SINOSTAR
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)

# FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

## FINANCIAL RESULTS

The Board of Directors (the "Directors") of China Sinostar Group Company Limited (the "Company") hereby announces the consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2017 together with comparative figures for 2016 as follows:–

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 March 2017*

| | *NOTES* | **2017** *HK$'000* | 2016 *HK$'000* |
|---|---|---|---|
| Revenue | *3* | **632,015** | 425,523 |
| Cost of sales | | **(469,223)** | (322,478) |
| Gross profit | | **162,792** | 103,045 |
| Other income | | **91** | 671 |
| Distribution costs | | **(43,260)** | (42,418) |
| Administrative expenses | | **(62,703)** | (64,141) |
| Other gain and loss | *4* | **6,247** | (3,466) |
| Decrease in fair value of investment properties | | **(28,315)** | (5,863) |
| Finance costs | | **(12,248)** | (12,781) |
| Gain on disposal of a subsidiary | | **–** | 10,211 |
| Impairment loss on goodwill | | **(34,027)** | – |
| Impairment loss on property, plant and equipment | | **(2,935)** | – |
| Impairment loss on investment in an associate | | **(3,751)** | – |
| Share of profits of an associate | | **662** | 247 |
| Loss before taxation | *5* | **(17,447)** | (14,495) |
| Taxation | *6* | **(21,559)** | (1,504) |
| Loss for the year | | **(39,006)** | (15,999) |

| | NOTE | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|---|
| Other comprehensive expense for the year, net of tax: | | | |
| Items that may be reclassified to profit or loss: | | | |
| Exchange difference arising on translation of foreign operations | | **(25,808)** | (14,106) |
| Release of translation reserve upon disposal of a subsidiary | | **–** | 5,247 |
| Other comprehensive expense for the year, net of tax | | **(25,808)** | (8,859) |
| Total comprehensive expense for the year | | **(64,814)** | (24,858) |
| Profit/(loss) for the year attributable to: | | | |
| Owners of the Company | | **(46,055)** | (22,243) |
| Non-controlling interests | | **7,049** | 6,244 |
| | | **(39,006)** | (15,999) |
| Total comprehensive income/(expense) for the year attributable to: | | | |
| Owners of the Company | | **(71,948)** | (31,132) |
| Non-controlling interests | | **7,134** | 6,274 |
| | | **(64,814)** | (24,858) |
| | | ***HK cents*** | *HK cents* |
| Loss per share | | | |
| – Basic and diluted | 8 | **(1.26)** | (1.43) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*For the year ended 31 March 2017*

| | NOTES | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | | **206,477** | 208,631 |
| Property, plant and equipment | | **57,148** | 39,140 |
| Goodwill | | **8,512** | 17,665 |
| Interest in an associate | | **3,703** | 6,792 |
| Deferred tax assets | | **7,295** | 18,852 |
| Long-term prepayments | | **455** | 309 |
| Prepaid land lease payments | | **44,374** | – |
| Deposit paid for investments | | **–** | 106,714 |
| Deposit paid for investments properties | | **–** | 12,902 |
| | | **327,964** | 411,005 |
| Current assets | | | |
| Inventories | | **62,807** | 54,299 |
| Debtors, deposits and other receivables | 9 | **243,395** | 114,559 |
| Investments held for trading | | **380** | 451 |
| Amount due from related companies | | **10,841** | – |
| Bank balances and cash | | **34,442** | 249,130 |
| | | **351,865** | 418,439 |
| Current liabilities | | | |
| Creditors and accrued charges | 10 | **111,991** | 73,434 |
| Amount due to immediate holding company | | **33,344** | 175,550 |
| Amount due to related companies | | **36,100** | – |
| Amount due to a director | | **172** | 172 |
| Current tax liabilities | | **11,684** | – |
| Borrowing | | **20,477** | 11,990 |
| Convertible bonds | 11 | **72,174** | – |
| | | **285,942** | 261,146 |
| Net current assets | | **65,923** | 157,293 |
| Total assets less current liabilities | | **393,887** | 568,298 |

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Long-term creditors | *10* | **–** | 15,011 |
| Borrowing | | **79,023** | 107,913 |
| Convertible bonds | *11* | **–** | 64,399 |
| Deferred tax liabilities | | **–** | 2,098 |
| | | **79,023** | 189,421 |
| Net assets | | **314,864** | 378,877 |
| Capital and reserves | | | |
| Share capital | | **36,507** | 36,507 |
| Reserves | | **248,837** | 320,629 |
| Equity attributable to owners of the Company | | **285,344** | 357,136 |
| Non-controlling interests | | **29,520** | 21,741 |
| Total equity | | **314,864** | 378,877 |

