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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in Changhong Jiahua Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**CONNECTED TRANSACTION  
INVOLVING  
A WAIVER OF RIGHT OF FIRST REFUSAL**

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



**REORIENT Financial Markets Limited**

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A letter from the Board is set out on pages 4 to 7 of this circular and a letter from the Independent Board Committee is set out on page 8 of this circular. A letter from REORIENT containing its advice to the Independent Board Committee and Independent Shareholders is set out on pages 9 to 16 of this circular.

19 November 2013

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## CHARACTERISTICS OF GEM

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The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 21 October 2013 in relation to a connected transaction involving a waiver of the right of first refusal in respect of the Group’s holding in Changhong IT;
“associates”	has the meaning ascribed to it under the GEM Listing Rules;
“Board”	the board of directors of the Company;
“Changhong (Hong Kong) Enterprises”	Changhong (Hong Kong) Enterprises Limited (港虹實業有限公司), a company incorporated in Hong Kong and which holds 90% of the equity interest of Changhong IT;
“Changhong IT”	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;
“Clarification Announcement”	the announcement of the Company dated 23 October 2013 in relation to a clarification of the Announcement;
“Company”	Changhong Jiahua Holdings Limited, a company incorporated in Bermuda with limited liability whose ordinary shares are listed on GEM (stock code: 8016);
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules;
“Director(s)”	the director(s) of the Company;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Incentive Plan”	the employee dividend incentive plan which has been implemented by Changhong IT since 2004 for the benefit of the management and employees of Changhong IT and the details of which have been set out in page 49 of the Company’s circular dated 12 December 2012;

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board, comprising all the Independent Non-executive Directors, appointed by the Board to advise the Independent Shareholders in relation to the Waiver;
“Independent Shareholders”	all shareholders of the Company independent of Mr. Zhu and the management team members of Changhong IT;
“Latest Practicable Date”	18 November 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“Management Interests”	the interests of the management team members of Changhong IT in 10% equity interest in Changhong IT currently held by Mr. Zhu as to 3.685% for himself and remaining of the 10% for other Management Team Owners;
“Management Team Owners”	the members of the management team of Changhong IT who are beneficial owners of the 6.315% equity interests in Changhong IT (out of the Management Interests);
“Mr. Zhu”	Zhu Jianqiu, the chief executive officer of Changhong IT and a Director. He is also the existing nominee holding the Management Interests on behalf of the Management Team Owners;
“Mr. Zhu’s Interests”	the 3.685% equity interest in Changhong IT which are personally and beneficially owned by Mr. Zhu Jianqiu (which forms part of the Management Interests);
“New Holdco”	Wide Miracle Limited, a company incorporated in British Virgin Islands and whose equity interests are ultimately held by Su Huiqing and Dong Qiang (both senior management team members of Changhong IT and part of the Management Team Owners). The directors of Wide Miracle Limited are Su Huiqing and Dong Qiang. New Holdco will continue to hold the Management Interests pursuant to the Incentive Plan on behalf of Mr. Zhu and the Management Team Owners;
“PRC”	the People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, Macau and Taiwan;
“Proposed Reorganization”	the proposed transfer of the Management Interests currently held by Mr. Zhu to the New Holdco. The New Holdco will continue to hold the Management Interests on behalf of the relevant beneficial owners i.e. Mr. Zhu and the Management Team Owners;

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## DEFINITIONS

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“REORIENT”	REORIENT Financial Markets Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Waiver;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	shareholder(s) of the Company;
“Sichuan Changhong”	Sichuan Changhong Electric Co., Ltd. (四川長虹電器股份有限公司), a company established under the laws of the PRC and listed on the Shanghai Stock Exchange and which beneficially holds approximately 52.53% of the existing issued ordinary share capital of the Company as at the Latest Practicable Date;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Waiver”	the waiver of the right of first refusal under the articles of association of Changhong IT to acquire the Management Interests (including Mr. Zhu’s Interests) in connection with the Proposed Reorganization; and
“%”	per cent.

