



2017/2018 Interim Report

SIN  **STAR**

中國華星

中國華星集團有限公司
China SinoStar Group 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)
Zhao Shuang

Independent Non-Executive Directors

Wang Ping
Cheng Tai Kwan Sunny
Song Wenke

COMPANY SECRETARY

Lam Wai Kei

AUDITOR

ZHONGHUI ANDA CPA Limited

AUDIT COMMITTEE

Wang Ping (Chairman)
Cheng Tai Kwan Sunny
Song Wenke

REMUNERATION COMMITTEE

Song Wenke (Chairman)
Wang Ping
Cheng Tai Kwan Sunny

NOMINATION COMMITTEE

Wang Jing (Chairman)
Cheng Tai Kwan Sunny
Song Wenke

PRINCIPAL BANKERS

The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank
DBS Bank (Hong Kong) Limited

SOLICITOR

Loeb & Loeb LLP

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Secretaries Limited

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE AND CONTACT INFORMATION

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World Finance Centre,
Harbour City, 17 Canton Road,
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MANAGEMENT DISCUSSION & ANALYSIS

The board (the “Board”) of directors (the “Directors” and each a “Director”) of China Sinostar Group Company Limited (the “Company”, together with its subsidiaries, the “Group”) is pleased to announce the unaudited condensed consolidated interim results of the Company for the six months ended 30 September 2017 which have been reviewed by the audit committee of the Company (the “Audit Committee”).

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 maintained a steady growth for the past few years. The turnover reached 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 intended 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 accounts receivable from Toys “R” Us, Inc. Hence, the Company considered the effect of such accounts receivable exposure from Toys “R” Us, Inc. and other customers and made a provision for bad debt at the amount of HK\$18,175,000. Furthermore, the Group 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 Group. 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 in 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 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 Holdings Limited ("Tong Shing 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 Company Limited* 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. 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 Group and provide funding and opportunities to the Group to reallocate resources into other potential projects.

In addition to the Disposal, the Group also entered into the purchase agreement with an independent third party on 25 September 2017 to acquire the entire equity interest of Benxi Tongsheng Property Development Limited* 本溪同盛房地產開發有限公司 ("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.

* for identification purposes only

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, respectively.

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 Group 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 that 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 shall be faded out from the Group after the completion of the Disposal.

Property Leasing

The Company entered into several purchase agreements to acquire the leasing rights of several parcels of land for leasing business in the PRC during the financial year of 2017 and commenced its business of property leasing during the six months ended 30 September 2017. 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.

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.

Exposure to fluctuation in exchange rates

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 also consider hedging if any significant foreign currency exposure arises.

Conversion of the Bonds

With reference to the Company's announcements dated 21 March 2014, 29 May 2014, 30 July 2014 and 26 January 2016 and the Company's circular dated 24 May 2014, the Company issued the 2017 convertible bonds (the "Bonds") at the principal amount of HK\$75,000,000 to Achieve Prosper Capital Limited ("Achieve Prosper"), which was subsequently transferred to 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 (the "Bond holder") on 30 December 2015. Please refer to the annual report 2017 of the Company for more details.

On 18 September 2017, the Company received a conversion notice from 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. Please refer to the announcement of the Company dated 18 September 2017 for further details. On 20 September 2017, the Company allotted and issued a total of 326,086,956 shares to Lushan Investment Holdings Limited.

Contingent liabilities

As at 30 September 2017, the Group had no contingent liabilities.

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.

MATERIAL ACQUISITION

With reference to the subsection headed "Property Investment", the Group entered into 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 for the development in property investment business. Save as disclosed above, the Group did not have any material acquisition during the reporting period.

SIGNIFICANT INVESTMENT HELD

Save as disclosed in the section headed "Business Review" and "Material Acquisition", the Group did not have any significant investment held as at 30 September 2017.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

During the six months ended 30 September 2017, the Company has actively sought for strategic business partners and opportunities in the development of the property investment business and other potential business sectors. However, the Group has not executed any legally binding agreement in relation to material investment or acquisition of capital assets and did not have any further plans relating to material investment or capital assets as at the date of this interim report.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 September 2017 (for the six months ended 30 September 2016: Nil).

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.

