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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 23 August 2016 (after trading hours), the Purchaser, an indirectly wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire the Sale Shares at a consideration of RMB36,000,000.

As the highest of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceeds 5% but below 25%, the Acquisition constitutes a discloseable transaction for the Company subject to notification and announcement requirements under the Listing Rules.

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THE AGREEMENT

Date: 23 August 2016 (after trading hours)

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

Hong Kong Shi Hua Fu Jia Holdings Limited (香港實華富佳控股有限公司), 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, each of the Vendor and its ultimate beneficial owner is an Independent Third Party.

SALE SHARES

100% equity interest of the Target Company.

CONSIDERATION

The Consideration of RMB36,000,000 shall be payable by the Purchaser to the Vendor in cash as follows:

- (i) as to RMB13,000,000 shall be payable upon the signing of the Agreement as deposit and partial payment of the Consideration upon Completion;
- (ii) as to RMB6,000,000 shall be payable on or before 30 September 2016; and
- (iii) the balance of RMB17,000,000 shall be payable on or before 30 December 2016.

Upon Completion, the Company shall deliver a guarantee to the Vendor for the payment obligation by the Purchaser under the Agreement.

The Consideration is determined based on arm's length negotiation between the Purchaser and the Vendor with reference to the value of the equipment at the hydroelectric power station and the financial performance of the Target Company for the years ended 31 December 2014 and 2015.

CONDITIONS PRECEDENT

The Agreement shall become effective upon the fulfilment of the following conditions precedent:

- (i) the Deposit has been paid by the Purchaser to the Vendor;
- (ii) the Vendor and the Purchaser have obtained all necessary and required permissions, approvals, consents and permits for the entering into and performance of this Agreement and the transactions contemplated hereunder;
- (iii) the representations and warranties made by the Vendor under the Agreement are true and accurate in all material and actual aspects from the date of the Completion; and
- (iv) On or before Completion, the Vendor has duly performed its obligations under the Agreement.

The Purchaser may waive all or any part of the conditions precedent. If any of the above conditions precedent has not been fulfilled or waived by the Purchaser on or before 30 August 2016, the Agreement shall cease to have effect. Save for any antecedent breach of the Agreement, none of the parties shall have any liability and obligation thereunder. In such event, the Vendor shall return to the Purchaser the Deposit paid by Purchaser within 5 business days from the date of the termination of the Agreement.

COMPLETION

Completion of the Agreement shall take place within 5 business days following the satisfaction of all the conditions precedent.

INFORMATION ABOUT THE PURCHASER AND THE GROUP

The Purchaser is an investment holding company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company.

The Group is engaged in the business of design and sale of a wide range of electronic products, operation and management of a hydroelectric power station, securities trading and properties investment business.

INFORMATION ABOUT THE VENDOR

The Vendor is a company incorporated in the PRC which 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 with registered and paid up capital of RMB45,500,000. The Target Company is engaged in the operation and management of a hydroelectric power station at Benxi Manchu Autonomous County, Liaoning Province, the PRC and has an installed capacity of 3500 kW.

The unaudited net asset value of the Target Company as prepared in accordance with PRC GAAP was approximately RMB41,245,000 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	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Revenue	3,284	3,631
Profit before tax	742	2,059
Profit after tax	742	2,059
Profit before tax, depreciation and interest	2,857	3,542

REASONS FOR AND BENEFIT OF THE ACQUISITION

On 24 March 2016, the Group entered into an agreement with the Vendor to acquire 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, which owned and operated a hydroelectric power station at the downstream of the Guanying reservoir (觀音閣水庫) in Benxi, Liaoning Province, the PRC and has an installed capacity of 3200 kW. Further information is set out in the announcement of the Company dated 24 March 2016.

As disclosed in the announcement of the Company dated 24 March 2016, 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 Acquisition enables the Company to enlarge its operational scale in the renewable energy business to meet the increasing demand; (iii) the PRC government's policy to encourage the development of renewable energy; (iv) the economics of scale for managing the hydropower business; (v) the Acquisition matches with the Group's strategy in developing business in the renewable energy industry; and (vi) the Acquisition provides a stable and low risk revenue stream to the Group, the Directors consider that the Agreement and the transactions contemplated thereunder is in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceeds 5% but below 25%, the Acquisition constitutes a discloseable transaction for the Company 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 Sale Shares pursuant to the Agreement and the transactions contemplated thereunder
“Agreement”	the equity transfer agreement dated 23 August 2016 entered into between the Vendor and the Purchaser
“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 and traded on the Stock Exchange
“Completion”	completion of the Acquisition pursuant to the Agreement
“Director(s)”	the director(s) of the 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”	Hong Kong Shi Hua Fu Jia Holdings Limited (香港實華富佳控股有限公司), further information of which is more particularly described in the section headed “Information about the Purchaser and the Group” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	100% equity interest of the Target Company
“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 Manchu Autonomous County Fujia Hydropower Company Limited* (本溪滿族自治縣付家水力發電有限公司), further information of which is more particularly described in the section headed “Information about the Target Company” in this announcement

* *for identification purposes only*

“Vendor”	Liaoning Duoyi Hydropower Company Limited* (遼寧多益水電有限公司), further information of which is more particularly described in the section headed “Information about the Vendor” in this announcement
“%”	per cent.
“sq.m.”	square metre

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

Hong Kong, 23 August 2016

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