



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

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 485)

*Executive Directors:*

Mr. Wang Jing  
Mr. Wang Xing Qiao  
Mr. Chen Wan Jin  
Mr. Zhao Shuang

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Non-executive Director:*

Mr. Li Jun

*Head office and principal place of  
business in Hong Kong:*

Rooms 05-15, 13A/F  
South Tower, World Finance Centre  
Harbour City, 17 Canton Road  
Tsim Sha Tsui  
Kowloon, Hong Kong

*Independent non-executive Directors:*

Mr. Yang Xin Hua  
Mr. Wang Ping  
Mr. Cheng Tai Kwan Sunny

27 November 2015

*To the Shareholders*

Dear Sir or Madam,

- (A) PROPOSED CAPITAL REORGANISATION;**  
**(B) CHANGE IN BOARD LOT SIZE;**  
**(C) PROPOSED OPEN OFFER IN THE PROPORTION OF FOUR (4) OFFER SHARES**  
**FOR EVERY ONE (1) ADJUSTED SHARE HELD ON THE RECORD DATE;**  
**(D) APPLICATION FOR THE WHITEWASH WAIVER; AND**  
**(E) NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

Reference is made to the Announcement in relation to, among other things, the Capital Reorganisation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

The purpose of this circular is to provide you with, among other things, (i) further information regarding details of the Capital Reorganisation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the

Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the Whitewash Waiver; (iii) a letter of advice from Nuada to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the Whitewash Waiver; (iv) other information as required under the Listing Rules and the Takeovers Code; and (v) the notice of the SGM.

## **A. PROPOSED CAPITAL REORGANISATION**

### **1. The Capital Reorganisation**

The Board proposes to effect the Capital Reorganisation comprising:

- (i) the consolidation of every four (4) issued and unissued Shares of HK\$0.10 each in the authorised share capital of the Company into one (1) Consolidated Share of HK\$0.40;
- (ii) the reduction of the issued share capital of the Company (a) by eliminating any fraction of a Consolidated Share in the issued share capital of the Company following the Share Consolidation in order to round down the total number of Consolidated Shares to a whole number, and (b) through a cancellation of the paid up capital of the Company to the extent of HK\$0.39 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.40 to HK\$0.01;
- (iii) the subdivision of every unissued Consolidated Share of HK\$0.40 each in the authorised share capital of the Company (including the unissued Consolidated Shares resulting from the Capital Reduction) into forty (40) Adjusted Shares of HK\$0.01 each; and
- (iv) the transfer of the credit arising from the Capital Reduction to the contributed surplus account of the Company such that the Directors may apply such surplus in any manner permitted by the laws of Bermuda and the Bye-Laws including but not limited to offsetting against the balance of the accumulated losses of the Company up to the date on which the Capital Reorganisation becomes effective.

### **2. Conditions of the Capital Reorganisation**

The implementation of the Share Consolidation, the Capital Reduction and the Share Subdivision are inter-conditional on each other. The implementation of the Capital Reorganisation is conditional upon, among other things:

- (a) the passing of a special resolution approving the Capital Reorganisation by the Shareholders at the SGM;
- (b) compliance with the Companies Act to effect the Capital Reduction, which includes publication of a notice in relation to the Capital Reduction in Bermuda in accordance with the Companies Act and the Directors being satisfied that on the date the Capital

Reduction is to take effect, there are no reasonable grounds for believing that the Company is, or after the Capital Reduction would be, unable to pay its liabilities as they become due; and

- (c) the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Adjusted Shares.

Assuming the above conditions are fulfilled, the Capital Reorganisation is expected to become effective on the next business day after the date of passing of the relevant resolution approving the Capital Reorganisation at the SGM. Subject to the fulfillment of the above conditions, the Capital Reorganisation will comply with the relevant laws of Bermuda and the Bye-Laws.

### **3. Effects of the Capital Reorganisation**

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$500,000,000 divided into 5,000,000,000 Shares, of which 2,920,568,485 Shares are in issue. Upon the proposed Share Consolidation becoming effective and based on the issued share capital of the Company as at the Latest Practicable Date, the issued share capital of the Company will be consolidated into 730,142,121 Consolidated Shares with a nominal value of HK\$0.40 each. Upon the proposed Capital Reduction becoming effective, the nominal value of all the issued Consolidated Shares shall be reduced from HK\$0.40 to HK\$0.01 and the issued share capital of the Company shall accordingly be reduced to the extent of HK\$0.39 per Consolidated Share in issue.

Upon completion of the Capital Reorganisation, the issued share capital of the Company will be reduced to HK\$7,301,421.21 divided into 730,142,121 Adjusted Shares with a nominal value of HK\$0.01 each.

Any fractional Consolidated Share to which an individual Shareholder is entitled to will not be issued by the Company to such Shareholders, but will be aggregated, sold and retained for the benefit of the Company. Any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation shall be cancelled pursuant to the Capital Reduction. The resulting Adjusted Shares of nominal value of HK\$0.01 each will rank *pari passu* in all respects with each other in accordance with the Bye-Laws.

Assuming no further Share will be issued or repurchased between the Latest Practicable Date and the date on which the Capital Reorganisation becomes effective, a credit of approximately HK\$284.8 million will arise as a result of the Capital Reduction and will be applied to set-off the accumulated losses of the Company. For reference, the amount of accumulated losses of the Company as at 31 March 2015 was HK\$646.2 million.

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Group or the interests of the Shareholders as a whole, save for any fractional Consolidated Shares (if any) to which the Shareholders would otherwise be entitled to. The Board believes that the Capital Reorganisation will

not have any material adverse effect on the financial position of the Company and that on the date the Capital Reorganisation is to become effective, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due. The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company, nor will it result in any change in the relevant rights of the Shareholders.

#### **4. Reasons for the Capital Reorganisation**

As a result of the Capital Reorganisation, the Company's share capital and reserves will more closely reflect the available net assets of the Company. In addition, the Capital Reorganisation will provide greater flexibility for equity fund-raising of the Company in the future. The credit arising from the Capital Reduction will be applied to set-off the accumulated losses of the Company.

In view of the above, the Board considers that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

#### **5. Listing and dealings**

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Adjusted Shares.

Subject to the granting of the listing of, and the permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

#### **6. Free exchange of Share certificates**

Subject to the Capital Reorganisation becoming effective, the Shareholders may submit certificates in blue colour for the existing Shares to the Registrar during normal business hours from Tuesday, 22 December 2015 to Friday, 29 January 2016 (both dates inclusive) to exchange for the new certificates in purple colour of the Adjusted Shares at the expenses of the Company. Thereafter, certificates for the existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each share certificate of the existing Shares submitted for cancellation or each new share certificate issued for the Adjusted Shares, whichever number of certificates cancelled or issued is higher. The existing certificates will be valid for trading and settlement up to 4:00 p.m. on Wednesday, 27 January 2016, being the latest time and date for trading in board lot of 2,500 Adjusted Shares in the form of existing certificates (or such other date which will be announced by the Company) and will

continue to be good evidence of legal title after the Capital Reorganisation has become effective and may be exchanged for certificates of the Adjusted Shares at any time in accordance with the foregoing.

As from Tuesday, 22 December 2015 any new share certificates will be issued in board lots of 20,000 Adjusted Shares each (except for odd lots or where the Registrar is otherwise instructed).

#### **7. Arrangements for trading of odd lots**

Please refer to the arrangements set out in “B. Change in Board Lot Size” of this circular.

