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SIN  STAR

中國華星

China Sinostar Group Company Limited

中國華星集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 485)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”, each a “Director”) of China Sinostar Group 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 2017 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	NOTES	Six months ended 30 September	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Turnover	3	305,949	422,476
Cost of sales		<u>(231,847)</u>	<u>(322,797)</u>
Gross profit		74,102	99,679
Other income	4	203	7
Distribution costs		(23,960)	(22,784)
Administrative expenses		(37,530)	(31,983)
Other gains and losses	5	606	(5,328)
Finance costs		(5,191)	(5,373)
Gain on disposal of a subsidiary		1,081	–
Decrease in fair value of investment properties		(3,692)	(10,333)
Share of profits of an associate		<u>83</u>	<u>286</u>
Profit before taxation	6	5,702	24,171
Taxation	7	<u>(1,048)</u>	<u>(12,822)</u>
Profit for the period		4,654	11,349
Other comprehensive income (expense)			
Item that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		(4,018)	(13,674)
Release of translation reserve upon disposal of a subsidiary		<u>35,194</u>	<u>–</u>
Total comprehensive income (expense) for the period		<u><u>35,830</u></u>	<u><u>(2,325)</u></u>
Profit for the period attributable to:			
Owners of the Company		3,253	5,560
Non-controlling interests		<u>1,401</u>	<u>5,789</u>
		<u><u>4,654</u></u>	<u><u>11,349</u></u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		34,613	(8,144)
Non-controlling interests		<u>1,217</u>	<u>5,819</u>
		<u><u>35,830</u></u>	<u><u>(2,325)</u></u>
Earnings per share		HK cents	HK cents
– Basic and diluted	9	<u><u>0.09</u></u>	<u><u>0.13</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2017

	<i>NOTES</i>	30.9.2017 <i>HK\$'000</i> (unaudited)	31.3.2017 <i>HK\$'000</i> (audited)
Non-current assets			
Investment properties	<i>10</i>	21,278	206,477
Property, plant and equipment	<i>11</i>	59,144	57,148
Goodwill		8,512	8,512
Interest in an associate		3,486	3,703
Deferred tax assets		6,233	7,295
Long-term prepayments		55,916	455
Prepaid land lease payments	<i>11</i>	45,367	44,374
Deposit paid for investment properties		38,207	–
		<hr/> 238,143 <hr/>	<hr/> 327,964 <hr/>
Current assets			
Inventories		135,194	62,807
Debtors, deposits and other receivables	<i>12</i>	378,183	243,395
Investments held for trading		239	380
Amount due from immediate holding company	<i>13</i>	6,947	–
Amount due from related companies	<i>13</i>	1,849	10,841
Bank balances and cash		10,547	34,442
		<hr/> 532,959 <hr/>	<hr/> 351,865 <hr/>
Current liabilities			
Creditors and accrued charges	<i>14</i>	205,338	111,991
Amount due to immediate holding company	<i>13</i>	–	33,344
Amounts due to related companies	<i>13</i>	42,019	36,100
Amount due to a director	<i>13</i>	172	172
Current tax liabilities		–	11,684
Borrowings	<i>15</i>	96,977	20,477
Convertible bonds	<i>16</i>	–	72,174
		<hr/> 344,506 <hr/>	<hr/> 285,942 <hr/>
Net current assets		<hr/> 188,453 <hr/>	<hr/> 65,923 <hr/>
Total assets less current liabilities		<hr/> 426,596 <hr/>	<hr/> 393,887 <hr/>

	<i>NOTES</i>	30.9.2017 HK\$'000 (unaudited)	31.3.2017 <i>HK\$'000</i> (audited)
Non-current liabilities			
Borrowings	<i>15</i>	<u>—</u>	<u>79,023</u>
Net assets		<u>426,596</u>	<u>314,864</u>
Capital and reserves			
Share capital	<i>17</i>	39,768	36,507
Reserves		<u>355,635</u>	<u>248,837</u>
Equity attributable to owners of the Company		395,403	285,344
Non-controlling interests		<u>31,193</u>	<u>29,520</u>
Total equity		<u>426,596</u>	<u>314,864</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 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 (“Listing Rules”).

