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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 2016

FINANCIAL RESULTS

The Board of Directors (the “Directors”) of Shihua Development Company Limited (the “Company”) hereby announces the consolidated financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2016 together with comparative figures for 2015 as follows:–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME For the year ended 31 March 2016

	NOTES	2016 HK\$'000	2015 HK\$'000
Turnover	3	425,523	381,863
Cost of sales		(322,478)	(322,811)
Gross profit		103,045	59,052
Other income		671	12,722
Distribution costs		(42,418)	(30,961)
Administrative expenses		(64,141)	(78,655)
Other gain and loss	4	(3,466)	(12,006)
(Decrease) increase in fair value of investment properties		(5,863)	5,550
Finance costs		(12,781)	(9,014)
Gain on disposal of a subsidiary		10,211	–
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		247	479
Loss before taxation	5	(14,495)	(245,868)
Taxation	6	(1,504)	(1,263)
Loss for the year		(15,999)	(247,131)

	<i>NOTE</i>	2016 HK\$'000	2015 HK\$'000
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		(14,106)	8,135
Release of translation reserve upon disposal of a subsidiary		5,247	–
Release of translation reserve upon deconsolidation of subsidiaries		–	(3,237)
Release of translation reserve upon distribution in specie of shares in a subsidiary		–	(795)
Other comprehensive (expense) income for the year		<u>(8,859)</u>	<u>4,103</u>
Total comprehensive expense for the year		<u>(24,858)</u>	<u>(243,028)</u>
(Loss) profit for the year attributable to:			
Owners of the Company		(22,243)	(246,934)
Non-controlling interests		6,244	(197)
		<u>(15,999)</u>	<u>(247,131)</u>
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(31,132)	(243,649)
Non-controlling interests		6,274	621
		<u>(24,858)</u>	<u>(243,028)</u>
		HK cents	HK cents (Restated)
Loss per share			
– Basic and diluted	8	<u>(1.43)</u>	<u>(42.94)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 March 2016

	<i>NOTES</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Investment properties		208,631	–
Property, plant and equipment		39,140	3,639
Goodwill		17,665	17,665
Interest in an associate		6,792	6,845
Deferred tax assets		18,852	18,258
Long-term prepayments		309	746
Deposit paid for investments		106,714	–
Deposit paid for investments properties		12,902	–
Deposit paid for acquisition of a property		–	76,600
		411,005	123,753
Current assets			
Inventories		54,299	75,123
Debtors, deposits and prepayments	9	114,559	43,993
Investments held for trading		451	453
Amount due from immediate holding company		6,769	–
Bank balances and cash		249,130	36,718
		425,208	156,287
Current liabilities			
Creditors and accrued charges	10	73,434	90,741
Amount due to immediate holding company		182,319	14,871
Amount due to a director		172	172
Borrowing		11,990	–
		267,915	105,784
Net current assets		157,293	50,503
Total assets less current liabilities		568,298	174,256

	<i>NOTES</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current liabilities			
Long-term creditors	<i>10</i>	15,011	20,081
Convertible bonds	<i>11</i>	64,399	56,875
Borrowing		107,913	–
Deferred tax liabilities		2,098	–
		<u>189,421</u>	<u>76,956</u>
Net assets		<u>378,877</u>	<u>97,300</u>
Capital and reserves			
Share capital		36,507	243,381
Reserves		320,629	(161,337)
Equity attributable to owners of the Company		357,136	82,044
Non-controlling interests		21,741	15,256
Total equity		<u>378,877</u>	<u>97,300</u>

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 consolidated financial statements for the year ended 31 March 2016 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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time in the current year:

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle

The application of the above 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 15	Revenue from contracts with customers ¹
HKFRS 16	Leases ⁴
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle ²
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception ²
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ²
Amendments to HKFRS 15	Clarification to HKFRS 15 “Revenue from contracts with customers” ¹
Amendments to HKAS 1	Disclosure initiative ²
Amendments to HKAS 7	Disclosure initiative ⁵
Amendments to HKAS 12	Recognition of deferral assets for unrealised losses ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ²
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ²

- ¹ Effective for annual periods beginning on or after 1 January 2018.
- ² Effective for annual periods beginning on or after 1 January 2016.
- ³ Effective for annual periods beginning on or after a date to be determined.
- ⁴ Effective for annual periods beginning on or after 1 January 2019.
- ⁵ Effective for annual periods beginning on or after 1 January 2017.