### **B. CHANGE IN BOARD LOT SIZE**

The Board announces that the board lot size of the Shares for trading on the Stock Exchange will be changed from 10,000 Shares to 20,000 Adjusted Shares after the Capital Reorganisation becomes effective.

The Change in Board Lot Size will not result in any change in the relative rights of the Shareholders. The Board is of the opinion that the Change in Board Lot Size would facilitate the trading by increasing the value of each board lot of the Shares and as a result reduces transaction and registration costs incurred by the Shareholders and investors of the Company. The Directors are of the view that the Change in Board Lot Size is in the best interests of the Company and its Shareholders as a whole.

Based on the theoretical ex-entitlement price of approximately HK\$0.167 per Adjusted Share (calculated based on the closing price of HK\$0.123 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation) and the existing board lot of 2,500 Adjusted Shares (being the equivalent of 10,000 Shares as adjusted for the Capital Reorganisation), the market value of each existing board lot is HK\$418 and the estimated market value of each proposed new board lot is HK\$3,344.

To alleviate the difficulties in trading odd lots of the Adjusted Shares arising from the Share Consolidation and Change in Board Lot Size, the Company will appoint a designated agent to provide matching services, on a best effort basis, to the Shareholders who wish to top up or sell their holdings of odd lots of the Adjusted Shares. Details of the odd lots matching arrangement will be set out in this circular. Holders of the Adjusted Shares in odd lots should note that successful matching of the sale and purchase of odd lots of the Adjusted Shares is not guaranteed. The Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

### **C. PROPOSED OPEN OFFER**

#### **1. The Open Offer**

The Board proposes to raise approximately HK\$251.2 million before expenses and subject to the Set Off as outlined in “C. Proposed Open Offer – 13. Set Off” of this circular, by issuing 2,920,568,484 Offer Shares at the Subscription Price of HK\$0.086 per Offer Share on the basis of four (4) Offer Shares for every one (1) Adjusted Share held on the Record Date.

## 2. Issue Statistic

|  |   |  |
|--|---|--|
| Basis of the Open Offer:   | : | Four (4) Offer Shares for every one (1) Adjusted Share held on the Record Date   |
| Subscription Price   | : | HK\$0.086 per Offer Share payable in full on acceptance  |
| Number of Shares in issue as at the Latest Practicable Date                      | : | 2,920,568,485 Shares   |
| Number of Adjusted Shares in issue upon completion of the Capital Reorganisation | : | 730,142,121 Adjusted Shares (assuming that no Share is issued or repurchased between the Latest Practicable Date and the date on which the Capital Reorganisation becomes effective) |
| Number of Offer Shares to be issued pursuant to the Open Offer                   | : | 2,920,568,484 Offer Shares   |
| Total number of Adjusted Shares in issue upon completion of the Open Offer       | : | 3,650,710,605 Adjusted Shares  |

As at the Latest Practicable Date, the Company has outstanding Convertible Bonds which are all held by Achieve Prosper and convertible into a maximum of 436,046,511 new Shares at the conversion price of HK\$0.1720 per Share (subject to adjustment). Pursuant to the Undertakings, Achieve Prosper has undertaken not to exercise the conversion right attaching to the Convertible Bonds from the date of the Underwriting Agreement to the Record Date. Save for the Convertible Bonds, as at the Latest Practicable Date, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

The total number of 2,920,568,484 Offer Shares to be issued pursuant to the Open Offer represent:

- (a) 400% of the number of the Adjusted Shares immediately upon completion of the Capital Reorganisation (based on the Company's existing issued share capital as at the Latest Practicable Date); and
- (b) approximately 80% of the Company's issued share capital as enlarged by the issue of the Offer Shares.

### 3. Subscription Price

The Subscription Price is HK\$0.086 per Offer Share, payable in full on application. The Subscription Price represents:

- (a) a discount of approximately 82.52% to the adjusted closing price of HK\$0.492 per Adjusted Share, based on the closing price of HK\$0.123 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (b) a discount of approximately 83.33% to the adjusted average closing price of HK\$0.516 per Adjusted Share, based on the average closing price of HK\$0.129 as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (c) a discount of approximately 48.56% to the theoretical ex-entitlement price of approximately HK\$0.167 per Adjusted Share after the Open Offer, based on the closing price of HK\$0.123 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (d) a discount of approximately 35.47% to the audited net asset value per Adjusted Share of approximately HK\$0.133 as at 31 March 2015 as adjusted for the Capital Reorganisation; and
- (e) a discount of approximately 73.78% to the adjusted closing price of HK\$0.328 per Adjusted Share, based on the closing price of HK\$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable Day and adjusted for the effect of the Capital Reorganisation.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriters with reference to, among other things:

- (i) the general declining trend of the prevailing trading prices of the Shares in the past six months (notwithstanding the occasional resurgence of the trading prices during April and May 2015) and the theoretical ex-entitlement price after the Open Offer based on

the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day, a summary of the closing prices on the last trading day of each of the six months up to the Last Trading Day and that on the Last Trading Day are set out below:

| Date             | Closing price per Share |
|------------------|-------------------------|
| 27 February 2015 | 0.193                   |
| 31 March 2015    | 0.148                   |
| 24 April 2015    | 0.168                   |
| 29 May 2015      | 0.171                   |
| 30 June 2015     | 0.144                   |
| 31 July 2015     | 0.139                   |
| Last Trading Day | 0.123                   |

- (ii) the net loss recorded by the Company for the two years ended 31 March 2015;
- (iii) the discount of the subscription price for various announced rights issues and open offers conducted with capital reorganisation by companies listed on the Stock Exchange in the 6-month period immediately preceding the Last Trading Day, a summary of which is set out below:

| Company name   | Listing method | Stock code | Announcement date      | Capital consolidation ratio | Basis of entitlement | Issue price per offer share/rights share | Ex-entitlement price per adjusted share based on the closing price on the last trading day before the announcement of the open offer/rights issue | Discount to closing price on last trading day (Note 1) | Discount to adjusted 5-days average trading price before the last trading day (Note 1) | Discount to ex-entitlement price (Note 3) |
|--|----------------|------------|------------------------|-----------------------------|----------------------|--|---|--|--|---|
| Easyknit Enterprises Holdings Limited                    | Rights issue   | 616        | 2/2/2015               | 20 into 1                   | 20 for 1             | HK\$0.65                                 | HK\$0.830   | 85.62%   | 85.16%   | 21.68%                                    |
| China Agri-Products Exchange Limited                     | Rights issue   | 149        | 1/8/2015               | 8 into 1                    | 8 for 1              | HK\$0.30                                 | HK\$0.457   | 82.48%   | 82.31%   | 34.35%                                    |
| RCG Holdings Limited                                     | Open offer     | 802        | 4/24/2015              | 4 into 1                    | 5 for 1              | HK\$0.25                                 | HK\$0.402   | 78.40%   | 78.50%   | 37.80%                                    |
| Unity Investments Holdings Limited                       | Open offer     | 913        | 12/15/2014             | 10 into 1                   | 4 for 1              | HK\$0.16                                 | HK\$0.274   | 78.08%   | 77.21%   | 41.61%                                    |
| Capital VC Limited                                       | Open offer     | 2324       | 3/13/2015              | 5 into 1                    | 7 for 1              | HK\$0.25                                 | HK\$0.350   | 76.60%   | 76.40%   | 28.60%                                    |
| China National Culture Group Limited                     | Open offer     | 745        | 6/8/2015               | 2 into 1                    | 1 for 1              | HK\$0.10                                 | HK\$0.262   | 76.40%   | 77.10%   | 61.80%                                    |
| Landing International Development Limited                | Rights issue   | 582        | 4/2/2015               | 10 into 1                   | 10 for 1             | HK\$0.35                                 | HK\$0.450   | 75.86%   | 73.84%   | 22.22%                                    |
| Hanny Holdings Limited                                   | Rights issue   | 275        | 4/9/2015               | 2 into 1                    | 6 for 1              | HK\$0.16                                 | HK\$0.230   | 74.19%   | 72.88%   | 29.11%                                    |
| Hong Kong Education (Int'l) Investments Limited (Note 2) | Rights issue   | 1082       | 2/17/2015<br>4/24/2015 | 5 into 1                    | 4 for 1              | HK\$0.295                                | HK\$0.262   | 69.97%   | 70.29%   | 24.98%                                    |
| SolarTech International Holdings Limited                 | Open offer     | 1166       | 2/6/2015               | 10 into 1                   | 5 for 1              | HK\$0.20                                 | HK\$0.277   | 69.70%   | 69.70%   | 27.80%                                    |