* for identification purposes only

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>35,830</u>	<u>(2,325)</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>
		4,654	11,349
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>
		35,830	(2,325)
		HK cents	HK cents
Earnings per share			
– Basic and diluted	9	<u>0.09</u>	<u>0.13</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2017

	NOTES	30.9.2017 HK\$'000 (unaudited)	31.3.2017 HK\$'000 (audited)
Non-current assets			
Investment properties	10	21,278	206,477
Property, plant and equipment	11	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	11	45,367	44,374
Deposit paid for investment properties		38,207	–
		<u>238,143</u>	<u>327,964</u>
Current assets			
Inventories		135,194	62,807
Debtors, deposits and other receivables	12	378,183	243,395
Investments held for trading		239	380
Amount due from immediate holding company	13	6,947	–
Amount due from related companies	13	1,849	10,841
Bank balances and cash		10,547	34,442
		<u>532,959</u>	<u>351,865</u>
Current liabilities			
Creditors and accrued charges	14	205,338	111,991
Amount due to immediate holding company	13	–	33,344
Amounts due to related companies	13	42,019	36,100
Amount due to a director	13	172	172
Current tax liabilities		–	11,684
Borrowings	15	96,977	20,477
Convertible bonds	16	–	72,174
		<u>344,506</u>	<u>285,942</u>

	<i>NOTES</i>	30.9.2017 <i>HK\$'000</i> (unaudited)	31.3.2017 <i>HK\$'000</i> (audited)
Net current assets		<u>188,453</u>	<u>65,923</u>
Total assets less current liabilities		<u>426,596</u>	<u>393,887</u>
Non-current liabilities			
Borrowings	15	<u>–</u>	<u>79,023</u>
Net assets		<u>426,596</u>	<u>314,864</u>
Capital and reserves			
Share capital	17	<u>39,768</u>	36,507
Reserves		<u>355,635</u>	<u>248,837</u>
Equity attributable to owners of the Company		<u>395,403</u>	285,344
Non-controlling interests		<u>31,193</u>	<u>29,520</u>
Total equity		<u>426,596</u>	<u>314,864</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Convertible bonds reserve HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 April 2017 (audited)	36,507	252,315	327	(21,870)	61,365	577,204	23,909	(644,413)	285,344	29,520	314,864
Exchange difference arising on translation of foreign operations	-	-	-	(3,834)	-	-	-	-	(3,834)	(184)	(4,018)
Release of translation reserve upon disposal of a subsidiary	-	-	-	35,194	-	-	-	-	35,194	-	35,194
Profit for the period	-	-	-	-	-	-	-	3,253	3,253	1,401	4,654
Total comprehensive income for the period	-	-	-	31,360	-	-	-	3,253	34,613	1,217	35,830
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	902	902
Deemed partial disposal of a subsidiary	-	-	446	-	-	-	-	-	446	(446)	-
Issue of shares upon conversion of convertible bonds	3,261	133,104	-	-	(61,365)	-	-	-	75,000	-	75,000
At 30 September 2017 (unaudited)	39,768	385,419	773	9,490	-	577,204	23,909	(641,160)	395,403	31,193	426,596
At 1 April 2016 (audited)	36,507	252,315	171	4,023	61,365	577,204	23,909	(598,358)	357,136	21,741	378,877
Exchange difference arising on translation of foreign operations	-	-	-	(13,704)	-	-	-	-	(13,704)	30	(13,674)
Profit for the period	-	-	-	-	-	-	-	5,560	5,560	5,789	11,349
Total comprehensive (expense) income for the period	-	-	-	(13,704)	-	-	-	5,560	(8,144)	5,819	(2,325)
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	339	339
Deemed partial disposal of a subsidiary	-	-	9	-	-	-	-	-	9	(9)	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	211	211
At 30 September 2016 (unaudited)	36,507	252,315	180	(9,681)	61,365	577,204	23,909	(592,798)	349,001	28,101	377,102