These condensed financial statements should be read in conjunction with the 2017 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2017.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2017. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. REVENUE AND SEGMENT INFORMATION

The Group’s operating divisions are as follows:

- a) Design and sale of electronic products (representing consumer electronic audio and video equipment, karaoke equipment and accessories) (“Electronic products business”)
- b) Sales and installation of elevators (*Note*)
- c) Operation and management of hydroelectric power stations (“Hydroelectric power business”)
- d) Property investment
- e) Securities trading
- f) Property leasing

Segment revenue and results

An analysis of the Group’s revenue and results by reportable and operating segments is as follows:

Note:

Upon the disposal of Tong Sheng Yuan Holdings Limited (“Tong Sheng Yuan”) (as further disclosed in details in paragraph 22 below), the Group ceased its business of sales and installation of elevators.

For the six months ended 30 September 2017

	Design and sale of electronic products HK\$'000 (unaudited)	Sales and installation of elevators HK\$'000 (unaudited)	Operation and management of hydroelectric power stations HK\$'000 (unaudited)	Property investment HK\$'000 (unaudited)	Securities trading HK\$'000 (unaudited)	Property leasing HK\$'000 (unaudited)	Consolidated HK\$'000 (unaudited)
TURNOVER	<u>302,045</u>	<u>-</u>	<u>3,575</u>	<u>-</u>	<u>-</u>	<u>329</u>	<u>305,949</u>
SEGMENT RESULTS	<u>4,716</u>	<u>(112)</u>	<u>1,193</u>	<u>(3,692)</u>	<u>3</u>	<u>(996)</u>	1,112
Interest income							3
Unallocated income							8,614
Share of profits of an associate							83
Gain on disposal of a subsidiary							1,081
Finance costs							<u>(5,191)</u>
Profit before taxation							<u>5,702</u>

For the six months ended 30 September 2016

	Design and sale of electronic products HK\$'000 (unaudited)	Sales and installation of elevators HK\$'000 (unaudited)	Operation and management of hydroelectric power stations HK\$'000 (unaudited)	Property investment HK\$'000 (unaudited)	Securities trading HK\$'000 (unaudited)	Consolidated HK\$'000 (unaudited)
TURNOVER	<u>279,622</u>	<u>140,758</u>	<u>2,096</u>	<u>-</u>	<u>-</u>	<u>422,476</u>
SEGMENT RESULTS	<u>14,216</u>	<u>27,319</u>	<u>374</u>	<u>(10,333)</u>	<u>(29)</u>	31,547
Interest income						6
Unallocated expenses						(2,295)
Share of profits of an associate						286
Finance costs						<u>(5,373)</u>
Profit before taxation						<u>24,171</u>

4. OTHER INCOME

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Other income includes:		
Interest income	3	6
Others	200	1
	<u>203</u>	<u>7</u>

5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Other gains (losses) comprise:		
Exchange gains (losses), net	18,778	(3,485)
Allowance for doubtful debts	(18,175)	(1,814)
Increase (decrease) in fair value of investments held for trading	3	(29)
	<u>606</u>	<u>(5,328)</u>

6. PROFIT BEFORE TAXATION

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging		
Allowance for obsolete and slow-moving inventories (included in cost of sales)	1,701	702
Depreciation of property, plant and equipment	2,406	1,253
Amortisation of prepaid land lease payments	843	307
Interest expenses on:		
– borrowings	1,067	954
– convertible bonds	4,124	4,419
Minimum lease payments under operating leases in respect of rented premises	3,974	2,677
Staff costs including directors' remuneration and share-based payment	14,045	12,559

7. TAXATION

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Current taxation		
The People's Republic of China Enterprise Income Tax	–	8,206
– Deferred taxation	<u>1,048</u>	<u>4,616</u>
	<u><u>1,048</u></u>	<u><u>12,822</u></u>

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 September 2016: 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 (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% (six months ended 30 September 2016: 25%). No provision of Enterprise Income Tax was made in current period as the Group did not generate any assessable income for the six months ended 30 September 2017.