**Note:**

1. The closing price and 5-days average trading price are adjusted for the effect of the capital reorganisation.



2. With bonus issue of 1 bonus share for every 2 right shares take up.
3. Under the Open Offer, the Subscription Price represents a discount of approximately 48.56% to the theoretical ex-entitlement price of approximately HK\$0.167 per Adjusted Share after the Open Offer, based on the closing price of HK\$0.123 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation, which is within the range of the discount of the rights issues and open offers listed above.

As shown in the table above, the discount to the relevant closing prices (after adjustment for the effect of the capital reorganisation) was approximately 69.70% to 85.62%. The discount of the Subscription Price to the closing price of the Shares (as adjusted for the effect of the Capital Reorganisation) as quoted on the Stock Exchange on the Last Trading Day (being approximately 82.52% as adjusted for the effect of the Capital Reorganisation) is within the range of the discount of the rights issues and open offers listed above, and the Directors consider that it is comparable to the rights issues and open offers previously conducted; and

- (iv) the then prevailing market conditions and the volatility of the stock markets for the one month period before entering into the Underwriting Agreement.

In planning the Open Offer, the Directors have considered the general declining trend of the prevailing trading prices of the Shares in the six months preceding the Last Trading Date, the net loss recorded by the Company for the two years ended 31 March 2015, and the various announced rights issues and open offers conducted with capital reorganisation by companies listed on the Stock Exchange in the 6-month period immediately preceding the Last Trading Date where the discount rate of the Open Offer is comparable to those rights issues and open offers, and are of the view that (i) it is necessary to set the Subscription Price at a discount level that would likely enhance the attractiveness of the Open Offer, lower the investment cost of the Shareholders and increase the incentive of Qualifying Shareholders to take up their entitlements to participate in the potential growth of the Group; and (ii) the existing structure of the Open Offer is appropriate in meeting the current funding needs of the Group. As such, no alternative structures were considered by the Company for the Open Offer.

Given that the Open Offer will offer an equal opportunity for all Qualifying Shareholders to maintain their proportionate interests in the Company and further participate in the Group's future development by subscribing the Offer Shares at a price which is lower than the prevailing market price as at the date of the Underwriting Agreement (as adjusted for the Capital Reorganisation), the Directors (including the independent non-executive Directors who have taken into consideration the advice of Nuada) consider that the proposed discount of the Subscription Price is appropriate.

The Directors (including the independent non-executive Directors who have taken into consideration the advice of Nuada) consider the Subscription Price is fair and reasonable and in the interests of the Company and the Independent Shareholders.

#### **4. Conditions of the Open Offer and the Underwriting Agreement**

The Open Offer and the Underwriting Agreement are subject to the following conditions:

- (a) the passing of the necessary resolution(s) by the Shareholders (or, where applicable, the Independent Shareholders) at the SGM approving and confirming: (i) the Capital Reorganisation; (ii) the Open Offer (including the Underwriting Agreement) and authorising the Directors to allot and issue the Offer Shares (to be voted on by the Independent Shareholders by poll); and (iii) the Whitewash Waiver (to be voted on by the Independent Shareholders by poll), in accordance with, where appropriate, the Bye-Laws, the Listing Rules and the Takeovers Code on or before the Record Date;
- (b) the Capital Reorganisation having become effective;
- (c) the Executive having granted, and not having withdrawn or revoked such grant, the Whitewash Waiver, and the fulfillment of all conditions (if any) attached to the Whitewash Waiver;
- (d) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Prospectus Posting Date;
- (e) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date;
- (f) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment), and not having withdrawn or revoked listing of and permission to deal in the Offer Shares by no later than the first day of their dealings;
- (g) the obligations of the Underwriters becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;
- (h) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement and the representations and warranties given by the Company under the Underwriting Agreement remaining true, correct and not misleading in all material respects;
- (i) compliance with and performance of the Undertakings by Achieve Prosper and Wang Xing Qiao; and

- (j) the entering into of binding agreements by Kingston Securities with certain placees and/or sub-underwriters, which shall be Independent Third Parties, for placing and/or sub-underwriting the Offer Shares, such that none of the Kingston Securities together with its parties acting in concert (having the meaning under the Takeovers Code) nor any of the placees (including those procured by Kingston Securities or the sub-underwriters (if any)) and/or sub-underwriters and their respective parties acting in concert (having the meaning under the Takeovers Code) shall be interested in 10% or more of the issued share capital of the Company as enlarged by the Open Offer.

The conditions (save for the condition (h) above) are incapable of being waived. If any of the above conditions is not satisfied by the Latest Time for Termination (being 4:00 p.m. on Wednesday, 27 January 2016 or such other time and date as agreed by the Company and the Underwriters), the Open Offer will not proceed and the Underwriting Agreement shall be terminated and none of the parties shall have any claim against the other.

As at the Latest Practicable Date, none of the above conditions of the Open Offer has been fulfilled.

## **5. Qualifying Shareholders**

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company and not being Excluded Shareholders at the Record Date. In order to be registered as members of the Company at the Record Date, all transfers of the Shares must be lodged (together with the relevant share certificate(s)) with the Company's branch share registrar in Hong Kong by 4:30 p.m. on Tuesday, 29 December 2015. The Company's branch share registrar in Hong Kong is:

**Tricor Secretaries Limited**  
**Level 22, Hopewell Centre,**  
**183 Queen's Road East,**  
**Hong Kong**

The Company will send the Prospectus Documents to the Qualifying Shareholders and will send the Prospectus (without the Application Form), for information only, to the Excluded Shareholders on the Prospectus Posting Date. Excluded Shareholders who are also Independent Shareholders will be entitled to attend and vote at the SGM. The Company will ascertain whether there are any Overseas Shareholders at the Record Date. In determining whether there will be Excluded Shareholders, the Company will make enquiry regarding the legal restrictions (if any) under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges in relation to the Company's offering of the Offer Shares to the Overseas Shareholders in compliance with the Listing Rules.

As at the Latest Practicable Date, there are 16 Shareholders whose addresses as shown on the register of members of the Company are in places outside of Hong Kong.

The Offer Shares to which the Excluded Shareholders would have been entitled will be undertaken by the Underwriter.