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Zhao Yong

Mr. Zhu Jianqiu

Mr. Yu Xiao

Mr. Tang Yun

Mr. Wu Xiangtao

Ms. Shi Ping

Mr. Xiang Chao Yang

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Principal place of business in Hong Kong:*

Unit 3701, 37/F, West Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

*Independent Non-executive Directors:*

Mr. Jonathan Chan Ming Sun

Mr. Robert Ip Chun Chung

Mr. Sun Dongfeng

Mr. Cheng Yuk Kin

19 November 2013

*To the Shareholders:*

Dear Sir or Madam,

### **CONNECTED TRANSACTION INVOLVING A WAIVER OF RIGHT OF FIRST REFUSAL**

#### **INTRODUCTION**

Reference is made to the announcement and the clarification announcement of the Company dated 21 October 2013 and 23 October 2013, respectively in relation to the waiver of the right of first refusal to acquire the Management Interests in connection with the Proposed Reorganization. On 21 October 2013, the Company through its subsidiary, Changhong (Hong Kong) Enterprises, waived the right of first refusal to acquire the Management Interests in connection with the Proposed Reorganization.

The purpose of this circular is to:

- (a) provide you with details on the Waiver;

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## LETTER FROM THE BOARD

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- (b) set out the view of the Independent Board Committee in respect of the terms of the Waiver; and
- (c) set out the letter of advice from REORIENT to the Independent Board Committee and the independent Shareholders in respect of the fairness and reasonableness of the terms of the Waiver.

### THE WAIVER OF THE RIGHT OF FIRST REFUSAL

#### Background

As at the date of the Announcement, the registered capital of Changhong IT is RMB200,000,000 and the equity interests of Changhong IT is owned as to 90% by Changhong (Hong Kong) Enterprises (a wholly owned subsidiary of the Company) and 10% by Mr. Zhu (subject to the Incentive Plan for Changhong IT's management team members).

Changhong IT implemented the Incentive Plan with an aim to combine the long term interests of the relevant members of the management team and employees with the long term development of Changhong IT, to maintain the stability of its management team, and to promote the sustainable, healthy and steady development of Changhong IT.

#### Waiver of the right of first refusal

Mr. Zhu (for himself and the other Management Team Owners) has informed Changhong (Hong Kong) Enterprises of the Proposed Reorganization, pursuant to which the Management Interests currently held by Mr. Zhu was proposed to be transferred to the New Holdco. Based on information available to the Company, the consideration for the proposed transfer of the legal title of the Management Interests to the New Holdco is approximately RMB 65 million. The New Holdco will continue to hold the Management Interests on behalf of the relevant beneficial owners, i.e. Mr. Zhu and other Management Team Owners.

Pursuant to the articles of association of Changhong IT, if any shareholder of Changhong IT intends to sell or transfer its equity interest in Changhong IT, the other shareholder(s) shall have the right of first refusal to acquire such equity interest under the same terms and conditions. Accordingly, Mr. Zhu (for himself and the other Management Team Owners) has requested Changhong (Hong Kong) Enterprises to waive the right of first refusal which arises from the implementation of the Proposed Reorganization.

Based on the audited accounts of Changhong IT, the net profits (both before and after taxation and extraordinary items) of Changhong IT for the two financial years ended 31 December 2012 were as follows:

Year	2012 HKD	2011 HKD
Net profit before taxation and extraordinary item	307,109,000	296,024,000
Net profit after taxation and extraordinary item	236,517,000	233,354,000



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## LETTER FROM THE BOARD

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Based on the audited accounts of Changhong IT as at 31 December 2012, the net asset value of Changhong IT was approximately HKD849,922,000 and accordingly, the net asset value attributable to Mr. Zhu's Interests would be approximately HKD31,319,626.