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

8. DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

9. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>3,253</u>	<u>5,560</u>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>3,670,311,460</u>	<u>4,331,063,906</u>

For the six months ended 30 September 2016, the computation of diluted earnings per share did not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

10. INVESTMENT PROPERTIES

During the six months ended 30 September 2017, the Group did not purchase any investment properties (six months ended 30 September 2016: the Group purchased an investment property under construction at a consideration of HK\$4,695,000).

11. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

During the six months ended 30 September 2017, the Group spent HK\$2,059,000 on purchase of property, plant and equipment (six months ended 30 September 2016: the Group spent HK\$610,000 and HK\$31,336,000 on purchase of property, plant and equipment and prepaid land lease payments, respectively).

12. DEBTORS, DEPOSITS AND OTHER RECEIVABLES

At 30 September 2017, debtors, deposits and other receivables includes trade debtors of HK\$243,863,000 (31 March 2017: HK\$211,186,000). The aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective recognition dates, is as follows:

	30.9.2017 <i>HK\$'000</i> (unaudited)	31.3.2017 <i>HK\$'000</i> (audited)
0 – 30 days	153,935	10,516
31 – 60 days	89,670	874
61 – 90 days	145	3,004
Over 90 days	113	196,792
	<u>243,863</u>	<u>211,186</u>

The credit period granted to certain customers of Hydroelectric Power Business is 1 year. For other customers, the Group allows an average credit period ranging from 30 days to 90 days.

13. AMOUNTS DUE FROM (TO) IMMEDIATE HOLDING COMPANY, RELATED COMPANIES AND A DIRECTOR

The amounts are interest-free, unsecured and have no fixed repayment terms.

14. CREDITORS AND ACCRUED CHARGES

At 30 September 2017, creditors and accrued charges includes trade creditors of HK\$177,614,000 (31 March 2017: HK\$11,187,000). The aged analysis of trade creditors presented based on the invoice date at the end of the reporting period is as follows:

	30.9.2017 <i>HK\$'000</i> (unaudited)	31.3.2017 <i>HK\$'000</i> (audited)
0 – 30 days	105,679	10,055
31 – 60 days	66,514	380
61 – 90 days	3,864	–
Over 90 days	1,557	746
	<u>177,614</u>	<u>11,181</u>

The Group allows an average credit period on purchases of goods ranging from 30 days to 90 days.

15. BORROWINGS

	30.9.2017 <i>HK\$'000</i> (unaudited)	31.3.2017 <i>HK\$'000</i> (audited)
Other borrowings, secured	<u>96,977</u>	<u>99,500</u>

The borrowings are repayable as follows:

	30.9.2017 <i>HK\$'000</i> (unaudited)	31.3.2017 <i>HK\$'000</i> (audited)
Within one year	96,977	20,477
More than one year but not exceeding two years	<u>–</u>	<u>79,023</u>
	96,977	99,500
Less: Amount due within one year shown under current liabilities	<u>(96,977)</u>	<u>(20,477)</u>
Amount due after one year	<u>–</u>	<u>79,023</u>

As at 30 September 2017, the Group's borrowings are secured by certain assets of the Group (31 March 2017: same) and interest bearing at 5%-6% (31 March 2017: 10%) per annum.

16. 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, which was subsequently transferred to Lushan Investment Holdings Limited (the “Bond holder”) on 30 December 2015. 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 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 would be redeemed by the Company at 100% of its principal amount on the maturity date.

At initial recognition, the Bonds were split into an equity component of HK\$61,480,000 and a liability component of HK\$52,056,000. The liability component was 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 was presented as convertible bonds reserve in equity, whereas the liability component was classified under current liabilities at 31 March 2017.

On 4 August 2017, the Company and the Bond holder entered into the Amendment Deed to extend the maturity date from 31 July 2017 to 30 October 2017 and no interest would be borne by the Company on the outstanding principal amount during the period from 1 August 2017 to 30 October 2017.

