



Interim Report
2014/2015



實華發展
SHIHUA DEVELOPMENT

實華發展有限公司
Shihua Development Company Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 485



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Wang Jing (Chairman)
Wang Xing Qiao (Chief Executive Officer)
Chen Wan Jin
Zhao Shuang

Non-Executive Director:

Li Jun

Independent Non-Executive Directors:

Yang Xin Hua
Wang Ping
Cheng Tai Kwan Sunny

AUDIT COMMITTEE

Yang Xin Hua
Wang Ping
Cheng Tai Kwan Sunny

REMUNERATION COMMITTEE

Yang Xin Hua
Wang Ping
Cheng Tai Kwan Sunny

NOMINATION COMMITTEE

Wang Jing
Yang Xin Hua
Cheng Tai Kwan Sunny

COMPANY SECRETARY

Lam Wai Kei

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKER

The Hongkong and Shanghai
Banking Corporation Limited

SOLICITOR

Cheung & Lee in association with Locke
Lord (HK) LLP

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INTERIM RESULTS

The Board of Directors of Shihua Development Company Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Notes	Six months ended 30 September	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Turnover	3	186,783	160,684
Cost of sales		<u>(162,368)</u>	<u>(162,489)</u>
Gross profit (loss)		24,415	(1,805)
Other income	4	6,963	7,734
Distribution costs		<u>(16,360)</u>	<u>(22,030)</u>
Administrative expenses		<u>(34,722)</u>	<u>(34,392)</u>
Other gains and losses	5	(1,448)	1,886
Increase in fair value of investment properties		5,704	–
Interest expenses		<u>(2,912)</u>	<u>(3,960)</u>
Loss arising from the issue of convertible bonds		<u>(38,536)</u>	<u>–</u>
Loss arising from distribution in specie of shares in a subsidiary	18	<u>(138,946)</u>	<u>–</u>
Share of profits of an associate		<u>73</u>	<u>49</u>
Loss before taxation	6	<u>(195,769)</u>	<u>(52,518)</u>
Tax credit	7	<u>743</u>	<u>1,538</u>
Loss for the period		<u>(195,026)</u>	<u>(50,980)</u>
Other comprehensive income (expense)			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		416	(1,649)
Release upon distribution in specie of shares in a subsidiary	18	<u>(795)</u>	<u>–</u>
Other comprehensive expense for the period		<u>(379)</u>	<u>(1,649)</u>
Total comprehensive expense for the period		<u>(195,405)</u>	<u>(52,629)</u>
Loss for the period attributable to:			
Owners of the Company		<u>(194,174)</u>	<u>(50,081)</u>
Non-controlling interests		<u>(852)</u>	<u>(899)</u>
		<u>(195,026)</u>	<u>(50,980)</u>
Total comprehensive expense for the period attributable to:			
Owners of the Company		<u>(194,556)</u>	<u>(51,786)</u>
Non-controlling interests		<u>(849)</u>	<u>(843)</u>
		<u>(195,405)</u>	<u>(52,629)</u>
Loss per share			
– Basic and diluted	9	<u>(9.58) cents</u>	<u>(3.08) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2014

		At 30 September 2014 HK\$'000 (unaudited)	At 31 March 2014 HK\$'000 (audited)
Non-current assets			
Investment properties		27,229	254,825
Property, plant and equipment	10	62,224	77,787
Prepaid lease payments		3,230	3,290
Goodwill		17,665	17,665
Interest in an associate		6,439	6,366
Available-for-sale investments		9,400	9,400
Deferred tax assets		20,178	18,951
		<u>146,365</u>	<u>388,284</u>
Current assets			
Inventories		145,079	80,842
Debtors, deposits and prepayments	11	114,267	31,530
Prepaid lease payments		121	121
Investments held for trading		413	475
Pledged bank deposits		1,077	1,077
Bank balances and cash		60,349	28,046
		<u>321,306</u>	<u>142,091</u>
Current liabilities			
Creditors and accrued charges	12	273,732	103,400
Amount due to a shareholder		11,000	12,000
Taxation payable		1,046	1,080
Borrowings		41,737	68,805
Bank overdrafts		1,353	1,969
		<u>328,868</u>	<u>187,254</u>

