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Shihua Development Company Limited 實華發展有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 485)

FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2015

FINANCIAL RESULTS

The Board of Directors (the “Directors”) of Shihua Development Company Limited (the “Company”) hereby announces the financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2015 together with comparative figures for 2014 as follows:–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Turnover	3	381,863	366,953
Cost of sales		<u>(322,811)</u>	<u>(408,857)</u>
Gross profit (loss)		59,052	(41,904)
Other income		12,722	16,245
Distribution costs		(30,961)	(46,406)
Administrative expenses		(78,655)	(87,556)
Other gains and losses	4	(12,006)	(7,650)
Increase (decrease) in fair value of investment properties		5,550	(22,111)
Interest expenses		(9,014)	(10,315)
Loss arising from the issue of convertible bonds		(38,536)	–
Loss on deconsolidation of subsidiaries		(15,553)	–
Loss arising from distribution in specie of shares in a subsidiary		(138,946)	–
Share of profits of an associate		<u>479</u>	<u>651</u>
Loss before taxation	5	(245,868)	(199,046)
Taxation	6	<u>(1,263)</u>	<u>9,682</u>
Loss for the year		<u>(247,131)</u>	<u>(189,364)</u>

	<i>Notes</i>	2015 HK\$'000	2014 <i>HK\$'000</i>
Other comprehensive income (expense)			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		8,135	429
Release of translation reserve upon deconsolidation of subsidiaries		(3,237)	–
Release of translation reserve upon distribution in specie of shares in a subsidiary		(795)	–
		<hr/>	<hr/>
Other comprehensive income for the year		4,103	429
		<hr/>	<hr/>
Total comprehensive expense for the year		(243,028)	(188,935)
		<hr/> <hr/>	<hr/> <hr/>
Loss for the year attributable to:			
Owners of the Company		(246,934)	(193,036)
Non-controlling interests		(197)	3,672
		<hr/>	<hr/>
		(247,131)	(189,364)
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(243,649)	(192,699)
Non-controlling interests		621	3,764
		<hr/>	<hr/>
		(243,028)	(188,935)
		<hr/> <hr/>	<hr/> <hr/>
		HK cents	<i>HK cents</i>
Loss per share	8		
– Basic and diluted		(11.84)	(11.04)
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 March 2015

	<i>Notes</i>	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Investment properties		–	254,825
Property, plant and equipment		3,639	77,787
Prepaid lease payments		–	3,290
Goodwill		17,665	17,665
Interest in an associate		6,845	6,366
Available-for-sale investments		–	9,400
Deferred tax assets		18,258	18,951
Long-term prepayments		746	–
Deposit paid for acquisition of a property		76,600	–
		<hr/> 123,753 <hr/>	<hr/> 388,284 <hr/>
Current assets			
Inventories		75,123	80,842
Debtors, deposits and prepayments	9	43,993	31,530
Prepaid lease payments		–	121
Investments held for trading		453	475
Pledged bank deposits		–	1,077
Bank balances and cash		36,718	28,046
		<hr/> 156,287 <hr/>	<hr/> 142,091 <hr/>
Current liabilities			
Creditors and accrued charges	10	90,741	103,400
Amount due to a shareholder		172	12,000
Amount due to immediate holding company	11	14,871	–
Taxation payable		–	1,080
Borrowings		–	68,805
Bank overdrafts		–	1,969
		<hr/> 105,784 <hr/>	<hr/> 187,254 <hr/>
Net current assets (liabilities)		<hr/> 50,503 <hr/>	<hr/> (45,163) <hr/>
Total assets less current liabilities		<hr/> 174,256 <hr/>	<hr/> 343,121 <hr/>
Non-current liabilities			
Long-term creditors	10	20,081	–
Convertible bonds	12	56,875	–
Deferred tax liabilities		–	4,995
		<hr/> 76,956 <hr/>	<hr/> 4,995 <hr/>
Net assets		<hr/> 97,300 <hr/>	<hr/> 338,126 <hr/>
Capital and reserves			
Share capital		243,381	201,343
Reserves		(161,337)	120,373
Equity attributable to owners of the Company		<hr/> 82,044 <hr/>	<hr/> 321,716 <hr/>
Non-controlling interests		15,256	16,410
Total equity		<hr/> 97,300 <hr/>	<hr/> 338,126 <hr/>