Those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled to and the Excluded Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Open Offer.

Excluded Shareholders who are also Independent Shareholders will be entitled to attend and vote at the SGM to consider and, if thought fit, passing the resolution to approve, among other things, the Whitewash Waiver.

#### **6. No Application for Excess Offer Shares**

If application for excess Offer Shares is arranged, the Company will be required to put in additional effort and costs to administer the excess application procedures, including preparing and arranging the excess application forms, reviewing the relevant documents, liaising with professional parties and printing of excess application forms, etc.

Considering that each Qualifying Shareholder will be given an equal and fair opportunity to participate in the Company's potential future development by subscribing for his entitlements under the Open Offer and maintaining their respective pro rata shareholding interests in the Company, the Directors (including the independent non-executive Directors who have taken into consideration the advice of Nuada) are of the view that the benefits of offering the excess application procedures do not justify the additional efforts and costs, and it is fair and reasonable and in the interests of the Company and the Independent Shareholders not to offer any excess application to the Qualifying Shareholders.

Accordingly, after arm's length negotiation with the Underwriters, no excess Offer Shares will be offered to the Qualifying Shareholders and any Offer Shares not taken up by the Qualifying Shareholders will be underwritten by the Underwriters.

In compliance with Rule 7.26A(2) of the Listing Rules, the absence of excess application arrangement and the alternative arrangement for the disposal of the Offer Shares not being subscribed must be specifically approved by the Independent Shareholders at the SGM.

#### **7. Closure of Register of Members**

The register of members of the Company, in relation to the Open Offer, will be closed from Wednesday, 30 December 2015 to Wednesday, 6 January 2016, both dates inclusive. No transfer of Shares will be registered during this period.

## **8. Status of the Offer Shares**

The Offer Shares (when allotted, fully paid or credited as fully paid and issued) will rank pari passu in all respects with the Adjusted Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares. Dealings in the Offer Shares will be subject to payment of stamp duty and other applicable fees and charges in Hong Kong.

## **9. Certificates of the Offer Shares and refund cheques**

Subject to fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be sent on or before Friday, 29 January 2016, to those entitled thereto by ordinary post at their own risk.

If the Open Offer is terminated, refund cheques are expected to be posted on or before Friday, 29 January 2016.

## **10. Fractions of the Offer Shares**

No fractional entitlements or allotments are expected to arise as a result of the Open Offer.

## **11. Application for Listing**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Dealings in the Offer Shares which are registered in the branch register of members of the Company in Hong Kong will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

## **12. Undertakings**

Achieve Prosper holds in aggregate 1,085,755,571 Shares, representing approximately 37.18% of the existing issued share capital of the Company as at the Latest Practicable Date.

Wang Xing Qiao holds in aggregate 2,620,000 Shares, representing approximately 0.09% of the existing issued share capital of the Company as at the Latest Practicable Date.

Pursuant to the Undertakings, Achieve Prosper and Wang Xing Qiao has irrevocably undertaken to the Company that:

- (a) the 1,085,755,571 Shares and 2,620,000 Shares held by them respectively shall remain registered in their respective name up to and including the close of business on the Record Date;
- (b) they will not transfer or otherwise dispose of, or create any rights in respect of, any of the 1,085,755,571 Shares and 2,620,000 Shares held by them respectively or any interests therein, or acquire any Shares or any interests therein, up to the Record Date;
- (c) they will accept their respective entitlement to the assured allotment of 1,085,755,568 Offer Shares and 2,620,000 Offer Shares respectively derived from the 1,085,755,571 Shares and 2,620,000 Shares held by them respectively pursuant to the terms of the Open Offer; and
- (d) they will each lodge the Application Form in respect of the Offer Shares referred to (c) above, pay the subscription price (where the subscription price payable by Achieve Prosper shall be set off, on a dollar-to-dollar basis, against the amount due to it under the Promissory Note and the Amount Payable to Shareholder as at the Latest Time for Acceptance) and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.

Achieve Prosper has also irrevocably undertaken not to exercise the conversion right attaching to the Convertible Bonds from the date of the Underwriting Agreement to the Record Date.

Save for the Undertakings, the Company has not received any information or irrevocable undertaking from any substantial shareholders (as defined in the Listing Rules) of the Company of their intention in relation to the Offer Shares to be allotted to them under the Open Offer as at the Latest Practicable Date.

### **13. Set Off**

Pursuant to the terms of the Underwriting Agreement, the Company and Achieve Prosper have agreed to procure the set off of (i) the amount due under the Promissory Note (being HK\$208,276,000); and (ii) the Amount Payable to Shareholder as at the Latest Time for Acceptance on a dollar-to-dollar basis against, firstly the aggregate Subscription Price which Achieve Prosper is obliged to pay to subscribe for its entitlement of the Open Offer in full pursuant to the Undertakings; and secondly the aggregate Subscription Price which Achieve Prosper is obliged to pay for the Untaken Shares under the Underwriting Agreement.

#### 14. Principal Terms of the Underwriting Agreement

**Date** : 20 August 2015 (as supplemented by two side letters dated 7 October 2015 and 25 November 2015 respectively)

**Parties** : (1) The Company  
(2) Achieve Prosper, as underwriter  
(3) Kingston Securities, as underwriter

Achieve Prosper is an investment holding company and is not in its ordinary course to underwrite issue of securities

**Total number of Underwritten Shares** : 1,832,192,916 Offer Shares, being the difference between the total number of Offer Shares to be issued by the Company and the total number of Offer Shares to be subscribed and paid for by Achieve Prosper and Wang Xing Qiao pursuant to the Undertakings and on the basis that no further Share or Adjusted Share will be issued or repurchased on or before the Record Date

**Allocation of underwriting obligations between the Achieve Prosper and Kingston Securities** : The Underwriters shall severally (but not jointly) subscribe or procure subscription for the Untaken Shares in the following manner:

(1) Achieve Prosper shall subscribe for or procure subscription for the first of such number of Untaken Shares such that the shareholding interests of the Concert Group in the Company taken together immediately upon Achieve Prosper's subscription of the Untaken Shares shall equal to 75% of the issued share capital of the Company; and

- (2) Kingston Securities shall subscribe for or procure subscription for all the remaining Untaken Shares with a view to maintaining the public float of the Shares immediately after completion of the Open Offer.

Kingston Securities will not subscribe, for its own account, and will procure each of the subscribers of the Untaken Shares (including any direct and indirect ones procured via sub-underwriters) and their respective associates, will not, together with any party acting in concert (within the meaning of the Takeovers Code) with it or its associates, hold 10.0% or more of the voting rights of the Company immediately upon completion of the Open Offer.

Kingston Securities shall use all reasonable endeavours to procure that the minimum public float requirement under Rule 8.24 of the Listing Rules be fulfilled by the Company upon completion of the Open Offer.

