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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: 3991)

**(I) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
RENEWAL OF THE MASTER SUPPLY AGREEMENT AND
THE MASTER PURCHASE AGREEMENT;
AND
(II) MAJOR AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE RENEWAL OF
THE FINANCIAL SERVICES AGREEMENT**

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**



SOMERLEY CAPITAL LIMITED

THE AGREEMENTS

Reference is made to the announcement of the Company dated 17 November 2020. As the 2021 Master Supply Agreement and the 2021 Master Purchase Agreement will expire on 31 December 2023, on 14 November 2023, the Company entered into (i) the 2024 Master Supply Agreement and (ii) the 2024 Master Purchase Agreement with Sichuan Changhong Holding for a fixed term commencing from 1 January 2024 until 31 December 2026 (both dates inclusive).

As the 2021 Financial Services Agreement will also expire on 31 December 2023, on 14 November 2023, Changhong IT, a wholly-owned subsidiary of the Company, entered into the 2024 Financial Services Agreement with Changhong Finance for a fixed term commencing from 1 January 2024 until 31 December 2026 (both dates inclusive).

LISTING RULES IMPLICATIONS

The 2024 Master Supply Agreement and the 2024 Master Purchase Agreement

As at the date of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement, Sichuan Changhong Holding holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company, and has control over Sichuan Changhong. Both Sichuan Changhong Holding and Sichuan Changhong are controlling shareholders of the Company. Therefore, Sichuan Changhong is a connected person of the Company and Sichuan Changhong Holding is an associate of a connected person of the Company, and thus also a connected person of the Company. Accordingly, the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the highest annual cap for the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement exceeds 5%, the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The 2024 Financial Services Agreement

As at the date of the 2024 Financial Services Agreement, Changhong Finance is owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding, the controlling shareholders of the Company. Changhong Finance is an associate of a connected person of the Company, and thus a connected person of the Company. Accordingly, the transactions contemplated under the 2024 Financial Services Agreement also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The deposit services

As one or more of the applicable percentage ratios under the Listing Rules in respect of the maximum daily outstanding balance of the deposit services under the 2024 Financial Services Agreement exceed 5%, the deposit services under the 2024 Financial Services Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, the deposits made with Changhong Finance constitute provision of financial assistance by the Company under Rule 14.04(1)(e) of the Listing Rules. As the highest applicable percentage ratio in respect of the placing of deposits with Changhong Finance exceeds 25%, such placing of deposits also constitutes a major transaction of the Company subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The loan services

The loan services under the 2024 Financial Services Agreement constitute financial assistance provided by a connected person to the Group. As such loan services would be provided on normal commercial terms or better and would not be secured by the assets of the Group, the loan services under the 2024 Financial Services Agreement are fully exempt from the announcement, reporting, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The other intermediary services

As one or more of the applicable percentage ratios under the Listing Rules in respect of the highest annual cap for the other intermediary services under the 2024 Financial Services Agreement exceed 0.1% but are less than 5%, the other intermediary services under the 2024 Financial Services Agreement are subject to the reporting, annual review and announcement requirements but exempt from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Company will convene the SGM for the Independent Shareholders to consider and, if thought fit, approve the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder. Somerley Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders regarding the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder; (iii) a letter of advice from Somerley Capital to the Independent Board Committee and the Independent Shareholders regarding the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder; and (iv) a notice of the SGM, is expected to be despatched to the Shareholders on or before 5 December 2023.

THE AGREEMENTS

Reference is made to the announcement of the Company dated 17 November 2020. As the 2021 Master Supply Agreement and the 2021 Master Purchase Agreement will expire on 31 December 2023, on 14 November 2023, the Company entered into (i) the 2024 Master Supply Agreement and (ii) the 2024 Master Purchase Agreement with Sichuan Changhong Holding for a fixed term commencing from 1 January 2024 until 31 December 2026 (both dates inclusive).

As the 2021 Financial Services Agreement will also expire on 31 December 2023, on 14 November 2023, Changhong IT, a wholly-owned subsidiary of the Company, entered into the 2024 Financial Services Agreement with Changhong Finance for a fixed term commencing from 1 January 2024 until 31 December 2026 (both dates inclusive).