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	NOTE	Six months ended 30 September	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Net cash used in operating activities		(78,848)	(159,819)
Net cash generated from investing activities			
Net cash inflow from disposal of a subsidiary	22	93,730	–
Net cash inflow from disposal of investments held for trading		144	–
Refund of deposit paid for investments		–	106,714
Dividend received from an associate		300	300
Interest received		3	6
Net cash outflow from acquisition of a subsidiary	23	(23,499)	(15,126)
Prepaid lease payments made		–	(9,285)
Advance to related company		(41,105)	–
Advance to immediate holding company		–	(9,184)
Purchase of investment properties		–	(4,695)
Purchase of property, plant and equipment		(2,059)	(610)
Deposits paid for investment properties		(23,512)	–
		4,002	68,120
Net cash generated from (used in) financing activities			
New borrowings raised		103,065	59,368
Capital contribution from non-controlling shareholders of a subsidiary		902	339
Advance from related company		8,992	–
Repayment to immediate holding company		(40,291)	(191,499)
Interest on bank and other borrowings paid		(2,365)	(2,076)
		70,303	(133,868)
Net decrease in cash and cash equivalents		(4,543)	(225,567)
Cash and cash equivalents at beginning of the period		34,442	249,130
Effect of foreign exchange rate changes		(19,352)	(550)
Cash and cash equivalents at end of the period, representing bank balances and cash		10,547	23,013

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

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.

Segment revenue and results

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

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	302,045	-	3,575	-	-	329	305,949
SEGMENT RESULTS	4,716	(112)	1,193	(3,692)	3	(996)	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							(5,191)
Profit before taxation							5,702

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	279,622	140,758	2,096	-	-	422,476
SEGMENT RESULTS	14,216	27,319	374	(10,333)	(29)	31,547
Interest income						6
Unallocated expenses						(2,295)
Share of profits of an associate						286
Finance costs						(5,373)
Profit before taxation						24,171

4. OTHER INCOME

	Six months ended 30 September	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Other income includes:		
Interest income	3	6
Others	<u>200</u>	<u>1</u>
	<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	<u>3</u>	<u>(29)</u>
	<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	<u>14,045</u>	<u>12,559</u>

7. TAXATION

	Six months ended 30 September	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (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>1,048</u>	<u>12,822</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 HK\$'000 (unaudited)	2016 HK\$'000 (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>
	Number of shares	
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 HK\$'000 (unaudited)	31.3.2017 HK\$'000 (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 due 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 HK\$'000 (unaudited)	31.3.2017 HK\$'000 (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 HK\$'000 (unaudited)	31.3.2017 HK\$'000 (audited)
Other borrowings, secured	<u>96,977</u>	<u>99,500</u>

The borrowings are repayable as follows:

	30.9.2017 HK\$'000 (unaudited)	31.3.2017 HK\$'000 (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 at a principal amount of HK\$75,000,000 maturing on 30 July 2017 to Achieve Prosper, the immediate holding company of the Company, which was subsequently transferred to Lushan Investment Holdings Limited, as 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>

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 HK\$'000 (unaudited)	31.3.2017 HK\$'000 (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 members of key management during the period was as follows:

	Six months ended 30 September	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (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 Benxi Tong Sheng Yuan Shiya, a wholly foreign owned enterprise established in the PRC.

	<i>HK\$'000</i> (unaudited)
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 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) HK\$'000 (unaudited)
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>23,570</u>
Consideration transferred, satisfied by cash	<u>23,570</u>
Net cash outflow arising on the acquisition:	
Cash consideration paid	(23,570)
Bank balances and cash acquired	<u>71</u>
	<u>(23,499)</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.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 30 September 2017, the interests and short positions of the Directors or chief executive of the Company in the shares and share options 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 of Hong Kong Limited ("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

Name of Director	Long Position/ Short Position	Capacity	Number of Shares held	Approximate percentage of issued share capital in the Company
Wang Jing <i>Executive Director</i>	Long Position	Interest of controlled corporation	2,171,827,290 (Note 1)	54.61% (Note 2)
Wang Xing Qiao <i>Executive Director</i>	Long Position	Beneficial Owner	3,275,000	0.08% (Note 2)

Notes:

1. These 2,171,827,290 Shares are held by Achieve Prosper and wholly and beneficially owned by Hong Kong Shihua Holdings Limited, which is in turn wholly and beneficially owned by Liaoning Shihua (Group) Property Development Limited* 遼寧實華（集團）房地產發展有限公司 ("Liaoning Shihua"). Mr. Wang Jing is the sole director of and the beneficial owner of 82.8% of the equity interest in Liaoning Shihua. By virtue of the SFO, Mr. Wang Jing is deemed to be interested in these 2,171,827,290 Shares.
2. Based on 3,976,797,561 Shares of the Company in issue as at 30 September 2017.