**Commission** : 2% of the aggregate Subscription Price in respect of the number of Underwritten Shares at the Record Date

The commission payable to the Underwriters was determined after arm's length negotiations between the Company and the Underwriters with reference to current prevailing market rate

**Conditions** : Please refer to "C. Proposed Open Offer – 4. Conditions of the Open Offer and the Underwriting Agreement" of this circular

When the Company started to identify underwriters for the Open Offer, Achieve Prosper had promptly indicated that it was willing to underwrite the Open Offer on terms comparable to the market practices, with Kingston Securities acting as co-underwriter for part of the Open Offer with a view to maintaining the public float of the Shares immediately after completion of the Open Offer. In light of the recent market conditions, the Company believed that it was unlikely to obtain underwriting services on substantially better terms than those negotiated with the Underwriters (which were finally reflected in the Underwriting Agreement). Although Achieve Prosper's ordinary business does not include underwriting of securities, the Company did not consider this to be a material factor in choosing the underwriter for the Open Offer as long as the terms of the underwriting is comparable to the market practices. Hence the Company has not approached any underwriters other than Achieve Prosper and Kingston Securities for the Open Offer. The Company has considered the underwriting



arrangements (including the commission rates) of the open offers and rights issues recently conducted by issuers on the Stock Exchange to ensure the terms of the Open Offer, including the underwriting arrangements, are fair and reasonable and in line with the market practices. The Directors (including the independent non-executive Directors who have taken into consideration the advice of Nuada) are of the view that the terms of the underwriting of the Open Offer (including the underwriting commission rate) are comparable to the market practices.

### *Termination*

Any of the Underwriters shall be entitled by a notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement if:

- (1) in the absolute opinion of any of the Underwriters, the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of any Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of any Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of any Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of any Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

- (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of any Underwriter, a material omission in the context of the Open Offer; or
- (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten (10) consecutive business days, excluding any suspension in connection with the clearance of the Announcement, this circular or the Prospectus Documents or other announcements or circulars in connection with the Open Offer.

Any of the Underwriters shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of any Underwriter; or
- (2) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect, which comes to the knowledge of any Underwriter.

If at or prior to the Latest Time for Termination any such notice referred to above is given by any Underwriter, the obligations of all parties under the Underwriting Agreement shall cease and determine and no party to the Underwriting Agreement shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided however that the Company shall remain liable to pay the costs, charges and expenses howsoever of or incidental to the Open Offer.

**If the Underwriting Agreement is terminated by any Underwriter prior to the Latest Time for Termination or does not become unconditional, the Open Offer will not proceed. A further announcement will be made by the Company if the Underwriting Agreement is terminated by any Underwriter.**

## 15. Changes in the Shareholding Structure of the Company Arising from the Capital Reorganisation and the Open Offer

The changes in the shareholding structure of the Company arising from the Capital Reorganisation and the Open Offer are illustrated as follows:

|                          | As at the Latest Practicable Date |        | Immediately after the Capital Reorganisation but before completion of the Open Offer |        | Immediately after the completion of the Open Offer assuming that all Shareholders have fully subscribed for their entitlements under the Open Offer |        | Immediately after the completion of the Open Offer assuming that, except for Achieve Prosper and Wang Xing Qiao, no Shareholders subscribe for their entitlements under the Open Offer |        | Immediately after the completion of the Open Offer assuming that, (1) no Convertible Bonds have been converted into Adjusted Shares up to the completion of the Open Offer; (2) except for Achieve Prosper and Wang Xing Qiao, no Shareholders subscribe for their entitlements under the Open Offer and Achieve Prosper subscribes for such number of Offer Shares so that the public float of 25% of the issued share capital of the Company is maintained |        | Immediately after the completion of the Open Offer assuming that, (1) the Convertible Bonds have been converted into Adjusted Shares after the Record Date but before the completion of the Open Offer; (2) except for Achieve Prosper and Wang Xing Qiao, no Shareholders subscribe for their entitlements under the Open Offer and Achieve Prosper subscribes for such number of Offer Shares so that the public float of 25% of the issued share capital of the Company is maintained |        |
|--------------------------|-----------------------------------|--------|--|--------|---|--------|--|--------|--|--------|--|--------|
|                          | Shares                            | %      | Adjusted Shares  | %      | Adjusted Shares   | %      | Adjusted Shares  | %      | Adjusted Shares  | %      | Adjusted Shares  | %      |
|                          |                                   |        |  |        |   |        |  |        |  |        |  |        |
| <i>The Concert Group</i> |                                   |        |  |        |   |        |  |        |  |        |  |        |
| Achieve Prosper          | 1,085,755,571                     | 37.18  | 271,438,892  | 37.18  | 1,357,194,460   | 37.18  | 3,189,387,376  | 87.36  | 2,734,757,953  | 74.91  | 2,979,323,170  | 74.92  |
| Wang Xing Qiao           | 2,620,000                         | 0.09   | 655,000  | 0.09   | 3,275,000   | 0.09   | 3,275,000  | 0.09   | 3,275,000  | 0.09   | 3,275,000  | 0.08   |
| Sub-total                | 1,088,375,571                     | 37.27  | 272,093,892  | 37.27  | 1,360,469,460   | 37.27  | 3,192,662,376  | 87.45  | 2,738,032,953  | 75.00  | 2,982,598,170  | 75.00  |
| Public Shareholders      | 1,832,192,914                     | 62.73  | 458,048,229  | 62.73  | 2,290,241,145   | 62.76  | 458,048,229  | 12.55  | 912,677,652  | 25.00  | 994,199,391  | 25.00  |
| Total:                   | 2,920,568,485                     | 100.00 | 730,142,121  | 100.00 | 3,650,710,605   | 100.00 | 3,650,710,605  | 100.00 | 3,650,710,605  | 100.00 | 3,976,797,561  | 100.00 |

### Notes:

- This scenario is for illustration purpose only and will never occur. Pursuant to the Underwriting Agreement, Achieve Prosper shall subscribe for or procure subscription for the first of such number of Untaken Shares such that the shareholding interests of the Concert Group in the Company taken together immediately upon Achieve Prosper's subscription of the Untaken Shares shall equal to 75% of the issued share capital of the Company, and Kingston Securities shall subscribe for or procure subscription for all the remaining Untaken Shares.

2. Kingston Securities will not subscribe, for its own account, and will procure each of the subscribers of the Untaken Shares (including any direct and indirect ones procured via sub-underwriters) and their respective associates, will not, together with any party acting in concert (within the meaning of the Takeovers Code) with it or its associates, hold 10.0% or more of the voting rights of the Company immediately upon completion of the Open Offer. Kingston Securities shall use all reasonable endeavours to procure that the minimum public float requirement under Rule 8.24 of the Listing Rules be fulfilled by the Company upon completion of the Open Offer.
3. Achieve Prosper holds outstanding Convertible Bonds which are convertible into a maximum of 436,046,511 new Shares at the conversion price of HK\$0.1720 per Share (subject to adjustment) as at the Latest Practicable Date. Achieve Prosper has undertaken not to exercise the conversion right attaching to the Convertible Bonds from the date of the Underwriting Agreement to the Record Date. If the Convertible Bonds are fully converted into Adjusted Shares after the Record Date but before the completion of the Open Offer, an additional 326,086,956 Adjusted Shares would be issued to Achieve Prosper before completion of the Open Offer.

## **16. Reasons for the Open Offer**

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

Based on the Company's unaudited consolidated statement of financial position as at 30 June 2015 and assuming that acquisition of property and the issue of the Promissory Note as described in the circular of the Company dated 29 April 2015 had been completed as at 30 June 2015, the Company is of the view that the outstanding amount of the Promissory Note, which accounted for approximately 55% of the Group's total liabilities, would be significant to the Group's financial position. Should such liabilities from the Promissory Note continue to burden the Group's financial position, it would be difficult for the Group to timely obtain financing for its future investment even if it has identified suitable investment opportunities. The Company is of the view that a reduction of the Group's liabilities (including the Promissory Note) through equity fund raising would lower the Group's gearing ratio and enhance its flexibility in obtaining financing for possible investment opportunities in the future without increasing the Group's interest burden, and therefore facilitate the Group's long term development and is in the interest of the Company and its Independent Shareholders. In light of the recent declining trend of the prevailing trading price of the Shares and the volatility of the stock markets (which may reduce the attractiveness of the Open Offer if its terms remain unchanged but the Shares' trading prices further decline), the Company is of the view that it is appropriate to carry out the Open Offer at present to reduce the Group's liabilities at the soonest opportunity so that the Company could be better prepared to capture future investment opportunities should they arise.