On 20 September 2017, the Bond holder exercised the convertible option and Bonds were then converted into ordinary shares of the Company (Note 17).

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

	<i>HK\$'000</i> (unaudited)
At 1 April 2016	64,399
Imputed interest expense for the year	10,031
Coupon interest paid	<u>(2,256)</u>
At 31 March 2017	72,174
Imputed interest expense for the period	4,124
Coupon interest paid	(1,298)
Conversion of convertible bonds	<u>(75,000)</u>
At 30 September 2017	<u><u>–</u></u>

17. SHARE CAPITAL

	<i>NOTE</i>	Nominal value per share <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:				
At 1 April 2016, 31 March 2017 and 30 September 2017		0.01	<u>50,000,000,000</u>	<u>500,000</u>
Issued and fully paid:				
At 1 April 2016 and 31 March 2017		0.01	3,650,710,605	36,507
Issue of shares upon conversion of convertible bonds	(a)	0.01	<u>326,086,956</u>	<u>3,261</u>
At 30 September 2017		0.01	<u>3,976,797,561</u>	<u>39,768</u>

Note:

- (a) On 20 September 2017, the Company allotted 326,086,956 ordinary shares of HK\$0.01 each at the conversion price of HK\$0.23 per conversion share by the conversion of the Bonds.

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

18. NON-CASH TRANSACTION

During the six months ended 30 September 2017, the Group did not enter into any significant non-cash transaction (six months ended 30 September 2016: the Group spent HK\$31,336,000 on prepaid land lease payments. Out of this amount, HK\$22,051,000 was settled through current account with immediate holding company).

19. COMMITMENT

	30.9.2017	31.3.2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Capital commitment in respect of acquisition and construction of properties contracted for but not provided in the condensed consolidated financial statements	<u>131,667</u>	<u>6,207</u>

20. RELATED PARTY TRANSACTIONS

The Group entered into the following related party transaction:

- (a) 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	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Salaries and other short term employee benefits	<u>796</u>	<u>905</u>

21. CONTINGENT LIABILITIES

There are no significant contingent liabilities as at 30 September 2017 and 31 March 2017.

22. DISPOSAL OF A SUBSIDIARY

In September 2017, the Company disposed the entire equity interest of its indirect subsidiary, Tong Sheng Yuan, to an independent third party at the consideration of RMB125,000,000 (equivalent to HK\$146,460,000).

Tong Sheng Yuan owns 100% of the issued share capital of Tong Sheng Yuan Limited, an investment holding company incorporated in Hong Kong with limited liability. Tong Sheng Yuan Limited in turn owns 100% equity interest in 本溪同盛遠實業有限公司 (“Benxi Tong Sheng Yuan Shiya”), a wholly foreign owned enterprise established in the PRC.

	<i>HK\$'000</i>
Consideration received:	
Cash received	93,734
Deferred consideration included in other receivable in current assets	<u>52,726</u>
	<u>146,460</u>
Analysis of assets and liabilities over which control has lost:	
Investment properties	192,681
Debtors, deposits and other receivables	257,658
Bank balances and cash	4
Creditors and accrued charges	(31,542)
Other payables	(191,339)
Current tax liabilities	(11,689)
Borrowings	<u>(105,588)</u>
	<u>110,185</u>
Gain on disposal of a subsidiary:	
Consideration received and receivable	146,460
Net asset derecognised	(110,185)
Release of translation reserve	<u>(35,194)</u>
	<u>1,081</u>
Net cash inflow arising on the disposal:	
Cash consideration received	93,734
Bank balances and cash disposed of	<u>(4)</u>
	<u>93,730</u>

23. ACQUISITION OF A SUBSIDIARY

In September 2017, the Company acquired the entire equity interest in 本溪同盛房地產開發有限公司 (“Benxi Tongsheng”) from an independent third party for a cash consideration of RMB20,050,000 (equivalent to HK\$23,570,000). Benxi Tongsheng is currently engaged in property development 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 broadening its source of revenue.