HKFRS 9 “Financial instruments”

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 that are relevant to our Group are described below:

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial instruments: Recognition and measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 will affect the impairment of the Group’s financial assets. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed analysis.

HKFRS 15 “Revenue from contracts with customers”

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(s)
- Step 5: Recognise revenue when 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 are in the process of assessing the impact on the application of HKFRS 15. For the moment, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 “Leases”

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

Total operating lease commitment of the Group in respect of leased premises as at 31 March 2016 was amounting to HK\$19,314,000. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated financial statements as right-of-use assets and lease liabilities. Other than that, it is not practicable to provide a reasonable estimate of the effect 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’s operating divisions are as follows:

- (1) Design and sale of electronic products (representing consumer electronic audio and video equipment, karaoke equipment and accessories) (*note a*)
- (2) Operation and management of a hydroelectric power station (*note b*)
- (3) Properties investment
- (4) Securities trading

Notes:

- (a) During the year ended 31 March 2015, the Group had ceased the operation of its manufacture of electronic products after the deconsolidation of subsidiaries and the distribution in specie of shares in a subsidiary.
- (b) On 31 March 2016, the Group has completed the acquisition of a subsidiary and commenced the operation and management of a hydroelectric power station. This operating division has no contribution to the Group's revenue and results for the year ended 31 March 2016.

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 and sale of electronic products <i>HK\$'000</i>	Properties investment <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Year ended 31 March 2016				
TURNOVER	<u>425,523</u>	<u>–</u>	<u>–</u>	<u>425,523</u>
SEGMENT RESULTS	<u>(2,683)</u>	<u>4,348</u>	<u>6</u>	1,671
Interest income				54
Unallocated expenses				(3,686)
Share of profits of an associate				247
Finance costs				<u>(12,781)</u>
Loss before taxation				<u>(14,495)</u>

	Design, manufacture and sale of electronic products <i>HK\$'000</i>	Properties investment <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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>	(37,342)
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)
Finance costs				<u>(9,014)</u>
Loss before taxation				<u>(245,868)</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 finance costs. 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 and sale of electronic products <i>HK\$'000</i>	Operation and management of a hydroelectric power station <i>HK\$'000</i>	Properties investment <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
At 31 March 2016					
ASSETS					
Segment assets	108,440	35,781	303,284	451	447,956
Unallocated corporate assets					<u>388,257</u>
Consolidated total assets					<u><u>836,213</u></u>
LIABILITIES					
Segment liabilities	68,061	20,384	–	–	88,445
Unallocated corporate liabilities					<u>368,891</u>
Consolidated total liabilities					<u><u>457,336</u></u>
		Design, manufacture and sale of electronic products <i>HK\$'000</i>	Properties investment <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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>

Unallocated corporate assets mainly represent interest in an associate, deferred tax assets, deposit paid for investments, amount due from immediate holding company and bank balances and cash.

Unallocated corporate liabilities mainly represent amount due to immediate holding company, amount due to a director, deferred tax liabilities, borrowing and convertible bonds.

Other segment information

	Design and sale of electronic products <i>HK\$'000</i>	Operation and management of a hydroelectric power station <i>HK\$'000</i>	Properties 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 2016					
Additions of property, plant and equipment	1,060	–	–	–	1,060
Additions of property, plant and equipment arising from acquisition of a subsidiary	–	35,781	–	–	35,781
Additions of investment properties	–	–	222,762	–	222,762
Decrease in fair value of investment properties	–	–	(5,863)	–	(5,863)
Allowance for doubtful debts	683	–	–	–	683
Decrease in fair value of investments held for trading	–	–	–	2	2
Depreciation of property, plant and equipment	1,340	–	–	–	1,340
Allowance for obsolete and slow-moving inventories	<u>159</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>159</u>