THE 2024 MASTER SUPPLY AGREEMENT

Date

14 November 2023

Parties

1. The Company; and
2. Sichuan Changhong Holding.

Subject matter

Pursuant to the 2024 Master Supply Agreement, the Group has agreed to supply the ICT Products and Services 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 the ICT Products and Services.

Term

The term commences from 1 January 2024 until 31 December 2026.

Pricing

As a general principle, the price and terms of the individual orders in respect of the supply of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, or on a 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 terms of the individual orders will be consistent with the principles and the terms of the 2024 Master Supply Agreement. If there is any conflict between the terms of an individual order and the 2024 Master Supply Agreement, the latter shall prevail.

Payment

The credit term for the fee payable by the Sichuan Changhong Electric Group is determined in accordance with the payment terms of each individual order. For project-related business, the payment terms of the individual order will make reference to the timing and schedule of the relevant project. For other wholesale-related business, the credit term is within a normal credit period upon the date of invoice.

Previous/existing annual cap amounts

The previous/existing annual cap amounts for the provision of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group under the 2021 Master Supply Agreement for the two years ended 31 December 2022 and the year ending 31 December 2023 are as follows:

	For the year ended 31 December		For the year ending
	2021	2022	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>2023</i>
			<i>RMB'000</i>
Previous/existing annual cap amounts	200,000	220,000	242,000

Historical transaction amounts

The historical transaction amounts for the provision of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group under the 2021 Master Supply Agreement for the two years ended 31 December 2022 and the ten months ended 31 October 2023 are as follows:

	For the year ended 31 December		For the ten months
	2021	2022	ended
	<i>RMB'000</i>	<i>RMB'000</i>	31 October
			2023
			<i>RMB'000</i>
Historical transaction amounts	25,233	11,092	12,531

The Board confirms that as at the date of this announcement, the annual caps under the 2021 Master Supply Agreement have not been exceeded.

Proposed annual caps

The proposed annual caps for the fee to be paid by the Sichuan Changhong Electric Group to the Group for the ICT Products and Services under the 2024 Master Supply Agreement for each of the three years ending 31 December 2026 are RMB100,000,000, RMB105,000,000 and RMB110,000,000, respectively.

The above proposed annual caps under the 2024 Master Supply Agreement were determined after having taken into account the following factors:

- (a) the expected quantity of the ICT Products and Services to be ordered from the Group by the Sichuan Changhong Electric Group based on the communication and understanding, and the upcoming supply contracts to be entered into between the two parties in 2024;
- (b) the proposed new annual caps are significantly lower than the existing annual cap for the year ending 31 December 2023 considering the low utilisation rates of the previous/ existing annual caps under the 2021 Master Supply Agreement as set out above, which was mainly due to (i) adjustment to the business strategies of the Sichuan Changhong Electric Group during 2021 to 2023, whereby some original projects which required the ICT Products and Services were put on hold; and (ii) the COVID-19 epidemic which hit the global economy hard and slowed down the business growth and affected the business activities of various enterprises to a certain extent inevitably. For example, the Sichuan Changhong Electric Group had adopted a more stringent control over its investment in fixed assets during that period and reduced acquisition of ICT Products and Services. Since the impact of the COVID-19 epidemic is dissipating and the global economy is gradually recovering, the Group is more optimistic about the future business prospects and development, which will be accompanied by a growing and viable demand for the ICT Products and Services provided by the Group;
- (c) the proposed annual caps under the 2024 Master Supply Agreement will still provide sufficient flexibility for the Group to cater for and grasp the abundant business opportunities in the PRC ICT market in the coming three years. According to industry analysis such as the PRC ICT market forecasts for 2024 and beyond issued by the International Data Corporation (China) in August 2023, the total spending in the global ICT market is expected to increase to approximately US\$6.2 trillion in 2027, representing a five-year CAGR of 5.7%. In particular, the total spending in the PRC ICT market is expected to increase from approximately US\$530 billion in 2022 to approximately US\$720 billion in 2027, representing a five-year CAGR of 6.2%. Furthermore, the Sichuan Changhong Electric Group has integrated new technologies such as the Internet of Things, 5G, big data, artificial intelligence and blockchain to continuously promote the construction and application of "5G + Industrial Internet" smart factories for home appliances, and to accelerate the digital transformation of various businesses, in order to enhance production and operation efficiency and to propel the transformation and upgrading of the manufacturing industry. In view of its operational needs to cater for the growing market size of the ICT industry and investment in digital transformation, it is anticipated that the Sichuan Changhong Electric Group's demand for the ICT Products and Services from relevant suppliers including the Group will increase accordingly; and

