
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this prospectus or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Shihua Development Company Limited (“**Company**”), you should at once hand this prospectus and the accompanying Application Form to the purchaser, the transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

A copy of each of the Prospectus Documents, together with the written consent referred to in the paragraph headed “Expert and Consent” in Appendix III to this prospectus, have been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Neither the Securities and Futures Commission of Hong Kong nor the Registrar of Companies in Hong Kong takes any responsibility as to the contents of any of the Prospectus Documents.

Subject to the grant of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Offer 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 Offer Shares on the Stock Exchange or such other dates 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. You should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers for details of the settlement arrangements and how such arrangements may affect your rights and interests.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

The Offer Shares have not been registered and will not be registered under the U.S. Securities Act of 1933, as amended, (the “**US Securities Act**”) or the securities laws of any state in the United States and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and any applicable state securities laws. There is no intention to register any portion of the Open Offer or any securities described herein in the United States or to conduct a public offering of securities in the United States.



Shihua Development Company Limited 實華發展有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 485)

OPEN OFFER ON THE BASIS OF FOUR (4) OFFER SHARES FOR EVERY ONE (1) ADJUSTED SHARE HELD ON THE RECORD DATE AT HK\$0.086 PER OFFER SHARE

Joint financial advisers to the Company


KINGSTON CORPORATE FINANCE

 Euto 裕韜
Capital Partners

Underwriters to the Open Offer


KINGSTON SECURITIES

Achieve Prosper Capital Limited

Capitalised terms used in this cover page shall have the same meanings as defined in this prospectus.

The Open Offer is subject to the satisfaction of certain conditions as described in the paragraph headed “A. Open Offer – 4. Conditions of the Open Offer and the Underwriting Agreement” under the section headed “Letter from the Board”. In particular, it is subject to, among other things, the Underwriting Agreement having become unconditional and not having been terminated (see the section headed “Termination of the Underwriting Agreement” on pages 8 to 9). Accordingly, the Open Offer may or may not proceed.

The latest time for acceptance of and payment for the Offer Shares is at 4:00 p.m. on Monday, 15 February 2016. The procedures for application and payment for the Offer Shares are set out on pages 30 to 31 of this prospectus.

27 January 2016

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EXPECTED TIMETABLE

All references to time in this prospectus are references to Hong Kong time. Dates or deadlines specified in this prospectus are indicative only and may be varied by agreement between the Company and the Underwriters. Any consequential changes to the expected timetable will be published or notified to the Shareholders as and when appropriate.

The expected timetable of the Open Offer is as follows:

Event

Designated broker starts to stand in the market to provide matching service for the sale and purchase of odd lots of Adjusted Shares	9:00 a.m. on Wednesday, 27 January 2016
Original counter for trading in the Adjusted Shares in board lots of 20,000 Adjusted Shares (in the form of new certificates) re-opens	9:00 a.m. on Wednesday, 27 January 2016
Parallel trading in Adjusted Shares (in the form of both existing certificates in board lots of 2,500 Adjusted Shares and new certificates in board lots of 20,000 Adjusted Shares) commences	9:00 a.m. on Wednesday, 27 January 2016
Latest time for acceptance of, and payment for, the Offer Shares	4:00 p.m. on Monday, 15 February 2016
Latest time to terminate the Underwriting Agreement and for the Open Offer to become unconditional	4:00 p.m. on Friday, 19 February 2016
Temporary counter for trading in Adjusted Shares in board lots of 2,500 Adjusted Shares (in the form of existing certificates) closes	4:00 p.m. on Friday, 19 February 2016
Parallel trading in the Adjusted Shares (represented by both existing certificates in board lots of 2,500 Adjusted Shares and new certificates in board lots of 20,000 Adjusted Shares) ends	4:00 p.m. on Friday, 19 February 2016
Designated broker ceases to stand in the market to provide matching service	4:00 p.m. on Friday, 19 February 2016

EXPECTED TIMETABLE

Announcement of results of the Open Offer	Monday, 22 February 2016
Certificates for fully-paid Offer Shares, or refund cheques if the Open Offer is terminated, to be despatched on or before	Tuesday, 23 February 2016
Last day of free exchange of existing certificates for new certificates	Tuesday, 23 February 2016
Commencement of dealings in fully-paid Offer Shares	9:00 a.m. on Wednesday, 24 February 2016

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OFFER SHARES

The latest time for acceptance of and payment for Offer Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning signal:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Monday, 15 February 2016. Instead the latest time for acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same business day; and
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 15 February 2016. Instead the latest time of acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Offer Shares does not take place on Monday, 15 February 2016, the dates mentioned in the section headed “Expected timetable” in this prospectus may be affected. The Company will notify the Shareholders by way of announcement(s) of any change to the expected timetable as soon as practicable.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the meanings set out below:

“Achieve Prosper”	Achieve Prosper Capital Limited, a company incorporated in Samoa with limited liability on 21 November 2013 and is wholly and beneficially owned by Hong Kong Shihua
“Acquisition”	the acquisition of a property by the Group from Liaoning Shihua Property pursuant to the Purchase Agreement for a consideration of HK\$208,276,000, as more particularly described in the Company’s announcements dated 18 March 2015, 27 April 2015 and 3 August 2015, and the Company’s circular dated 29 April 2015
“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Adjusted Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company upon the Capital Reorganisation becoming effective
“Amount Payable to Shareholder”	the total principal amount from time to time owing by the Group to Achieve Prosper, which, for the avoidance of doubt, excludes any amount due under the Promissory Note (as at 30 November 2015, the outstanding balance of the Amount Payable to Shareholder was approximately HK\$18.8 million)
“Announcement”	the announcement of the Company dated 7 October 2015 relating to, among other things, the Capital Reorganisation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver
“Application Form(s)”	the form(s) of application for use by Qualifying Shareholders to apply for their assured allotments of the Offer Shares under the Open Offer
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	board of Directors
“Bye-Laws”	the bye-laws of the Company
“Capital Reduction”	the reduction of the Company’s issued share capital whereby: (i) any fractional Consolidated Share in the issued share capital of the Company resulting from the Share Consolidation was cancelled; and (ii) the nominal value of all the issued Consolidated Shares was reduced from HK\$0.40 each to HK\$0.01 each and the issued share capital of the Company was accordingly reduced to the extent of HK\$0.39 per Consolidated Share in issue

DEFINITIONS

“Capital Reorganisation”	the reorganisation of the Company’s issued share capital as more particularly described in the Circular, which became effective on 13 January 2016
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Circular”	the circular of the Company dated 27 November 2015 in relation to, among other things, the Capital Reorganisation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Shihua Development Company Limited (實華發展有限公司), a company incorporated in Bermuda whose Shares are listed on the Stock Exchange
“Concert Group”	means, Achieve Prosper, Mr. Wang Jing, Mr. Wang Xing Qiao and parties acting in concert with any of them
“Consolidated Share(s)”	means ordinary share(s) of HK\$0.40 each in the issued share capital of the Company immediately upon the Share Consolidation becoming effective
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Convertible Bonds”	3% convertible bonds due 2017 in the principal amount of HK\$75,000,000 issued by the Company to Achieve Prosper on 30 July 2014 as more particularly described in the circular of the Company dated 24 May 2014, which was subsequently transferred to Lushan Investment on 30 December 2015
“Director(s)”	the director(s) of the Company
“Excluded Shareholder(s)”	the Overseas Shareholder(s) whose registered addresses in the Company’s register of members as at the Record Date are in places where the Directors, after making enquiries, consider it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to such Shareholders
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegate(s)