As at the Latest Practicable Date, the Company has no agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any possible investment.

Before reaching the decision to proceed with the Open Offer, the Board has considered other fund raising alternatives for the Group, including debt financing (such as bank borrowings), rights issue and placing of new Shares. Regarding debt financing, the Directors are of the view that its availability is uncertain and it will be subject to negotiations with banks which may take considerable time. It will also increase the Group's interest burden.

The Directors have also examined the possibility of fund raising by way of a rights issue which is similar to an open offer except that it allows shareholders to trade their nil-paid entitlements in the market. Despite a rights issue will provide an exit for the Qualifying Shareholder who do not take up their assured entitlements by selling their nil-paid rights, the Directors noted that the adoption of such trading arrangements will carry additional expenses and administrative and liaison work for the Company and other professional parties, such as the share registrar, the Underwriters, the financial printer and legal advisers. It is estimated that the additional costs and expenses of around HK\$300,000 will be incurred for such administrative work and the arrangement of trading the nil-paid rights. Having considered and balanced against the additional administrative work and cost in connection with the trading arrangements of nil-paid rights, and given that all Qualifying Shareholders can have an equal opportunity to participate in the Open Offer, the Directors are of the view that raising funds by way of the Open Offer is a more cost-effective option than a rights issue.

After taking into account the benefits and cost of each of the alternatives, the Board is of the view that the Open Offer allows the Group to strengthen its balance sheet without facing the increasing interest rates and minimise the cost of fund raising.

As disclosed in the paragraph headed "C. Proposed Open Offer – 3. Subscription Price", the Subscription Price and the structure of the Open Offer was set after arm's length negotiation between the Company and the Underwriters based on, among others, the prevailing market prices of the Shares (as adjusted for the Capital Reorganisation) and the Group's funding needs. The Directors are of the view that it is necessary to set the Subscription Price at a discount level that would likely enhance the attractiveness of the Open Offer. Taking into account of the above, the Open Offer will therefore have a dilution effect if a Qualifying Shareholder decides not to take up his/her/it assured entitlement under the Open Offer. If all the Qualifying Shareholders decide not to take up their assured entitlement of the Open Offer, and the Underwriters take up or procure subscribers to take up all the Untaken Shares, the percentage of shareholding of the existing public Shareholders will be diluted by approximately 80.0% from approximately 62.73% to 12.55%.

Based on the above, and given that each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company and the Open Offer is subject to the approval by the Independent Shareholders, the Directors (including the independent non-executive Directors who have taken into consideration the advice of Nuada) consider that the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Independent Shareholders. **However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted. If (1) no Convertible Bonds have been converted into Adjusted Shares up to the completion of the Open Offer; (2) except for Achieve Prosper and Wang Xing Qiao, no**

Shareholders subscribe for their entitlements under the Open Offer; and (3) Achieve Prosper subscribes for such number of Offer Shares so that the public float of 25% of the issued share capital of the Company is maintained; then Achieve Prosper (being the controlling shareholder of the Company and the Underwriter of the Open Offer) will be able to subscribe for the Untaken Shares at a significant discount to the prevailing market prices of the Adjusted Shares (see “C. Proposed Open Offer – 3. Subscription Price” above), and Achieve Prosper’s interest in the Company will increase from approximately 37.18% to 74.91%.

#### 17. Use of Proceeds

The gross proceeds and the estimated net proceeds from the Open Offer will be approximately HK\$251.2 million and approximately HK\$244.5 million respectively. The estimated net proceeds to the Company of each Offer Share will be approximately HK\$0.084.

The net proceeds of the Open Offer to the Company of approximately HK\$244.5 million are intended to be used as follows:

- (i) approximately HK\$208.3 million for repaying the whole amount due to Achieve Prosper under the Promissory Note;
- (ii) approximately HK\$20.0 million for repaying the outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance (as at 30 September 2015, the Amount Payable to Shareholder was approximately HK\$18.5 million); and
- (iii) the remaining balance will be used for the Group’s property investment business. As at the Latest Practicable Date, the Group was in preliminary discussion with a seller (which is an independent third party) for the acquisition of a piece of land in China for commercial use. The Group has not entered into any legally-binding agreement with such seller. The Company will make relevant disclosure pursuant to the Listing Rules as and when appropriate. Subject to the negotiation with the seller and the final terms of the acquisition, it is estimated that the consideration of the land together with the construction cost shall be not more than RMB12.5 million.

Pursuant to the Set Off, the amount due under the Promissory Note (being HK\$208,276,000) and the outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance will set off, on a dollar-to-dollar basis, against (i) the aggregate Subscription Price which Achieve Prosper is obliged to pay to subscribe for its entitlement under the Open Offer in full pursuant to the Undertakings; and (ii) the aggregate Subscription Price which Achieve Prosper is obliged to pay for the Untaken Shares under the Underwriting Agreement.

Assuming all Offer Shares are subscribed by the Qualifying Shareholders, the sum of approximately HK\$93.4 million, being aggregate Subscription Price payable by Achieve Prosper under the Undertakings, will partially set off against the amount due under the Promissory Note. After the Set Off, the remaining balance of amount due under the Promissory Note of approximately

HK\$114.9 million and the outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance (estimated to be approximately HK\$20 million) will be settled by the Company by cash using the proceeds of the Open Offer.

Assuming none of the Offer Shares are subscribed by the Qualifying Shareholders (except that Achieve Prosper and Wang Xing Qiao will subscribe for their respective entitlement under the Open Offer in full pursuant to the Undertakings), and Achieve Prosper and Kingston Securities (together with the sub-underwriters procured by it) take up all Untaken Shares pursuant to the Underwriting Agreement, the aggregate Subscription Price payable by Achieve Prosper of approximately HK\$211.8 million will set off against the full amount due under the Promissory Note of approximately HK\$208.3 million and part of the outstanding balance of the Amount Payable to Shareholder of approximately HK\$3.5 million. After the Set Off, the remaining outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance (estimated to be approximately HK\$16.5 million) will be settled by the Company by cash using the proceeds of the Open Offer.

As at the Latest Practicable Date, Achieve Prosper has not issued any formal demand for repayment under the Promissory Note because the Promissory Note, pursuant to its terms, would not become payable until the Company has generated, obtained and/or raised fund for not less than HK\$200 million. However, Achieve Prosper has agreed to the Set Off pursuant to the Underwriting Agreement, and has indicated that it would agree to the Company's repayment of the remaining outstanding amount of the Promissory Note upon completion of the Open Offer.

The Company is of the view that the redemption of the outstanding amount of approximately HK\$208.3 million of the Promissory Note would reduce the Group's liabilities, and thus results in a lower gearing ratio and improves the Group's financial position. This would facilitate the Group in obtaining financing for possible investment opportunities in the future to support the Group's long-term growth. Taking into account the recent volatility in the stock markets, the Directors (including the independent non-executive Directors who have taken into consideration the advice of Nuada) consider that it is in the Company's interest to raise funds by way of the Open Offer at the soonest opportunity to repay the Promissory Note.