- (d) the prevailing open market prices and projected rise of similar ICT Products and Services in the PRC due to inflation, which were sourced from the (i) regular market observation and analysis of the Company; and (ii) past dealings of the Company with independent third party customers.

Based on the communication and understanding between the Company and the Sichuan Changhong Electric Group in respect of its future development plan, and considering factors such as the overall expansion of the ICT industry, the historical growth of Sichuan Changhong's business, the historical transaction amounts under the 2021 Master Supply Agreement and inflation rates, the Company has proposed an annual cap for the year ending 31 December 2024 which is over 50% lower than the existing annual cap for the year ending 31 December 2023, with a buffer of approximately 5% increase for the annual caps for each of the two years ending 31 December 2026, for prudence purposes and to maintain flexibility for the Group's business.

Considering the factors set out above, the Directors (excluding the independent non-executive Directors who will express their views after considering the advice from the Independent Financial Adviser) are of the view that the proposed annual caps of the 2024 Master Supply Agreement are fair and reasonable.

Reasons for and benefits of entering into the 2024 Master Supply Agreement

The Group has a long-standing business relationship with Sichuan Changhong, and has been supplying the ICT Products and Services to the Sichuan Changhong Electric Group since April 2016. Taking into account the Sichuan Changhong Electric Group's broad distribution network and well-established market, the 2024 Master Supply Agreement will enable the Company to continue its capitalization on such business relationship, and to maintain a stable income stream with a reliable and committed source of orders from the Sichuan Changhong Electric Group, which in turn will benefit the Group's revenue growth and future development. With the rapid development of the ICT industry and the widespread use of digital technology, it is also anticipated that the Sichuan Changhong Electric Group's general demand for the ICT Products and Services will increase correspondingly.

The Directors (excluding the independent non-executive Directors who will express their views after considering the advice from the Independent Financial Adviser) are of the view that the 2024 Master Supply Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE 2024 MASTER PURCHASE AGREEMENT

Date

14 November 2023

Parties

1. The Company; and
2. Sichuan Changhong Holding.

Subject matter

Pursuant to the 2024 Master Purchase Agreement, the Company has agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from 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 the Purchase Products.

Term

The term commences from 1 January 2024 until 31 December 2026.

Pricing

As a general principle, the price and terms of the individual orders in respect of the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, or on a similar basis as the Group transacts business with other independent third party suppliers, and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers. The terms of the individual orders will be consistent with the principles and the terms of the 2024 Master Purchase Agreement. If there is any conflict between the terms of an individual order and the 2024 Master Purchase Agreement, the latter shall prevail.

Payment

The credit term for the fee payable by the Group in relation to project-related business is determined in accordance with the payment terms of each individual order, with reference to the timing of the relevant project. For other trading-related business, the credit term is within a normal credit period upon the date of invoice.

Previous/existing annual cap amounts

The previous/existing annual cap amounts for the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group under the 2021 Master Purchase Agreement for the two years ended 31 December 2022 and the year ending 31 December 2023 are as follows:

	For the year ended		For the
	31 December		year ending
	2021	2022	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Previous/existing annual cap amounts	40,000	44,000	47,900

Historical transaction amounts

The historical transaction amounts for the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group under the 2021 Master Purchase Agreement for the two years ended 31 December 2022 and the ten months ended 31 October 2023 are as follows:

	For the year ended		For the
	31 December		ten months
	2021	2022	ended
	<i>RMB'000</i>	<i>RMB'000</i>	31 October
			2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical transaction amounts	1,789	3,998	2,233

The Board confirms that as at the date of this announcement, the annual caps under the 2021 Master Purchase Agreement have not been exceeded.