		At 30 September 2014 HK\$'000 (unaudited)	At 31 March 2014 HK\$'000 (audited)
Net current liabilities		<u>(7,562)</u>	<u>(45,163)</u>
Total assets less current liabilities		<u>138,803</u>	<u>343,121</u>
Non-current liabilities			
Deferred tax liabilities		4,514	4,995
Convertible bonds	13	<u>53,399</u>	<u>–</u>
		<u>57,913</u>	<u>4,995</u>
Net assets		<u>80,890</u>	<u>338,126</u>
CAPITAL AND RESERVES			
Share capital	14	203,381	201,343
Reserves		<u>(136,244)</u>	<u>120,373</u>
Equity attributable to owners of the Company		<u>67,137</u>	321,716
Non-controlling interests		<u>13,753</u>	<u>16,410</u>
Total equity		<u>80,890</u>	<u>338,126</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Attributable to owners of the Company										Attributable to non-controlling interests					
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Other property revaluation reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Convertible bonds/notes reserve HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Share of net assets (liabilities) of subsidiaries HK\$'000	Share option reserve of a listed subsidiary HK\$'000	Sub-total HK\$'000	Total HK\$'000
At 1 April 2014 (audited)	201,343	146,883	37,138	128	52,578	9,627	3,993	-	292,448	-	(422,422)	321,716	14,867	1,543	16,410	338,126
Exchange difference arising on translation of foreign operations	-	-	-	-	-	413	-	-	-	-	-	413	3	-	3	416
Release upon distribution in specie of shares in a subsidiary (note 18)	-	-	-	-	-	(795)	-	-	-	-	-	(795)	-	-	-	(795)
Other comprehensive (expense) income for the period	-	-	-	-	-	(382)	-	-	-	-	-	(382)	3	-	3	(379)
Loss for the period	-	-	-	-	-	-	-	-	-	-	(194,174)	(194,174)	(852)	-	(852)	(195,026)
Total comprehensive expense for the period	-	-	-	-	-	(382)	-	-	-	-	(194,174)	(194,556)	(849)	-	(849)	(195,405)
Issue of shares upon exercise of share options	2,038	1,088	-	-	-	-	(468)	-	-	-	2,658	-	-	-	2,658	-
Transfer of share premium to contributed surplus (note)	-	(147,971)	-	-	-	-	-	-	147,971	-	-	-	-	-	-	-
Special dividends by way of distribution in specie of shares in a subsidiary (note 8 & 18)	-	-	-	-	-	-	-	-	(124,062)	-	(124,062)	(2,121)	-	(2,121)	(126,183)	
Release upon distribution in specie of shares in a subsidiary (note 18)	-	-	(37,138)	-	(44,187)	-	-	-	-	-	81,325	-	-	-	-	
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	59	-	59	59	
Deemed partial disposal of a subsidiary	-	-	-	16	-	-	-	-	-	-	16	(16)	-	(16)	-	
Issue of convertible bonds	-	-	-	-	-	-	-	61,480	-	-	61,480	-	-	-	61,480	
Transaction costs incurred in connection with issue of convertible bonds	-	-	-	-	-	-	(115)	-	-	-	(115)	-	-	-	(115)	
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	-	-	270	-	270	270	
Cancellation of share options	-	-	-	-	-	(3,329)	-	-	-	-	3,325	-	-	-	-	
At 30 September 2014 (unaudited)	203,381	-	-	144	8,391	9,245	-	61,365	292,448	23,909	(531,746)	67,137	11,940	1,813	13,753	80,890
At 1 April 2013 (audited)	162,721	137,855	37,138	106	52,578	9,290	5,031	5,560	292,448	-	(228,844)	472,893	11,067	764	11,831	484,724
Exchange difference arising on translation of foreign operations and other comprehensive (expense) income for the period	-	-	-	-	-	(1,705)	-	-	-	-	-	(1,705)	56	-	56	(1,649)
Loss for the period	-	-	-	-	-	-	-	-	-	-	(50,081)	(50,081)	(899)	-	(899)	(50,980)
Total comprehensive expense for the period	-	-	-	-	-	(1,705)	-	-	-	-	(50,081)	(51,786)	(843)	-	(843)	(52,629)
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	59	-	59	59	
Deemed partial disposal of a subsidiary	-	-	-	20	-	-	-	-	-	-	20	(20)	-	(20)	-	
Issue of shares upon exercise of share options	50	14	-	-	-	(14)	-	-	-	-	50	-	-	-	50	
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	-	-	115	-	115	115	
At 30 September 2013 (unaudited)	162,781	137,869	37,138	126	52,578	7,585	5,017	5,560	292,448	-	(278,925)	421,177	10,263	879	11,142	432,319

