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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)

DISCLOSEABLE TRANSACTION

The Board is pleased to announce that on 24 March 2016 (after trading hours), the Purchaser, an indirectly wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Vendor in relation to the Acquisition, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire the Equity Interest (representing 100% of the equity interest in the Target Company) at a consideration of RMB30,000,000.

As one of the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceed 5% but below 25%, the Acquisition constitutes discloseable transaction for the Company under Rule 14.06 of the Listing Rules and are subject to notification and announcement requirements under the Listing Rules.

Reference is made to the announcement of the Company dated 22 December 2015 in relation to the entry into a letter of intent regarding acquisition of hydroelectric power stations.

THE EQUITY TRANSFER AGREEMENT

Date: 24 March 2016 (after trading hours)

Parties: (i) Liaoning Duoyi Hydropower Company Limited* (遼寧多益水電有限公司)
(as vendor)

(ii) Fu Jia Hong Kong Holdings Limited (富佳香港控股有限公司), an indirectly 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 of the counterparties are third parties independent to the Company and its connected person(s) (as defined under the Listing Rules).

THE EQUITY INTEREST

Pursuant to the terms and conditions of the Equity Transfer Agreement, the Vendor has agreed to sell and the Purchaser has agreed to acquire the Equity Interest (representing 100% of the equity interest of the Target Company).

CONSIDERATION

The consideration of the Acquisition is RMB30,000,000, which will be settled in the following manners:

- (a) as to RMB13,000,000 payable by the Purchaser to the Vendor in cash upon the signing of the Equity Transfer Agreement as deposit (the “**Deposit**”);
- (b) the Deposit shall be regarded as partial settlement of the consideration as at completion date of the Equity Transfer Agreement; and
- (c) the remaining balance of RMB17,000,000 payable by the Purchaser to the Vendor in cash on or before 30 December 2016.

Upon completion of the Equity Transfer Agreement, the Company shall make a guarantee to the Vendor on the payment obligation by the Purchaser under the Equity Transfer Agreement until the Purchaser’s obligation has been performed.

The consideration payable by the Company under the Equity Transfer Agreement is determined based on arm’s length negotiation between the Purchaser and the Vendor with reference to the value of the equipment and property at the hydroelectric power station and a building of an area of approximately 2,000 sq.m. owned by the Target Company and the financial performance of the Target Company for the years ended 31 December 2014 and 2015.

CONDITIONS PRECEDENT

The Equity Transfer Agreement shall become effective subject to and conditional upon the fulfilment of the following conditions precedent:

- (i) the Deposit has been paid by the Purchaser to the Vendor;
- (ii) all necessary consents, licences and approvals required to be obtained on the part of the Purchaser and the Vendor in respect of the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained;
- (iii) the warranties given by the Vendor under the Equity Transfer Agreement remaining true and accurate and not misleading in all materials respects from the date of the Equity Transfer Agreement up to the date of completion of the Equity Transfer Agreement; and

- (iv) the Vendor has complied with and performed all its obligations under the Equity Transfer Agreement at or before completion of the Equity Transfer Agreement.

The Purchaser may waive all or any part of the conditions precedent. If any of the above conditions precedent have not been fulfilled or waived by the Purchaser on 30 March 2016, the Equity Transfer Agreement shall lapse and will not become effective. Save for any antecedent breach of the Equity Transfer Agreement, none of the parties shall have any liability and obligation thereunder. In such event, the Vendor shall return the Deposit to the Purchaser within 5 business day from the date of termination of the Equity Transfer Agreement (if the Deposit has been paid by the Purchaser to the Vendor).

COMPLETION

The completion of the Equity Transfer Agreement shall take place on or before 30 March 2016 following the satisfaction of all the conditions precedent.

INFORMATION ABOUT THE PURCHASER AND THE GROUP

The Purchaser is an investment holding company. The Group is engaged in the business of design and sale of a wide range of electronic products, securities trading and property development business.

INFORMATION ABOUT THE VENDOR

The Vendor is a company incorporated in the PRC whose directly and indirectly owns several hydroelectric power stations in Northern China and is engaged in the business of management and operation of the hydroelectric power stations.

INFORMATION ABOUT THE TARGET COMPANY

The Target Company is a company incorporated in the PRC and is engaged in the operation and management of a hydroelectric power station in Benxi, Liaoning. The hydroelectric power station owned by the Target Company is built on a river at the down-stream of the Guanying reservoir (觀音閣水庫) in Benxi, Liaoning Province, the PRC and has an installed capacity of 3200 kW.

The unaudited net asset value of the Target Company as prepared in accordance with PRC GAAP was approximately RMB40,797,000 as at 31 December 2015.

The financial information of the Target Company prepared under PRC GAAP is set out as below:–

	For the year ended 31 December 2014	For the year ended 31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Revenue	2,668	3,348
Profit before tax	480	1,554
Profit after tax	480	1,554
Profit before tax, depreciation and interest	2,214	2,820

REASONS FOR THE ACQUISITION

The Board believes that the Acquisition offers itself a great opportunity to diversify its operations and broaden its source of revenue. As part of the business plan of the Company to enhance the long-term growth potential of the Company, the Board will continue to explore other business opportunities in the renewable energy and projects related to environmental protection.

Having considered that (i) the amount of electricity generated by the Target Company in that area in the past two years; (ii) the hydroelectric power station owned by the Target Company has been connected to the national power grid and there is demand for the electricity generated by the Target Company; (iii) it is also expected that there will be further demand for electricity generated by the Target Company due to the urban development in Benxi, Liaoning Province; (iv) the PRC government's plan to increase the proportion of renewable energy consumption and it is expected that the demand for hydroelectric power will be increased; and (v) it is expected that on-grid tariff of electricity would be increased annually based on the market trend; (vi) a high rate of return of the Target Company, the Board is of the view that the future business prospect of the Target Company is optimistic and, upon completion, the business of the Target Company will enhance the Company's long-term growth potential.

LISTING RULES IMPLICATIONS

As one of the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceed 5% but below 25%, the Acquisition constitutes discloseable transaction for the Company under Rule 14.06 of the Listing Rules and are subject to notification and announcement requirements under the Listing Rules.

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 entire equity interest in the Target Company in accordance with the Equity Transfer Agreement and the transaction(s) contemplated thereunder
“Board”	the board of Directors
“Business Day”	any day (not being a Saturday, a Sunday and a public holiday) on which licensed banks in Hong Kong are generally open for business
“Company”	Shihua Development Company Limited (實華發展有限公司), a company incorporated in Bermuda whose shares are listed and traded on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Equity Interest”	the entire equity interest in the Target Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“kW”	a measure of electric power equal to 1,000 watts
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Purchaser”	Fu Jia Hong Kong Holding Limited (富佳香港控股有限公司), a company incorporated in the Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company
“RMB”	Reminbi, the lawful currency of the PRC
“Equity Transfer Agreement”	the equity transfer agreement dated 24 March 2016 entered into between the Vendor and the Purchaser
“Share(s)”	ordinary share(s) of the HK\$0.01 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
“Target Company”	Benxi Weining Hydropower Company Limited* (本溪市威寧水力發電有限公司), a company incorporated in the PRC with limited liability
“Vendor”	Liaoning Duoyi Hydropower Company Limited* (遼寧多益水電有限公司), a company established in the PRC with limited liability
“%”	per cent.
“sq.m.”	square metre

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

Hong Kong, 24 March 2016

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 purposes only*