Immediately following the completion of the Proposed Reorganization, Changhong IT will continue to be a 90% indirectly owned subsidiary of the Company and the beneficial interests of the Management Interests will remain unchanged.

### **Consideration**

No money or consideration is payable or has been paid between the Company and Mr. Zhu or other Management Team Owners in respect of the Waiver. The Directors are of the view that the Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **INFORMATION ON THE COMPANY AND MR. ZHU JIANQIU**

The Company and its subsidiaries are principally engaged in the businesses of distribution of IT consumer and corporate products and trading of consumer electronics products and related parts. Changhong IT is an indirectly 90% owned subsidiary of the Company. In addition to his role as the nominee for the Management Team Owners under the Incentive Plan, Mr. Zhu is a Director and the chief executive officer of Changhong IT.

### **REASONS FOR THE WAIVER OF RIGHT OF FIRST REFUSAL**

The Company understands that the purpose of the Proposed Reorganization is to facilitate the flexibility of the Management Team Owners to hold or deal in their equity interest in an offshore structure which will enhance the attractiveness and value of the 10% equity interest owned by the Management Team Owners. The Directors (including the independent non-executive Directors) are of the view that the Waiver is in line with the Company's objective to incentivize its key management team through equity participation in Changhong IT, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### **GENERAL**

As at the date of the Announcement, the Company indirectly holds 90% of the equity interest in Changhong IT, a subsidiary of the Company. Pursuant to Chapter 20 of the GEM Listing Rules, Mr. Zhu, a Director, is a connected person of the Company. Accordingly, the Waiver constitutes a connected transaction of the Company under Rule 20.70(3) of the GEM Listing Rules.

The relevant percentage ratios (as defined under Rule 19.07 of the GEM Listing Rules) in respect of the Waiver are more than 5%. Therefore, the Waiver is subject to the reporting, announcement and independent shareholders' requirements of the Company under Chapter 20 of the GEM Listing Rules.

To the best knowledge, information and belief of the Directors, no shareholder of the Company has a material interest in the Waiver and neither Mr. Zhu nor any of the Management Team Owners hold any Shares in the Company. As such, none of the shareholders of the Company is required to abstain from

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## LETTER FROM THE BOARD

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voting in a general meeting for the approval of the Waiver. Accordingly, the Company has applied to the Stock Exchange pursuant to Rule 20.43 of the GEM Listing Rules for, and the Stock Exchange has granted, a waiver from the requirement to hold a general meeting to approve the Waiver on the basis of a written certificate provided by Sichuan Changhong, the controlling shareholder of the Company, and which through its wholly owned subsidiaries hold an aggregate of 246,368,000 shares in the Company (representing approximately 52.53% of the total issued share capital of the Company) as at the date hereof has given its written consent with the Waiver. Accordingly, in accordance with rule 20.43 of the GEM Listing Rules, such written approval will be accepted in writing in lieu of a general meeting to approve the Waiver. Therefore, no general meeting will be held to approve the Waiver.

The Independent Board Committee comprising the independent non-executive Directors has been established to advise the Independent Shareholders on the terms of the Waiver and REORIENT has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Waiver.

### GENERAL INFORMATION

Your attention is drawn to the appendix headed “General Information” to this circular.

### RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 8 of this circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders regarding the Waiver; and (ii) the letter from REORIENT set out on pages 9 to 16 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Waiver.

The Independent Board Committee, having taken into account the advice of REORIENT, considers that the terms of the Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

Yours faithfully

For and on behalf of

**CHANGHONG JIAHUA HOLDINGS LIMITED**

**Zhao Yong**

*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter of recommendation, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the Waiver.*



### CHANGHONG JIAHUA HOLDINGS LIMITED (長虹佳華控股有限公司)

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 8016)

19 November 2013

*To the Independent Shareholders*

Dear Sir or Madam,

#### CONNECTED TRANSACTION INVOLVING A WAIVER OF RIGHT OF FIRST REFUSAL

We refer to the circular of the Company to the Shareholders dated 19 November 2013 (the “Circular”), in which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the Waiver is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from REORIENT set out on pages 9 to 16 of the Circular and the letter from the Board as set out on pages 4 to 7 of the Circular.