NOTES:

1. BASIS OF PREPARATION

The announcement has been presented in accordance with the applicable disclosure requirements of Appendix 16 to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The consolidated financial statements for the year ended 31 March 2015 have been prepared in accordance with accounting principles generally accepted in Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) – INT 21	Levies

The application of the above new interpretation and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments ¹
HKFRS 14	Regulatory deferral accounts ²
HKFRS 15	Revenue from contracts with customers ³
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle ⁶
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle ⁴
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁵
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception ⁵
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ⁵
Amendments to HKAS 1	Disclosure initiative ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ⁵
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ⁵
Amendments to HKAS 19	Defined benefit plans: Employee contributions ⁴
Amendments to HKAS 27	Equity method in separate financial statements ⁵

- ¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
- ² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
- ³ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
- ⁴ Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
- ⁵ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- ⁶ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

HKFRS 15 “Revenue from contracts with customers”

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered by each operating division.

The Group is organised into three operating divisions, namely design, manufacture and sale of electronic products (representing consumer electronic audio and video equipment, karaoke equipment and accessories), property investment and securities trading. These divisions are the bases on which the Group reports its segment information. The Group continues to be organised into the above three operating divisions after the deconsolidation of subsidiaries and the distribution in specie of shares in a subsidiary and hence there is no change in the basis of preparation of segment information.

Segment revenue and results

An analysis of the Group's revenue, which represents sales of goods, and results by reportable and operating segments is as follows:

	Design, manufacture and sale of electronic products HK\$'000	Property investment HK\$'000	Securities trading HK\$'000	Consolidated HK\$'000
Year ended 31 March 2015				
TURNOVER	<u>381,863</u>	<u>–</u>	<u>–</u>	<u>381,863</u>
SEGMENT RESULTS	<u>(54,192)</u>	<u>16,868</u>	<u>(18)</u>	<u>(37,342)</u>
Interest income				58
Unallocated expenses				(7,014)
Share of profits of an associate				479
Loss arising from the issue of convertible bonds				(38,536)
Loss on deconsolidation of subsidiaries				(15,553)
Loss arising from distribution in specie of shares in a subsidiary				(138,946)
Interest expenses				<u>(9,014)</u>
Loss before taxation				<u>(245,868)</u>

	Design, manufacture and sale of electronic products <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Year ended 31 March 2014				
TURNOVER	<u>366,953</u>	<u>–</u>	<u>–</u>	<u>366,953</u>
SEGMENT RESULTS	<u>(172,063)</u>	<u>(8,576)</u>	<u>498</u>	<u>(180,141)</u>
Interest income				15
Unallocated expenses				(9,256)
Share of profits of an associate				651
Interest expenses				<u>(10,315)</u>
Loss before taxation				<u>(199,046)</u>

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies. Segment results represent the results from each operating segment without allocation of central administration costs incurred by head office, share of results of an associate, interest income, loss arising from the issue of convertible bonds, loss on deconsolidation of subsidiaries, loss arising from distribution in specie of shares in a subsidiary and interest expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

An analysis of the Group's assets and liabilities by reportable and operating segments is as follows:

	Design, manufacture and sale of electronic products HK\$'000	Property investment HK\$'000	Securities trading HK\$'000	Consolidated HK\$'000
At 31 March 2015				
ASSETS				
Segment assets	141,166	76,600	453	218,219
Unallocated corporate assets				<u>61,821</u>
Consolidated total assets				<u><u>280,040</u></u>
LIABILITIES				
Segment liabilities	110,822	–	–	110,822
Unallocated corporate liabilities				<u>71,918</u>
Consolidated total liabilities				<u><u>182,740</u></u>
At 31 March 2014				
ASSETS				
Segment assets	211,235	254,825	475	466,535
Unallocated corporate assets				<u>63,840</u>
Consolidated total assets				<u><u>530,375</u></u>
LIABILITIES				
Segment liabilities	103,400	–	–	103,400
Unallocated corporate liabilities				<u>88,849</u>
Consolidated total liabilities				<u><u>192,249</u></u>

Unallocated corporate assets mainly represent interest in an associate, available-for-sale investments, deferred tax assets, pledged bank deposits and bank balances and cash.