	Design, manufacture and sale of electronic products <i>HK\$'000</i>	Properties 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	<u>3,677</u>	<u>–</u>	<u>–</u>	<u>3,677</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest in an associate	6,792	6,845
Share of profits of an associate	247	479
Finance costs	<u>(12,781)</u>	<u>(9,014)</u>

Geographical segments

The Group's operations are located in United States of America ("USA"), Canada, Europe, Hong Kong (place of domicile), Peoples's Republic of China ("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			
	2016 <i>HK\$'000</i>	2015 HK\$'000	2016 <i>HK\$'000</i>	2015 HK\$'000
USA	356,446	313,525	3,527	4,385
Hong Kong	–	20,231	24,458	24,510
Canada	47,087	33,038	–	–
Europe	18,016	12,329	–	–
PRC	–	–	364,168	76,600
Other countries	3,974	2,740	–	–
	<u>425,523</u>	<u>381,863</u>	<u>392,153</u>	<u>105,495</u>

Note: Non-current assets excluded deferred tax assets.

4. OTHER GAIN AND LOSS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Other (loss) gain comprise:		
Exchange loss, net	(2,781)	(12,029)
(Allowance for) reversal of allowance for doubtful debts	(683)	163
Decrease in fair value of investments held for trading	(2)	(22)
Loss on disposal of property, plant and equipment	–	(118)
	<u>(3,466)</u>	<u>(12,006)</u>

5. LOSS BEFORE TAXATION

	2016 <i>HK\$'000</i>	2015 <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)	159	3,677
Auditors' remuneration	2,786	3,562
Depreciation of property, plant and equipment	1,340	3,583
Minimum lease payments under operating leases in respect of rented premises	5,236	5,982
Release of prepaid lease payments	–	90
Research and development costs (<i>note (a)</i>)	–	3,149
Staff costs including directors' remuneration (<i>note (b)</i>)	26,210	43,123
Interest expenses on:		
– borrowings	5,660	2,786
– convertible bonds	9,774	5,865
– note payable	499	363
Less: Amount capitalised to investment properties under construction	<u>(3,152)</u>	<u>–</u>
	<u>12,781</u>	<u>9,014</u>
and after crediting:		
Dividend income from listed equity securities	8	4
Interest income	54	58
Rental income	<u>–</u>	<u>11,566</u>

Notes:

- (a) For the year ended 31 March 2015, the research and development costs included staff costs of HK\$1,370,000 (2016: nil).
- (b) The staff costs included retirement benefits scheme contributions of HK\$494,000 (2015: HK\$1,670,000) and share-based payments of HK\$130,000 (2015: HK\$303,000).

6. TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
The charge comprises:		
Current year		
Taxation in other jurisdictions	–	570
Deferred taxation	<u>1,504</u>	<u>693</u>
	<u>1,504</u>	<u>1,263</u>

Hong Kong Profits Tax is calculated at 16.5% (2015: 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 both years.

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% (2015: 25%).

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

7. DIVIDENDS

2016	2015
HK\$'000	HK\$'000

Dividends recognised as distribution during the year:

Special dividends by way of distribution in specie of shares in a subsidiary	–	124,062
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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 or proposed in respect of the year ended 31 March 2016 (2015: nil).

8. LOSS PER SHARE

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

	2016	2015
	HK\$'000	HK\$'000
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share	(22,243)	(246,934)

Number of shares

	2016	2015
		(Restated)
Weighted average number of shares for the purpose of basic and diluted loss per share	1,554,130,401	575,012,690

For the year ended 31 March 2016 and 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.

The weighted average number of shares for the purpose of basic and diluted loss per share for the year ended 31 March 2015 has been restated to reflect a consolidation of shares on 13 January 2016 on the basis of four shares being consolidated into one share.