Having considered the arrangement under the Waiver and the situation of the Company, and the factors and reasons considered by REORIENT and its opinion as stated in its letter of advice, we consider that (i) the terms of the Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and (ii) the granting of the Waiver is in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

For and on behalf of the

*Independent Board Committee*

**Mr. Jonathan Chan Ming Sun**

**Mr. Robert Ip Chun Chung**

**Mr. Sun Dongfeng**

**Mr. Cheng Yuk Kin**

*Independent Non-executive Directors*

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## LETTER FROM REORIENT

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



Suites 1102-03, Far East Finance Centre  
16 Harcourt Road, Admiralty, Hong Kong

19 November 2013

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

Dear Sirs,

### CONNECTED TRANSACTION INVOLVING A WAIVER OF RIGHT OF FIRST REFUSAL

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Waiver, details of which are set out in the circular of the Company dated 19 November 2013 (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

The Company indirectly, through its wholly owned subsidiary, Changhong (Hong Kong) Enterprises, holds 90% of the equity interest in Changhong IT, a subsidiary of the Company. Mr. Zhu is the legal owner (acting as nominee) of the remaining 10% equity interest in Changhong IT (i.e. the Management Interests) and controls the exercise of the voting rights attaching to the Management Interests. Pursuant to Chapter 20 of the GEM Listing Rules, Mr. Zhu, a Director, is a connected person of the Company. The Waiver represents a non-exercise of an option to acquire the Management Interests in connection with the Proposed Reorganization and thus constitutes a connected transaction for the Company under Rule 20.70(3) of the GEM Listing Rules. Since the relevant percentage ratios in respect of the Waiver are more than 5%, the Waiver is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

To the best of the knowledge, information and belief of the Directors, no Shareholders have a material interest in the Waiver and neither Mr. Zhu nor any of the Management Team Owners held any shares in the Company as at the Latest Practicable Date. As such, no Shareholders are required to abstain from voting if the Company were to convene a general meeting to approve the Waiver. Sichuan Changhong, the controlling Shareholder and which through its wholly owned subsidiaries held an aggregate of

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## LETTER FROM REORIENT

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246,368,000 Shares as at the Latest Practicable Date (representing approximately 52.53% of the total issued share capital of the Company), has given its written consent to the Waiver. Accordingly, in accordance with Rule 20.43 of the GEM Listing Rules, no general meeting will be convened and held to approve the Waiver.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin, has been established to give advice and recommendation to the Independent Shareholders. We, REORIENT Financial Markets Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Waiver is in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

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

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

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Waiver, we have taken into consideration the following principal factors:

#### 1. Background of the Group

On 28 March 2012, the Company entered into an acquisition agreement with Fit Generation Holding Limited (“**Fit Generation**”) to acquire the entire equity interest of Sufficient Value Group Limited, which indirectly held a 90% equity interest in Changhong IT, at a consideration of HK\$2,012,868,000, settled in full as to HK\$135,000,000 by the allotment and issue of 135,000,000 Shares and as to HK\$1,877,868,000 by allotment and issue of 1,877,868,000 new convertible preference shares of the Company to Fit Generation (the “**Acquisition**”). The Acquisition completed on 22 January 2013. Since completion of the Acquisition, the Group has been principally engaging in the distribution of IT consumer products and IT corporate products in the PRC (“**IT Business**”). Prior to the Acquisition, the Group’s core business was the trading of consumer electronic products, and related parts and components.