*NOTES:*

## 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the"Listing Rules").

The consolidated financial statements for the year ended 31 March 2017 have been prepared in accordance with accounting principles generally accepted in Hong Kong.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 April 2016. 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 year 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. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## 3. SEGMENT INFORMATION

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

The Group's operating divisions are as follows:

(1) Design and sale of electronic products (representing consumer electronic audio and video equipment, karaoke equipment and accessories) ("Electronic products business")

(2) Sales and installation of elevators

(3) Operation and management of hydroelectric power stations ("Hydroelectric power business") *(note a)*

(4) Properties investment

(5) Securities trading

*Notes:*

(a) On 31 March 2017, the Group has completed the acquisition of a subsidiary and commenced the operation and management of a hydroelectric power station. This operating division has contributed to the Group's revenue of approximately HK$1,375,000 for the year ended 31 March 2017.

**Segment revenue and results**

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

| | **Design and sale of electronic products** *HK$'000* | **Sale and installation of elevators** *HK$'000* | **Operation and management of hydroelectric power stations** *HK$'000* | **Properties investment** *HK$'000* | **Securities trading** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|---|---|
| **Year ended 31 March 2017** | | | | | | |
| TURNOVER | 457,858 | 169,990 | 4,167 | – | – | 632,015 |
| SEGMENT RESULTS | 8,313 | 33,069 | 419 | (28,315) | 17 | 13,503 |
| Interest income | | | | | | 18 |
| Unallocated expenses | | | | | | (28,641) |
| Share of profits of an associate | | | | | | 662 |
| Gain on disposal of investment property | | | | | | 9,259 |
| Finance costs | | | | | | (12,248) |
| Loss before taxation | | | | | | (17,447) |

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

**Segment assets and liabilities**

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

| | **Design and sale of electronic products** *HK$'000* | **Sale and installation of elevators** *HK$'000* | **Operation and management of hydroelectric power stations** *HK$'000* | **Properties investment** *HK$'000* | **Securities trading** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|---|---|
| **As at 31 March 2017** | | | | | | |
| ASSETS | | | | | | |
| Segment assets | **117,862** | **229,192** | **83,167** | **237,245** | **380** | **667,846** |
| Unallocated corporate assets | | | | | | **11,983** |
| Consolidated total assets | | | | | | **679,829** |
| LIABILITIES | | | | | | |
| Segment liabilities | **16,675** | **58,055** | **4,359** | **101,394** | **–** | **180,483** |
| Unallocated corporate liabilities | | | | | | **184,482** |
| Consolidated total liabilities | | | | | | **364,965** |

| | Design and sale of electronic products *HK$'000* | Operation and management of hydroelectric power stations *HK$'000* | Properties investment *HK$'000* | Securities trading *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|
| **As at 31 March 2016** | | | | | |
| ASSETS | | | | | |
| Segment assets | 108,440 | 35,781 | 303,284 | 451 | 447,956 |
| Unallocated corporate assets | | | | | 381,488 |
| Consolidated total assets | | | | | 829,444 |
| LIABILITIES | | | | | |
| Segment liabilities | 68,061 | 20,384 | – | – | 88,445 |
| Unallocated corporate liabilities | | | | | 362,122 |
| Consolidated total liabilities | | | | | 450,567 |

Unallocated corporate assets mainly represent interest in an associate, deferred tax assets, deposit paid for investments and bank balances and cash.

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

### Other segment information

| | **Design and sale of electronic products** *HK$'000* | **Sales and installation of elevators** *HK$'000* | **Operation and management of hydroelectric power stations** *HK$'000* | **Properties investment** *HK$'000* | **Securities trading** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|---|---|
| Amounts included in the measurement of segment results or segment assets: | | | | | | |
| **Year ended 31 March 2017** | | | | | | |
| Additions of property, plant and equipment | **2,600** | **–** | **1,098** | **8,505** | **–** | **12,203** |
| Additions of property, plant and equipment arising from acquisition of a subsidiary | **–** | **–** | **16,583** | **–** | **–** | **16,583** |
| Additions of investment properties | **–** | **–** | **–** | **53,261** | **–** | **53,261** |
| Decrease in fair value of investment properties | **–** | **–** | **–** | **(28,315)** | **–** | **(28,315)** |
| Allowance for doubtful debts | **712** | **–** | **–** | **–** | **–** | **712** |
| Depreciation of property, plant and equipment | **1,999** | **–** | **3,921** | **177** | **–** | **6,097** |
| Allowance for obsolete and slow-moving inventories | **1,115** | **–** | **–** | **–** | **–** | **1,115** |