The Directors are of the view that, following completion of the Capital Reorganisation and Open Offer, the Group has sufficient resources to satisfy its estimated funding needs for at least the next twelve months from the date of this circular, in the absence of unforeseeable circumstances.

In estimating the Group's funding needs and its ability to satisfy the same, the Directors have considered the followings:

- (i) The Group has a positive cash and cash equivalent balance as at the Latest Practicable Date.
- (ii) The Board has made reference to the current market condition and the historical track records of the Group's revenue, cost of goods sold, other operating expenses and the accounts receivable/payable turnover days to estimate the cash flow from the Group's electronic product trading business.

- (iii) The Group's electronic product trading business is expected to generate a positive operational cash flow to support its operation as well as to service the interest payments under the Convertible Bonds, after taking into account the completion of the disposal of the subsidiaries which carry out the Group's business of manufacture and sale of electronic products on 13 March 2015 (see the Company's announcement dated 13 March 2015 for further details) and that the financial results of such disposed subsidiaries will no longer be consolidated into the consolidated financial statements of the Group.
- (iv) Regarding investments, as at the Latest Practicable Date, the Group has not yet entered into any letter of intent, agreement or similar arrangement in respect of potential investments in properties and renewable energy projects but is in the course of searching for such investment opportunities. Any funding needs arising from potential investments are currently expected be derived from the Group's operations, the proceeds from the placing of Shares as completed on 30 July 2015 and the Open Offer. However, the Board will also consider possible fund raising activities if it is necessary or appropriate and beneficial to the Company.

Apart from the cash flow from the Group's electronic product trading business, it is also expected that the two pieces of properties acquired in 2015 as disclosed in the circulars of the Company dated 31 March 2015 and 29 April 2015 respectively will generate rental income and contribute to the Group's cash flow from the second half of 2016 after completion of the construction works. However, the actual amount of rental income to be generated will be subject to factors that are out of the Group's control, such as the market demand for the properties, the then prevailing market condition and the actual terms of the leases which are to be negotiated with the potential tenants. As at the Latest Practicable Date, the Group has secured one lease with Wal-Mart (Liaoning) Store Co. Ltd. (沃爾瑪(遼寧)百貨有限公司) (details of the lease are set out in the Company's circular dated 29 April 2015). Other than that, the Group has not entered into any lease with any other tenants in respect of the said acquired properties as at the Latest Practicable Date.

#### **18. Possible Adjustment to the Conversion Price of the Convertible Bonds**

The proposed Capital Reorganisation and Open Offer may lead to adjustments to the exercise price and/or the number of Shares or Adjusted Shares (as the case may be) to be issued upon exercise of the Convertible Bonds. The Company will notify the holder(s) of Convertible Bonds regarding adjustments to be made (if any) pursuant to the terms of the Convertible Bonds.



## 19. Previous Fund Raising Exercise in the prior 12-Month Period

The following are fund raising activities of the Company during the past 12 months immediately preceding the date of the Announcement:

| Date of announcement | Event                                       | Estimated net proceeds         | Intended use of proceeds   | Actual use of proceeds as at the Latest Practicable Date   |
|----------------------|---|--------------------------------|--|--|
| 14 July 2015         | Placing of new shares under general mandate | Approximately HK\$59.4 million | Possible opportunities for the development of renewable energy business and the general working capital of the Group. As at the Latest Practicable Date, the Company is still in the course of searching for possible investment opportunities and no letter of intent, agreement or similar arrangement had been entered into by the Group. | Approximately HK\$1.3 million has been used as general working capital of the Group. The remaining balance (which are kept as short-term bank deposits in China/Hong Kong) will be used as intended. |

## 20. Implications under the Listing Rules

As no excess application for the Offer Shares is available under the Open Offer and the Open Offer is partly underwritten by Achieve Prosper (a controlling shareholder of the Company), pursuant to Rule 7.26A(2) of the Listing Rules, specific approval shall be obtained from the Independent Shareholders in respect of the absence of such excess application arrangement. Achieve Prosper and its associates shall abstain from voting at the SGM to approve the absence of such excess application arrangement.

As the Open Offer will result in an increase in the Company's issued share capital by more than 50%, the Open Offer is subject to, among other things, the approval by the Independent Shareholders at the SGM. Pursuant to Rule 7.19(6) of the Listing Rules, any controlling shareholder of the Company and his associates, or where there is no such controlling shareholder of the Company, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will need to abstain from voting in favour of the resolution relating to the Open Offer. As at the Latest Practicable Date, Achieve Prosper is the controlling shareholder of the Company, and thus Achieve Prosper and its associates will abstain from voting in the SGM in respect of all resolution(s) related to the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

Under the Listing Rules, Achieve Prosper is regarded as a connected person of the Company. Accordingly, the transactions contemplated under the Underwriting Agreement (including the payment of the underwriting commission to Achieve Prosper) constitute a connected transaction of the Company but are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **21. Establishment of Independent Board Committee and Appointment of Independent Financial Adviser**

The Company has established the Independent Board Committee to make a recommendation to the Independent Shareholders as to (i) whether the Open Offer, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders, and (ii) voting by the Independent Shareholders on the relevant resolutions in the SGM by poll, taking into account the recommendations of Nuada.

The Independent Board Committee has approved the appointment of Nuada as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver and as to voting on the relevant resolutions in the SGM by poll.

### **D. APPLICATION FOR THE WHITEWASH WAIVER**

#### **1. Implications under the Takeovers Code**

As at the Latest Practicable Date, the Concert Group owns, controls or has direction over 1,088,375,571 Shares, representing approximately 37.27% of the existing issued share capital of the Company. In addition to the above, Achieve Prosper also holds the outstanding Convertible Bonds which are convertible into a maximum of 436,046,511 new Shares at the conversion price of HK\$0.1720 per Share (subject to adjustment) as at the Latest Practicable Date. Save for the Convertible Bonds, the Concert Group did not hold any outstanding convertible securities, options, warrants or derivative of the Company which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

Achieve Prosper and Wang Xing Qiao have given the Undertakings in favour of the Company, among other things, that: (a) they will subscribe for the 1,085,755,568 Offer Shares and 2,620,000 Offer Shares respectively to which they will be entitled to pursuant to the terms of the Open Offer; (b) the Shares or the Adjusted Shares (as the case may be) comprising their current shareholding will remain registered in their respective name at the close of business at the Record Date as they are on the date of the Underwriting Agreement; and (c) they will procure that the applications in respect of the 1,085,755,568 Offer Shares and 2,620,000 Offer Shares respectively comprising its entitlements under the Open Offer will be lodged with the Registrar by no later than the Latest Time for Acceptance and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents.

Achieve Prosper has also undertaken not to exercise the conversion right attaching to the Convertible Bonds from the date of the Underwriting Agreement to the Record Date.

Save for the purchase by Wang Xing Qiao of 2,620,000 Shares on the Stock Exchange at an average price of HK\$0.119 per Share on 6 July 2015 (which is during the 6-month period preceding the date of the Announcement but before any negotiation, discussions or the reaching of any understanding or agreements with the Directors in relation to the Open Offer, the Underwriting Agreement and the Whitewash Waiver), the Concert Group has no dealings in any securities of the Company in the 6-month period preceding the date of the Announcement but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors (which include informal discussions) in relation to the Open Offer, the Underwriting Agreement and the Whitewash Waiver;

The maximum number of Adjusted Shares which could be taken up by the Concert Group under the Open Offer and the Underwriting Agreement is 2,465,939,061 Adjusted Shares.