	Amounts recognised at the date of acquisition (provisional basis) <i>HK\$'000</i>
Net identifiable assets acquired at the date of obtaining control was as follows:	
Non-current assets	14,695
Current assets	55,958
Current liabilities	<u>(47,083)</u>
	<u><u>23,570</u></u>
Consideration transferred, satisfied by cash	<u><u>23,570</u></u>
An analysis of net outflow of cash and cash equivalents in respect of acquisition of Benxi Tongsheng:	
Cash consideration paid	(23,570)
Bank balances and cash acquired	<u>71</u>
	<u><u>(23,499)</u></u>

The fair value of the assets and liabilities acquired have been determined on a provisional basis, awaiting the completion of valuation of the identifiable assets and liabilities.

During the six months ended 30 September 2017, Benxi Tongsheng did not have any significant contribution to the Group's revenue or profit for the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

It has been the Group's business strategy to diversify its business and to broaden the revenue streams of the Group so as to create substantial value to the shareholders. Throughout the reporting period, the Group was dedicated to explore possible business opportunities and identify sustainable development projects in order to expand its business scale and business scope. In the meanwhile, the management of the Group also took a cautious approach towards different markets and industries during the reporting period and to take prompt and appropriate actions.

For the six months ended 30 September 2017, the Group recorded a turnover of HK\$305,949,000, a decrease of 27.58% as compared to the turnover of HK\$422,476,000 for the corresponding period in 2016. A one-off gain from the disposal of a subsidiary at the amount of HK\$1,081,000 was recorded for the six months ended 30 September 2017 and nil was recorded for the six months ended 30 September 2016. As a result, the profit for the six months ended 30 September 2017 was HK\$4,654,000, a decrease of 58.99% as compared to HK\$11,349,000 for the six months ended 30 September 2016.

Design and Sale of Electronic Products

The segment performance of the design and sale of electronic products kept steady growth for the past few years. The turnover reached to HK\$302,045,000 for the six months ended 30 September 2017 as compared to HK\$279,622,000 for the corresponding period in 2016. As a result, the segment profit of HK\$4,716,000 was recorded for the six months ended 30 September 2017 as compared to HK\$14,216,000 for the six months ended 30 September 2016.

With reference to the announcement of the Company dated 29 September 2017, the Company noted that Toys "R" Us, Inc., being one of the top 5 customers of the Group for the financial year ended 31 March 2017, filed a voluntary petition (the "Petition") for relief under Chapter 11 of the Bankruptcy on 18 September 2017. As disclosed in an announcement of Toys "R" Us, Inc., it intends to use court-supervised proceedings to restructure its outstanding debt and establish a sustainable capital structure. It was noted that Toys "R" Us, Inc. stores around the world would continue to operate as usual after the Petition. The Petition could affect the collectability of the account receivables exposure from Toys "R" Us, Inc. Hence, the Company considered the effect of such account receivables exposure from Toys "R" Us, Inc. and other customers and made a provision for bad debt at the amount of approximately HK\$18,175,000. Furthermore, the Company reached a new agreement with Toys "R" Us, Inc. to shorten the credit terms after the Petition in order to secure and protect the interest of the Company. The Company will closely monitor the progress of the Petition and take appropriate action to minimize the negative impact on us.

Operation and management of hydroelectric power stations

During the reporting period, revenue under the segment of operation and management of hydroelectric power stations was generated from the two hydroelectric power stations situated at the northern China. The two hydroelectric power stations were connected to the national power grid and there was steady demand for the electricity. As a result, a revenue at the amount of HK\$3,575,000 was recorded for the six months ended 30 September 2017, representing a significant increase of 70.56% as compared to HK\$2,096,000 for the six months ended 30 September 2016. As such, the segment profit was increased from HK\$374,000 for the six months ended 30 September 2016 to HK\$1,193,000 for the six months ended 30 September 2017. Along with the increasing concerns over the global warming and the frequency of extreme weather, the Company is in the view that the demand and development in the industry of renewable and clean energy will be further increased and enhanced. The Board believes that the Group's investments in renewable and clean energy will continue to create new and massive business opportunities for the Group in the long run.