Note: Pursuant to a special resolution passed in the special general meeting of the Company held on 16 June 2014, an amount of HK\$147,971,000 standing to the credit of share premium has been reduced and transferred to contributed surplus.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Note	Six months ended 30 September	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Net cash used in operating activities		<u>(49,341)</u>	<u>(67,921)</u>
Net cash (used in) from investing activities			
Interest received		6	5
Purchase of property, plant and equipment		(447)	(1,065)
Proceeds from disposal of property, plant and equipment		<u>–</u>	<u>1,348</u>
		<u>(441)</u>	<u>288</u>
Net cash from financing activities			
Proceeds on issue of convertible bonds		75,000	–
Net increase in trust receipts and import loans and loans related to bills discounted with recourse		27,682	51,166
Proceeds from issue of shares upon exercise of share options		2,658	50
Capital contribution from non-controlling shareholders of a subsidiary		59	59
Net cash outflow from distribution in specie of shares in a subsidiary	18	(17,609)	–
Interest on bank and other borrowings paid		(1,472)	(1,972)
Repayment to a shareholder		(1,000)	–
Transaction costs incurred in connection with the issue of convertible bonds		<u>(212)</u>	<u>–</u>
		<u>85,106</u>	<u>49,303</u>
Net increase (decrease) in cash and cash equivalents		35,324	(18,330)
Cash and cash equivalents at beginning of the period		26,077	35,806
Effect of foreign exchange rate changes		<u>(2,405)</u>	<u>(1,705)</u>
Cash and cash equivalents at end of the period		<u>58,996</u>	<u>15,771</u>
Analysis of balances of cash and Cash equivalents			
Bank balances and cash		60,349	20,794
Bank overdrafts		<u>(1,353)</u>	<u>(5,023)</u>
		<u>58,996</u>	<u>15,771</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by HK\$7,562,000 as at 30 September 2014 and the Group incurred loss for the period of HK\$195,026,000 (including loss arising from distribution in specie of shares in a subsidiary of HK\$138,946,000) and HK\$50,980,000 for the six months ended 30 September 2014 and 30 September 2013, respectively. After the completion of distribution in specie of shares in a subsidiary (see Note 18), one of the former subsidiaries of the Group has agreed not to demand the Group to repay the amount due to it of HK\$78,989,000 until the Group is in a financial position to repay. Accordingly, the directors of the Company considered it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measurement at revalued amounts of fair value.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2014.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 April 2014.

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 interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

In addition, the Group has applied the following accounting policy for distribution in specie during the current interim period:

Distribution in specie

Non-cash assets distributed to the owners of the Company are measured at fair value. The difference between the fair value and the carrying amount of the assets distributed is recognised in profit or loss.

3. REVENUE AND SEGMENT INFORMATION

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 basis on which the Group reports its segment information. The Group continues to be organised into the above three operating divisions after 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:

For the six months ended 30 September 2014

	Design, manufacture and sale of electronic products HK\$'000 (unaudited)	Property investment HK\$'000 (unaudited)	Securities trading HK\$'000 (unaudited)	Consolidated HK\$'000 (unaudited)
TURNOVER	<u>186,783</u>	<u>–</u>	<u>–</u>	<u>186,783</u>
SEGMENT RESULTS	<u>(25,847)</u>	<u>11,586</u>	<u>(65)</u>	<u>(14,326)</u>
Interest income				6
Unallocated expenses				(1,128)
Share of profits of an associate				73
Loss arising from the issue of convertible bonds				(38,536)
Loss arising from distribution in specie of shares in a subsidiary				(138,946)
Interest expenses				<u>(2,912)</u>
Loss before taxation				<u>(195,769)</u>