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Shihua”	Hong Kong Shihua Holdings Limited, a company incorporated in Hong Kong with limited liability on 12 December 2013, the entire issued share capital of which is legally and beneficially owned by Liaoning Shihua Property
“Independent Shareholder(s)”	the Shareholder(s), other than: (i) Achieve Prosper and its associates, (ii) Kingston Securities, and (iii) other members of the Concert Group and Shareholders who are involved in, or interested in, the Open Offer, the Underwriting Agreement, and/or the Whitewash Waiver
“Kingston Securities”	Kingston Securities Limited, a corporation licensed to conduct type 1 regulated activity (dealing in securities) under the SFO
“Letter of Intent Regarding Acquisition of Hydroelectric Power Stations”	the letter of intent dated 21 December 2015 entered into between the Company and Benxi Duoyi Resources Development Limited* (本溪多益資源開發有限公司) regarding the acquisition of certain hydroelectric power stations (see the Company’s announcement dated 22 December 2015 for further details)
“Liaoning Shihua Property”	遼寧實華(集團)房地產開發有限公司 (Liaoning Shihua (Group) Property Development Company Limited*), a company established in the PRC on 12 January 1998 with limited liability which 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)
“Land Use Rights Grant Contract”	the land use rights grant contract dated 11 December 2015 entered into between Benxi Zunhe Industrial Limited* (本溪尊赫實業有限公司), a wholly-owned subsidiary of the Company, and the Land and Resources Bureau of Benxi City in respect of the acquisition of the land use rights of a parcel of land at a consideration of RMB9,400,000 (see the Company’s announcement dated 14 December 2015 for further details)
“Last Trading Day”	20 August 2015, being the last trading day for the Shares on the Stock Exchange before the release of the Announcement

DEFINITIONS

“Latest Practicable Date”	20 January 2016, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
“Latest Time for Acceptance”	4:00 p.m. on Monday, 15 February 2016, or such later time or date as may be agreed between the Company and the Underwriters, being the latest time for acceptance of, and payment for, the Offer Shares as described in the Prospectus Documents
“Latest Time for Termination”	4:00 p.m. on the fourth business day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and the Underwriters in writing, being the latest time to terminate the Underwriting Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lushan Investment”	Lushan Investment Holding Limited, a company incorporated in the British Virgin Islands which is the holder of the Convertible Bonds as at the Latest Practicable Date. To the best of the Directors knowledge, information and belief having made all reasonable enquiries, Lushan Investment and its ultimate owners are independent of the Company and are not its connected persons (as defined under the Listing Rules)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Offer Share(s)”	2,920,568,484 Adjusted Shares to be allotted and issued pursuant to the Open Offer
“Open Offer”	the issue of Offer Shares on the basis of four (4) Offer Shares for every one (1) Adjusted Share held on the Record Date to Qualifying Shareholders pursuant to the terms and conditions of the Prospectus Documents and the Underwriting Agreement
“Overseas Shareholder(s)”	the Shareholder(s) whose address(es) on the register of members of the Company on the Record Date were outside Hong Kong
“PRC”	the People’s Republic of China, which for the purpose of this prospectus, shall exclude Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Promissory Note”	the promissory note dated 3 August 2015 issued by the Company to Achieve Prosper for a principal amount of HK\$208,276,000 (without interest and payable by the Company on demand when the Company has generated, obtained and/or raised fund for not less than HK\$200 million), the particulars of which are further described in the circular of the Company dated 29 April 2015
“Prospectus Documents”	this prospectus and the Application Form
“Prospectus Posting Date”	Wednesday, 27 January 2016, being the date of despatch of the Prospectus Documents
“Purchase Agreement”	the sale and purchase agreement dated 17 March 2015 (as amended and supplemented by the two supplemental agreements dated 27 April 2015 and 30 June 2015) entered into between Liaoning Shihua Property as vendor and Benxi Tongshengyuan Industry Company Limited* (本溪同盛遠實業有限公司) (as purchaser), an indirect wholly-owned subsidiary of the Company for a consideration of HK\$208,276,000
“Qualifying Shareholder(s)”	the Shareholder(s), whose names appear on the register of members of the Company as at the Record Date, other than the Excluded Shareholders
“Record Date”	4:00 p.m. on Tuesday, 26 January 2016, being the date by reference to which entitlements to the Open Offer were determined
“Registrar”	the Company’s branch share registrar and transfer office in Hong Kong, which is Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“Set Off”	the setting off of the amount due under the Promissory Note, as more particularly described in “A. Open Offer – 13. Set Off” of this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“SGM”	the adjourned special general meeting of the Company held on 24 December 2015 to consider and approve, among other things, the Capital Reorganisation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company before the Capital Reorganisation became effective
“Share Consolidation”	the consolidation of share(s) in the issued and unissued share capital of the Company whereby every four (4) Shares with a nominal value of HK\$0.10 each will be consolidated into one (1) Consolidated Share with a nominal value of HK\$0.40
“Share Subdivision”	the subdivision of every unissued Consolidated Share of HK\$0.40 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
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price in respect of each Offer Share, being of HK\$0.086
“subsidiaries”	has the meaning ascribed thereto under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	The Code on Takeovers and Mergers promulgated by the SFC
“Underwriters”	Achieve Prosper and Kingston Securities
“Underwriting Agreement”	the underwriting agreement dated 20 August 2015 (as supplemented by four side letters dated 7 October 2015, 25 November 2015, 21 December 2015 and 22 December 2015 respectively) entered into between the Company and the Underwriters in relation to the Open Offer
“Undertakings”	an irrevocable undertakings provided by Achieve Prosper and Wang Xing Qiao to the Company as described in “A. Open Offer – 12. Undertakings” of this prospectus
“Underwritten Shares”	all the Offer Shares in excess of 1,088,375,568 Offer Shares that will be allotted to and subscribed for by Achieve Prosper and Wang Xing Qiao pursuant to the Undertakings which are fully underwritten by the Underwriters pursuant to the terms and subject to the conditions of the Underwriting Agreement

DEFINITIONS

“Untaken Shares”	all those Underwritten Shares for which duly completed Application Forms (accompanied by cheques or banker’s cashier orders for the full amount payable on the applications which are honoured on first, or at the option of the Company, subsequent presentation) have not been lodged for acceptance by Qualifying Shareholders, or received, as the case may be, on or before the Latest Time for Acceptance
“Wang Xing Qiao”	Mr. Wang Xing Qiao, an executive Director and the Chief Executive Officer of the Company, being the son of Mr. Wang Jing, the Chairman of the Board
“Whitewash Waiver”	a waiver granted by the Executive on 15 December 2015 pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of Achieve Prosper to make a general offer for all the issued Adjusted Shares not already owned or agreed to be acquired by the Concert Group which may otherwise arise as a result of the subscription of the Offer Shares by Achieve Prosper pursuant to the Underwriting Agreement
“%”	per cent.

* *For identification purpose only.*

TERMINATION OF THE UNDERWRITING AGREEMENT

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 of 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 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 this prospectus and not having been disclosed in this prospectus, would have constituted, in the absolute opinion of any Underwriter, a material omission in the context of the Open Offer; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (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, the 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.

LETTER FROM THE BOARD



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 January 2016

*To the Qualifying Shareholders and, for information only,
the Excluded Shareholders*

Dear Sir or Madam,

**OPEN OFFER ON THE BASIS OF FOUR (4) OFFER SHARES
FOR EVERY ONE (1) ADJUSTED SHARE
HELD ON THE RECORD DATE AT HK\$0.086 PER OFFER SHARE**

INTRODUCTION

Reference is made to the Announcement and the Circular in relation to, among other things, the Capital Reorganisation, the Open Offer, the Underwriting Agreement and the Whitewash Waiver. The Capital Reorganisation, the Open Offer and the Whitewash Waiver were approved by the Shareholders or Independent Shareholders (as the case may be) at the SGM.

The purpose of this prospectus is to provide you with further information in relation to the Open Offer, including information on dealings in and application for the Offer Shares, and the financial information and other general information of the Group.

LETTER FROM THE BOARD

A. 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 “A. Open Offer – 13. Set Off” of this prospectus, 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 Adjusted Shares in issue as at the Record Date	:	730,142,121 Adjusted Shares
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 (assuming no new Adjusted Shares (other than the Offer Shares) will be allotted and issued before the completion of the Open Offer)

As at the Latest Practicable Date, the Company has outstanding Convertible Bonds which are all held by Lushan Investment and convertible into a maximum of 108,695,652 new Adjusted Shares at the conversion price of HK\$0.69 per Adjusted Share (subject to adjustment). Pursuant to the Undertakings, Achieve Prosper has undertaken not to exercise the conversion rights attaching to the Convertible Bonds from the date of the Underwriting Agreement to the Record Date. Lushan Investment has also undertaken to the Company not to exercise the conversion rights attaching to the Convertible Bonds from the date it became the registered holder of the Convertible Bonds to the date of the commencement of dealings in the Offer Shares on the Stock Exchange (both dates inclusive). 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 Adjusted Shares.