Property Investment

The revenue and segment results of the property investment was mainly derived from several investment properties in Benxi City, Liaoning Province, the PRC. With reference to the announcement of the Company dated 26 September 2017, the Company entered into a disposal agreement with an independent third party to transfer the entire equity interest in Tong Sheng Yuan, an indirect wholly owned subsidiary of the Group at the total consideration of RMB125,000,000 (the "Disposal"). Tong Sheng Yuan is an investment holding company incorporated in Samoa and owns entire equity interest of Tong Sheng Yuan Limited, an investment holding company incorporated in Hong Kong with limited liability. Tong Sheng Yuan Limited in turn owns entire equity interest of Benxi Tong Sheng Yuan Shiya, a wholly foreign owned enterprise established in the PRC. Benxi Tong Sheng Yuan Shiya Company Limited holds several investment properties in Benxi City, Liaoning Province, the PRC.

The disposal agreement was entered into having considered the continuous decrease in the fair value of the properties held by Benxi Tong Sheng Yuan Shiya over the past years and the liabilities and financial costs of Tong Sheng Yuan and its subsidiaries. It is believed that the Disposal will improve the financial position of the Company and provide funding and opportunities to the Company to reallocate resources into other potential projects.

In addition to the Disposal, the Company also entered into the purchase agreement with an independent third party on 25 September 2017 to acquire the entire equity interest of Benxi Tongsheng, a company established in the PRC at the consideration of RMB20,050,000. As at the date of the purchase agreement, the sole asset of the company is the deposits for land use right in relation to a parcel of land located at Xiguan Village, Huanren County, Benxi, Liaoning Province, the PRC with a floor area of 46,242.6 sq.m. and construction area of 80,462 sq.m. which is intended for commercial and residential use. The purchase price of the land use right is RMB72,000,000 of which RMB12,500,000 has been paid and the balance of RMB59,500,000 shall be paid by 30 May 2018 by the Group.

As a result, nil revenue and a segment loss of HK\$3,692,000 was recorded for the six months ended 30 September 2017 and nil revenue and a segment loss at the amount of HK\$10,333,000 were recorded for the six months ended 30 September 2016.

Sales and installation of elevators

Nil revenue and a segment loss of HK\$112,000 was recorded for the six months ended 30 September 2017 while a revenue of HK\$140,758,000 and a segment profit of HK\$27,319,000 were recorded for the corresponding period in 2016.

As mentioned in the subsection headed “Property Investment”, the Company entered into a disposal agreement to transfer the entire equity interest of Tong Sheng Yuan to an independent third party on 25 September 2017. Since Benxi Tong Sheng Yuan Shiya, being the indirect subsidiary of Tong Sheng Yuan, is the only subsidiary in the Group engaged in the sales and installation of elevators and no contribution was made to the Group’s revenue during the reporting period, the segment of sales and installation of elevators after the completion of the Disposal shall be faded out from the Group accordingly.

Property Leasing

During the financial year of 2017, the Company entered into several purchase agreements to acquire the leasing rights of several parcels of land for leasing business in the PRC. As a result, a turnover of HK\$329,000 and segment loss of HK\$996,000 was recorded for the six months ended 30 September 2017.

Prospect

Despite the uncertainties and challenges towards different industries and business environment, the management of the Company are confident with future development of the Group. The Group will continuously make use of the foundation and experience gained in the current business and will positively cope with any challenges and capture any possible business opportunities to generate better results and prospect for the Group.

Financial Review

Liquidity and financial resources

As at 30 September 2017, cash and bank deposits amounted to HK\$10,547,000, as compared to HK\$34,442,000 as at 31 March 2017.

As at 30 September 2017, the gearing ratio was 0.23 which was calculated based on the total interest bearing borrowings divided by total equity (31 March 2017: 0.32).