Unallocated corporate liabilities mainly represent amount due to a shareholder, amount due to immediate holding company, taxation payable, borrowings, bank overdrafts, convertible bonds and deferred tax liabilities.

Other segment information

	Design, manufacture and sale of electronic products <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts included in the measurement of segment results or segment assets:				
Year ended 31 March 2015				
Additions of property, plant and equipment	467	–	–	467
Increase in fair value of investment properties	–	5,550	–	5,550
Reversal of allowance for doubtful debts	163	–	–	163
Decrease in fair value of investments held for trading	–	–	22	22
Release of prepaid lease payments	90	–	–	90
Depreciation of property, plant and equipment	3,583	–	–	3,583
Allowance for obsolete and slow-moving inventories	3,677	–	–	3,677

	Design, manufacture and sale of electronic products <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts included in the measurement of segment results or segment assets:				
Year ended 31 March 2014				
Additions of property, plant and equipment	3,350	–	–	3,350
Decrease in fair value of investment properties	–	22,111	–	22,111
Increase in fair value of financial assets designated at fair value through profit or loss	–	–	9	9
Increase in fair value of investments held for trading	–	–	479	479
Release of prepaid lease payments	121	–	–	121
Depreciation of property, plant and equipment	8,375	–	–	8,375
Allowance for doubtful debts	2,152	–	–	2,152
Bad debt written off	1,217	–	–	1,217
Allowance for obsolete and slow-moving inventories	62,570	–	–	62,570
Impairment loss recognised in respect of property, plant and equipment	16,054	–	–	16,054

Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment results or segment assets:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest in an associate	6,845	6,366
Share of profits of an associate	479	651
Interest expenses	(9,014)	(10,315)

Geographical segments

The Group's operations are located in North America, Europe, Hong Kong (place of domicile), Mainland China (the "PRC") and other countries.

The Group's revenue from external customers (based on location of customers) and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets (<i>note</i>)	
	Year ended 31 March			
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States of America	313,525	267,565	4,385	4,394
Hong Kong	20,231	10,581	24,510	268,529
Canada	33,038	83,532	–	–
Europe	12,329	5,275	–	–
The PRC	–	–	76,600	87,010
Other countries	2,740	–	–	–
	<u>381,863</u>	<u>366,953</u>	<u>105,495</u>	<u>359,933</u>

Note: Non-current assets excluded available-for-sale investments and deferred tax assets.

4. OTHER GAINS AND LOSSES

	2015	2014
	HK\$'000	HK\$'000
Other gains (losses) comprise:		
Reversal of allowance (allowance for) doubtful debts	163	(2,152)
Exchange loss, net	(12,029)	(5,588)
Bad debt written off	–	(1,217)
(Loss) gain on disposal of property, plant and equipment	(118)	16,433
(Decrease) increase in fair value of investments held for trading	(22)	479
Gain on disposal of a subsidiary	–	440
Increase in fair value of financial assets designated at fair value through profit or loss	–	9
Impairment loss recognised in respect of property, plant and equipment	–	(16,054)
	<u>(12,006)</u>	<u>(7,650)</u>

5. LOSS BEFORE TAXATION

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss before taxation has been arrived at after charging:		
Allowance for obsolete and slow-moving inventories (included in cost of sales)	3,677	62,570
Auditors' remuneration	3,562	3,545
Depreciation of property, plant and equipment	3,583	8,375
Interest expenses on:		
– borrowings wholly repayable within five years	2,786	6,651
– convertible bonds	5,865	–
– note payable	363	–
– convertible notes	–	3,664
Minimum lease payments under operating leases in respect of rented premises	5,982	6,522
Release of prepaid lease payments	90	121
Research and development costs (<i>note (a)</i>)	3,149	7,025
Staff costs including directors' remuneration (<i>note (b)</i>)	43,123	57,060
and after crediting:		
Dividend income from listed equity securities	4	10
Interest income	58	15
	<u> </u>	<u> </u>

Notes:

- (a) The research and development costs for the year ended 31 March 2015 included staff costs of HK\$1,370,000 (2014: HK\$1,795,000).
- (b) The staff costs included retirement benefits scheme contributions of HK\$1,670,000 (2014: HK\$2,326,000) and share-based payments of HK\$303,000 (2014: HK\$861,000).