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

- (a) 400% of the Company’s 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.

LETTER FROM THE BOARD

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;
- (e) a discount of approximately 56.28% to the unaudited net asset value per Adjusted Share of approximately HK\$0.197 as at 30 September 2015 as adjusted for the Capital Reorganisation; and
- (f) a discount of approximately 15.69% to the closing price of HK\$0.102 per Adjusted Share as quoted on the Stock Exchange on the Latest Practicable Date.

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 six months before the Last Trading Day (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

LETTER FROM THE BOARD

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 (HK\$)
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	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 adjusted 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	4/22/2015	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, 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 one bonus share for every two right shares take up.

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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 Day, the net loss recorded by the Company for the two years ended 31 March 2014 and 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 Day 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 consider that the proposed discount of the Subscription Price is appropriate.

The Directors 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

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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 this 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

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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 Friday, 19 February 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, conditions (a), (b) and (c) have 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 an Excluded Shareholder at the Record Date.

The Company has sent the Prospectus Documents to the Qualifying Shareholders and has sent this prospectus (without the Application Form), for information only, to the Excluded Shareholders.

6. Rights of Overseas Shareholders

The Prospectus Documents has not been and will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Open Offer.

As at the Record Date, there are 16 Overseas Shareholders whose registered addresses as shown on the register of members of the Company are in Australia, Canada, the United Kingdom, Indonesia, Macau and Malaysia. Each of the Overseas Shareholders represents less than 0.01% of the total issued Adjusted Shares as at the Latest Practicable Date.

In determining whether there will be Excluded Shareholders, the Company has made 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.

Having considered the advice from the legal advisers as to the laws of Australia, the United Kingdom, Indonesia and Macau, the Directors are of the view that there are no onerous restrictions to the offer of the Offer Shares to the Overseas Shareholders in these jurisdictions, and thus the Open Offer could be extended to the Overseas Shareholders with registered addresses in Australia, the United Kingdom, Indonesia and Macau.

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The Prospectus Documents were prepared in accordance with, and for the purposes of, compliance with the laws of Hong Kong. Accordingly, the Prospectus Documents may not contain all of the information required to be contained in disclosure documents under the laws of Australia. Further, the Company is not subject to the continuous disclosure requirements of the Corporations Act 2001 (Cth) that applies to companies incorporated under the laws of Australia.

Having considered the advice from the legal advisers as to the laws of Canada and Malaysia, the Directors are of the view that it would be expedient not to offer the Offer Shares to the Overseas Shareholders with registered addresses in Canada and Malaysia in light of the legal and regulatory restrictions in these jurisdictions. Thus, such Overseas Shareholders are regarded as Excluded Shareholders in relation to the Open Offer.

No person receiving a copy of this prospectus and/or the Application Form in any territory or jurisdiction outside of Hong Kong may treat it as an offer or an invitation to apply for the Offer Shares, unless in the relevant jurisdiction such an offer or invitation could lawfully be made without compliance with any registration or other legal or regulatory requirements. It is the responsibility of any person outside Hong Kong (including the ultimate beneficial owner(s) of the Qualifying Shareholders) wishing to make an application for the Offer Shares to satisfy himself/herself/itself as to the observance of the laws and regulations of all relevant jurisdiction, including obtaining any government or other consents, and payment of any taxes and duties required to be paid in such jurisdiction in connection therewith.

Completion and return of the Application Form will constitute a warranty and representation by the relevant applicant(s) to the Company that all registration, legal and regulatory requirements of all relevant territories other than Hong Kong in connection with the acceptance of the Offer Shares have been duly complied with by such applicant(s). For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited is subject to any of the representations and warranties.

If you are in any doubt as to your position, you should consult your professional advisers.

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

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.

7. 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.

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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 his pro rata shareholding interests in the Company, the Directors 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.

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 fully paid Offer Shares are expected to be sent on or before Tuesday, 23 February 2016, to those entitled thereto by ordinary post at their own risk.

One share certificate will be issued in respect of all fully-paid Offer Shares allotted and issued to those entitled pursuant to the Open Offer.

If the Open Offer is terminated, refund cheques are expected to be posted on or before Tuesday, 23 February 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 has applied 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.

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The Offer Shares will be traded in board lots of 20,000 Adjusted Shares.

12. Undertakings

Achieve Prosper held in aggregate 1,085,755,571 Shares, representing approximately 37.18% of the existing issued share capital of the Company as at the date of Underwriting Agreement. After the Capital Reorganisation has become effective, Achieve Prosper holds in aggregate 271,438,892 Adjusted Shares as at the Latest Practicable Date.

Wang Xing Qiao held in aggregate 2,620,000 Shares, representing approximately 0.09% of the existing issued share capital of the Company as at the date of Underwriting Agreement. After the Capital Reorganisation has become effective, Wang Xing Qiao holds in aggregate 655,000 Adjusted Shares as at the Latest Practicable Date.

Pursuant to the Undertakings, Achieve Prosper and Wang Xing Qiao have 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 entitlements 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 rights attaching to the Convertible Bonds from the date of the Underwriting Agreement to the Record Date. Lushan Investment, being the holder of the Convertible Bonds as at the Latest Practicable Date, has also undertaken to the Company not to exercise the conversion rights attaching to the Convertible Bonds from the date it became the registered holder of the Convertible Bonds to the date of the commencement of dealings in the Offer Shares on the Stock Exchange (both dates inclusive).

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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 entitlements 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 four side letters dated 7 October 2015, 25 November 2015, 21 December 2015 and 22 December 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 Shares or Adjusted Shares will be issued or repurchased on or before the Record Date

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Allocation of underwriting obligations between 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 Adjusted 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.

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Conditions : Please refer to “A. Open Offer – 4. Conditions of the Open Offer and the Underwriting Agreement” of this prospectus.

When the Company started to identify underwriters for the Open Offer, Achieve Prosper 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 Adjusted Shares immediately after completion of the Open Offer. In light of the then prevailing 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 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

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- (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 of 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 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 this prospectus and not having been disclosed in this 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, the 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.

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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 Open Offer

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

	As at the Latest Practicable Date		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 (Note 1)		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 (Note 2)		Immediately after the completion of the Open Offer assuming that, (1) the Convertible Bonds have been fully converted into Adjusted Shares after 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 (Notes 2 and 3)	
	Adjusted Shares	%	Adjusted Shares	%	Adjusted Shares	%	Adjusted Shares	%	Adjusted Shares	%
<i>The Concert Group</i>										
Achieve Prosper	271,438,892	37.18	1,357,194,460	37.18	3,189,387,376	87.36	2,734,757,953	74.91	2,734,757,953	68.77
Wang Xing Qiao	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	272,093,892	37.27	1,360,469,460	37.27	3,192,662,376	87.45	2,738,032,953	75.00	2,738,032,953	68.85
Public Shareholders	458,048,229	62.73	2,290,241,145	62.73	458,048,229	12.55	912,677,652	25.00	1,238,764,608	31.15
Total:	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

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Notes:

1. 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. As at the Latest Practicable Date, the Convertible Bonds are held by Lushan Investment, who has undertaken not to exercise the conversion rights attaching to the Convertible Bonds from the date it became the registered holder of the Convertible Bonds to the date of the commencement of dealings in the Offer Shares on the Stock Exchange (both dates inclusive). Subject to the certification of the adjustment to the conversion price of the Convertible Bonds pursuant to the terms thereof, the Convertible Bonds are expected to be convertible into a maximum of 326,086,956 new Adjusted Shares at the conversion price of HK\$0.23 per Adjusted Share as at the Latest Practicable Date.

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.

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As at the Latest Practicable Date, save for the Land Use Rights Grant Contract and the Letter of Intent Regarding Acquisition of Hydroelectric Power Stations, the Company has no other 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 Shareholders 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 the 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 "A. Open Offer – 3. Subscription Price" above, 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 then 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 of the Qualifying Shareholders decide not to take up their assured entitlements 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 was subject to the approval by the Independent Shareholders (which approval has been obtained in the SGM), the Directors 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**

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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 “A. 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\$242.1 million respectively. The estimated net proceeds to the Company of each Offer Share will be approximately HK\$0.083.