For the six months ended 30 September 2013

	Design, manufacture and sale of electronic products <i>HK\$'000</i> (unaudited)	Property investment <i>HK\$'000</i> (unaudited)	Securities trading <i>HK\$'000</i> (unaudited)	Consolidated <i>HK\$'000</i> (unaudited)
TURNOVER	<u>160,684</u>	<u>–</u>	<u>–</u>	<u>160,684</u>
SEGMENT RESULTS	<u>(50,735)</u>	<u>4,003</u>	<u>335</u>	<u>(46,397)</u>
Interest income				5
Unallocated expenses				(2,215)
Share of profits of an associate				49
Interest expenses				<u>(3,960)</u>
Loss before taxation				<u>(52,518)</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 profits of an associate, interest income and interest expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. OTHER INCOME

	Six months ended 30 September	
	2014 <i>HK\$'000</i> (unaudited)	2013 <i>HK\$'000</i> (unaudited)
Other income includes:		
Rental income	5,931	4,760
Interest income	6	5
Dividend income from listed equity securities	4	10
Others	<u>1,022</u>	<u>2,959</u>
	<u>6,963</u>	<u>7,734</u>

5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Other (losses) gains comprise:		
Reversal of bad debts written off	13	13
Exchange (loss) gain, net	(892)	665
Allowance for doubtful debts	(507)	(155)
(Decrease) increase in fair value of investments held for trading	(62)	318
Gain on disposal of property, plant and equipment	–	1,038
Increase in fair value of financial assets designated at fair value through profit or loss	–	7
	<u>(1,448)</u>	<u>1,886</u>

6. LOSS BEFORE TAXATION

	Six months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Loss before taxation has been arrived at after (crediting) charging:		
(Reversal of allowance) allowance for obsolete and slow-moving inventories (included in cost of sales)	(3,667)	22,601
Depreciation of property, plant and equipment	2,029	4,608
Interest expenses on:		
– bank overdrafts	42	117
– borrowings wholly repayable within five years	1,430	1,855
– Convertible bonds	1,440	–
– Convertible notes	–	1,988
Minimum lease payments under operating leases in respect of rented premises	3,054	5,391
Release of prepaid lease payments	60	60
Staff cost including directors' remuneration and share-based payments	<u>25,426</u>	<u>30,641</u>

7. TAX CREDIT

	Six months ended	
	30 September	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The (credit) charge comprises:		
Hong Kong Profits Tax		
Current period	–	–
Underprovision in prior period	–	195
	<u>–</u>	<u>195</u>
Taxation in other jurisdictions		
Current period	570	558
Overprovision in prior period	(86)	(257)
	<u>484</u>	<u>301</u>
Deferred taxation	<u>(1,227)</u>	<u>(2,034)</u>
	<u>(743)</u>	<u>(1,538)</u>

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 September 2013: 16.5%) of the estimated assessable profit for the period. No provision of Hong Kong Profits Tax has been made as the Group did not generate any assessable profits in Hong Kong for both periods.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (six months ended 30 September 2013: 25%).

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

8. DIVIDENDS

	Six months ended	
	30 September	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period:		
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. Details of the assets and liabilities distributed are set out in note 18.

Other than the special dividends, the directors of the Company have determined that no dividends will be paid in respect of the interim period (six months ended 30 September 2013: nil).

9. LOSS PER SHARE

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

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	<u>(194,174)</u>	<u>(50,081)</u>
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>2,026,793,200</u>	<u>1,627,566,290</u>

For the period ended 30 September 2014, the calculation of diluted loss per share does not assume the conversion of the outstanding convertible bonds as it would result in a decrease in the loss per share.