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## LETTER FROM REORIENT

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We set out below a summary of the financials of the Group's results for the two years ended 31 December 2012 prepared in accordance with Hong Kong Financial Reporting Standards extracted from the annual report of the Company for the year ended 31 December 2012:

	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>Year-on-year</b>	<b>2011</b>
	<i>HK\$'000</i>	<b>change</b>	<i>HK\$'000</i>
	(Audited)		(Audited)
Turnover	3,462,290	27.1%	2,724,330
Cost of sales	(3,417,379)	27.5%	(2,680,539)
Gross profit	44,911	2.6%	43,791
Profit/(loss) before tax	(7,280)	(154.1)%	13,455
Profit/(loss) for the year	(10,080)	(196.3)%	10,471

Turnover of the Group amounted to approximately HK\$2,724,330,000 and HK\$3,462,290,000 for the two years ended 31 December 2011 and 2012 respectively, representing a year-on-year growth of approximately 27.1%. The Group's profit dropped from approximately HK\$10,471,000 for the year ended 31 December 2011 to a loss of approximately HK\$10,080,000 for the year ended 31 December 2012.

Upon completion of the Acquisition in January 2013, the Group has shifted its core business from trading of consumer electronic products and related parts and components business to the IT Business (which is being operated by Changhong IT), which is making a significant contribution to the Group's operating results.

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## LETTER FROM REORIENT

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We set out below the Group's unaudited financial results for the nine months ended 30 September 2013 and 2012 (restated) as extracted from the third quarterly report of the Company for the nine months ended 30 September 2013 and the Group's unaudited financial results for the nine months ended 30 September 2012 (before restatement) as extracted from the third quarterly report of the Company for the nine months ended 30 September 2012:

	<b>Nine months ended 30 September</b>			
	<b>Year-on-</b>			
	<b>year</b>			
	<b>2013</b>	<b>change</b>	<b>2012</b>	<b>2012</b>
	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)	(Before
	(Unaudited)		(Unaudited)	restatement)
				(Unaudited)
Turnover	14,006,995	4.3%	13,430,458	2,172,007
Cost of sales	(13,467,924)	4.5%	(12,884,657)	(2,142,631)
Gross profit	539,071	(1.2)%	545,801	29,376
Profit before income tax	185,377	(26.8)%	253,387	(4,364)
Profit and total comprehensive income for the period	143,294	(24.2)%	188,949	(4,364)

*Note:*

As a result of the Acquisition, the financial information of the Group for the nine months ended 30 September 2013 was prepared under merger accounting for common control combination of business. Financial information of the combining entities were incorporated as if they had been combined from the date when the combining entities first came under the control of the controlling party (i.e. throughout the whole nine months ended 30 September 2013). For comparison purpose, financial information for the nine months ended 30 September 2012 was also restated as if the combining entities had been combined throughout the nine months ended 30 September 2012.

By comparing the 2012 nine-month results before restatement and those after restatement, the size of operation and profitability of the Group have improved significantly. After the Acquisition, the IT Business continued to grow. Turnover of the Group increased to approximately HK\$14,006,995,000 for the nine months ended 30 September 2013 from approximately HK\$13,430,458,000 for the nine months ended 30 September 2012, representing a year-on-year growth of approximately 4.3%. After completion of the Acquisition in January 2013, the Group continued to explore market opportunities, optimize its product structure and improve its business models. However, as a result of the slow moving market demand and keen competition in the PRC IT product distribution industry in 2013, the Group's profit margin decreased despite a growth in its turnover. Non-recurring professional fees incurred by the Group in respect of the Acquisition in the nine months ended 30 September 2013 also led to a decrease in the Group's profit.

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## LETTER FROM REORIENT

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### 2. Information on Changhong IT

After the Acquisition, Changhong IT has become an indirectly owned subsidiary of the Company which is held as to 90% by Changhong (Hong Kong) Enterprises (a wholly-owned subsidiary of the Company) and as to 10% by Mr. Zhu (who is holding the Management Interests as nominee for the benefit of the management members and employees as approved by the board of Changhong IT (the “**Selected Management and Employees**”) (including himself and the Management Team Owners)). Changhong IT is the Group’s major operating subsidiary and is making a significant contribution to the financial results of the Group. For the nine months ended 30 September 2013, Changhong IT recorded an unaudited net profit before and after tax of approximately HK\$178.6 million and HK\$138.5 million respectively.