| | Design and sale of electronic products *HK$'000* | Operation and management of hydroelectric power stations *HK$'000* | Properties investment *HK$'000* | Securities trading *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|
| Amounts included in the measurement of segment results or segment assets: | | | | | |
| **Year ended 31 March 2016** | | | | | |
| Additions of property, plant and equipment | 1,060 | – | – | – | 1,060 |
| Additions of property, plant and equipment arising from acquisition of a subsidiary | – | 35,781 | – | – | 35,781 |
| Additions of investment properties | – | – | 222,762 | – | 222,762 |
| Decrease in fair value of investment properties | – | – | (5,863) | – | (5,863) |
| Allowance for doubtful debts | 683 | – | – | – | 683 |
| Decrease in fair value of investments held for trading | – | – | – | 2 | 2 |
| Depreciation of property, plant and equipment | 1,340 | – | – | – | 1,340 |
| Allowance for obsolete and slow-moving inventories | 159 | – | – | – | 159 |

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

| | **2017** *HK$'000* | 2016 *HK$'000* |
|---|---|---|
| Interest in an associate | **3,703** | 6,792 |
| Share of profits of an associate | **662** | 247 |
| Finance costs | **(12,248)** | (12,781) |

**Geographical segments**

The Group's operations are located in United States of America ("USA"), Canada, Europe, Hong Kong (place of domicile), Peoples's Republic of China ("PRC") and other countries.

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

| | **Revenue from external customers Year ended 31 March** | | **Non-current assets** *(note)* | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| USA | **389,093** | 356,446 | **22,006** | 3,527 |
| Hong Kong | **–** | – | **25,116** | 24,458 |
| Canada | **46,491** | 47,087 | **65** | – |
| Europe | **22,114** | 18,016 | **–** | – |
| PRC | **174,157** | – | **273,482** | 364,168 |
| Other countries | **160** | 3,974 | **–** | – |
| | **632,015** | 425,523 | **320,669** | 392,153 |

*Note:* Non-current assets excluded deferred tax assets.

## 4. OTHER GAIN AND LOSS

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other gain/(loss) comprise: | | |
| Exchange loss, net | **(2,372)** | (2,781) |
| Allowance for doubtful debts | **(712)** | (683) |
| Increase/(decrease) in fair value of investments held for trading | **72** | (2) |
| Gain on disposal of investment property | **9,259** | – |
| | **6,247** | (3,466) |

## 5. LOSS BEFORE TAXATION

The Group's loss for the year is arrived at after charging/(crediting):

| | 2017 | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold | **469,223** | 322,478 |
| Staff costs (including directors' remuneration): | | |
| Wages and salaries | **27,627** | 25,586 |
| Pension scheme contributions | | |
| – Defined contribution scheme | **480** | 494 |
| Share-based payments | **–** | 130 |
| | **28,107** | 26,210 |
| Auditors' remuneration | **2,321** | 2,786 |
| Depreciation of items of property, plant and equipment | **6,097** | 1,340 |
| Allowance for obsolete and slow-moving inventories (included in cost of sales) | **1,115** | 159 |
| Gain on disposal of investment property | **(9,259)** | – |
| Amortisation of land use right | **782** | – |
| Impairment loss on goodwill | **34,027** | – |
| Impairment loss on property, plant and equipment | **2,935** | – |
| Impairment loss on investment in an associate | **3,751** | – |
| Loss on disposal of property, plant and equipment | **370** | – |
| Minimum lease payments under operating lease in respect of – Land and buildings | **5,350** | 5,236 |

## 6. TAXATION

| | 2017 | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The charge comprises: | | |
| Current year | | |
| Taxation in PRC | **11,684** | – |
| Taxation in other jurisdictions | **416** | – |
| Deferred taxation | **9,459** | 1,504 |
| | **21,559** | 1,504 |

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2016: 25%).