9. TRADE DEBTORS

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 – 30 days	9,863	11,938
31 – 60 days	1,459	6,486
61 – 90 days	5,951	5,633
Over 90 days	–	6,505
	<u>17,273</u>	<u>30,562</u>

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

10. CREDITORS AND ACCRUED CHARGES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade creditors	5,855	22,407
Note payable and accrued interest	5,932	8,943
Royalty and withholding tax payable	944	944
Consideration payable for acquisition of a subsidiary	20,383	–
Other creditors and accrued expenses	55,331	78,528
	<u>88,445</u>	<u>110,822</u>
Analysed for reporting purposes as:		
Current liabilities	73,434	90,741
Non-current liabilities	15,011	20,081
	<u>88,445</u>	<u>110,822</u>

Note payable with the principal amount of US\$697,000 (equivalent to HK\$5,434,000) (2015: US\$1,100,000 (equivalent to HK\$8,580,000)) is unsecured and carries interest at 6% (2015: 6%) per annum. 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 30 September 2016. At 31 March 2016, HK\$5,932,000 and nil (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 (2015: 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 July 2017. Accordingly, the amount is classified as a non-current liability.

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

	2016	2015
	HK\$'000	HK\$'000
0 – 30 days	5,154	8,451
31 – 60 days	9	1,990
61 – 90 days	153	2,554
Over 90 days	539	9,412
	<u>5,855</u>	<u>22,407</u>

11. 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\$0.01 each of the Company at a conversion price of HK\$0.23 (after adjustment for capital reorganisation) (2015: HK\$0.172 (before adjustment for capital reorganisation)) 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 2016 and 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>
	56,875
At 31 March 2015	56,875
Imputed interest expense for the year	9,774
Coupon interest paid	<u>(2,250)</u>
	64,399
At 31 March 2016	<u><u>64,399</u></u>

None of the Bonds has been converted into ordinary shares of the Company during both years.

12. ACQUISITION OF A SUBSIDIARY

On 31 March 2016, the Group acquired the entire equity interest in 本溪市威寧水力發電有限公司 (“Benxi Weining”) from an independent third party for a cash consideration of RMB30,000,000 (equivalent to HK\$35,860,000). Benxi Weining is currently engaged in operation and management of a hydroelectric power station in the PRC. The transaction has been accounted for using the acquisition method. The acquisition is part of the on-going expansion strategy of the Group with the aim of diversifying its operations and broadening its source of revenue.

	<i>HK\$'000</i>
Fair value of identifiable assets acquired at the date of obtaining control was as follows:	
Property, plant and equipment	35,781
Bank balances and cash	<u>79</u>
	<u><u>35,860</u></u>
Consideration transferred, satisfied by cash	15,477
Deferred consideration included in other payables in current liabilities	<u>20,383</u>
	<u><u>35,860</u></u>
Analysis of net outflow of cash and cash equivalents in respect of acquisition of Benxi Weining:	
Cash consideration paid	(15,477)
Bank balances and cash acquired	<u>79</u>
	<u><u>(15,398)</u></u>

During the year ended 31 March 2016, the acquisition of Benxi Weining has no contribution to the Group's revenue or loss in the consolidated financial statements.

13. DISPOSAL OF A SUBSIDIARY

On 6 March 2016, the Group disposed of its entire equity interest in its subsidiary, Shi Hua Development Holdings Limited, to an independent third party at a cash consideration of RMB73,000,000 (equivalent to HK\$86,813,000).

	<i>HK\$'000</i>
Consideration received:	
Cash received	5,946
Deferred consideration included in other receivable in current assets	<u>80,867</u>
	<u><u>86,813</u></u>
Analysis of assets and liabilities over which control has lost:	
Deposit paid for acquisition of a property	71,353
Bank balances and cash	8
Other payables	<u>(6)</u>
	<u><u>71,355</u></u>
Gain of disposal of a subsidiary:	
Consideration received and receivable	86,813
Net asset derecognised	(71,355)
Release of translation reserve	<u>(5,247)</u>
	<u><u>10,211</u></u>
Net cash inflow arising on the disposal:	
Cash consideration received	5,946
Bank balances and cash disposed of	<u>(8)</u>
	<u><u>5,938</u></u>

14. CAPITAL COMMITMENTS

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of acquisition and construction of properties contracted for but not provided in the consolidated financial statements	<u>5,084</u>	<u>264,976</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Principal Activities

The principal activity of the Company is investment holding. Its principal subsidiaries are engaged in the design and sale of a wide range of electronic products, operation and management of a hydroelectric power station, properties investment and securities trading during the year.