### 3. The Incentive Plan

As set out in the circular of the Company dated 12 December 2012 in respect of the Acquisition, Changhong IT has implemented the Incentive Plan which is approved by 綿陽市國有資產監督管理委員會 (Mianyang Municipality State-Owned Assets Supervision and Administration Commission). Mr. Zhu is the current legal owner of the Management Interests (as nominee). He is not allowed to transfer the Management Interests at his discretion. Any income/distribution received by Mr. Zhu from the Management Interests will be distributed to the Selected Management and Employees. As set out in the Letter from the Board, the purpose of the Incentive Plan is to align the long term interests of the Selected Management and Employees with the long term development goal of Changhong IT, to maintain the stability of Changhong IT’s management team, and thus to promote a sustainable, healthy and steady development of Changhong IT.

The Company considers that the Incentive Plan is one of the keys to Changhong IT’s continuous success.

We understand from the Company that as at the Latest Practicable Date, there were 401 Selected Management and Employees (including Mr. Zhu) who were entitled to receive income and distribution from an aggregate of 9.986% of the equity interest of Changhong IT. We understand from the Company that the remaining 0.014% equity interest in Changhong IT (out of the Management Interests) had not been vested as at the Latest Practicable Date and will be held by Real Oasis as nominee after the Proposed Reorganization.

### 4. The Proposed Reorganization

Under the Proposed Reorganization, Mr. Zhu will transfer to the New Holdco the legal title to the Management Interests subject to approval of the Ministry of Commerce of the People’s Republic of China. Based on the information available to the Company, the consideration for the proposed transfer of the legal title of the Management Interests to the New Holdco is approximately RMB65 million.

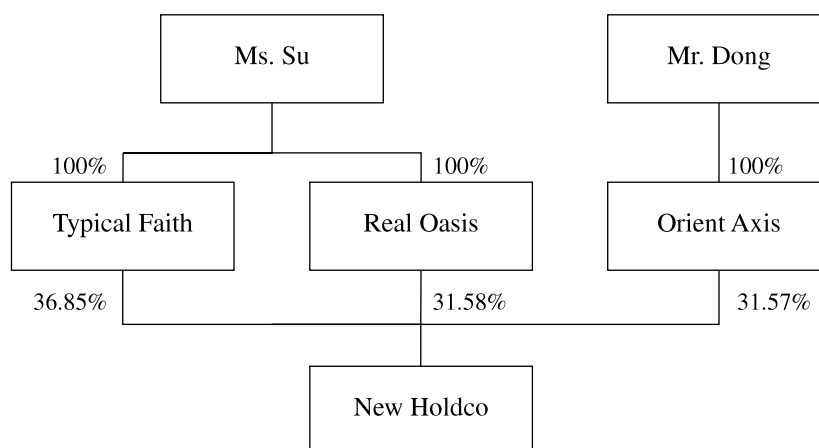


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## LETTER FROM REORIENT

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The New Holdco is a company incorporated in the British Virgin Islands and whose equity interests are ultimately held as to (i) 68.43% by Ms. Su Huiqing (“**Ms. Su**”), through Typical Faith Limited (“**Typical Faith**”) and Real Oasis Limited (“**Real Oasis**”); and (ii) 31.57% by Mr. Dong Qiang (“**Mr. Dong**”), through Orient Axis Limited (“**Orient Axis**”) as shown in the diagram below.