Assuming:

1. Achieve Prosper and Wang Xing Qiao subscribes for its entitlement of the Open Offer in full in accordance with the Undertakings;
2. not all Qualifying Shareholders (other than the Concert Group) take up the Offer Shares to which they are entitled to upon completion of the Open Offer; and
3. Achieve Prosper takes up such number of Untaken Shares under the Underwriting Agreement which will have the effect of increasing the voting rights of the Concert Group in the Company by more than 2% from the lowest percentage holding of the Concert Group in the Company in the 12-month period ending on and inclusive of the date of taking up of such number of Untaken Shares,

the Concert Group will, as a result of this acquisition of voting rights in the Company, incur an obligation to make a mandatory offer for all the Adjusted Shares other than those held or agreed to be acquired by the Concert Group, unless the Whitewash Waiver is granted.

## **2. Application for the Whitewash Waiver**

An application has been made by Achieve Prosper to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to the approval of the Independent Shareholders by way of poll at the SGM (and such other condition(s) as may be imposed by the Executive to grant the Whitewash Waiver).

The Concert Group, and those who are interested in, or involved in, the Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and/or the Whitewash Waiver, will abstain from voting in respect of all resolution(s) related to the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

The Directors (including the independent non-executive Directors who have taken into consideration of the advice of Nuada) believe that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Independent Shareholders.

**The grant of the Whitewash Waiver is a condition precedent to the underwriting obligations of the Underwriters, which may not be waived. If the Whitewash Waiver is not granted, the Underwriting Agreement will not become unconditional and the Open Offer will not proceed.**

**Shareholders and potential investors should be aware that there is a possibility that, upon completion of the Open Offer, Achieve Prosper may hold more than 50% of the voting rights of the Company. Hence, Achieve Prosper may increase its holdings of voting rights of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.**

### **3. Further information on Achieve Prosper**

Achieve Prosper is a company incorporated in Samoa with limited liability, and is wholly owned by Hong Kong Shihua; Hong Kong Shihua is a company incorporated in Hong Kong with limited liability which is wholly owned by Liaoning Shihua Property; Liaoning Shihua Property is a company established in the PRC with limited liability, and is controlled as to 82.8% of its equity interest by Mr. Wang Jing, the Chairman of the Board and an executive Director, 16.0% by Ms. Wang Yi Qiao (Mr. Wang Jing's daughter) and 1.2% by Ms. Hu Bao Qin (Mr. Wang Jing's spouse).

Achieve Prosper is an investment holding company which is the controlling Shareholder holding approximately 37.18% equity interest in the Company as at the Latest Practicable Date. Wang Xing Qiao is the sole director of Achieve Prosper.

### **4. Intention of Achieve Prosper**

Achieve Prosper has confirmed that:

- (a) it intends the Group shall continue its current business;
- (b) as stated in the Company's annual report for the year ended 31 March 2015, it has been the Group's business strategy to diversify its business and further enhancing the Shareholders' value, and the Group is committed to seek other business opportunities to broaden the Group's revenue stream. Save as aforesaid, Achieve Prosper (i) does not intend to make any major changes to the Group's existing business (including redeployment of the Group's fixed assets of the Group); and (ii) intends to continue employment of the employees of the Group other than in its ordinary course of business; and
- (c) it has no intention to inject any new business/assets to the Group or change the Company's board composition.

On the basis that Achieve Prosper has no intention to change any business and employment of the Group, the Directors are of the view that the continuity of the Group's business can be maintained upon completion of the Open Offer as before.

**E. WARNING OF THE RISKS OF DEALINGS IN THE SHARES AND ADJUSTED SHARES**

The Open Offer is conditional upon the fulfillment of the conditions set out in "C. Proposed Open Offer – 4. Conditions of the Open Offer and the Underwriting Agreement" of this circular. If the conditions of the Open Offer are not fulfilled or if any of the Underwriters exercises its right to terminate the Underwriting Agreement pursuant to the terms thereof, the Open Offer will not proceed.

Shareholders and potential investors should therefore exercise caution when dealing in Shares or Adjusted Shares, and if they are in any doubt about their positions, they should consult their professional advisers.

Shareholders should note that Adjusted Shares will be dealt in on an ex-entitlement basis commencing from Monday, 28 December 2015 and that dealings in Adjusted Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares or Adjusted Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled, will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares or Adjusted Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional advisers.

**F. SGM**

The SGM will be convened and held at Conference Room A, 16/F, Shihua Fujia Hotel, No. 43 Digong Road, Mingshan District, Benxi City, Liaoning Province, PRC on Monday, 21 December 2015 at 10:00 a.m. for the Shareholders (or the Independent Shareholders, where appropriate) to consider and, if thought fit, to approve, among other things:

- (a) the Capital Reorganisation;
- (b) the Underwriting Agreement;
- (c) the Open Offer; and
- (d) the Whitewash Waiver,

in accordance with, where appropriate, the Bye-Laws, the Listing Rules and the Takeovers Code.

The resolutions to be put to vote at the SGM will be taken by way of poll in accordance with the Listing Rules and the Takeovers Code.

No Shareholder is required to abstain from voting in respect of the special resolution approving the Capital Reorganisation in the SGM.

Pursuant to the Listing Rules and/or the Takeovers Code, the following persons will abstain from voting in the SGM in respect of all resolution(s) related to the Open Offer, the Underwriting Agreement and the Whitewash Waiver:

- (a) Achieve Prosper and its associates; and
- (b) the Concert Group, and those who are interested in, or involved in, the Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and/or the Whitewash Waiver.

Upon the approval of the Capital Reorganisation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver by the Shareholders or Independent Shareholders, as the case may be, at the SGM, the Prospectus Documents setting out, among other things, details of the Underwriting Agreement and the Open Offer will be despatched to the Qualifying Shareholders as soon as practicable and the Prospectus will be despatched to the Excluded Shareholders for information purposes only.

The notice of the SGM is set out on pages SGM-1 to SGM-4 in this circular and a form of proxy for use at the SGM is enclosed.

Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

#### **G. RECOMMENDATION**

Your attention is drawn to the letter from the Independent Board Committee set out on pages 40 to 41 in this circular which contains its recommendation to the Independent Shareholders (i) as to whether the Open Offer, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable; and (ii) as to voting at the SGM in relation to the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

Your attention is also drawn to the letter from Nuada set out on pages 42 to 69 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders (i) as to whether the Open Offer, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable; and (ii) as to voting at the SGM in relation to the Open Offer, the Underwriting Agreement and the Whitewash Waiver, and the principal factors and reasons considered by it in arriving thereat.

The Directors (including the independent non-executive Directors who have taken into consideration of the advice of Nuada) consider that the Open Offer, the Underwriting Agreement and Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Independent Shareholders.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the respective transactions contemplated thereunder.

You are advised to read the letter from the Independent Board Committee and the letter from Nuada mentioned above before deciding how to vote on the resolution(s) to be proposed at the SGM.

#### **H. ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board  
**Shihua Development Company Limited**

A handwritten signature in black ink, appearing to be 'Wang Jing', written in a cursive style.

**WANG Jing**  
*Chairman*