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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)

CONTINUING CONNECTED TRANSACTIONS

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Reference is made to the announcement of the Company dated 30 June 2014 (the “**Announcement**”) and the circular of the Company dated 24 May 2014 (the “**Circular**”) in relation to the continuing connected transactions of the Company. Unless the context otherwise required, capitalised terms used herein shall have the same meanings as defined in the Circular.

TRANSACTIONS (A)

Background

As disclosed in the Announcement and the Circular, the Privateco and Treasure Green Holdings Limited (a subsidiary of the Company) entered into the Framework Purchase Agreement on 30 June 2014, pursuant to which the Privateco Group shall sell and the Remaining Group shall purchase certain electronic products. The term of the Framework Purchase Agreement shall commence from the date of completion of the Distribution In Specie up to and including 31 March 2015. The maximum amount of the orders under the Framework Purchase Agreement shall not exceed HK\$150 million (the “**Cap**”).

The transactions contemplated under the Framework Purchase Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules by virtue of the Privateco Group being an associate of Mr. Lau Sak Hong, Philip, Mr. Lau Sak Kai, Anthony, Mr. Lau Sak Yuk, Andy and Ms. Lau Chu Lan, Carol (collectively, the “**Resigned Directors**”), each of whom was a Director and thus a connected person of the Company at the issuer level under the Listing Rules. As the applicable percentage ratios in respect of the Cap are more than 25%, the Framework Purchase Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the

Listing Rules. The Framework Purchase Agreement, the transactions contemplated thereunder and the Cap were approved by the Independent Shareholders in the special general meeting of the Company held on 19 June 2014.

The Resigned Directors resigned as Directors with effect from 21 July 2014, but remain as directors of various subsidiaries of the Company.

Since the expiration of the term of the Framework Purchase Agreement on 1 April 2015, sale and purchase of electronic products have been continuing among the Privateco Group and the Remaining Group on same terms of the Framework Purchase Agreement (“**Transactions (A)**”). The total consideration of the Transactions (A) was approximately HK\$9.1 million during the period from 1 April 2015 to 20 July 2015.

Listing Rules implications

Transactions (A) constitutes continuing connected transactions for the Company at the issuer level until 20 July 2015 (being 12 months after the resignation of the Resigned Directors as Directors) under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of Transactions (A) during the period from 1 April 2015 to 20 July 2015 are less than 25% and the total consideration is less than HK\$10,000,000, Transactions (A) is subject to the announcement requirement under Chapter 14A of the Listing Rules but is exempt from the circular (including independent financial advice) and shareholders’ approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

Since 21 July 2015, the Resigned Directors have become connected persons of the Company at the subsidiary level. Given (1) the Board has approved Transaction (A); and (2) the Directors (including all the Independent Non-Executive Directors) confirmed that the terms of Transactions (A) are fair and reasonable, and that Transactions (A) are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, Transactions (A) is subject to the announcement requirement under Chapter 14A of the Listing Rules but is exempt from the circular (including independent financial advice) and shareholders’ approval requirements pursuant to Rule 14A.101 of the Listing Rules.

The delays in making an announcement constitute non-compliances with Rule 14A.35 of the Listing Rules.

TRANSACTIONS (B)

Background

The Scheme Subsidiaries were engaged in the business of manufacture of a wide range of electronic products. The Scheme Subsidiaries were unable to obtain trading facilities from banks without pledged assets for the purchase of electronic components from independent suppliers. As a result, the Privateco Group purchased certain electronic components from independent suppliers and, subsequently, sold them to the Scheme Subsidiaries on arm's length basis and normal commercial terms.

During the period from 26 June 2014 (being the completion date of the Distribution In Specie) to 27 February 2015 (being the effective date of the Creditors' Scheme), the Privateco Group has sold and the Scheme Subsidiaries has purchased electronic components for a total consideration of approximately HK\$19.8 million (the "**Transactions (B)**").

Listing Rules implications

Transactions (B) constitutes connected transactions of the Company under Chapter 14A of the Listing Rules by virtue of the Privateco Group being an associate of the Resigned Directors. Transactions (B) is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. When the Creditors' Scheme becoming effective on 27 February 2015, the Scheme Subsidiaries ceased to be subsidiaries of the Company and Transactions (B) ceased to be connected transactions for the Company.

The delay in making an announcement and the failure to obtain approval of the Independent Shareholders constitute non-compliance with Rules 14A.35 and 14A.36 of the Listing Rules.

REMEDIAL ACTIONS AND IMPROVEMENT MEASURES

Immediately after the discovery of the non-compliances with the Listing Rules, the Directors have reviewed documents relating to Transactions (A) and Transactions (B) and have consulted its legal advisers in order to re-comply with the requirements under the Listing Rules.

For the purpose of preventing the recurrence of similar non-compliances in the future, the Company has carried out the following measures:

1. the Company has reminded the management of the Group to consult the company secretary of the Company directly for any possible transactions which may constitute notifiable transactions and/or connected transactions under the Listing Rules in a timely manner;
2. the Company has strengthened the communications between the management and the professional advisers (including auditors and legal advisers) for compliance advices; and

3. the Company has required each of the Directors and senior management of the Group to attend a training to be conducted by the legal advisers of the Company regarding Chapter 14A of the Listing Rules.

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

Hong Kong, 13 August 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.