6. TAXATION

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
The charge (credit) comprises:		
Hong Kong Profits Tax		
Current year	–	34
Underprovision in prior years	–	52
	<u>–</u>	<u>86</u>
Taxation in other jurisdictions		
Current year	570	554
Overprovision in prior years	–	(712)
	<u>570</u>	<u>(158)</u>
Deferred taxation	<u>693</u>	<u>(9,610)</u>
	<u>1,263</u>	<u>(9,682)</u>

Hong Kong Profits Tax is calculated at 16.5% (2014: 16.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for the year ended 31 March 2015.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. DIVIDENDS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Special dividends by way of distribution in specie of shares in a subsidiary		
	<u>124,062</u>	<u>–</u>

On 26 June 2014, the Company made a distribution in specie of shares in a subsidiary, SIH Limited (“SIH”), to the shareholders of the Company, 2,033,808,485 shares in SIH were distributed to the shareholders whose names appeared on the register of members of the Company on the same date.

Other than the special dividends, the directors of the Company have determined that no dividends will be paid in respect of the year ended 31 March 2015 (2014: Nil).

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following data:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share	<u>(246,934)</u>	<u>(193,036)</u>
	Number of shares	
	2015	2014
Weighted average number of shares for the purpose of basic and diluted loss per share	<u>2,085,085,753</u>	<u>1,747,814,332</u>

For the year ended 31 March 2015, the calculation of diluted loss per share does not assume the exercise of the conversion of the Company's outstanding convertible bonds as it would result in a decrease in the loss per share.

For the year ended 31 March 2014, the calculation of diluted loss per share does not assume the exercise of the outstanding share options as it would result in a decrease in the loss per share and the exercise prices of those share options are higher than the average market price for shares.

9. TRADE DEBTORS

The aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective recognition dates, is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0 – 30 days	11,938	10,740
31 – 60 days	6,486	311
61 – 90 days	5,633	2,093
Over 90 days	<u>6,505</u>	<u>4,906</u>
	<u>30,562</u>	<u>18,050</u>

The Group allows an average credit period ranging from 30 days to 90 days to its trade customers.

10. CREDITORS AND ACCRUED CHARGES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade creditors	22,407	32,954
Note payable	8,943	–
Royalty and withholding tax payable	944	3,178
Other creditors and accrued expenses	78,528	67,268
	<u>110,822</u>	<u>103,400</u>
Analysed for reporting purposes as:		
Current liabilities	90,741	103,400
Non-current liabilities	20,081	–
	<u>110,822</u>	<u>103,400</u>

Note payable with the principal amount of US\$1,100,000 (equivalent to HK\$8,580,000) is unsecured and carries interest at 6% per annum (2014: Nil). This note shall be payable in consecutive equal quarterly instalments of principal and interest in the amount of US\$150,000 (equivalent to HK\$1,170,000) up to 2017. At 31 March 2015, HK\$3,873,000 and HK\$5,070,000 are classified as current and non-current liabilities, respectively.

Included in other creditors is an amount of HK\$15,011,000 which is unsecured, interest-free and repayable upon expiry of revolving credit facility granted to a subsidiary of the Company in 2017 (2014: Nil). Accordingly, the amount is classified as a non-current liability.

The aged analysis of trade creditors presented based on the invoice date at the end of the reporting period is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
0 – 30 days	8,451	8,900
31 – 60 days	1,990	2,031
61 – 90 days	2,554	139
Over 90 days	9,412	21,884
	<u>22,407</u>	<u>32,954</u>

The average credit period on purchases of goods is 90 days.

11. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount is interest-free, unsecured and repayable on demand.

12. CONVERTIBLE BONDS

On 30 July 2014, the Company issued 3% coupon convertible bonds (the “Bonds”) at a principal amount of HK\$75,000,000 maturing on 30 July 2017 to the immediate holding company of the Company. The Bonds are denominated in Hong Kong dollars and the Company agrees to guarantee payment of all sums payable in relation to the Bonds. Interest of 3% per annum will be paid half-annually up until the settlement date.