Proposed annual caps

The proposed annual caps for the price of the Purchase Products to be paid by the Group to the Sichuan Changhong Electric Group under the 2024 Master Purchase Agreement for each of the three years ending 31 December 2026 are RMB47,900,000, RMB50,300,000 and RMB52,800,000, respectively.

The above proposed annual caps under the 2024 Master Purchase Agreement were determined after having taken into account the following factors:

- (a) the expected quantity of the Purchase Products to be ordered by the Group from the Sichuan Changhong Electric Group based on the communication and understanding, and the upcoming purchase contracts to be entered into between the two parties in 2024;

- (b) while based on the historical transaction amounts for the two years ended 31 December 2022 and the ten months ended 31 October 2023 as set out above, the utilisation rate of the previous or existing annual caps under the 2021 Master Purchase Agreement was low, it was mainly due to the COVID-19 epidemic which hit the global economy hard, inevitable slowing down the business growth and affecting the business activities of various enterprises to a certain extent. Since the impact of the COVID-19 epidemic is dissipating and the global economy is gradually recovering, the Group is optimistic about the future business prospects and development, which will be necessitated by a growing and viable demand of the Group for the Purchase Products; and
- (c) the prevailing open market prices and projected rise of similar Purchase Products in the PRC due to inflation, which were sourced from the (i) regular market observation and analysis of the Company; and (ii) past dealings of the Company with independent third party suppliers.

Based on the communication and understanding between the Company and the Sichuan Changhong Electric Group in respect of the Group's future development plan, the Company has proposed to maintain the annual cap for the year ending 31 December 2024, with a buffer of approximately 5% increase for the annual caps for each of the two years ending 31 December 2026, for prudence purposes and to maintain flexibility for the Group's business.

Considering the factors set out above, the Directors (excluding the independent non-executive Directors who will express their views after considering the advice from the Independent Financial Adviser) are of the view that the proposed annual caps of the 2024 Master Purchase Agreement are fair and reasonable.

Reasons for and benefits of entering into the 2024 Master Purchase Agreement

The Group has a long-standing business relationship with Sichuan Changhong, and has been purchasing relevant software and services from the Sichuan Changhong Electric Group since April 2016. Taking into account the Sichuan Changhong Electric Group's thorough understanding as to the specifications of the Purchase Products required by the Group, and the well-established business relationship between the parties, the 2024 Master Purchase Agreement will enhance the diversification of products to be supplied to the Group, as well as the stable growth and expansion of the Group's business, which in turn will benefit the Group's revenue growth and future development.

The Directors (excluding the independent non-executive Directors who will express their views after considering the advice from the Independent Financial Adviser) are of the view that the 2024 Master Purchase Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE 2024 FINANCIAL SERVICES AGREEMENT

Date

14 November 2023

Parties

1. Changhong IT, a wholly-owned subsidiary of the Company; and
2. Changhong Finance.

Subject matter

Pursuant to the 2024 Financial Services Agreement, Changhong Finance has agreed to provide the Financial Services to Changhong IT and its subsidiaries.

Term

The term commences from 1 January 2024 until 31 December 2026.

Pricing

In relation to the deposit services, the interest rate applicable to any deposits made available to Changhong Finance will be determined in the ordinary course of business and shall not be less than (a) the minimum interest rate prescribed by the PBOC at such relevant time, and (b) the interest rate available to Changhong IT from other major commercial banks in the PRC independent to Changhong IT in respect of the same type of deposits.

In relation to the loan services, the interest rate of the loans to be offered by Changhong Finance to Changhong IT will be determined in the ordinary course of business and shall not be higher than (a) the maximum interest rate prescribed by PBOC at such relevant time; and (b) the interest rate charged against Changhong IT by other major commercial banks in the PRC independent to Changhong IT in respect of the same type of loans.

In relation to the other intermediary services, the other intermediary service fees to be charged by Changhong Finance will be determined in the ordinary course of business and shall not be higher than (a) the maximum fees charged by PBOC at such relevant time; and (b) the fees charged by other major commercial banks in the PRC independent to Changhong IT in respect of the same type of services.