* for identification purposes only

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

Name of associated corporation	Name of Director	Capacity	Long/Short position	Number of ordinary shares in associated corporation	Approximate percentage of issued share capital in associated corporation
Achieve Prosper	Wang Jing	Interest of controlled corporation	Long position	1,000,000 (Note)	100%

Note: These 2,171,827,290 Shares are held by Achieve Prosper and wholly and beneficially owned by Hong Kong Shihua Holdings Limited, which is in turn wholly and beneficially owned by Liaoning Shihua. Mr. Wang Jing is the sole director of and the beneficial owner of 82.8% of the equity interest in Liaoning Shihua. By virtue of the SFO, Mr. Wang Jing is deemed to be interested in these 2,171,827,290 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 the date of this interim report, none of the Company's Directors, chief executive nor their associates had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2017, the following persons, other than the interest disclosed in the section headed "Directors' and chief executives' interests and/or short positions in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company or any other associated corporation", had interest 5% or more in the shares and underlying shares of the Company have notified to the Company and have been recorded in the register of substantial shareholders' interests in shares and short positions required to be kept under Section 336 of Part XV of the SFO:—

Name of Shareholders	Nature of interest	Number of shares and underlying shares	Aggregate percentage of issued share capital as at the Latest Practicable Date
Achieve Prosper (Note 2)	Beneficial owner	2,171,827,290	54.61% (Note 1)
Hong Kong Shihua Holdings Limited (Note 2)	Interest of controlled corporation	2,171,827,290	54.61% (Note 1)
Liaoning Shihua (Note 2)	Interest of controlled corporation	2,171,827,290	54.61% (Note 1)
Hu Bao Qin (Notes 2, 3)	Spouse Interest	2,171,827,290	54.61% (Note 1)
Lushan Investment Holdings Limited (Note 4)	Custodian corporation/ Approved lending agent/ Beneficial owner	2,917,914,246	73.37% (Note 1)

Notes:

1. Based on 3,976,797,561 Shares of the Company in issue as at 30 September 2017.
2. Achieve Prosper is wholly and beneficially owned by Hong Kong Shihua Holdings Limited, which is in turn wholly and beneficially owned by Liaoning Shihua. Mr. Wang Jing is the sole director and the beneficial owner of 82.8% of the equity interest in Liaoning Shihua. By virtue of the SFO, Hong Kong Shihua Holdings Limited, Liaoning Shihua, Mr. Wang Jing and Ms. Hu Bao Qin were deemed to be interest in the said 2,171,827,290 Shares held by Achieve Prosper.
3. Ms. Hu Bao Qin is the spouse of Mr. Wang Jing, and is therefore deemed to be interested in the shares of the Company held by Mr. Wang Jing. Please refer to the above disclosure of interests in this section for further details.
4. On 30 December 2015, Achieve Prosper transferred the 326,086,956 underlying Shares which are the conversion shares and are issuable upon the exercise of the convertible bonds due 2017 to Lushan Investment Holdings Limited, all of which are converted fully on 20 September 2017 (please refer to the announcement of the Company dated 18 September 2017 for further details). On 14 March 2016, Achieve Prosper entered into a share charge with Lushan Investment Holdings Limited, pursuant to which Achieve Prosper has pledged 2,171,827,290 Shares in favour of Lushan Investment Holdings Limited. In addition, further 420,000,000 Shares held by Achieve Prosper was transferred to Lushan Investment Holdings Limited pursuant to the sale and purchase agreement entered by the Achieve Prosper and Lushan Investment Holdings Limited (please refer to the announcement of the Company dated 16 March 2016 for further details).

Save as disclosed above, as at 30 September 2017, the register maintained by the Company pursuant to Section 336 of the SFO recorded no other interests, short positions or long positions in shares of the Company.

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.

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.

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.

BOARD OF DIRECTORS

As at the date of 30 September 2017, the Board comprises Mr. Wang Jing, Mr. Wang Xing Qiao and Mr. Zhao Shuang as executive Directors; Mr. Wang Ping, Mr. Cheng Tai Kwan Sunny and Mr. Song Wenke as independent non-executive Directors.

By Order of the Board
China Sinostar Group Company Limited
Wang Jing
Chairman

Hong Kong, 29 November 2017