The Bonds are convertible, at the option of the bond holder, into ordinary shares of HK\$0.1 each of the Company at a conversion price of HK\$0.172 per share, subject to anti-dilutive adjustments, at any time on or after 30 July 2014 up to and including the maturity date. Unless previously redeemed, converted or purchased and cancelled, the outstanding Bonds will be redeemed by the Company at 100% of its principal amount on the maturity date.

At initial recognition, the Bonds are split into an equity component of HK\$61,480,000 and a liability component of HK\$52,056,000. The liability component is determined based on the present value of the estimated future cash flows discounted at an effective interest rate of 16.21% per annum, being the average yield of similar financial instruments with similar credit rating and structure but without the call conversion option, which incorporated appropriate adjustments to reflect possible impact of country factors, firm specific risk and liquidity risk.

The equity component is presented as convertible bonds reserve in equity, whereas the liability component is classified under non-current liabilities at 31 March 2015.

The movement of the liability component of the Bonds for the current year is set out below:

	<i>HK\$'000</i>
Liability component at date of issue	52,056
Transaction costs attributable to the liability component of the Bonds	<u>(97)</u>
	51,959
Imputed interest expense for the year	5,865
Coupon interest paid	<u>(949)</u>
At 31 March 2015	<u><u>56,875</u></u>

None of the Bonds has been converted into ordinary shares of the Company during the year ended 31 March 2015.

13. CAPITAL COMMITMENTS

	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of acquisition of properties (2014: property, plant and equipment) contracted for but not provided in the consolidated financial statements	<u>264,976</u>	<u>201</u>

Business Review

Turnover

The turnover of the Group for the year ended 31 March 2015 increased by 4% to HK\$381,863,000 as compared to the turnover of HK\$366,953,000 in the previous year.

Electronic Division

The turnover of the Group increased by 4% during the year. Segment gross loss reduced from HK\$172,063,000 in the previous year to HK\$54,192,000 for the year ended 31 March 2015 due to the decrease in allowance for obsolete and slow-moving inventories and doubtful debts and impairment loss in respect of property, plant and equipment amounting to HK\$77,262,000 and the improvement of financial performance after the group restructuring during the year.

Securities Trading

The Group recorded a segment loss of HK\$18,000 for the year due to decrease in the fair value of investment held for trading.

Property investment

The Group reported a segment profit of HK\$16,868,000 for the year due to increase in fair value of investment properties and rental income received during the year.

Gross Profit/Loss Results

The Group's turnover less cost of sales turned around from gross loss of HK\$41,904,000 for the year ended 31 March 2014 to gross profit of HK\$59,052,000 for the year ended 31 March 2015. The significant improvement recorded for this year is mainly due to the decrease in allowance for obsolete and slow-moving inventories and the result of reorganisation during the year.

The Group recorded one-off losses during the year totally HK\$193,035,000 including the loss arising from the issue of convertible bonds of HK\$38,536,000, loss on deconsolidation of subsidiaries of HK\$15,553,000 and loss arising from distribution in specie of shares in a subsidiary of HK\$138,946,000.

As a result, the loss before taxation for the year ended 31 March 2015 increased to HK\$245,868,000 compared to the loss before taxation for the year ended 31 March 2014 of HK\$199,046,000.

Prospect

The Group has been endeavoring to pursue the existing business and it has been formulating a business strategy with a view to diversifying its business and further enhancing the shareholders' value. The Group is planning to leverage on experience and network of the controlling shareholder of the Company in the PRC to capture business and investment opportunities.

During the year 2015, the Group has entered into two sale and purchase agreements for the acquisitions of properties in PRC. On 16 January 2015, the Group entered into a sale and purchase agreement for the acquisition of a property (the "First Property") in the PRC from an independent third party, at a consideration of RMB105,000,000 as disclosed in the circular of the Company dated 31 March 2015. The First Property is located in the intersection of Digong Road and Shengli Road, Mingshan District, Benxi, Liaoning Province, the PRC which is the core commercial district of Benxi. The site area and the preliminary gross floor area of the First Property are 3,335.00 sq.m and 17,788.58 sq.m (including all the above ground and under-ground areas) respectively. It consists retail shops of approximately 3,000.00 sq.m. on the ground floor of the First Property and the final gross floor area of the First Property would not be less than 17,500.00 sq.m.