Previous/existing annual cap amounts

The previous/existing annual cap amounts for the provision of the Financial Services under the 2021 Financial Services Agreement for the two years ended 31 December 2022 and the year ending 31 December 2023 are as follows:

	For the year ended 31 December		For the year ending
	2021	2022	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit services — Maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon)	1,500,000	2,000,000	2,500,000
Loan services — Maximum daily outstanding balance of loans granted (including interest accrued and handling fees thereon)	1,500,000	2,000,000	2,500,000
Other intermediary services — Maximum service fees for the services provided	2,500	2,500	2,500

Historical transaction amounts

The historical transaction amounts for the provision of the Financial Services for the two years ended 31 December 2022 and the ten months ended 31 October 2023 are as follows:

	For the year ended 31 December		For the ten months ended
	2021	2022	31 October
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit services — Maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon)	694,108	842,412	1,283,221
Loan services — Maximum daily outstanding balance of loans granted (including interest accrued and handling fees thereon)	723,261	1,524,142	1,707,970
Other intermediary services — Maximum service fees for the services provided	17.5	8	0

The Board confirms that as at the date of this announcement, the annual caps under the 2021 Financial Services Agreement have not been exceeded.

Proposed annual caps

The proposed annual caps for the (i) deposit services, (ii) loan services and (iii) other intermediary services for each of the three years ending 31 December 2026 are as follows:

	For the year ending 31 December		
	2024	2025	2026
	RMB'000	RMB'000	RMB'000
Deposit services — Maximum daily outstanding balance of deposits deposited (including interest accrued and handling fees thereon)	1,500,000	1,500,000	1,500,000
Loan services — Maximum daily outstanding balance of loans granted (including interest accrued and handling fees thereon)	2,500,000	3,000,000	3,500,000
Other intermediary services — Maximum service fees for the services provided	2,500	3,000	3,500

The above proposed annual caps for the deposit services were determined based on arms' length negotiations between the parties to the 2024 Financial Services Agreement, of which the following considerations are taken:

- (a) the interest rate on deposits offered to Changhong IT by Changhong Finance shall not be less than those offered by other major independent commercial banks in the PRC and no restriction is imposed on the cash flow of deposits by Changhong Finance on the account. As a result, the Group can enjoy free access to the account, and adopt different periods of cash deposits to generate a possible higher interest income of deposits and ensure a flexible cash flow;
- (b) the expected amount of the deposit services required by the Group from the Sichuan Changhong Electric Group based on the (i) historical transaction amounts between the Company and the Sichuan Changhong Electric Group and (ii) the utilization rates of the previous or existing annual caps, in particular for the year ended 31 December 2022 and the ten months ended 31 October 2023;
- (c) the Group's bank balance and cash, pledged bank deposits and trade and bills receivables as at 30 June 2023 amounted to approximately HK\$936,149,000, HK\$3,503,387,000 and HK\$4,650,247,000 respectively, the sum of which (i.e. approximately HK\$9,089,783,000) is significantly higher than the proposed annual caps for the deposit services under the 2024 Financial Services Agreement, which indicates the Group's valid and sustainable needs for more deposit services to be provided by deposit-taking financial institutions like Changhong Finance; and
- (d) the maximum credit amount to be made available by Changhong Finance to Changhong IT.

The above proposed annual caps for the loans to be provided by Changhong Finance were determined based on the expected business development needs and growing funding requirements in light of Changhong IT's business demands, taking into account the necessary source of funding required for Changhong IT's operations and expected growth.

The above proposed annual caps for the service fees of other intermediary services to be provided by Changhong Finance were determined based on the expected service fees that will be derived from the maximum expected deposit and loan services required by Changhong IT from Changhong Finance.

Reasons for and benefits of entering into the 2024 Financial Services Agreement

Changhong Finance is a non-bank financial institution which is subject to the regulations of the PBOC and the CBIRC, and is authorised to provide a wide range of financial services.