Turnover

In 2015, the Group recorded a revenue of HK\$425,523,000 (2015: HK\$381,863,000), representing an increase of 11% as compared to the corresponding period of the previous year.

Electronic Division

The turnover of the Group was mainly derived from the sales of electronic products, whereas the manufacturing and selling of electronic products in the previous year. The turnover of the Group increased by 11% during the year. Segment loss has reduced from HK\$54,192,000 for the year ended 31 March 2015 to HK\$2,683,000 for the year ended 31 March 2016 due to the cessation of manufacturing business in the previous financial year. In considering the rising production cost in the past few years which resulted in the rapid decrease in the gross profit margin, the Group disposed of a separate line of manufacturing business in the past financial year.

Properties Investment

The Group reported a segment profit of HK\$4,348,000 for the year ended 31 March 2016 (2015: HK\$16,868,000) due to the combined effect of gain on disposal of a subsidiary at the amount of HK\$10,211,000 and the decrease in fair value of investment properties at the amount of HK\$5,863,000.

Securities Trading

The Group recorded a segment profit of HK\$6,000 for the year ended 31 March 2016 due to the increase in fair value of investment held for trading.

Gross Profit/Loss and Results

The Group's group profit turned around from HK\$59,052,000 for the year ended 31 March 2015 to HK\$103,045,000 for the year ended 31 March 2016. This improvement is mainly due to the Group's restructuring on the electronic products business in the previous financial year and the cost control during the year.

A one-off gain on disposal of a subsidiary of HK\$10,211,000 was recorded during the year while 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 were recorded in previous financial year.

As a result, the loss before taxation for the year ended 31 March 2016 decreased to HK\$15,999,000 compared to the loss before taxation for the year ended 31 March 2015 of HK\$247,131,000.

Financial Position

Liquidity and Financial Resources

As at 31 March 2016, the financial position of the Group has undergone a significant improvement. Bank balances and cash has increased to HK\$249,130,000, as compared to HK\$36,718,000 last year.

As at 31 March 2016, gearing ratio calculated as 0.35, excluding convertible bonds (31 March 2015: 0.11). The increase of the Group's gearing ratio represents the increase of the debt portion at of the year end. The management utilized the gearing platform in order to further develop its business.

The current ratio of the Group is higher than last year, it increased from 1.48 to 1.59. This simply means that it is easier to pay off its liabilities and therefore reduces the solvency problem.

Financing and Capital Structure

As at 31 March 2016, the total borrowing and note payable were HK\$119,903,000 and HK\$5,932,000 respectively, but the Group only had note payable of HK\$8,943,000 as at 31 March 2015. The Group's borrowing is a fixed-rate borrowing and bears interest at 8.5% per annum (2015: Nil). Note payable carries interest at 6% per annum (2015: same).

For the year ended 31 March 2016, the Group's transactions were mostly denominated in US dollars, Hong Kong dollars and Reminbi and Canadian dollars. The Group did not have significant exposure to foreign exchange fluctuation as the management monitors the related foreign currencies closely and will consider hedging for significant foreign currency exposure, if necessary.

Result of the Capital Reorganisation and Open Offer

On 20 August 2015, the Company proposed to effect the Capital Reorganisation, change the Board Lot Size and raise approximately HK\$251,169,000 before expenses by issuing 2,920,568,484 offer shares to the qualifying shareholders at the subscription price of HK\$0.086 per offer share on the basis of four offer shares for every one adjusted share held on the record date (the "Open Offer"). On 23 February 2016, 2,920,568,484 ordinary shares were allotted and issued pursuant to the Open Offer. The net proceeds for the Open Offer were approximately HK\$246,598,000.

Up to the date of this announcement, proceeds from the Open Offer were (i) approximately HK\$208,276,000 has been used for repaying the whole amount due to Achieve Prosper Capital Limited under the Promissory Note, and (ii) approximately HK\$20,000,000 has been used for repaying the outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance. For the remaining proceeds from the Open Offer, the Company intends to use for the Group's property investment business.