For the period ended 30 September 2013, the calculation of diluted loss per share does not assume the exercise of the outstanding share options and the conversion of the outstanding convertible notes as it would result in a decrease in the loss per share and the exercise prices of those share options higher than the average market price for shares.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2014, the Group spent HK\$447,000 (six months ended 30 September 2013: HK\$1,065,000) on purchase of property, plant and equipment and property, plant and equipment of HK\$14,040,000 (six months ended 30 September 2013: nil) were disposed of by way of distribution in specie of shares in a subsidiary.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30 September 2014, debtors, deposits and prepayments include trade debtors of HK\$86,659,000 (31 March 2014: HK\$18,050,000). The aging 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:

	30 September 2014 HK\$'000 (unaudited)	31 March 2014 HK\$'000 (audited)
0 – 30 days	67,560	10,740
31 – 60 days	14,548	311
61 – 90 days	2,291	2,093
Over 90 days	2,260	4,906
	<u>86,659</u>	<u>18,050</u>

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

12. CREDITORS AND ACCRUED CHARGES

At 30 September 2014, creditors and accrued charges include trade creditors of HK\$115,089,000 (31 March 2014: HK\$32,954,000). The aging analysis of trade creditors presented based on the invoice date at the end of the reporting period is as follows:

	30 September 2014 HK\$'000 (unaudited)	31 March 2014 HK\$'000 (audited)
0 – 30 days	66,489	8,900
31 – 60 days	21,433	2,031
61 – 90 days	19,077	139
Over 90 days	8,090	21,884
	<u>115,089</u>	<u>32,954</u>

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

13. 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 Achieve Prosper Capital Limited, 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 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 30 September 2014.

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

	<i>HK\$'000</i> (unaudited)
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 period	<u>1,440</u>
At 30 September 2014	<u>53,399</u>

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

14. SHARE CAPITAL

Ordinary shares of HK\$0.1 each	Number of shares	Amount HK\$'000
Authorised:		
At 1 April 2013, 30 September 2013, 1 April 2014 and 30 September 2014	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 April 2013	1,627,316,290	162,731
Issue of shares upon exercise of share options	<u>500,000</u>	<u>50</u>
At 30 September 2013	1,627,816,290	162,781
Issue of shares upon exercise of share options	36,576,000	3,658
Issue of shares upon exercise of convertible notes	<u>349,038,461</u>	<u>34,904</u>
At 31 March 2014	2,013,430,751	201,343
Issue of share upon exercise of share options	<u>20,377,734</u>	<u>2,038</u>
At 30 September 2014	<u>2,033,808,485</u>	<u>203,381</u>

All shares issued rank pari passu in all respects with the then existing shares in all aspects.

15. CAPITAL COMMITMENT

	30.9.2014 HK\$'000 (unaudited)	31.3.2014 HK\$'000 (audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>201</u>	<u>201</u>

16. RELATED PARTY TRANSACTIONS

The Group entered into the following related party transactions:

- (a) During the six months ended 30 September 2014, the Group paid salaries and other short term employee benefits of HK\$146,000 (six months ended 30 September 2013: HK\$154,000) to certain close family members of Mr. Lau Sak Hong, Philip, a former director and a former substantial shareholder of the Company, as employees of the Group.

(b) **Compensation of key management personnel**

The remuneration of directors and other member of key management during the period was as follows:

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Salaries and other short term employee benefits	2,008	2,619
Retirement benefit schemes contributions	28	40
	<u>2,036</u>	<u>2,659</u>

17. CONTINGENT LIABILITIES

There are no significant contingent liabilities as at 30 September 2014 and 31 March 2014.

18. DISTRIBUTION IN SPECIE OF SHARES IN A SUBSIDIARY

On 26 June 2014, the Company made a distribution in specie of shares in a subsidiary, 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.

The details of the net assets of SIH and its subsidiaries were as follows:

	<i>HK\$'000</i> (unaudited)
Analysis of assets and liabilities over which control was lost:	
Investment properties	233,300
Property, plant and equipment	14,040
Inventories	3,926
Debtors, deposits and prepayments	123,693
Bank balances and cash	17,609
Creditors and accrued charges	(157,546)
Deferred tax liabilities	(481)
Taxation payable	(34)
Borrowings	(54,750)
	<hr/>
Net assets transferred	179,757
	<hr/>
	<i>HK\$'000</i> (unaudited)
Loss arising from distribution in specie of shares in a subsidiary:	
Fair value of shares in a subsidiary	124,062
Net assets transferred	(179,757)
Reinstatement of the balances among the Group and SIH and its subsidiaries	(86,167)
Non-controlling interests	2,121
Release of translation reserve	795
	<hr/>
	(138,946)
	<hr/>
Net cash outflow from distribution in specie of shares in a subsidiary	
Bank balances and cash	(17,609)
	<hr/>

19. EVENTS AFTER THE REPORTING PERIOD

Change of Company Name

In October 2014, the name of the Company was changed from "STARLIGHT INTERNATIONAL HOLDINGS LIMITED" to "Shihua Development Company Limited" and the Chinese name "實華發展有限公司" as the secondary name of the Company.

