e) **Ongoing Reporting and Approvals:** the Group will disclose details relating to the VIE Agreements on an ongoing basis as follows:
- (i) The VIE Agreements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the GEM Listing Rules.
 - (ii) The independent non-executive Directors will review the VIE Agreements annually and confirm in the Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the VIE Agreements, have been operated so that the revenue generated by the OPCO Group has been substantially retained by the WFOE; (ii) no dividends or other distributions have been made by the OPCO to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO Group during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.

- (iii) The Company's auditors will carry out procedures annually on the transactions carried out pursuant to the VIE Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten business days before the Company bulk prints its annual report, confirming that the transactions carried out pursuant to the VIE Agreements have received the approval of the Directors, have been entered into in accordance with the relevant VIE Agreements and that no dividends or other distributions have been made by the OPCO Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.
- (iv) For the purposes of Chapter 20 of the GEM Listing Rules, and in particular the definition of "connected person", the OPCO and its subsidiaries (if any) will be treated as the Company's subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the GEM Listing Rules) of the OPCO and its subsidiaries (if any) and their respective associates will be treated as the Company's "connected persons" (excluding for this purpose, the OPCO Group). As such, the transactions between these connected persons and the Group (including for this purpose, the OPCO Group), other than those under the VIE Agreements, shall comply with Chapter 20 of the GEM Listing Rules.
- (v) The OPCO will undertake that, during the term of the relevant VIE Agreements, it will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of the Company's auditors' review on the continuing connected transactions.

GENERAL

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

A SGM will be convened for the Independent Shareholders to approve the VIE Agreements and the transactions thereunder.

A circular containing, among other things, (i) details about the VIE Structure; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice convening the SGM will be despatched to the Shareholders on or before 30 April 2019.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

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

“Exclusive Consultancy and Services Agreement”	the exclusive consultancy services agreement (獨家諮詢和服務協議) entered into between the WFOE and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement;
“Exclusive Purchase Right Agreement”	the exclusive purchase right agreement (獨家購買權協議) entered into among the WFOE, the PRC Equity Owner and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM;
“GEM”	GEM of the Stock Exchange;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China;
“ICT”	information and communications technology;
“Independent Board Committee”	a committee under the Board which will be established for the purpose of advising the Independent Shareholders on the entry of the VIE Agreements, including independent non-executive Directors, Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin;
“Independent Financial Adviser”	Giraffe Capital Limited, a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities;
“Independent Shareholder(s)”	the Shareholders other than those with material interest in the VIE Agreements who are required to abstain from voting under the GEM Listing Rules to approve the transactions under the VIE Agreements;
“Intellectual Property Rights Authorisation Agreement”	the intellectual property rights authorisation agreement (知識產權授權使用協議) entered into between the WFOE and the OPCO, details of which are set out in the section headed “VIE Agreements” in this announcement;

“Loan Agreement”	the loan agreement (借款合同) entered into between the WFOE and the PRC Equity Owner, details of which are set out in the section headed “VIE Agreements” in this announcement;
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部);
“OPCO Group”	the OPCO and its subsidiaries (if any) to be controlled by the WFOE through the VIE Agreements;
“OPCO”	Sichuan Changhong Cloud Computing Company Limited* (四川長虹雲計算有限公司), a company incorporated in the PRC with limited liability, which is 100% held by the PRC Equity Owner;
“Platform”	the business-to-business online e-commerce platform to be established by the OPCO;
“Power of Attorney”	the power of attorney (授權協議) entered into between the WFOE and the PRC Equity Owner, details of which are set out in the section headed “VIE Agreements” in this announcement;
“PRC Equity Owner”	Sichuan Changhong Electronics Holding Group Co., Ltd. (四川長虹電子控股集團有限公司), a company established under the laws of the PRC and which holds approximately 23.22% equity interest in Sichuan Changhong as at the date of this announcement;
“PRC Laws”	any and all laws, regulations, statutes, rules, orders, decrees, circulars, notices, supreme court’s judicial interpretations and subsidiary legislations currently in force and publicly available in the PRC as of the date hereof;
“PRC Legal Adviser”	Shu Jin Law Firm (廣東信達律師事務所), the PRC legal adviser to the Company;
“PRC”	the People’s Republic of China and for the purpose of this announcement, excluding Hong Kong, Macau Administrative Region and Taiwan;

“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“SGM”	the special general meeting of the Company to be convened to approve the VIE Agreements and the transactions contemplated thereunder;
“Share(s)”	ordinary share(s) of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Sichuan Changhong Electric Group”	PRC Equity Owner and its subsidiaries;
“Sichuan Changhong”	Sichuan Changhong Electric Co., Limited (四川長虹電器股份有限公司), a company established under the laws of the PRC with limited liability, the issued A-shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600839) and owns, together with its wholly-owned subsidiaries, approximately 69.32% of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“VIE Agreements”	collectively, the Exclusive Consultancy and Services Agreement, the Business Cooperation Agreement, the Loan Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreement, the Power of Attorney, the Intellectual Property Rights Authorisation Agreement and the Commitment Letter, details of which are set out in the section headed “VIE Agreements” in this announcement;
“VIE Structure”	the structure established through the entering into of the VIE Agreements, which enables the Group to effectively hold and control the OPCO;
“VIE”	variable interest entity, being an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights; and

“WFOE”

Sichuan Changhong Jiahua Digital Technology Co., Ltd.* (四川長虹佳華數字技術有限公司), a wholly-foreign owned enterprise invested company (外商投資企業再投資企業) incorporated in the PRC with limited liability, which is an indirect wholly owned subsidiary of the Company.

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

Hong Kong, 12 April 2019

As at the date of this announcement, the Board comprises Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yang Jun and Mr. Luo Yongping as executive directors, and Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin as independent non-executive directors.

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.

** The English translations of the Chinese names and words are for illustration purpose only and should not be regarded as the official translation of such Chinese names and words.*