The net proceeds of the Open Offer to the Company of approximately HK\$242.1 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 November 2015, the Amount Payable to Shareholder was approximately HK\$18.8 million); and
- (iii) the remaining balance will be used for the Group’s property investment business.

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 entitlements 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.

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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 entitlements 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 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 the 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 prospectus, 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 following:

- (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

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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, save for the Land Use Rights Grant Contract and the Letter of Intent Regarding Acquisition of Hydroelectric Power Stations, 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 to 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 Open Offer may lead to adjustments to the exercise price and/or the number of Adjusted Shares 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.

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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 apart from the Letter of Intent Regarding Acquisition of Hydroelectric Power Stations, 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.

B. PROCEDURE FOR APPLICATION AND PAYMENT FOR THE OFFER SHARES

The Application Form is enclosed with this prospectus which entitles the Qualifying Shareholder to whom it is addressed to apply for the number of Offer Shares as shown therein subject to payment in full by the Latest Time for Acceptance. Qualifying Shareholders should note that they may apply for any number of Offer Shares only up to the number set out in the Application Forms respectively addressed to them.

If a Qualifying Shareholder wishes to apply for all the Offer Shares offered to it as specified in the Application Form addressed to it or wish to apply for any number less than its entitlements under the Open Offer, it must complete, sign and lodge the Application Form in accordance with the instructions printed thereon, together with remittance for the full amount payable in respect of such number of Offer Shares it has applied for with the Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:00 p.m. on Monday, 15 February 2016.

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All remittance(s) must be made in Hong Kong dollars and cheques must be drawn on an account with, or banker's cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "Shihua Development Company Limited – Open Offer Account" and crossed "Account Payee Only". Any payments for the Offer Shares should be rounded down to 2 decimal places.

It should be noted that unless the duly completed and signed Application Form, together with the appropriate remittance, have been lodged with the Registrar by not later than 4:00 p.m. on Monday, 15 February 2016, the entitlements of the respective Qualifying Shareholders under the Open Offer and all rights in relation thereto shall be deemed to have been declined and will be cancelled.

The Application Form contains further information regarding the procedures to be followed if Qualifying Shareholders wish to accept the whole or part of their assured allotment.

All cheques and banker's cashier orders accompanying completed Application Form will be presented for payment immediately upon receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Completion and return of an Application Form with a cheque and/or a banker's cashier order will constitute a warranty by the applicant that the cheque and/or the banker's cashier order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any application, and the entitlements given pursuant to which will be deemed to have been declined and will be cancelled.

The Application Form is for use only by the person(s) named therein and is not transferable.

No receipt will be issued in respect of any acceptance monies received.

If the conditions of the Underwriting Agreement are not fulfilled and/or the Underwriting Agreement is terminated in accordance with its terms before the Latest Time for Termination, the monies received in respect of acceptance of Offer Shares will be returned to the relevant Qualifying Shareholders, or in case of joint applicants, to the first-named person without interest by means of cheques despatched by ordinary post to the respective addresses specified in the register of members of the Company at their own risk as soon as practicable thereafter.

C. TAXATION

All Qualifying Shareholders are recommended to consult their independent professional advisers if they are in any doubt as to the taxation implications of applying for, holding, disposing of or dealing in the Offer Shares. It is emphasised that none of the Company, the Directors or any other parties involved in the Open Offer accepts responsibility of any tax effects or liabilities of holders of the Offer Shares resulting from the application for, holding, disposal of, or dealing in the Offer Shares.

D. WARNING OF THE RISKS OF DEALINGS IN THE ADJUSTED SHARES

The Open Offer is conditional upon the fulfillment of the conditions set out in "A. Open Offer – 4. Conditions of the Open Offer and the Underwriting Agreement" of this prospectus. 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.

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Shareholders should note that the Adjusted Shares have been dealt in on an ex-entitlement basis commencing from Monday, 18 January 2016 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 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 the Adjusted Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

E. ADDITIONAL INFORMATION

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

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

1. FINANCIAL INFORMATION

Details of the audited consolidated financial information of the Group for each of the three years ended 31 March 2013, 2014 and 2015, including the notes thereto, have been set out in the annual reports of the Company for each of the three years ended 31 March 2013 (pages 42-152) and 2014 (pages 53-176) and 2015 (pages 51-176) respectively. The said annual reports of the Company are available on the website of the Stock Exchange at <http://www.hkexnews.hk> and the website of the Company at <http://www.00485.hk> respectively.

2. FINANCIAL AND TRADING PROSPECT OF THE GROUP

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

As stated in the Company's annual report of the Company for the year ended 31 March 2015, while the Group has been endeavoring to pursue the existing business, it has been formulating a business strategy with a view to diversifying its business and further enhancing the Shareholders' value.

Leveraging on the Directors' experience and network, the Company will continue to explore other business opportunities.

3. INDEBTEDNESS STATEMENT

At the close of business on 30 November 2015, being the latest practicable date for the purpose of preparing this indebtedness statement and prior to the printing of this prospectus, the Group had a short term bank loan of approximately HK\$61,965,903.

At the close of business on 30 November 2015, the Group had amount due to a shareholder of HK\$172,000, an amount due to the immediate holding company of approximately HK\$18,753,471, a promissory note to the immediate holding company of HK\$208,276,000 and the outstanding amount of convertible bonds of HK\$62,143,409. The amount due to a shareholder and the amount due to the immediate holding company are unsecured, interest-free and repayable on demand, the promissory note is unsecured, interest-free and repayable if the Group has generated, obtained and/or raised fund for not less than HK\$200,000,000 and the convertible bonds are interest bearing at a rate equal to three per cent per annum on the outstanding principal amount and mature on 30 July 2017.

On 16 January 2015, the Group entered into a purchase agreement for the acquisition of a property in the PRC from a third party at a total consideration of RMB105,000,000. As at 30 November 2015, an amount of RMB45,000,000 was still outstanding and unsettled for this transaction. The Company is still negotiating with the relevant vendor as to certain technical details of the constructions on the target property. The outstanding amount is expected to be paid when such negotiation is settled, which is expected to happen by the middle of 2016. The settlement of such amount will be funded by the Group's internally generated fund from the trading business and its banking facilities. After taking into account the financial resources available to the Group, including the internally generated fund from the trading business and banking facilities, the Group would have sufficient operating cash flow to settle the payment of the outstanding amount to the vendor and support the Group's daily operations.

4. DISCLAIMER

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 30 November 2015.

5. WORKING CAPITAL

The Directors are of the opinion that, following completion of the Capital Reorganisation and Open Offer, after taking into account the financial resources available to the Group, including internally generated fund and banking facilities, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this prospectus, in the absence of unforeseeable circumstances.

6. MATERIAL CHANGE

Save as disclosed below, the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 March 2015, being the date to which the latest published audited financial statements of the Company were made up, and up to and including the Latest Practicable Date:

- (i) a sale and purchase agreement (“**SP Agreement A**”) dated 16 January 2015 entered into between Benxi Xincheng Property Development Company Limited* (本溪鑫城房地產開發有限公司) as vendor (“**Vendor A**”) and Benxi Xinhua Property Management Company Limited* (本溪信華物業管理有限公司), an indirect wholly-owned subsidiary of the Company, as purchaser (“**Purchaser A**”) in respect of the acquisition (“**Acquisition A**”) of a property located in Mingshan District, Benxi, Liaoning Province, the PRC (“**Property A**”) at a consideration of RMB105,000,000. The consideration for Acquisition A shall be satisfied (i) as to RMB50,000,000 payable by the allotment and issue of 400,000,000 Shares to Vendor A upon completion; (ii) as to RMB10,000,000 payable in cash by Purchaser A to Vendor A on 10 February 2015; and (iii) as to RMB45,000,000 payable in cash by Purchaser A to Vendor A on or before 31 October 2015 for repayment of a loan owed by Vendor A which is secured by a mortgage of Property A and such mortgage will be released and discharged upon repayment of the loan. The completion of SP Agreement A took place on 10 February 2015 following the satisfaction of all of the conditions precedent. However, Property A is charged to a financial institution and the legal title could not be transferred until the release of the mortgage and charge. As at 31 March 2015, the mortgage had not yet been released and discharged and the assess rights and all risks and rewards of the property were still borne by Vendor A. On this basis, Property A cannot be recognised as the Group’s property, plant and equipment as at 31 March 2015 and accordingly, the remaining balance of the consideration for Acquisition A, i.e. RMB45,000,000 payable in cash by Purchaser A to Vendor A on or before 31 October 2015 for repayment of a loan owed by Vendor A, was not shown in the audited consolidated

financial statements of the Company for the year ended 31 March 2015. Further details are set out in the announcements of the Company dated 19 January 2015 and 10 February 2015 respectively and the circular of the Company dated 31 March 2015;