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

## 7. DIVIDENDS

The directors do not recommend the payment of any dividend for each of the year ended 31 March 2017 and 2016.

## 8. LOSS PER SHARE

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss attributable to owners of the Company for the purpose of basic and diluted loss per share | **(46,055)** | (22,243) |

| | **Number of shares** | |
|---|---|---|
| | **2017** | 2016 |
| | | (Restated) |
| Weighted average number of shares for the purpose of basic and diluted loss per share | **3,650,710,605** | 1,554,130,401 |

For the year ended 31 March 2017 and 2016, the calculation of diluted loss per share does not assume the exercise of the conversion of the Company's outstanding convertible bonds as it would result in a decrease in the loss per share.

## 9. TRADE DEBTORS

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **10,516** | 9,863 |
| 31 – 60 days | **874** | 1,459 |
| 61 – 90 days | **3,004** | 5,951 |
| Over 90 days | **196,792** | – |
| | **211,186** | 17,273 |

The Group allows an average credit period ranging from 30 days to 365 days to its trade customers.

## 10. CREDITORS AND ACCRUED CHARGES

| | 2017 | 2016 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade creditors | **11,181** | 5,855 |
| Note payable and accrued interest | **7,207** | 5,932 |
| Royalty and withholding tax payable | **735** | 944 |
| Consideration payable for acquisition of a subsidiary | **39,996** | 20,383 |
| Other creditors and accrued expenses | **52,872** | 55,331 |
| | **111,991** | 88,445 |
| Analysed for reporting purposes as: | | |
| Current liabilities | **111,991** | 73,434 |
| Non-current liabilities | **–** | 15,011 |
| | **111,991** | 88,445 |

Note payable with the principal amount of US$Nil (equivalent to HK$Nil) (2016: US$697,000 (equivalent to HK$5,434,000)) is unsecured and carries interest at Nil% (2016: 6%) per annum. At 31 March 2017, HK$111,991,000 and HK$Nil (2016: HK$73,434,000 and HK$15,011,000) are classified as current and non-current liabilities, respectively.

Included in other creditors is an amount of HK$Nil (2016: HK$15,011,000) which is unsecured, interest-free and repayable upon expiry of revolving credit facility granted to a subsidiary of the company in July 2017. Accordingly, the amount is classified as a non-current liability.

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

| | 2017 | 2016 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 – 30 days | **10,055** | 5,154 |
| 31 – 60 days | **380** | 9 |
| 61 – 90 days | **–** | 153 |
| Over 90 days | **746** | 539 |
| | **11,181** | 5,855 |

## 11. CONVERTIBLE BONDS

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

The Bonds are convertible, at the option of the bond holder, into ordinary shares of HK$0.01 each of the Company at a conversion price of HK$0.23 (after adjustment for capital reorganisation) per share, subject to anti-dilutive adjustments, at any time on or after 30 July 2014 up to and including the maturity date. Unless previously redeemed, converted or purchased and cancelled, the outstanding Bonds will be redeemed by the Company at 100% of its principal amount on the maturity date.

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

The equity component is presented as convertible bonds reserve in equity, whereas the liability component is classified under non-current liabilities at 31 March 2017 and 2016.

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

| | *HK$'000* |
|---|---|
| At 1 April 2015 | 56,875 |
| Imputed interest expense for the year | 9,774 |
| Coupon interest paid | (2,250) |
| At 31 March 2016 | 64,399 |
| Imputed interest expense for the year | 10,031 |
| Coupon interest paid | (2,256) |
| At 31 March 2017 | 72,174 |

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

## 12. ACQUISITION OF A SUBSIDIARY

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

On 23 August 2016, the Group acquired the entire equity interest in 本溪滿族自治縣付家水力發電有限公司 ("Benxi Manchu") from an independent third party for a cash consideration of RMB36,000,000 (equivalent to HK$41,886,000). Benxi Manchu is currently engaged in operation and management of a hydroelectric power station in the PRC. The transaction has been accounted for using the acquisition method. The acquisition is part of the on-going expansion strategy of the Group with the aim of diversifying its operations and broadening its source of revenue.