For details of the Open Offer, please refer to (i) the circular of the Company dated 27 November 2015, (ii) the prospectus of the Company dated 27 January 2016, and (iii) the announcements of the Company dated 17 December 2015, 21 December 2015, 22 December 2015, 24 December 2015, 13 January 2016, 15 January 2016, 26 January 2016, 27 January 2016 and 22 February 2016.

Update on use of proceeds from the Subscription of Convertible Bonds

With reference to the joint announcement of Achieve Prosper Capital Limited (the "Offer") and the Company and Fairy King Prawn Holdings Limited dated 21 March 2014 in relation to, among others, the CB Subscription; (ii) the circular (the "Circular") of the Company dated 24 May 2014 in relation to, among others, the CB Subscription; (iii) the joint announcement of the Offeror and the Company dated 29 May 2014 in relation to extension of CB Subscription Long Stop Date; and (iv) the announcement of the Company dated 30 July 2014 in relation to the completion of CB Subscription. The net proceeds from the issue of the Convertible Bonds are approximately HK\$74,788,000. It was intended that a small portion of the net proceeds will be paid by the Company to the Administrators Vehicle for the purpose of implementing the Creditors' Scheme whilst the remaining portion will be applied for funding new investments which the Group may from time to time identify and for general working capital purposes.

Up to the date of this announcement, approximately (i) HK\$52,824,000 (up to 31 March 2015: HK\$51,645,000) has been used for the general working capital of the Group, (ii) approximately HK\$12,000,000 (up to 31 March 2015: HK\$12,000,000) has been paid by the Company to the Administrators Vehicle for the purpose of implementing the Creditors' Scheme, and (iii) the remaining proceeds of approximately HK\$9,964,000 has been maintained at a bank and will be used as intended. No proceeds have been applied for funding new investments of the Group as at the date of this announcement.

Pledge of Assets

The general credit facilities granted to the Group and the margin accounts with securities brokers are secured by an investment property under construction of HK\$188,967,000 (2015: Nil), deposits with securities brokers of HK\$32,000 (2015: HK\$47,000) and investment held for trading of HK\$74,000 (2015: HK\$73,000).

Contingent Liabilities

The Group had no material contingent liabilities for both years.

Environmental policies and performance

The Group's business do not involve in production-related air, water and land pollutions which are regulated under national laws and regulations. From 2016, the Group commenced the operation of a hydroelectric power station to protect the environment. Hydroelectricity does not "use" water, all of the water is returned to its source of origin. It doesn't pollute the air like power plants that burn fossil fuels such as coal or natural gas. It is absolutely a clean source of energy.

Prospects

It has been the Group's business strategy to diversify its business and broaden the revenue stream for the Group and to enhance the shareholders' value. Apart from the original businesses of the Group, the Company has formulated long term business plans and capture potential business opportunities in different industries with great potential to achieve better results and faster growth for the Group.

Trading business of the electronic products

The turnover of the design and sale of electronic products for the year 31 March 2016 was amounted to HK\$425,523,000, representing 11% increase compared to the corresponding period of the previous year. By eliminating the administrative costs and manufacturing costs incurred from the manufacturing business upon the completion of the Group Restructuring and the implement of the Creditor's Scheme (please refer to the circular of the Company dated 24 May 2014, announcements of the Company dated 26 June 2014, 10 March 2015 and 13 March 2015 for further details) and adoption of a series of cost cutting measures, it enables the Company to have more resources and flexibilities on the merchandising and marketing for the trading business of the electronic products during the year. However, having considered that the slower and weaker recovery of the global economy and the uncertainties towards the current market conditions, political conditions and the fluctuation of the foreign currencies, the Board will adopt a cautious approach on the trading business of the electronic products and closely monitor on the market trends and the cost components in order to enable the Company to make immediate actions and responses when needed.

Property development and investment business

During the year, the Group has leveraged on the extensive experience of properties investment of its controlling shareholder and successfully completed two acquisitions and one disposal in the PRC for the development in the property investment business.