Meeting of Creditors

The resolutions of both the scheme of arrangement between the Company and its relevant creditors pursuant to Section 670 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Hong Kong Scheme") and pursuant to Section 99 of the Companies Act 1981 of Bermuda (the "Bermuda Scheme") of the Company were duly passed in the meeting of creditors held on 6 November 2014 (the "Scheme Meetings"). The results of the Scheme Meetings will be submitted to the High Court of Hong Kong and the Supreme Court of Bermuda when the Company applies for the sanctioning of the Hong Kong Scheme and the Bermuda Scheme.

GROUP RESULTS

For the six months ended 30 September 2014, the Group recorded a turnover of HK\$187 million, an increase of 16% compared to the turnover of HK\$161 million for the corresponding period in 2013.

The gross profit margin in the six months ended 30 September 2014 was 13% compared to the gross loss margin of 1% in the comparable period in 2013.

The loss attributable to owners of the Company was HK\$194 million compared to a loss of HK\$50 million for the corresponding period in 2013.

REVIEW AND PROSPECTS

Sales increased by HK\$26 million were mainly due to a rise in orders of karaoke system from our customers. However, dwindling demand of TV sets in North America and a strong competition in price cutting remained in TV sales.

Gross profit in the current period was the result of sales orders increase in karaoke system. The factory overhead stayed at a high level relative to the volume of production output. As demands of LCD TV declined our production volume decreased. Absorption of fixed overhead per unit of output became high.

Decrease in distribution costs of HK\$5.7 million was related to reduction in sales activities. Administrative expenses increased slightly from HK\$34 million in 2013 to HK\$35 million in the current period.

Net loss before taxation increased from HK\$53 million in 2013 to HK\$196 million in the current period. The increase in net loss was due to the loss arising from the issue of convertible bonds of HK\$38.5 million and the loss arising from distribution in specie of shares of HK\$138.9 million.

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. The Group is planning to leverage on experience and network of the new controlling shareholder in the PRC to capture business and investment opportunities. Various proposals are being considered, however they are at very preliminary stage and have not been confirmed.

FINANCIAL POSITION

Liquidity and financial resources

As at 30 September 2014, cash and deposits amounted to HK\$60 million, as compared to HK\$28 million as at 31 March 2014. Cash was primarily used on repaying short term bank loans, with an aim to release trade facilities to finance the increase in inventory leading up to the holiday selling season.

Gearing ratio calculated as total borrowings, which excludes convertible bonds and amount due to a shareholder, to shareholders' funds was 0.64 (31 March 2014: 0.22), and net borrowings, calculated as total borrowings less bank balances and cash, to shareholders' funds was negative 0.26 for the period (31 March 2014: 0.13). Current ratio calculated as current assets to current liabilities was 0.98 (31 March 2014: 0.76).

Financing and capital structure

The Group finances its operations by combination of equity and borrowings. As at 30 September 2014, the Group's total borrowings was HK\$43 million (31 March 2014: HK\$71 million), of which the whole amount is repayable within one year. Net borrowings is negative HK\$17 million (31 March 2014: HK\$43 million).

The Group's transactions were mostly denominated in US dollars and HK dollars. The exposure to exchange risk was insignificant.

STAFF

As at 30 September 2014, the Group had a total staff of 212 of which 186 were employed in the PRC for the Group's manufacturing business.