The fair value of the identifiable assets and liabilities acquired as at its date of acquisition is as follows:

| | Benxi Weining | Benxi Manchu |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Net assets acquired:** | | |
| Fair value of identifiable assets acquired at the date of obtaining control was as follows: | | |
| Property, plant and equipment | 35,781 | 16,638 |
| Bank balances and cash | 79 | 374 |
| Goodwill | – | 24,874 |
| | 35,860 | 41,886 |
| Consideration transferred, satisfied by cash | 15,477 | 15,125 |
| Deferred consideration included in other payables in current liabilities | 20,383 | 26,761 |
| | 35,860 | 41,886 |
| Analysis of net outflow of cash and cash equivalents in respect of acquisition: | | |
| Cash consideration paid | (15,477) | (15,125) |
| Bank balances and cash acquired | 79 | 374 |
| | (15,398) | (14,751) |

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

## 13. CAPITAL COMMITMENTS

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure in respect of acquisition and construction of properties contracted for but not provided in the consolidated financial statements | **6,207** | 5,084 |

## 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 enhance the shareholders' value. Apart from the ordinary businesses in the design and sale of a wide range of electronic products, operation and management of hydroelectric power stations and properties investment, the Group further expanded its business into the sales and installation of elevators for the year ended 31 March 2017. As a result, the Group recorded a turnover of HK$632,015,000 for the year ended 31 March 2017, representing an increase of 49% as compared to the previous year. The gross profit of the Company was increased from HK$103,045,000 for the year ended 31 March 2016 to HK$162,792,000 for the year ended 31 March 2017. The loss for the year ended 31 March 2017 was mainly due to same one off items like impairment loss on goodwill of HK$34,027,000, impairment loss on property, plant and equipment of HK$2,935,000 and the impairment loss on investment in an associate of HK$3,751,000. By excluding such effect, the Group would record a profit of HK$1,707,000 for the year ended 31 March 2017. As a result, the loss for the year ended 31 March 2017 was HK$39,006,000 (2016: HK$15,999,000).

#### *Design and Sale of Electronic Products*

The turnover of the design and sale of electronic products was increased from HK$425,523,000 for the year ended 31 March 2016 to HK$457,858,000 for the year ended 31 March 2017. The segment results recorded a profit of HK$8,313,000 as compared to the loss of HK$2,683,000 for the year 31 March 2016. A large proportion of the electronic products were sold to the wholesalers in United States, Canada and Europe. Despite the slightly increase in the segment results, the Board will take a cautious approach towards the current foreign market conditions and the uncertainties that may be raised.

#### *Sales and Installation of Elevators*

From the second half year of 2016, the Group has enlarged and widened the scale and the scope of its trading business into the sales and installation of elevators. By leveraging the extensive experience and the network of the management, the Group established a good relationship with sizeable developers and suppliers in the PRC and provide the service of the sales and installation of elevators specializing in residential and commercial projects. As a result, the revenue generated from the sales and installation of elevators for the year ended 31 March 2017 was HK$169,990,000, accounting for approximately 27% of the total revenue of the Group. In addition, a segment results of HK$33,069,000 was recorded for the year ended 31 March 2017.

### *Properties Investment*

For the year ended 31 March 2017, the segment of the properties investment performed weakly and recorded a loss of HK$28,315,000 as compared to the profit of HK$4,348,000 for the year ended 31 March 2016. The decrease of the segment results was mainly due to the decrease in fair value of investment properties.

### *Operation and management of hydroelectric power stations*

During the year of 2016, the Group has acquired the entire equity interest of two companies established in the PRC which are engaged in the operation and management of hydroelectronic power stations. For the year ended 31 March 2017, revenue of HK$4,167,000 and segment profit of HK$419,000 were recorded as a result of the operation and management of the two hydroelectric power stations. In light of the increasing concerns towards the global warming and the demand of clean and renewable energy, the Board believes that the development in renewable energy will generate the steady and sustainable income for the Group in the long run.

### *Securities Trading*

The Group recorded a segment profit of HK$17,000 for the year ended 31 March 2017 due to the increase in fair value of investment held for trading.

Looking forward, the Group will continue devoting effort on formulating the long-term business strategies and will also prudently explore new business opportunities so as to strengthen and broaden the revenue stream of the Company and generate a better result and prospect for the Group.

## Financial Review

### *Liquidity and Financial Resources*

As at 31 March 2017, bank balances and cash has decreased to HK$34,442,000 as compared to HK$249,130,000 as at 31 March 2016.

As at 31 March 2017, gearing ratio calculated as 0.32, excluding convertible bonds (31 March 2016: 0.35). The decrease of the Group's gearing ratio represents the decrease of the debt portion at the year end. The management utilized the gearing platform in order to further develop its business.