With reference to the circular of the Company dated 29 April 2015 and announcements of the Company dated 18 March 2015, 27 April 2015, 30 June 2015 and 3 August 2015, the Group entered into a sale and purchase agreement (amended and supplemented by supplemental agreement dated on 27 April 2015) for the acquisition of a 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 Property is located at one of the core commercial districts of Benxi, Liaoning Province and is part of the property development project of Liaoning Shihua, namely Shihua- Melian City. A part of the property is subject to a premises lease agreement for operating a Wal-Mart store. With the final consent obtained from Wal-Mart (Liaoning) Store Co. Ltd on 27 July 2015, the acquisition took place on 3 August 2015. The construction of the Property is processing smoothly and the Company is under the negotiations with various potential and sizeable tenants for the leasing of the remaining part of the Property. It is expected that the construction will be completed by the end of 2016.

On 10 December 2015, the Group entered into a land use rights grant contract (the “Contract”) with the Land and Resources Bureau of Benxi City. Pursuant to the terms of the Contract, the Group acquired the land use rights of a parcel of land of site area of 1,075 sq.m. located in front of the train station of Benxi City, Liaoning Province, the PRC (the “Land”) at a consideration of RMB9,400,000. The term of the grant is 40 years from the date of delivery of the Land by the Benxi Land Bureau. The Group is developing the Land for commercial use and the Land will comprise a 2-storey commercial property with a total gross area of approximately 960 sq.m., which could be used for running catering businesses. The site is currently under construction and it is expected that the construction will be completed by the end of 2016. The Company is also under negotiations with various catering companies for the leasing.

In addition to the two acquisitions, the Company also disposed of a subsidiary holding the deposit for acquisition of a property in last year in return for a gain at approximately HK\$10,211,000 during the year. The disposal provided additional funding to the Company to capture suitable business opportunities.

Renewable energy business

In light of the uncertainties in the current market conditions, the Group further diversified its business into the development and operation of renewable energy which is one of the global concerns and issues nowadays, especially in the PRC. In March 2016, the Company entered into an equity transfer agreement with a PRC company to acquire the entire interest of a company which is engaged in the operation and management of a hydroelectric power station in Benxi City, Liaoning Province, PRC. In considering the growing environmental concerns over global warming and climate change risks associated with the current energy generation, the Company believes that the importance and the demand of the renewable energy for global energy consumption will continuously increase and the government of the PRC may provide favourable policy to encourage this sector. The Company will leverage the experience in running the renewable energy business and is actively looking for new business opportunities in this sector. The Board expects that the expansion into the renewable energy business will be beneficial to the Company in a long run.

Looking forward, it is expected that business environment will remain tough in the coming financial year. To respond and embrace any challenges ahead, the Board will continue devoting effort on formulating long term business strategies and to strengthen, broaden, review and reconstruct the business portfolio of the Group in order to achieve better results and corporate goals for the Group and the shareholders.

Staff

As at 31 March 2016, the Group had a total staff of 50. Staff remuneration packages are maintained at a competitive level and reviewed on a regular basis. Apart from the remuneration packages, discretionary bonus may be granted to senior management and employee by reference to the Group's performance as well as the individual performance. In addition, the Group also provides employee benefits such as staff insurance, retirement scheme and training programs.

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 2016, 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 of the Code 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 of the Code, all directors will be voluntarily returned from his directorship at the subsequent annual general meetings of the Company at least once every three years, provided that, being eligible, may offer themselves for re-election at the annual general meeting.

In respect of code provision A.6.7 of the Code, the non-executive director, Mr. Li Jun and the independent non-executive director Mr. Yang Xin Hua were unable to attend the annual general meeting of the Company held on 2 September 2015 due to other business commitments.

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 auditor 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 2016.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2016. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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. Having made specific enquiry to all directors of the Company, all of them confirmed that they have complied with the Model Code throughout the year ended 31 March 2016.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

The results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.00485.hk. The annual report of the Company for the year ended 31 March 2016 containing all information required by the Listing Rules will be despatched to the shareholders and published on above websites in due course.

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

Hong Kong, 29 June 2016

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