In the management of liquidity risk, the Group monitors and maintains its level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Financing and capital structure

The Group finances its operations by a combination of equity and borrowings. As at 30 September 2017, the Group's total interest bearing borrowings were HK\$96,977,000 and the whole amount was repayable within a year.

For the six months ended 30 September 2017, the Group's transactions were mostly denominated in US dollars, HK dollars, Renminbi and Canadian dollars. Having monitored the related foreign currencies closely by the management, the Group did not have significant exposure to foreign exchange fluctuation during the period. The management will consider hedging if any significant foreign currency exposure arises.

Conversion of the Bonds

On 18 September 2017, the Company received a conversion notice from Lushan Investment Holdings Limited, a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of China Huarong International Holdings Limited 中國華融國際控股有限公司 as the Bond holder for the entire exercise of the conversion rights attaching to the Bonds in respect of the principal amount of HK\$75,000,000 of the Bonds at the conversion price of HK\$0.23 per conversion share. Upon such conversion of the Bonds, a total of 326,086,956 conversion shares have been allotted and issued, credited as fully paid, to Lushan Investment Holdings Limited. The 326,086,956 conversion shares, having an aggregate nominal value of HK\$3,260,869.56, represent about 8.9% and 8.2% of the issued share capital of the Company immediately before and after the issue of such conversion shares respectively. On 20 September 2017, the Company allotted and issued a total of 326,086,956 shares to Lushan Investment Holdings Limited.

Staff

For the six months ended 30 September 2017, the Group had a total of 55 staff members. 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 employees 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance

The Group is committed to maintain good corporate governance standard and procedures. The Company has adopted the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules and met the code provisions thereof during the six months ended 30 September 2017 except for the following:

Code Provision E.1.2 stipulates that the chairman of the Board should attend and invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting (the "AGM"). In their absence, he should invite another member of the committees or failing this, his duly appointed delegate, to attend. These persons should be available to answer questions at the AGM. Mr. Wang Jing, the chairman of the Board, was unable to attend the annual general meeting of the Company (the "AGM") held on 29 September 2017 due to personal reason. Mr. Wang Xing Qiao, an executive Director and the chief executive officer of the Company, was responsible for chairing the AGM and answering questions raised by shareholders.

Code Provision A.6.7 stipulates that independent non-executive directors and non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Song Wenke, the independent non-executive Director, was unable to attend the AGM due to his other business commitments.

Change of auditors

Deloitte Touche Tohmatsu ("Deloitte") resigned as the auditor of the Group with effect from 1 June 2017, as the Company cannot reach a mutual agreement with Deloitte on the revised audit fee for the financial year ended 31 March 2017 due to the change in audit scope arising from the increase in the scale of the Company's operations. On 1 June 2017, the Board has appointed ZHONGHUI ANDA CPA LIMITED as the Group's auditor to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company. On 29 September 2017, by way of the ordinary resolution of the Shareholders, ZHONGHUI ANDA CPA Limited was re-appointed as auditor of the Group at the annual general meeting. For details, please refer to the announcements of the Company dated 1 June 2017 and 29 September 2017.

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 2017.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") currently comprising Mr. Wang Ping, Mr. Cheng Tai Kwan Sunny and Mr. Song Wenke. 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 have 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 2017.

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

During the six months ended 30 September 2017, there was no purchase, sales or redemption by the Company, or any of its subsidiaries, of the Company's listed shares.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the websites of the Company (www.00485.hk) and the Stock Exchange (www.hkex.com.hk). The interim report of the Company for the six months ended 30 September 2017 containing all information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

For and on behalf of
China Sinostar Group Company Limited
Wang Jing
Chairman

Hong Kong, 29 November 2017

As at the date of this announcement, the Board comprises Mr. Wang Jing, Mr. Wang Xing Qiao and Mr. Zhao Shuang as executive Directors; and Mr. Wang Ping, Mr. Cheng Tai Kwan Sunny and Mr. Song Wenke as independent non-executive Directors.

The English text of this announcement shall prevail over its Chinese text.