The current ratio of the Group is lower than last year, it decreased from 1.60 to 1.23. Although the current ratio decreased in the current year, it is still greater than 1 and keeps at a healthy level.

***Financing and Capital Structure***

The total borrowing of the Group as at 31 March 2016 and 31 March 2017 was HK$119,903,000 and HK$99,500,000 respectively. There was a note payable at the amount of HK$5,932,000 as at 31 March 2016 and none of the note payable was recorded as at 31 March 2017. The Group's borrowing is a fixed-rate borrowing and bears interest at 10% per annum (2016: 8.5%).

For the year ended 31 March 2017, the Group's transactions were mostly denominated in US dollars, Hong Kong dollars and Renminbi and Canadian dollars. The Group did not have significant exposure to foreign exchange fluctuation as the management monitors the related foreign currencies closely and will consider hedging for significant foreign currency exposure, if necessary.

***Update on use of proceeds from the Placing of new shares***

With reference to the announcements of the Company dated 14 July 2015 and 30 July 2015 (the "Announcements") in relation to the placing of new shares of the Company (the "Placing") and (ii) the Company's annual report (the "Annual Report") for the year ended 31 March 2016 published on 28 July 2016.

As disclosed in the Announcements, the net proceeds from the Placing were HK$59,400,000 and are intended to be used for (i) possible opportunities for the development of renewable energy business; and (ii) general working capital of the Group.

As at the date of this announcement, the net proceeds from the Placing of (i) approximately HK$38,400,000 had been applied for the development of renewable energy business and (ii) approximately HK$9,000,000 had been applied as general working capital of the Group. The remaining proceeds of approximately HK$12,000,000 which had not been utilised would be used as intended and had been maintained at a bank as at the date of the Announcement.

***Pledge of Assets***

For the year ended 31 March 2017, the general credit facilities granted to the Group and the margin accounts with securities brokers are secured by an investment property under construction of HK$168,545,000 (2016: HK$188,967,000), deposits with securities brokers of HK$Nil (2016: HK$32,000) and investment held for trading of HK$380,000 (2016: HK$451,000).

***Contingent Liabilities***

As at 31 March 2017, the Group had no material contingent liabilities.

***Staff***

As at 31 March 2017, the Group had a total staff of 70 of which 55 were employed in the overseas. The Group provides employee benefits such as staff insurance, retirement scheme, discretionary bonus and share option scheme and also provides in-house training programmes and external training sponsorship.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## CORPORATE GOVERNANCE

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

1. During the year ended 31 March 2017, the Company has complied with the Code Provisions except the following: The Company was incorporated in Bermuda and enacted by private act, the Starlight International Holdings Limited Company Act, 1989 of Bermuda (the "1989 Act"). Pursuant to section 3(e) of the 1989 Act, director holding office as executive chairman or managing director shall not be subject to retirement by rotation at each annual general meeting as provided in the bye-laws of the Company ("the Bye-laws"). As the Company is bound by the provisions of the 1989 Act, the Bye-laws cannot be amended to fully reflect the requirements of Code Provision A.4.2 which stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

   To comply with Code Provision A.4.2, all directors will be voluntarily retired from his directorship at annual general meeting of the Company at least once every three years, provided that, being eligible, the retired directors may offer themselves for re-election at the annual general meeting.

2. In respect of Code Provision A.6.7 of the Code, the independent non-executive director Mr. Song Wenke was unable to attend the annual general meeting of the Company held on 31 August 2016 due to other business commitments.

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors and reports directly to the Board of Directors. The audit committee meets regularly with the Group's senior management and the external auditor to review the financial reporting and internal control systems of the Group as well as the financial statements of the Company. The audit committee has reviewed the annual results of the Group for the year ended 31 March 2017.

## REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Zhonghui Anda CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2017. The work performed by Zhonghui Anda CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Zhonghui Anda CPA Limited on the preliminary announcement.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules ("the Model Code") as the code of conduct regarding director's securities transactions. Having made specific enquiry to all directors of the Company, all of them confirmed that they have complied with the Model Code throughout the year ended 31 March 2017.

## PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

The results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.00485.hk. The annual report of the Company for the year ended 31 March 2017 containing all information required by the Listing Rules will be despatched to the shareholders and published on above websites in due course.

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

Hong Kong, 30 June 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.*