- (ii) a sale and purchase agreement (“**SP Agreement B**”) dated 17 March 2015 and two supplemental agreements dated 27 April 2015 and 30 June 2015 respectively entered into between Liaoning Shihua Property as vendor and the Benxi Tongshengyuan Industry Company Limited* (本溪同盛遠實業有限公司), an indirect wholly-owned subsidiary of the Company, as purchaser in respect of the acquisition (“**Acquisition B**”) of a property located in Pingshan District, Benxi, Liaoning Province, the PRC at a consideration of HK\$208,276,000. The consideration for Acquisition B was satisfied by the issue of the Promissory Note of principal amount of HK\$208,276,000 (without interest and payable by the Company on demand when the Company has generated, obtained and/or raised fund for not less than HK\$200 million) upon completion of SP Agreement B on 3 August 2015. As the Company has not generated, obtained and/or raised fund for not less than HK\$200 million, the Promissory Note is outstanding as at the Latest Practicable Date. Further details are set out in the announcements of the Company dated 18 March 2015, 27 April 2015, 30 June 2015 and 3 August 2015 respectively and the circular of the Company dated 29 April 2015;
- (iii) a placing agreement dated 14 July 2015 entered into between the Company and Kingston Securities as placing agent in respect of the placing of up to 486,760,000 Shares at the placing price of HK\$0.124 per Share to not less than six placees who and whose ultimate beneficial owners would be independent third parties not connected with the Company and its connected persons with net proceeds of approximately HK\$59.4 million which had strengthened the financial position of the Group. Further details are set out in the announcements of the Company dated 14 July 2015 and 30 July 2015 respectively;
- (iv) a framework purchase agreement (the “**Framework Purchase Agreement**”) dated 16 September 2015 entered into between SIH Limited, a wholly owned subsidiary of the Company prior to the completion of a distribution in specie on 26 June 2014, and Treasure Green Holdings Limited, a subsidiary of the Company, pursuant to which SIH Limited and its subsidiaries will sell and the Group will purchase certain electronic products from time to time for a term commenced from 21 July 2015 and ending on 31 March 2018. The Framework Purchase Agreement constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules by virtue of SIH Limited being an associate of Mr. Lau Sak Hong, Philip, Mr. Lau Sak Kai, Anthony, Mr. Lau Sak Yuk, Andy and Ms. Lau Chu Lan, Carol, each of whom is a connected person of the Company at the subsidiary level. Further details are set out in the announcement of the Company dated 30 June 2014, 13 August 2015 and 17 September 2015 respectively and the circular of the Company dated 24 May 2014;
- (v) the Open Offer;
- (vi) the Land Use Rights Grant Contract; and
- (vii) the Letter of Intent Regarding Acquisition of Hydroelectric Power Stations.

**(1) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF
THE GROUP**

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of Listing Rules, is for illustrative purpose only, and is set forth below to illustrate the effect of the Capital Reorganisation and the Open Offer on the unaudited consolidated net tangible assets of the Group as if the Capital Reorganisation and the Open Offer had taken place on 30 September 2015.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 September 2015 or at any future dates following the Capital Reorganisation and the Open Offer. It is prepared based on the unaudited consolidated financial information of the Group as at 30 September 2015 as set forth in the interim report of the Company for the six months ended 30 September 2015 published on 30 December 2015.

	Unaudited consolidated net tangible assets attributable to owners of the Group as at 30 September 2015 <i>HK\$'000</i> <i>(Note (1))</i>	Estimated net proceeds from the Capital Reorganisation and the Open Offer <i>HK\$'000</i> <i>(Note (2))</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Group after the Capital Reorganisation and the Open Offer <i>HK\$'000</i>
Based on the offer Price of HK\$0.086 per Offer Share	<u>125,965</u>	<u>242,102</u>	<u>368,067</u>
			<i>HK\$</i> <i>(Note (3))</i>
Unaudited consolidated net tangible assets attributable to owners of the Group per share as at 30 September 2015			<u>0.17</u>
			<i>HK\$</i> <i>(Note (4))</i>
Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Group per share as at 30 September 2015 after taking into account the effect of the Capital Reorganisation and the Open Offer			<u>0.10</u>

Notes:

- (1) The unaudited consolidated net tangible assets attributable to owners of the Group as at 30 September 2015 is based on the unaudited consolidated net assets attributable to owners of the Group of approximately HK\$143,630,000 and the deduction of unaudited consolidated intangible assets of HK\$17,665,000 as extracted from the published interim report of the Company for the six months ended 30 September 2015.
- (2) The issued share capital of the Company was 2,920,568,485 Shares as at 30 September 2015, which has been consolidated into 730,142,121 Consolidated Shares with a nominal value of HK\$0.40 each. Upon the Capital Reduction becoming effective, the nominal value of all the issued Consolidated Shares has been 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 has been reduced to HK\$7,301,421.21 divided into 730,142,121 Adjusted Shares with a nominal value of HK\$0.01 each. There are no proceeds from the Capital Reorganisation.

The estimated net proceeds from the Open Offer of approximately HK\$242,102,000 are based on 2,920,568,484 Offer Shares to be issued at HK\$0.086 per Offer Share, assuming that all shareholders have fully subscribed for their entitlements under the Open Offer, after deduction of estimated related expenses of approximately HK\$9,067,000.

- (3) The calculation of the unaudited consolidated net tangible assets attributable to owners of the Group per share as at 30 September 2015 is based on the unaudited consolidated net tangible assets attributable to owners of the Group of approximately HK\$125,965,000 (as stated in the Company's interim report for the six months ended 30 September 2015) divided by 730,142,121 Adjusted Shares.
- (4) The calculation of the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Group per share is based on the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Group after the Capital Reorganisation and the Open Offer of approximately HK\$368,067,000 divided by 3,650,710,605 shares, which comprise 730,142,121 Adjusted Shares in issue upon completion of the Capital Reorganisation and 2,920,568,484 Offer Shares to be issued under the Open Offer.
- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2015.

(2) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE GROUP INCLUDED IN A PROSPECTUS

The following is the text of a report received from the reporting accountant, Conpak CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



CONPAK CPA LIMITED | 康栢會計師事務所有限公司

The Board of Directors
Shihua Development Company Limited
Rooms 05-15, 13A/F, South Tower
World Finance Centre, Harbour City, 17 Canton Road
Tsim Sha Tsui, Kowloon, Hong Kong

27 January 2016

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shihua Development Company Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible liabilities of the Group as at 30 September 2015 and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out in Part 1 of Appendix II to the prospectus dated 27 January 2016 (the “**Prospectus**”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Part 1 of Appendix II to the Prospectus.

Capitalised terms used in this letter shall have the same meanings as defined in the Prospectus unless the context requires otherwise.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the open offer of ordinary shares on the basis of four (4) Offer Shares for every one (1) Adjusted Share (the “**Open Offer**”) on the Group’s financial position as at 30 September 2015 as if the Capital Reorganisation and the Open Offer had taken place at 30 September 2015. As part of this process, information about the Group’s financial position as at 30 September 2015 has been extracted by the Directors from the unaudited consolidated financial information of the interim report of the Group for the six months ended 30 September 2015.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issues.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“**HKSAE**”) 3420 Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Open Offer at 30 September 2015 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

Conpak CPA Limited

Certified Public Accountants

Hong Kong

1. RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

2. SHARE CAPITAL**As at the Latest Practicable Date**

Authorised: *HK\$*

50,000,000,000 Adjusted Shares 500,000,000.00

Issued and fully paid:

730,142,121 Adjusted Shares 7,301,421.21

Immediately after completion of the Open Offer

Authorised: *HK\$*

50,000,000,000 Adjusted Shares 500,000,000.00

Issued and fully paid:

730,142,121 Adjusted Shares in issue 7,301,421.21

2,920,568,484 Adjusted Shares to be allotted and issued under the
Open Offer 29,205,684.84

3,650,710,605 Adjusted Shares in issue immediately after
completion of the Open Offer 36,507,106.05

There has been no alternation to the authorised share capital of the Company since the end of its last financial year, being 31 March 2015.

