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Shihua Development Company Limited
實華發展有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 485)

MAJOR TRANSACTION
ACQUISITION OF PROPERTY

The Board is pleased to announce that on 16 January 2015 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Sale & Purchase Agreement with the Vendor, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire the Property (which is a commercial property located at the core commercial district of Benxi, Liaoning Province, the PRC) at a consideration of RMB105,000,000.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceed 25% but below 100%, the Acquisition constitutes a major transaction for the Company under Rule 14.06 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules. As no Shareholder has material interest in the Acquisition, no Shareholder will be required to abstain from voting on the resolution(s) approving the Sale & Purchase Agreement and the transactions contemplated thereunder. The Company will obtain an approval in writing from Achieve Prosper Capital Limited, which holds 1,085,755,571 Shares, representing 53.39% of the entire issued share capital of the Company as at the date of this announcement, in lieu of an approval from the Shareholders at the general meeting of the Company pursuant to Rule 14.44 of the Listing Rules.

A circular containing, among other things, further details of the Sale & Purchase Agreement and the transactions contemplated thereunder is expected to be despatched to the Shareholders on or before 9 February 2015.

As the Acquisition is subject to various conditions and may or may not proceed, the Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

THE SALE & PURCHASE AGREEMENT

Date: 16 January 2015 (after trading hours)

- Parties:
- (i) Benxi Xincheng Property Development Company Limited* (本溪鑫城房地產開發有限公司) (as vendor)
 - (ii) Benxi Xinhua Property Management Company Limited* (本溪信華物業管理有限公司), an indirect wholly-owned subsidiary of the Company (as purchaser)

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are third parties independent of the Company and its connected persons and are not connected persons of the Company.

ASSET TO BE ACQUIRED

Pursuant to the terms and conditions of the Sale & Purchase Agreement, the Vendor has agreed to sell and the Purchaser has agreed to acquire the Property.

The Property is located in the intersection of Digong Road (地工路) and Shengli Road (勝利路), Mingshan District, Benxi, Liaoning Province, the PRC, which is the core commercial district of Benxi. The Property, being one of the buildings located at the property development project of the Vendor, namely Xincheng Plaza (鑫城廣場), is a 17-storey building with two basement floors. The site area and the preliminary gross floor area of the Property are 3,335.00 sq.m. and 17,788.58 sq.m. (including all the above-ground and under-ground areas) respectively. It consists retail shops of approximately 3,000 sq.m. on the ground floor of the Property. The Vendor has warranted that the final gross floor area of the Property would not be less than 17,500 sq.m.. It was intended that the Property would be used as hotel and office. The main construction of the Property has been completed and it can be used after decoration.

The Property has not yet generated any income as at the date of this announcement.

CONSIDERATION

RMB105,000,000 (representing approximately RMB5,903 per sq.m.), which will be settled in the following manner:

- (a) as to RMB50,000,000 payable by the allotment and issue of 400,000,000 Shares to the Vendor (or its nominee(s)) upon completion;
- (b) as to RMB10,000,000 payable by the Purchaser to the Vendor on 10 February 2015; and

- (c) as to RMB45,000,000 payable by the Purchaser to the Vendor on or before 31 October 2015 for repayment of a loan owed by the Vendor.

The consideration is determined based on arm's length negotiation between the Purchaser and the Vendor after taking into account factors including market value of the comparable properties and location of the Property.

The Company will engage an independent professional valuer to prepare a valuation report of the Property for inclusion in the circular to be despatched to the Shareholders.

CONDITIONS PRECEDENT

Completion of the Sale & Purchase Agreement shall be subject to and conditional upon the fulfilment of the following conditions precedent:

- (i) the obtain of the necessary approval of the Shareholders for the Acquisition in accordance with the Listing Rules; and
- (ii) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares.

COMPLETION

The completion of the Sale & Purchase Agreement shall take place on or before 10 February 2015 following the satisfaction of all of the conditions precedent.

THE CONSIDERATION SHARES

The Consideration Shares will be allotted and issued at HK\$0.16 per Share. Such issue price was determined by the Board having taken into consideration of the prevailing Share prices and represents (i) a discount of approximately 14.44% to the closing price of HK\$0.187 per Share as quoted on the Stock Exchange on the date of the Sale & Purchase Agreement; (ii) a discount of approximately 17.27% to the average closing price of HK\$0.1934 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Sale & Purchase Agreement; and (iii) a premium of 300% over the unaudited consolidated net asset value attributable to the Shareholders as at 30 September 2014 of approximately HK\$0.04 per Share. The Directors consider that the issue price of the Consideration Shares is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

The Consideration Shares represent approximately 19.67% of the existing issued share capital of the Company and approximately 16.44% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue. The

Consideration Shares will be allotted and issued pursuant to the General Mandate, under which the Directors are allowed to issue and allot up to 406,761,697 Shares. As at the date of this announcement, no Shares have been issued and allotted under the General Mandate.

Application will be made by the Company to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

INFORMATION ABOUT THE PURCHASER AND THE GROUP

The Purchaser is an indirect wholly-owned subsidiary of the Company established for carrying out the business of investment in and management of properties. The Group is engaged in the business of design, manufacture and sale of a wide range of electronic products, investment in properties and securities trading.