On 17 March 2015, the Group entered into another sale and purchase agreement (amended and supplemented by supplemental agreement dated on 27 April 2015) for the acquisition of a property (the "Second Property") in the PRC from Liaoning Shihua (Group) Property Development Company Limited (遼寧實華(集團)房地產開發有限公司) ("Liaoning Shihua") which is a controlling shareholder of the Company. The consideration of the acquisition is HK\$208,276,000, which shall be satisfied by the issue of promissory note of the Company. The Second Property, being a property located at the intersection of Huanshan Road and Guangyu Road, Pingshan District, Benxi, Liaoning Province, the PRC, which is one of the core commercial districts of Benxi. The Second Property is part of the property development project of the Liaoning Shihua, namely Shihua – Meilan City, and is a shopping mall at ground floor and first basement floor. The preliminary gross floor area of the Second Property are 23,700.06 sq.m. (including ancillary facility). The main construction of the Second Property has been completed and it can be used after decoration. The investment costs incurred in relation to the development of the Second Property paid by the Liaoning Shihua amounted to approximately RMB188,773,000. The Second Property is subject to the premises lease agreement to which the tenant has agreed to lease part of the ground floor and first basement floor of the Second Property, totalling 14,908 sq.m., for operating a "Wal-Mart" store in or about August 2016 for an initial term of 20 years.

The Board will formulate the long term business plans and strategy of the Company and will actively capture opportunities not only in the existing type of business but also in various emerging business sectors to achieve a better results and faster growth for the Group.

Financial Position

Liquidity and Financial Resources

The financial position of the Group remained stable. As at 31 March 2015, cash and bank deposits amounted to HK\$36,718,000, as compared to HK\$28,046,000 last year.

As at 31 March 2015, gearing ratio calculated as 0.11, excluding convertible bonds (2014: 0.22).

The current ratio of the Group is higher than last year, it increased from 0.76 to 1.48. This simply means that it is more likely to pay off its liabilities more easily and there is no short-term solvency.

Financing and Capital Structure

In 2014, the total borrowings and net borrowings were HK\$70,774,000 and HK\$41,651,000, but the Group does not have any debt financing during this year.

The Group's transactions were mostly denominated in US dollars, Hong Kong dollars and Reminbi. The exposure to exchange rate risk was insignificant.

Pledge of Assets

As at 31 March 2015, the Group pledged certain assets with carrying value of HK\$120,000 (2014: HK\$235,904,000) to secure general credit facilities and margin accounts with securities brokers.

Contingent Liabilities

As at 31 March 2015, the Group had no contingent liabilities.

Staff

As at 31 March 2015, the Group had a total staff of 50 of which 35 were employed in the overseas for the Group's marketing and distribution business. The Group provides employee benefits such as staff insurance, retirement scheme, discretionary bonus and share option scheme and also provides in-house training programmes and external training sponsorship.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has adopted all the code provisions in Corporate Governance Code (“the Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“the Listing Rules”) as its own code on corporate governance practices and guidance.

During the year ended 31 March 2015, the Company has complied with the Code except the following:

The Company was incorporated in Bermuda and enacted by private act, the Starlight International Holdings Limited Company Act, 1989 of Bermuda (the “1989 Act”). Pursuant to section 3(e) of the 1989 Act, director holding office as executive chairman or managing director shall not be subject to retirement by rotation at each annual general meeting as provided in the bye-laws of the Company (“the Bye-laws”). As the Company is bound by the provisions of the 1989 Act, the Bye-laws cannot be amended to fully reflect the requirements of the code provision A.4.2 which stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

As complied to the code provision A.4.2, all directors will be voluntarily returned from his directorship at the subsequent annual general meetings of the Company at least once every three years in order for the Company, provided that, being eligible for re-election, they may offer themselves for re-election at the annual general meeting.

AUDIT COMMITTEE

The audit committee comprises three Independent Non-Executive Directors and reports directly to the Board of Directors. The audit committee meets regularly with the Group’s senior management and the external auditors to review the financial reporting and internal control systems of the Group as well as the financial statements of the Company. The audit committee has reviewed the annual results of the Group for the year ended 31 March 2015.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (“the Model Code”), as the code of conduct regarding director’s securities transactions. The Company has made specific enquiry of all directors that they have complied with the Model Code throughout the year ended 31 March 2015.

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

Hong Kong, 25 June 2015

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