The Board believes that the proposed annual caps under the 2024 Financial Services Agreement are in the interests of the Company and its Shareholders as a whole since (i) the credit amount of RMB1.5 billion (or more for the two years ending 31 December 2026) will be made available from Changhong Finance to Changhong IT given the latter's good credit standing; (ii) in the event that Sichuan Changhong requests for a single loan in the full credit amount from Changhong Finance under the 2024 Financial Services Agreement, such amount can be deposited with Changhong Finance subsequently; and (iii) the Board considers the proposed annual caps will provide Changhong IT with sufficient flexibility to generate return on its funds through higher interest income and lower costs of financing, if the interest rates offered by Changhong Finance are more favourable than those offered by independent commercial banks in the PRC.

Taking into account its ability to offer deposits or loans with rates equal to or more favourable to Changhong IT than those offered by independent commercial banks in the PRC, the 2024 Financial Services Agreement is expected to provide Changhong IT with new means of financing, as well as improvement in the efficiency of the use of its funds through higher interest income and lower costs of financing. Changhong IT is also anticipated to be in a better position to manage the security of its funds since it is not considered to be exposed to any significant capital risk.

The Directors (excluding the independent non-executive Directors who will express their views after considering the advice from the Independent Financial Adviser) are of the view that the deposit services under the 2024 Financial Services Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) are of the view that the loan services and the other intermediary services under the 2024 Financial Services Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL

The 2024 Master Supply Agreement and the 2024 Master Purchase Agreement

The Group will adopt the following internal control measures in connection with the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement:

- (a) the senior manager of the Group's internal audit department and relevant personnel and management of the Group in charge will closely monitor and supervise the pricing policies for all continuing connected transactions of the Group. To ensure that the relevant transactions are conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole, they will (i) 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 2024 Master Supply Agreement and the 2024 Master Purchase Agreement, and (ii) regularly update the market price of relevant ICT Products and Services and the Purchase Products for the purpose of considering if the price charged or paid for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policies;
- (b) the sales management department of the Group will monitor the continuing connected transactions consistently to ensure that the total transaction amount does not exceed the stipulated annual caps. In this connection, they will (i) carry out daily reviews of the actual transaction amounts of the relevant transactions; and (ii) provide monthly statistical updates (with data of the aggregate transaction amounts and the utilization rate of the annual caps) for the Board's review;
- (c) the independent non-executive Directors will review the transactions contemplated under the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement continuously; and
- (d) the external auditors of the Company will conduct annual review on the pricing terms and annual caps under the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement.

The 2024 Financial Services Agreement

The Group will adopt the following internal control measures in connection with the 2024 Financial Services Agreement:

- (a) the financial management department of the Group will (i) closely monitor and supervise the pricing policy under the 2024 Financial Services Agreement, subject to the pricing terms as disclosed above, and (ii) conduct regular checks twice a year to review and assess whether the transactions contemplated under the 2024 Financial Services Agreement are conducted in accordance with its terms and the aforesaid pricing policy, to ensure that the 2024 Financial Services Agreement is conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Shareholders as a whole;
- (b) the financial management department of the Group will monitor the continuing connected transactions under the 2024 Financial Services Agreement consistently to ensure that the total transaction amount does not exceed the stipulated annual caps. In this connection, they will (i) carry out daily reviews of the actual transaction amounts of the relevant transactions; and (ii) provide monthly statistical updates (with data of the aggregate transaction amounts and the utilization rate of the annual caps under the 2024 Financial Services Agreement) for the Board's review;
- (c) the treasury team of the financial management department of the Group will contact commercial banks in the PRC to obtain and compare interest rate quotes with those offered by Changhong Finance under the 2024 Financial Services Agreement;
- (d) the chief financial officer of Changhong IT will regularly review the interest rates and decisions of making any deposits before approval under Changhong Finance;
- (e) the independent non-executive Directors will review the transactions contemplated under the 2024 Financial Services Agreement continuously; and
- (f) the external auditors of the Company will conduct annual review of the transactions contemplated under the 2024 Financial Services Agreement.