INFORMATION ABOUT THE VENDOR

The Vendor is a company incorporated in the PRC and is engaged in the business of property development.

REASONS FOR THE ACQUISITION

As stated in the interim report of the Company for the six months ended 30 September 2014, while the Group has been endeavoring to pursue the existing business, it has been formulating a business strategy with a view to diversifying its business and further enhancing the shareholders' value. The Board considers that the Acquisition will enable the Group to diversify its business and broaden its source of revenue. Having considered the economic conditions of the PRC, the Property is located at a core location of Benxi and the market price of properties with proximity, the Directors consider that the consideration payable by the Purchaser under the Sale & Purchase Agreement is fair and reasonable. The Acquisition offers a valuable opportunity to enhance the long-term growth potential of the Group which is in line with the Company's business plan. The Board will continue to, leveraging on experience and network of the controlling Shareholders and the Directors, explore other business opportunities.

The Group currently intends that, after carrying out the necessary decoration work, (i) the office space of the Property will be used partly as office of the Group with a view to lowering its operation costs and partly for leasing to generate stable income; and (ii) the retail shop of approximately 3,000 sq.m. on the ground floor will be held for sale in the future.

Having considered that (i) the consideration payable under the Sale & Purchase Agreement is much lower than the market price of properties with proximity; (ii) the Property is located at the core commercial district of Benxi; and (iii) the intended usage of the Property by the Group as stated above, the Board is of the view that the Acquisition is in the interest of the Company and the Shareholders as a whole.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Details of the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the allotment and issue of the Consideration Shares are set out below (assuming there is no other change in the issued share capital of the Company from the date of this announcement):

	As at the date of this announcement		Immediately after the allotment and issue of the Consideration Shares	
	Shares	Approximate %	Shares	Approximate %
Achieve Prosper Capital Limited (Note)	1,085,755,571	53.39	1,085,755,571	44.61
The Vendor (or its nominee(s))	–	–	400,000,000	16.44
Public Shareholders	<u>948,052,914</u>	<u>46.61</u>	<u>948,052,914</u>	<u>38.95</u>
Total	<u>2,033,808,485</u>	<u>100</u>	<u>2,433,808,485</u>	<u>100</u>

Note:

Achieve Prosper Capital Limited is wholly and beneficially owned by Hong Kong Shihua Holdings Limited, which is in turn wholly and beneficially owned by 遼寧實華(集團)房地產開發有限公司 (Liaoning Shihua (Group) Property Development Company Limited*) (“Liaoning Shihua Property”). Liaoning Shihua Property is owned as 82.8% by Mr. Wang Jing, the Chairman of the Board and the executive Director.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceed 25% but below 100%, the Acquisition constitutes a major transaction for the Company under Rule 14.06 of the Listing Rules and is subject to the reporting, announcement and shareholders’ approval requirements under the Listing Rules. As no Shareholder has material interest in the Sale & Purchase Agreement, no Shareholder will be required to abstain from voting on the resolution(s) approving the Sale & Purchase Agreement and the transactions contemplated thereunder. The Company will obtain an approval in writing from Achieve Prosper Capital Limited, which holds 1,085,755,571 Shares, representing 53.39% of the entire issued share capital of the Company as at the date of this announcement, in lieu of an approval from the Shareholders at the general meeting of the Company pursuant to Rule 14.44 of the Listing Rules.

A circular containing, among other things, further details of the Sale & Purchase Agreement and the transactions contemplated thereunder is expected to be despatched to the Shareholders on or before 9 February 2015.

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DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Property pursuant to the Sale & Purchase Agreement
“Board”	the board of Directors
“Company”	Shihua Development Company Limited (實華發展有限公司), a company incorporated in Bermuda whose shares are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration Shares”	400,000,000 new Shares to be allotted and issued by the Company to the Vendor (or its nominee(s)) to satisfy part of the consideration for the Acquisition
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 5 September 2014
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Property”	the property located in the intersection of Digong Road (地工路) and Shengli Road (勝利路), Mingshan District, Benxi City, Liaoning Province, the PRC, owned by the Vendor

“Purchaser”	Benxi Xinhua Property Management Company Limited* (本溪信華物業管理有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“RMB”	Reminbi, the lawful currency of the PRC
“Sale & Purchase Agreement”	the sale and purchase agreement dated 16 January 2015 entered into between the Vendor and the Purchaser
“Share(s)”	ordinary share(s) of the HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Benxi Xincheng Property Development Company Limited* (本溪鑫城房地產開發有限公司), a company incorporated in the PRC with limited liability
“sq.m.”	square metre
“%”	per cent.

By Order of the Board
Shihua Development Company Limited
WANG Jing
Chairman

Hong Kong, 19 January 2015

As at the date of this announcement, the Board comprises Mr. Wang Jing, Mr. Wang Xing Qiao, Mr. Chen Wan Jin and Mr. Zhao Shuang as executive Directors; Mr. Li Jun as non-executive Director; and Mr. Yang Xin Hua, Mr. Wang Ping and Mr. Cheng Tai Kwan Sunny as independent non-executive Directors.

* *For identification purpose only*