On 30 July 2015, the Company allotted and issued 486,760,000 new Shares by way of placing to not fewer than six places at the placing price of HK\$0.124 per Share (see the Company's announcement dated 14 July 2015 and 30 July 2015 for further details). Save as aforesaid, since 31 March 2015 (being the date to which the latest published audited financial statements of the Company were made up) and up to the Latest Practicable Date, there had not been any new issue of Shares by the Company.

All of the Adjusted Shares currently in issue rank pari passu in all respects with each other including, in particular, as to dividends, voting rights and capital. All the Offer Shares to be issued will rank pari passu in all respects with each other.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares, Adjusted Shares or Offer Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

As at the Latest Practicable Date, no share or loan capital of the Company or any of its subsidiaries had been put under option or agreed conditionally or unconditionally to be put under option.

Save for the Convertible Bonds, as at the Latest Practicable Date, the Company has no other outstanding options, warrants or other securities in issue which are convertible into or giving rights to subscribe for, convert or exchange into, any Shares.

3. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

(i) Long position in the Adjusted Shares

Name of Director	Capacity	Number of Adjusted Shares held	Approximate percentage of shareholding as at the Latest Practicable Date
Wang Jing	Interest of controlled corporation (<i>Note</i>)	271,438,892 Adjusted Shares	37.18%
Wang Xing Qiao	Beneficial owner	655,000 Adjusted Shares	0.09%

Note: These 271,438,892 Shares are held by Achieve Prosper, which is wholly and beneficially owned by Hong Kong Shihua, which is in turn wholly and beneficially owned by Liaoning Shihua Property. Mr. Wang Jing is the sole director of and the beneficial owner of 82.8% of the equity interest in Liaoning Shihua Property. By virtue of the SFO, Mr. Wang Jing is deemed to be interested in these 271,438,892 Adjusted Shares. Mr. Wang Xing Qiao is the sole director of Achieve Prosper.

(ii) Long position in the underlying Adjusted Shares

Name of Director	Capacity	Number of underlying Adjusted Shares held	Approximate percentage of shareholding as at the Latest Practicable Date
Wang Jing	Interest of controlled corporation (<i>Note 1</i>)	1,377,563,493 Adjusted Shares (<i>Note 2</i>)	37.73% (<i>Note 3</i>)

Notes:

1. These interests in underlying Adjusted Shares are held by Achieve Prosper. By virtue of the SFO, Mr. Wang Jing is deemed to be interested in these 1,377,563,493 Adjusted Shares.
2. These underlying Adjusted Shares represent the Offer Shares underwritten by Achieve Prosper as one of the Underwriters of the Open Offer.
3. Based on the enlarged issued share capital after the completion of the Capital Reorganisation and the Open Offer, but assuming that none of the conversion rights under the Convertible Bonds have been exercised.

(iii) Directors' interests in the shares of associated corporations

Name of associated corporation	Name of Director	Capacity	Number of shares held
Achieve Prosper	Wang Jing	Interest of controlled corporation (<i>Note</i>)	1,000,000 shares (Long position)

Note: Achieve Prosper is wholly and beneficially owned by Hong Kong Shihua, which is in turn wholly and beneficially owned by Liaoning Shihua Property. Mr. Wang Jing is the sole director of and the beneficial owner of 82.8% of the equity interest in Liaoning Shihua Property. By virtue of the SFO, Mr. Wang Jing is deemed to be interested in these 1,000,000 shares of Achieve Prosper.

Save as disclosed above and other than certain nominee Shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, as at the Latest Practicable Date, none of the Company's Directors, chief executive nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

4. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS

Save as disclosed in the paragraph headed "Directors' and chief executives' interests and short positions" above, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons, had an interest or short position in the Adjusted Shares and underlying Adjusted Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Names	Nature of interest	Number of Adjusted Shares held	Approximate percentage of shareholding as at the Latest Practicable Date
Achieve Prosper (Note 1)	Beneficial owner	271,438,892 Adjusted Shares 1,377,563,493 Adjusted Shares (Note 2)	37.18% 37.73% (Note 3)
Hong Kong Shihua (Note 1)	Interest of controlled corporation	271,438,892 Adjusted Shares 1,377,563,493 Adjusted Shares (Note 2)	37.18% 37.73% (Note 3)
Liaoning Shihua Property (Note 1)	Interest of controlled corporation	271,438,892 Adjusted Shares 1,377,563,493 Adjusted Shares (Note 2)	37.18% 37.73% (Note 3)
Hu Bao Qin (Note 1)	Spouse interest	271,438,892 Adjusted Shares 1,377,563,493 Adjusted Shares (Note 2)	37.18% 37.73% (Note 3)
Chu Yuet Wah	Interest of controlled corporation	454,629,422 Adjusted Shares (Note 4)	12.45% (Note 3)
Lushan Investment	Beneficial owner	108,695,652 Adjusted Shares (Note 5)	12.99% (Note 6)

Notes:

- Achieve Prosper is wholly and beneficially owned by Hong Kong Shihua, which is in turn wholly and beneficially owned by Liaoning Shihua Property. Mr. Wang Jing is the sole director of and the beneficial owner of 82.8% of the equity interest in Liaoning Shihua Property. Madam Hu Bao Qin is the spouse of Mr. Wang Jing. By virtue of the SFO, each of Hong Kong Shihua and Liaoning Shihua Property is deemed to be interested in the Adjusted Shares and underlying Adjusted Shares which Achieve Prosper is interested in; Madam Hu Bao Qin is deemed to be interested in the Adjusted Shares and underlying Adjusted Shares which Mr. Wang Jing is interested in.
- These underlying Adjusted Shares represent the Offer Shares underwritten by Achieve Prosper as one of the Underwriters of the Open Offer.

3. Based on the enlarged issued share capital after the completion of the Capital Reorganisation and the Open Offer, but assuming that none of the conversion rights under the Convertible Bonds have been exercised.
4. To the best of the Directors knowledge, these underlying Adjusted Shares represent the Offer Shares underwritten by Kingston Securities pursuant to the Underwriting Agreement. Kingston Securities is a wholly-owned subsidiary of Galaxy Sky Investments Limited, which is wholly owned by Kingston Capital Asia Limited. Kingston Capital Asia Limited is wholly owned by Kingston Financial Group Limited. Active Dynamic Limited owns 49.19% interest in Kingston Financial Group Limited. Mrs. Chu Yuet Wah owns 100% interest in Active Dynamic Limited. As Mrs. Chu Yuet Wah controls Kingston Securities, she is deemed to be interested in these underlying Adjusted Shares by virtue of the SFO.
5. These underlying Shares represent the Adjusted Shares which are issuable upon the exercise of the conversion rights under the Convertible Bonds at the conversion price of HK\$0.69 per Adjusted Share as at the Latest Practicable Date (subject to adjustment).
6. Based on the enlarged issued share capital after the Convertible Bonds having been fully converted but without taking into account the effect of the Open Offer.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any persons (who were not Directors or chief executives of the Company) who had an interest or short position in the Adjusted Shares or underlying Adjusted Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries or held any option in respect of such capital.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

6. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by members of the Group within two years immediately preceding the date of this prospectus and up to the Latest Practicable Date which were or may be material:

- (a) the subscription agreement dated 30 January 2014 (as supplemented by the supplemental agreement dated 29 May 2014) entered into between the Company and Achieve Prosper in relation to the subscription of the Convertible Bonds at a consideration of HK\$75,000,000;
- (b) the sale and purchase agreement dated 16 January 2015 entered into between Benxi Xincheng Property Development Company Limited* (本溪鑫城房地產開發有限公司) (as vendor) and Benxi Xinhua Property Management Company Limited* (本溪信華物業管理有限公司) (an indirect wholly-owned subsidiary of the Company, as purchaser) for the purchase of a commercial property in Benxi, Liaoning Province, the PRC at a consideration of RMB105,000,000;

- (c) the Purchase Agreement;
- (d) the underwriting agreement dated 25 April 2015 entered into between the Company and Achieve Prosper in relation to the Company's rights issue and bonus issue as announced by the Company on 4 May 2015;
- (e) the placing agreement dated 14 July 2015 entered into between the Company (as issuer) and Kingston Securities (as placing agent) in relation to the placing of up to 486,760,000 Shares (on a best effort basis) at the placing price of HK\$0.124 per Share;
- (f) the supplemental property lease agreement dated 20 July 2015 entered into among Liaoning Shihua Property, Benxi Tongshengyuan Industry Company Limited* (本溪同盛遠實業有限公司) and Wal-Mart (Liaoning) Store Co. Ltd.* (沃爾瑪(遼寧)百貨有限公司);
- (g) the Underwriting Agreement; and
- (h) the Land Use Rights Grant Contract.