Ms. Su and Mr. Dong are senior management members of Changhong IT and the directors of the New Holdco. They are also Selected Management and Employees. At Mr. Zhu’s own decision as the existing nominee, he has authorised Ms. Su and Mr. Dong to hold the Management Interests as nominees through Typical Faith, Real Oasis and Orient Axis. The Company confirms that Changhong IT has consent to the Proposed Reorganization. There will have no change in the Selected Management and Employees’ interests in the Management Interests under the Incentive Plan as a result of the Proposed Reorganization. We understand from the Company that as at the Latest Practicable Date, among the Management Interests, Mr. Zhu, Ms. Su and Mr. Dong were interested in 3.685%, 0.93% and 0.93% in the equity capital of Changhong IT respectively.

We understand from the Company that the purpose of the Proposed Reorganization is to transfer the Management Interests to an offshore structure with a view to allowing greater flexibility in handling future distributions to the Selected Management and Employees and potential future further restructuring of the Management Interests, such as, among other things, reduction in PRC tax payment in respect of the distribution income from Changhong IT.

### 5. The Waiver

Pursuant to the articles of Changhong IT, if any shareholder of Changhong IT intends to sell or transfer its equity interest in Changhong IT, the other shareholder(s) shall have the right of first refusal to acquire such equity interest under the same conditions. In order to facilitate the Proposed Reorganization, Mr. Zhu has requested Changhong (Hong Kong) Enterprises to waive the right of first refusal which arises from the implementation of the Proposed Reorganization. The Waiver was duly approved at the Board meeting on 25 September 2013 (where Mr. Zhu abstained from voting).

The Company has confirmed to us that Ms. Su and Mr. Dong (through their respective shareholding interests in Typical Faith, Real Oasis or Orient Axis, which together own the New Holdco) will indirectly own the Management Interests only as nominees for the benefit of the

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## LETTER FROM REORIENT

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Selected Management and Employees. Any transfer (direct or indirect) of the Management Interests will continue to be subject to the provisions of the Incentive Plan from time to time. Although the Group will not have a right of first refusal in Ms. Su's and Mr. Dong's respective interest in Typical Faith, Real Oasis and Orient Axis and Typical Faith's, Real Oasis' and Orient Axis' respective interests in the New Holdco, the Group will continue to enjoy the right of first refusal in respect of the Management Interests to be held by the New Holdco after the Proposed Reorganization pursuant to the articles of Changhong IT. As the Management Interests are vested or to be vested to management and staff members of Changhong IT as an incentive and motivation and the Proposed Reorganization will not affect this fundamental fact, we agree with the Company that the Waiver will not materially affect the Group's rights and benefits.

### **6. Reasons for the Waiver**

We understand from the Company that it agrees to grant the Waiver due to the following major reasons:

- (i) As mentioned under the heading "Information on Changhong IT", we understand from the Company that Changhong IT is contributing significantly to the financial performance of the Group and the Incentive Plan is a key to Changhong IT in motivating and maintaining a strong management team and work force.
- (ii) The Proposed Reorganization is for the benefit of the Selected Management and Employees and will not affect their interests in the Management Interests under the Incentive Plan.
- (iii) The Proposed Reorganization will not affect the Company's interest in Changhong IT. The Group will continue to hold the 90% equity interest in Changhong IT. The Proposed Reorganization will also not affect the Group's control over the management of Changhong IT. The Company does not expect that the Waiver would lead to any material adverse change to the Group.

We have reviewed the proposed terms of the transfer of the Management Interests under the Proposed Reorganization. As the Proposed Reorganization is merely an internal reorganization of the Selected Management and Employees' interest in the Management Interests, we agree with the Company that the terms of the transfer shall not be a consideration for whether or not to grant the Waiver.

### **CONCLUSION**

The Waiver relates to a capital reorganization and is not in the ordinary and usual course of business of the Group. Nevertheless, having considered the principal reasons and factors, including that (i) the Waiver will facilitate the Proposed Reorganization which will not change the beneficial interests of the Selected Management and Employees in the Management Interests under the Incentive Plan; and (ii) the Proposed Reorganization will not affect the Company's interest in Changhong IT, we are of the view that the Waiver is on normal commercial terms, fair and reasonable, and in the interests of the Company and the

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## LETTER FROM REORIENT

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Shareholders as a whole. We would recommend the Independent Board Committee to recommend the Independent Shareholders to vote for the resolution to approve the Waiver if a general meeting were to be held.