LISTING RULES IMPLICATIONS

The 2024 Master Supply Agreement and the 2024 Master Purchase Agreement

As at the date of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement, Sichuan Changhong Holding holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company, and has control over Sichuan Changhong. Both Sichuan Changhong Holding and Sichuan Changhong are controlling shareholders of the Company. Therefore, Sichuan Changhong is a connected person of the Company and Sichuan Changhong Holding is an associate of a connected person of the Company, and thus also a connected person of the Company. Accordingly, the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the highest annual cap for the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement exceeds 5%, the transactions contemplated under each of the 2024 Master Supply Agreement and the 2024 Master Purchase Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The 2024 Financial Services Agreement

As at the date of the 2024 Financial Services Agreement, Changhong Finance is owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, the controlling shareholders of the Company. Changhong Finance is an associate of a connected person of the Company, and thus a connected person of the Company. Accordingly, the transactions contemplated under the 2024 Financial Services Agreement also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The deposit services

As one or more of the applicable percentage ratios under the Listing Rules in respect of the maximum daily outstanding balance of the deposit services under the 2024 Financial Services Agreement exceed 5%, the deposit services under the 2024 Financial Services Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, the deposits made with Changhong Finance constitute provision of financial assistance by the Company under Rule 14.04(1)(e) of the Listing Rules. As the highest applicable percentage ratio in respect of the placing of deposits with Changhong Finance exceeds 25%, such placing of deposits also constitutes a major transaction of the Company subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The loan services

The loan services under the 2024 Financial Services Agreement constitute financial assistance provided by a connected person to the Group. As such loan services would be provided on normal commercial terms or better and would not be secured by the assets of the Group, the loan services under the 2024 Financial Services Agreement are fully exempt from the announcement, reporting, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The other intermediary services

As one or more of the applicable percentage ratios under the Listing Rules in respect of the highest annual cap for the other intermediary services under the 2024 Financial Services Agreement exceed 0.1% but are less than 5%, the other intermediary services under the 2024 Financial Services Agreement are subject to the reporting, annual review, announcement requirements but exempt from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has material interest in the Agreements and the transactions contemplated thereunder and no Director was required under the Listing Rules to abstain from voting on the Board resolutions approving the Agreements and the transactions contemplated thereunder.

INFORMATION ON THE PARTIES

The Company is an investment holding company. The Group is principally engaged in the distribution of ICT consumer products and ICT corporate products.

Changhong IT is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. Changhong ICT is principally engaged in the distribution of ICT consumer products and ICT corporate products.

Sichuan Changhong Holding is an investment holding company established in the PRC with limited liability and is 90% owned by the State-owned Assets Supervision and Administration Commission of the Mianyang city government. The Sichuan Changhong Electric Group holds interests in various businesses, including but not limited to the manufacturing and sale of consumer electronic appliances (through Sichuan Changhong) and property development (through other business entities).

Changhong Finance is a company owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively. It is principally engaged in the provision of a wide range of financial services including but not limited to depository, loan, settlement, bill discounting, guarantees and other financial services approved by the CBIRC.

GENERAL

The Company will convene the SGM for the Independent Shareholders to consider and, if thought fit, approve the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder. Save for Sichuan Changhong and its associates, none of the other Shareholders has a material interest in the aforesaid transactions and is required to abstain from voting on the relevant resolutions at the SGM.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder. Somerley Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders regarding the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder; (iii) a letter of advice from Somerley Capital to the Independent Board Committee and the Independent Shareholders regarding the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder; and (iv) a notice of the SGM, is expected to be despatched to the Shareholders on or before 5 December 2023.

DEFINITIONS

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

“2021 Financial Services Agreement”	the financial services agreement dated 17 November 2020 entered into between Changhong IT and Changhong Finance in relation to the provision of the Financial Services by Changhong Finance to Changhong IT, details of which are set out in the announcement of the Company dated 17 November 2020
“2021 Master Purchase Agreement”	the master purchase agreement dated 17 November 2020 entered into between the Company and Sichuan Changhong Holding in relation to the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group, details of which are set out in the announcement of the Company dated 17 November 2020