7. INTEREST IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 March 2015, being the date to which the latest published audited accounts of the Group were made up.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

9. LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance pending or threatened against any member of the Group or to which a member of the Group is a party.

10. EXPENSES

The expenses in connection with the Capital Reorganisation, the Open Offer and the Whitewash Waiver, including but not limited to financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses are estimated to be approximately HK\$9.1 million, which are payable by the Company.

11. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this prospectus:

Name	Qualification
Conpak CPA Limited (“ Conpak ”)	Certified Public Accountants

As at the Latest Practicable Date, Conpak had no any direct or indirect shareholdings in any member of the Group, or any right to subscribe for or to nominate persons to subscribe for shares in any member of the Group, or any interests, directly or indirectly, in any assets which had been acquired, disposed of or leased to or which were proposed to be acquired, disposed of or leased to the Company or any of their respective subsidiaries, respectively, since 31 March 2015, the date to which the latest published audited financial statements of the Group were made up.

Conpak has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion herein of its reports and references to its name in the form and context in which they appear.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company’s head office and principal place of business in Hong Kong at Rooms 05-15, 13A/F, South Tower, World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong during normal business hours from 10:00 a.m. to 5:00 p.m. on any week day (except public holidays) from the date of this prospectus up to and including the date of completion of the Open Offer:

- (a) the Memorandum of Association and Bye-laws of the Company;
- (b) the 2014 and 2015 annual reports of the Company containing audited consolidated financial statements of the Group for the two years ended 31 March 2014 and 2015 respectively;
- (c) the accountant’s report on the unaudited pro forma financial information of the Group set out in Appendix II to this prospectus;
- (d) the material contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (e) the written consents referred to in the paragraph headed “Expert and consent” in this appendix;

- (f) the circular of the Company dated 29 April 2015, being the only circular of the Company which has been issued pursuant to the requirements set out in Chapters 14 and 14A of the Listing Rules since 31 March 2015 (being the date to which the latest published audited financial statements of the Group were made up);
- (g) the Circular; and
- (h) the Prospectus Documents.

13. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

Name	Address
Executive Directors	
Wang Jing	3-3-7, No. 101-1 Beiguang Road, Pingshan District, Benxi City, Liaoning Province, PRC
Wang Xing Qiao	3-3-7, No. 101-1 Beiguang Road, Pingshan District, Benxi City, Liaoning Province, PRC
Chen Wan Jin	1-14, Block A, 82 Beiguang Road, Pingshan District, Benxi City, Liaoning Province, PRC
Zhao Shuang	1-6-1, No. 172-7, Bai Shan Road, Yuhong District, Shenyang City, Liaoning Province, PRC
Non-executive Director	
Li Jun	3-5-10, No. 105 Beiguang Road, Pingshan District, Benxi City, Liaoning Province, PRC

**Independent non-executive
Directors**

Yang Xin Hua	1-3-9, No. 113 Zhongxing Road, Pingshan District, Benxi City, Liaoning Province, PRC
Wang Ping	Flat B, 22/F, Tower 1, Marbella, 23 On Chun Street, Ma On Shan, Hong Kong
Cheng Tai Kwan Sunny	Flat C, 18/F, Block 26, South Horizons, Ap Lei Chau, Hong Kong

Company Secretary

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

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

Brief biographical information of Directors and senior management***Executive Directors***

Wang Jing (王晶), aged 61, has been appointed as executive director of the Company and the Chairman of the Board with effect from 21 July 2014. He is a vice chairman of Liaoning Federation of Industry and Commerce (遼寧省工商業聯合會), a Liaoning Province Model Worker (遼寧省勞動模範) in 2006, and a member of People's Congress of Benxi City (本溪市人大代表). He has founded Liaoning Shihua Property and he had been appointed as the general manager of Liaoning Shihua Group (遼寧實華集團) ("**Liaoning Shihua Group**") since April 2007. He currently acts as the chairman of Liaoning Shihua Group. He has also been an executive member of the Property Development Industry Association of Liaoning Province (遼寧省房地產行業協會常務理事) since March 2012. In February 2014, Mr. Wang was awarded as "Liaoning Province Excellent Builder" (遼寧省優秀建設者) by various organisations including the Liaoning United Front Work Department of the Chinese Communist Party (中共遼寧省委統戰部). Mr. Wang did not hold any directorship in

other listed companies in the last three years. Mr. Wang Jing is the father of Mr. Wang Xing Qiao, an executive Director and the Chief Executive Officer of the Company. He is the chairman of the nomination committee of the Company.

As at the Latest Practicable Date, Mr. Wang is the sole director and the beneficial owner of 82.8% of the equity interest in Liaoning Shihua Property, which indirectly holds the entire issued share capital of Achieve Prosper. Achieve Prosper in turn is interested in certain Adjusted Shares and underlying Adjusted Shares (see the paragraph “3. Directors’ and chief executives’ interests and short positions” in this appendix for details of Mr. Wang’s interests in the Company’s share capital).

Wang Xing Qiao (王星喬), aged 28, has been appointed as executive director of the Company and Chief Executive Officer of the Company with effect from 21 July 2014. Mr. Wang graduated from the University of Toronto with a bachelor’s degree in commerce with high distinction in 2009. He also obtained a master of philosophy degree in finance from the Judge Business School of the University of Cambridge in 2010. He is currently the deputy general manager of Liaoning Shihua Group and is also the Shenyang regional general manager of Liaoning Shihua Group. Mr. Wang did not hold any directorship in other listed companies in the last three years. He is the son of Mr. Wang Jing, an executive Director and the Chairman of the Board.

As at the Latest Practicable Date, Mr. Wang Xing Qiao beneficially owns 655,000 Adjusted Shares. He is also holding the entire issued share capital of Achieve Prosper on trust for Hong Kong Shihua (which is wholly owned by Liaoning Shihua Property, a company owned as to 82.8% by Mr. Wang Jing) and is Achieve Prosper’s sole director. Achieve Prosper in turn is interested in certain Adjusted Shares and underlying Adjusted Shares (see the paragraph “4. Substantial shareholders’ and other persons’ interests and short positions” in this appendix for details of Achieve Prosper’s interests in the Company’s share capital).

Chen Wan Jin (陳萬金), aged 54, has been appointed as executive director of the Company with effect from 21 July 2014. He obtained a postgraduate certificate in Economic Law from Capital University of Economics and Business (首都經濟貿易大學) in 2002. He has been the president and party branch general secretary of South Branch of Benxi City Commercial Bank (本溪市商業銀行南地支行行長及黨支部書記) since March 2010. Mr. Chen did not hold any directorship in other listed companies in the last three years.

Zhao Shuang (趙爽), aged 36, has been appointed as executive director of the Company with effect from 21 July 2014. He graduated from Changchun University (長春大學) in 2002, major in marketing and sales. Mr. Zhao was appointed as the head of assets management of Liaoning Shihua Group in 2009 and later the general manager of Liaoning Shihua Group responsible for assets management in January 2014. Prior to joining Liaoning Shihua Group, Mr. Zhao has been a project manager, assistant to general manager and vice general manager of Dalian Dongzhan Group Co. Ltd (大連東展集團有限公司) from 2002 to 2009. Mr. Zhao did not hold any directorship in other listed companies in the last three years.