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

**1. RESPONSIBILITY STATEMENT**

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

**2. DISCLOSURE OF INTERESTS****(a) Directors and Chief Executive**

As at the Latest Practicable Date, none of the Directors had any interest in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

**Long positions in shares of associated company**

Mr. Zhu, an executive director of the Company, held a 10% interest in Changhong IT, a subsidiary of the Company on behalf of Changhong IT's management team (out of which, Mr. Zhu had personal interests in 3.68% in Changhong IT). (Note)

*Note:*

The registered capital of Changhong IT was RMB200,000,000.

Save as disclosed in this paragraph, as at 30 September 2013, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

**(b) Substantial Shareholders**

So far as is known to any Director or the chief executive of the Company, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be

disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group were as follows:

**Long positions in shares**

Name of Substantial shareholder	Capacity	Class of shares	Interest of shares held	Approximate percentage of interest in relevant class of shares (Notes) %
Sichuan Changhong	Interest of controlled company and beneficial owner	Ordinary	246,368,000 (Note 2)	52.53
		Preference	1,877,868,000 (Note 3)	100.00
Changhong (Hong Kong) Trading Limited	Interest of controlled company and beneficial owner	Ordinary	151,000,000 (Note 4)	32.20
		Preference	1,877,868,000 (Note 3)	100.00
Fit Generation Holding Limited	Beneficial owner	Ordinary	135,000,000	28.79
		Preference	1,877,868,000	100.00
Sichuan Investment Management Company Limited	Beneficial owner	Ordinary	83,009,340	17.70

*Notes:*

1. The percentages are calculated based on the total number of ordinary shares and preference shares of the Company in issue as at 30 September 2013, which were 469,000,000 and 1,877,868,000, respectively.
2. Of the 246,368,000 ordinary shares held by Sichuan Changhong, 95,368,000 ordinary shares were held directly, 16,000,000 ordinary shares were held through its wholly-owned subsidiary, Changhong (Hong Kong) Trading Limited and 135,000,000 ordinary shares were held through Fit Generation Holding Limited, which is wholly owned by Changhong (Hong Kong) Trading Limited.
3. 1,877,868,000 preference shares were held by Fit Generation Holding Limited, which is wholly owned by Changhong (Hong Kong) Trading Limited, which is a wholly-owned subsidiary of Sichuan Changhong.
4. Of the 151,000,000 ordinary shares, 16,000,000 ordinary shares were held directly and 135,000,000 ordinary shares were held through Fit Generation Holding Limited.

Save as disclosed in this paragraph, as at the Latest Practicable Date, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

### **3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group or any associated company of the Company (excluding contracts expiring or determinable within one year without payment of compensation, other than statutory compensation).

### **4. COMPETING BUSINESS INTEREST OF DIRECTORS**

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the GEM Listing Rules.

### **5. MATERIAL ADVERSE CHANGE**

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, the date to which the latest published audited accounts of the Company were made up.

### **6. EXPERT'S QUALIFICATIONS AND CONSENTS**

REORIENT has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

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

<b>Name</b>	<b>Qualification</b>
REORIENT Financial Markets Limited	a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, REORIENT did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2012, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**7. GENERAL**

- (a) None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.
- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.
- (c) The company secretary of the Company is Mr. Lee Wing Lun, CPA.
- (d) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including the date of the Extraordinary General Meeting:

- (a) the letter from Changhong (Hong Kong) Enterprises which constitutes the Waiver;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 8 of this circular;
- (c) the letter from REORIENT, the text of which is set out on pages 9 to 16 of this circular;
- (d) the consent letter of REORIENT referred to in the section headed "Expert's Qualifications and Consents" in this appendix;
- (e) the articles of association of Changhong IT; and
- (f) this circular.