The Group provides employee benefits such as health insurance, retirement scheme, discretionary bonus and share option scheme and also provides in-house training programmes and external training sponsorship.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2014, 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 Securities and Futures Ordinance ("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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

(I) Long position in the Shares

Names of Directors	Long position/ Short Position	Capacity	Number of shares held	Approximate percentage of shareholding as at 30.9.2014
<i>Executive Director</i>				
Wang Jing	Long position	Interest of controlled corporation	1,085,755,571 <i>(Note)</i>	53.39%

Note:

These 1,085,755,571 shares are held by Achieve Prosper Capital Limited ("Achieve Prosper"), which is a company incorporated in Samoa and wholly and beneficially owned by Hong Kong Shihua Holdings Limited (a company incorporated in Hong Kong), which is in turn wholly and beneficially owned by 遼寧實華(集團)房地產開發有限公司 (Liaoning Shihua (Group) Property Development Company Limited*) ("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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), Mr. Wang Jing is deemed to be interested in these 1,085,755,571 shares.

* For identification purposes only

(II) Long position in the underlying Shares

Names of Directors	Number of underlying shares held	Position	Approximate percentage of the shareholding as at 30.9.2014
Wang Jing	436,046,511 (Note)	Executive Director	21.44%

Note:

These underlying shares represent the conversion shares which are issuable upon the exercise of the convertible bonds in the principal amount of HK\$75,000,000 granted to Achieve Prosper on 30 July 2014. By virtue of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), Mr. Wang Jing is deemed to be interested in such underlying shares.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, as at 30 September 2014, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

Share options of the Company

In accordance with the terms of the share option scheme of the Company adopted on 15 January 2008, the Optionholders are entitled to exercise the Share Options (to the extent not already exercised) to its full extent at any time up to the close of the Share Offer, after which the Share Options shall automatically lapse according to the terms of the share option scheme.

Reference is made to the composite offer and response document dated 30 June 2014 (the "Composite Document") jointly issued by Achieve Prosper Capital Limited (the "Offeror") and Starlight International Holdings Limited (presently named as "Shihua Development Company Limited") (the "Company") in respect of the mandatory unconditional cash offers by Kingston Securities Limited, on behalf of the Offeror, to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it), and to cancel all the outstanding Share Options of the Company.

As at 4:00 p.m. on Monday, 21 July 2014, being the latest time and date for acceptance of the Listco Offers (the "Listco Offers") as set out in the Composite Document, the Offeror had received valid acceptances in respect of Share Options conferring rights on the Optionholders to subscribe for a total of 1,078,423 Shares under the Option Offer.

The movements of the share options granted to certain employees and advisors of the Group pursuant to the Scheme were as follows:

Date of grant	Notes	Exercise price HK\$	Number of share options				Balance as at close of Listco Offers
			Balance as at 1.4.2014	Exercised before Listco Offers	Cancelled during Listco Offers	Lapsed after Listco Offers	
<i>Employees:</i>							
28.1.2008	(b)	0.2053	732,311	(177,734)	(376,843)	(177,734)	-
31.8.2010	(b)	0.1880	5,000,000	(5,000,000)	-	-	-
25.10.2012	(a)	0.1000	9,000,000	(9,000,000)	-	-	-
			<u>14,732,311</u>	<u>(14,177,734)</u>	<u>(376,843)</u>	<u>(177,734)</u>	<u>-</u>
<i>Advisors:</i>							
23.1.2008	(b)	0.2228	701,580	-	(701,580)	-	-
12.8.2010	(b)	0.1880	300,000	(300,000)	-	-	-
26.2.2013	(a)	0.1230	2,000,000	(2,000,000)	-	-	-
6.3.2013	(a)	0.1320	1,600,000	(1,600,000)	-	-	-
4.10.2013	(a)	0.1150	1,500,000	(1,500,000)	-	-	-
21.10.2013	(a)	0.1200	800,000	(800,000)	-	-	-
			<u>6,901,580</u>	<u>(6,200,000)</u>	<u>(701,580)</u>	<u>-</u>	<u>-</u>
			<u>21,633,891</u>	<u>(20,377,734)</u>	<u>(1,078,423)</u>	<u>(177,734)</u>	<u>-</u>

Notes:

- (a) These options were granted for an exercise period of five years from the date of grant of the options.
- (b) These options were granted for an exercise period of ten years from the date of grant of the options.
- (c) 1,078,423 options were cancelled and 177,734 options were automatically lapsed under the Listco Offers closed at 4:00 p.m. on Monday, 21 July 2014.