Non-Executive Director

Li Jun (李軍), aged 64, has been appointed as non-executive director of the Company with effect from 21 July 2014. He graduated from Beijing Open University (北京自修大學) in the field of industrial and economics management in 1988. He was the general secretary of Liaoning Province Benxi City Real Estate Association (遼寧省本溪市房地產協會) from 1997 to 2007. Mr. Li was appointed as the Benxi regional vice general manager of Liaoning Shihua Group in 2007, and the general manager of Liaoning Shihua Property Group in 2014. Mr. Li did not hold any directorship in other listed companies in the last three years.

Independent Non-Executive Directors

Yang Xin Hua (楊新華), aged 63, has been appointed as independent non-executive director of the Company with effect from 21 July 2014. Mr. Yang completed a four-year programme in steel rolling equipment manufacturing and craft (軋鋼設備製造及工藝) at North-eastern Heavy Machinery Academy (東北重型機械學院) in June 1977. He was the chairman and general manager of Bei Tai Iron and Steel (Group) Co., Ltd. (北台鋼鐵(集團)有限責任公司) and he has been a part-time professor at Yanshan University (燕山大學) since 2002. Mr. Yang is the chairman of the remuneration committee and a member of the audit committee and nomination committee of the Company. Mr. Yang did not hold any directorship in other listed companies in the last three years.

Wang Ping (王平), aged 45, has been appointed as independent non-executive director of the Company with effect from 21 July 2014. Mr. Wang has over 16 years of experience in corporate finance, audit and accounting. Mr. Wang is currently acting as the independent non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd (stock code: 002378.sz), China Hangking Holdings Limited (stock code: 3788), China Tianrui Group Cement Company Limited (stock code: 1252), Shenzhen Fuanna Bedding and Furnishing Co., Ltd (stock code: 002327.sz) and Jiayao Holdings Limited (stock code: 1626). Mr. Wang worked as vice president in EV Capital Pte Ltd from May 2007 and March 2010. From February 2004 to March 2007, he served as chief financial officer for China Jishan Holdings Limited (中國稽山控股有限公司), the shares of which are listed on the main board of Singapore Stock Exchange. From September 1999 to August 2002, he served as a senior accountant and subsequently a manager for audit department of Deloitte Touche Tohmatsu CPA Ltd. He was also an executive director and chief financial officer of China First Capital Group Limited (formerly known as China Vehicle Components Technology Holdings Limited), a company listed on the Stock Exchange (stock code: 1269), from April 2014 to December 2015 and from March 2012 to December 2015 respectively. Mr. Wang graduated from Nanjing University (南京大學) majoring in Economics and Management in 1993 and obtained a master's degree in business administration from Lingnan (University) College of Sun Yat-Sen University (中山大學) in 2004. He is a non-practicing member of Shanghai Institute of Certified Public Accountants. Mr. Wang is the chairman of the audit committee and a member of the remuneration committee of the Company.

Cheng Tai Kwan Sunny (鄭大鈞), aged 43, has been appointed as independent non-executive director of the Company with effect from 21 July 2014. He obtained a bachelor's degree of business administration in accounting from The Hong Kong University of Science and Technology in November 1996, a master of science degree from The Chinese University of Hong Kong in December 2006 and a degree of executive master of business administration from Northwestern University and

The Hong Kong University of Science and Technology in December 2009. Mr. Cheng was admitted as an associate of the Association of Chartered Certified Accountants in July 1999 and a member of the Hong Kong Institute of Certified Public Accountants in September 2001. Mr. Cheng has years of experience in management, financial reporting and management accounting. Mr. Cheng worked for a subsidiary of Li & Fung Limited, a company listed on the Stock Exchange from January 2005 to June 2012. Mr. Cheng is currently the chief executive officer of a private group. Mr. Cheng is a member of the audit committee, nomination committee and remuneration committee of the Company.

Save as disclosed above, the Directors (i) do not have any relationship with any Directors, senior management, or any substantial or controlling shareholders (as defined in the Listing Rules) of the Company; and (ii) have not held any directorships in other listed companies in the last three years; and (iii) do not have any interests in the shares, underlying shares or debentures of the Company and its associated corporations within the meaning of Part XV of the SFO.

Company Secretary

Lam Wai Kei (林偉基) was appointed as the company secretary of the Company in July 2014. He is a practising member of the Hong Kong Institute of Certified Public Accountants. He holds a master's degree in financial engineering from City University of Hong Kong and a bachelor's degree in accountancy from the Hong Kong University of Science and Technology. He has extensive experience in the company secretarial practice.

Senior Management

Gary Atkinson, aged 34, joined The Singing Machine Company, Inc. in January 2008 and was appointed as the interim chief executive officer in November 2009. Mr. Atkinson is a licensed attorney in the State of Florida and Georgia. He graduated from the University of Rochester with a bachelor's degree in economics and has been awarded a dual-degree J.D./M.B.A. from Case Western Reserve University School of Law and Weatherhead School of Management.

Peter Horak, aged 76, was appointed chief executive officer of Cosmo Communication Corporations in January 2001. He is the co-founder of Cosmo Communications Canada Inc. (“**Cosmo Canada**”) and has been its president since 1988. Mr. Horak has extensive knowledge and experience in distribution of consumer electronics products in Canada. Prior to joining Cosmo Canada in 1982, Mr. Horak worked with several top electronic companies and served as Sanyo's vice president of sales and marketing. He leads the sales team to open new markets and develop new products and works closely with the administrative group and warehouse supporting group.

14. CORPORATE INFORMATION

Principal place of business of the Company in Hong Kong	Rooms 05-15, 13A/F, South Tower World Finance Centre, Harbour City 17 Canton Road, Tsim Sha Tsui Kowloon, Hong Kong
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Registered office	Canon's Court, 22 Victoria Street Hamilton HM12, Bermuda
Auditor	Deloitte Touche Tohmatsu 35th Floor, One Pacific Place 88 Queensway, Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited HSBC Main Building 1 Queen's Road Central Hong Kong Hang Seng Bank Limited 83 Des Voeux Road Central, Hong Kong
Principal share registrar and transfer agent	MUFG Fund Services (Bermuda) Limited The Belvedere Building 69 Pitts Bay Road Pembroke HM08 Bermuda
Hong Kong branch share registrar and transfer office	Tricor Secretaries Limited Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong
Company secretary	Lam Wai Kei <i>(a practicing member of the Hong Kong Institute of Certified Public Accountants)</i>
Authorised representatives	Wang Xing Qiao Rooms 05-15, 13A/F, South Tower World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong Lam Wai Kei Rooms 05-15, 13A/F, South Tower World Finance Centre, Harbour City, 17 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong

15. PARTIES INVOLVED IN THE OPEN OFFER

Underwriters	Achieve Prosper Offshore Chambers, P.O. Box 217, Apia, Samoa
	Kingston Securities Limited Suite 2801 28th Floor, One International Finance Centre 1 Harbour View Street Central, Hong Kong
Financial advisers to the Company in respect of the Open Offer	Kingston Corporate Finance Limited Suite 2801 28th Floor, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	Euto Capital Partners Limited Room 2418 24/F Wing On Centre 111 Connaught Road Central Sheung Wan, Hong Kong
Legal advisers to the Company	<i>As to Hong Kong Law</i> Locke Lord 21/F, Bank of China Tower 1 Garden Road, Central Hong Kong
	<i>As to Bermuda Law</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place, Central Hong Kong
Certified Public Accountants	Conpak CPA Limited Rooms 05-15, 13A/F, South Tower World Finance Centre, Harbour City 17 Canton Road, Tsim Sha Tsui Kowloon, Hong Kong

16. LEGAL EFFECT

The Prospectus Documents and all acceptances of any offer or application contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

17. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of each of the Prospectus Documents and the written consent referred to in the paragraph headed “Expert and consent” in this appendix have been delivered to the Registrar of Companies in Hong Kong for registration pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

18. MISCELLANEOUS

This prospectus is prepared in both English and Chinese. In the event of inconsistency, the English text of this prospectus shall prevail over the Chinese text.