“2021 Master Supply Agreement”	the master supply agreement dated 17 November 2020 entered into between the Company and Sichuan Changhong Holding in relation to the supply of ICT Products and Services by the Group to the Sichuan Changhong Electric Group, details of which are set out in the announcement of the Company dated 17 November 2020
“2024 Financial Services Agreement”	the financial services agreement dated 14 November 2023 entered into between Changhong IT and Changhong Finance in relation to the provision of the Financial Services by Changhong Finance to Changhong IT
“2024 Master Purchase Agreement”	the master purchase agreement dated 14 November 2023 entered into between the Company and Sichuan Changhong Holding in relation to the purchase of the Purchase Products by the Group from the Sichuan Changhong Electric Group
“2024 Master Supply Agreement”	the master supply agreement dated 14 November 2023 entered into between the Company and Sichuan Changhong Holding in relation to the supply of ICT Products and Services by the Group to the Sichuan Changhong Electric Group
“Agreements”	collectively, the 2024 Financial Services Agreement, 2024 Master Purchase Agreement and the 2024 Master Supply Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CAGR”	compound annual growth rate
“CBIRC”	China Banking and Insurance Regulatory Commission
“Changhong Finance”	Sichuan Changhong Group Finance Co., Ltd (四川長虹集團財務有限公司), a company established under the laws of the PRC and owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi and Changhong Meiling respectively as at the date of this announcement
“Changhong Huayi”	Changhong Huayi Compressor Co., Ltd (長虹華意壓縮機股份有限公司), a company established under the laws of the PRC with limited liability and principally engaged in the manufacturing and sale of compressors, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000404) and is owned as to approximately 30.6% by Sichuan Changhong as at the date of this announcement

“Changhong IT”	Sichuan Changhong IT Information Products Co., Ltd (四川長虹佳華信息產品有限責任公司), a company established under the laws of the PRC and a wholly-owned subsidiary of the Company as at the date of this announcement
“Changhong Meiling”	Changhong Meiling Co., Ltd (長虹美菱股份有限公司), a company established under the laws of the PRC with limited liability and principally engaged in the manufacturing and sale of consumer electronic appliances, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000521) and is owned as to approximately 27.36% by Sichuan Changhong as at the date of this announcement
“Company”	Changhong Jiahua Holdings Limited (長虹佳華控股有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 3991)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Financial Services”	the financial services, including but not limited to (i) deposit services, (ii) loan services, and (iii) other intermediary services (such as settlement services) to be provided by Changhong Finance to Changhong IT
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICT”	information and communication technology
“ICT Products and Services”	ICT products and technical services, including mainly (i) storage products such as storage devices, (ii) servers, (iii) networking products such as switches and routers, (iv) personal computers, and (v) installation and maintenance services for the abovementioned categories of the ICT products to be provided by the Group to the Sichuan Changhong Electric Group
“Independent Board Committee”	the independent board committee of the Board comprising all the independent non-executive Directors

“Independent Financial Adviser” or “Somerley Capital”	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), and the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement, the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder
“Independent Shareholder(s)”	the Shareholders other than Sichuan Changhong and its associates, namely Changhong (Hong Kong) Trading Limited and Fit Generation Holding Limited
“independent third party”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with the Company or any of its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PBOC”	The People’s Bank of China
“PC”	personal computer
“PRC”	the People’s Republic of China
“Purchase Products”	products including software, services and ancillary equipment to be purchased by the Group from the Sichuan Changhong Electric Group
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened and held to approve the 2024 Master Supply Agreement, the 2024 Master Purchase Agreement and the deposit services under the 2024 Financial Services Agreement and each of the transactions contemplated thereunder
“Shareholder(s)”	shareholder(s) of the Company
“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 shares of which are listed on the Shanghai Stock Exchange (stock code: 600839) and a controlling shareholder of the Company

“Sichuan Changhong Electric Group”	Sichuan Changhong Holding and its subsidiaries
“Sichuan Changhong Holding”	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 holds approximately 23.22% equity interest in Sichuan Changhong as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of United States of America
“%”	per cent.

By order of the Board
Changhong Jiahua Holdings Limited
Zhu Jianqiu
Chairman and Executive Director

Hong Kong, 14 November 2023

As at the date of this announcement, the executive Directors are Mr. Zhu Jianqiu, Mr. Zhang Xiaolong, Mr. Zhao Qilin, Mr. Shao Min, Ms. Su Huiqing and Mr. Zhou Jiachao and the independent non-executive Directors are Mr. Jonathan Chan Ming Sun, Mr. Gao Xudong and Mr. Meng Qingbin.