Share options of SMC, a 51.48% owned subsidiary of the Company

The movements of the share options granted to certain employees of the Group pursuant to the SMC Scheme were as follows:

Date of grant	Exercise price US\$	Number of share options				Outstanding as at 30.9.2014
		Outstanding as at 1.4.2014	Granted during the period	Exercised during the period	Forfeited during the period	
29 November 2004	0.75	40,000	–	–	–	40,000
1 December 2004	0.77	20,000	–	–	–	20,000
9 May 2005	0.60	34,000	–	–	–	34,000
31 March 2006	0.32	60,000	–	–	–	60,000
10 April 2006	0.33	42,000	–	–	–	42,000
31 March 2007	0.93	60,000	–	–	–	60,000
31 March 2008	0.45	80,000	–	–	–	80,000
31 March 2009	0.11	80,000	–	–	–	80,000
31 March 2010	0.03	60,000	–	–	–	60,000
29 October 2010	0.06	520,000	–	–	–	520,000
31 March 2011	0.04	60,000	–	–	–	60,000
31 March 2012	0.12	60,000	–	–	–	60,000
31 March 2013	0.18	60,000	–	–	–	60,000
1 July 2013	0.21	580,000	–	–	–	580,000
31 March 2014	0.16	60,000	–	–	–	60,000
		<u>1,816,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,816,000</u>

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share options as disclosed above, at no time during the six months ended 30 September 2014 was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2014, the following persons, other than the interest disclosed above in respect of the directors, had interest in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests in shares and short positions required to be kept under Sections 336 of Part XV of the SFO:

Names	Nature of Interest	Number of shares and underlying shares	Approximate percentage of shareholding as at 30.9.2014
Achieve Prosper Capital Limited	Beneficial Owner	1,521,802,082	74.83%
Hong Kong Shihua Holdings Limited	Interest of controlled corporation	1,521,802,082	74.83%
遼寧實華(集團)房地產開發有限公司	Interest of controlled corporation	1,521,802,082	74.83%
Hu Bao Qin	Spouse Interest	1,521,802,082	74.83%

As at 30 September 2014, Achieve Prosper Capital Limited ("**Achieve Prosper**"), a company incorporated in Samoa, is wholly and beneficially owned by Hong Kong Shihua Holdings Limited (a company incorporated in Hong Kong), which was in turn wholly and beneficially owned by 遼寧實華(集團)房地產開發有限公司 (Liaoning Shihua (Group) Property Development Company Limited*) ("**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. Ms. Hu Bao Qin was the spouse of Mr. Wang Jing. By virtue of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), Hong Kong Shihua Holdings Limited, Liaoning Shihua Property, Mr. Wang Jing and Ms. Hu Bao Qin were deemed to be interested in the said 1,085,755,571 shares and 436,046,511 underlying shares held by Achieve Prosper.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2014, there was no purchase, sales or redemption by the Company, or any of its subsidiaries, of the Company's listed shares.

* For identification purposes only

CORPORATE GOVERNANCE

The Company has met the code provisions of the Corporate Governance Code (“the Code”) as set out in the Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30 September 2014 except the code provision A.6.7 of the CG Code, the non-executive director, Mr. Li Jun, independent non-executive directors, Mr. Yang Xin Hua and Mr. Cheng Tai Kwan Sunny were unable to attend the annual general meeting of the Company held on 5 September 2014 due to other business commitments.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules, as the code of conduct regarding directors’ securities transactions. Having made specific enquiry of all directors, they all confirmed that they have complied with the Model Code throughout the six months period ended 30 September 2014.

AUDIT COMMITTEE

The Company has established an audit committee currently comprising Mr. Yang Xin Hua, Mr. Wang Ping and Mr. Cheng Tai Kwan Sunny. Terms of reference of the audit committee have been updated in compliance with the Code. The audit committee together with the management of the Company has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including review of the interim report for the six months ended 30 September 2014.

BOARD OF DIRECTORS

As at the date of this report, 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.

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

Hong Kong, 28 November 2014