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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China Sinostar Group Company Limited, you should at once hand this circular to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular, for which the directors of China Sinostar Group Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to China Sinostar Group Company Limited. The directors of China Sinostar Group Company Limited having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

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**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)

**MAJOR AND CONNECTED TRANSACTION –  
DISPOSAL OF THE ENTIRE EQUITY INTEREST IN  
HARVEST WAY HOLDINGS LIMITED  
AND  
NOTICE OF SGM**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**

**Nuada Limited**

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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 14 to 15 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Disposal is set out on pages 16 to 31 of this circular. A notice convening the SGM to be held at Tang Room II, 3/F., Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Tuesday, 7 January 2020 at 10:30 a.m. is set out on pages 43 to 44 of this circular.

Whether or not you propose to attend the meeting, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the office of the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of a proxy form will not preclude shareholders of the Company from attending and voting at the SGM if they so wish.

Hong Kong, 17 December 2019

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have meanings set out below:*

“Agreement”	the sale and purchase agreement dated 31 October 2019 entered into between the Company and the Purchaser in respect of the Disposal
“Announcements”	the announcements of the Company dated 31 October 2019 and 4 November 2019 relating to, amongst other things, the Agreement and the transactions contemplated thereunder
“associate(s)”	has the meaning as ascribed thereto under the Listing Rules
“Balance of Consideration”	the remaining balance of Consideration of HK\$6 million paid by the Purchaser to the Custodian pursuant to the Agreement
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday or days on which a typhoon signal no. 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business
“Company”	China Sinostar Group Company Limited, a company incorporated in Bermuda with limited liability and the issued Shares are listed on the Stock Exchange
“Completion”	completion of the Disposal
“Consideration”	the consideration payable by the Purchaser pursuant to the Agreement, being HK\$7.5 million
“connected person(s)”	has the meaning as ascribed thereto under the Listing Rules
“Custodian”	Loeb & Loeb LLP, the legal adviser of the Company and an Independent Third Party
“Deposit”	the deposit of HK\$1.5 million paid by the Purchaser to the Company pursuant to the Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of the entire equity interest in the Target Company
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	a board committee established by the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Nuada Limited, a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) not required to abstain from voting on the resolution to be proposed at the SGM
“Latest Practicable Date”	12 December 2019, being the latest practicable date for the purpose of ascertaining certain information contained herein prior to the printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	17 January 2020, or such later date as the parties to the Agreement may agree in writing
“PRC”	the People’s Republic of China
“Purchaser”	Fairy King Prawn Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a connected person of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Future Ordinance (Cap. 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve, among other things, the Agreement and the transactions contemplated thereunder
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company

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## DEFINITIONS

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“Shareholder(s)”	the holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Harvest Way Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company as at the date of this circular
“Target Group”	the Target Company and its subsidiaries
“United States”	the United States of America
“US\$”	United States dollar, the lawful currency of the United States
“%”	per cent

*The English names of the entities marked with “\*” in this circular are translations from their Chinese names and are for identification purpose only. If there is any inconsistency, the Chinese names shall prevail.*

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LETTER FROM THE BOARD

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**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)

*Executive Directors:*

Wang Jing (*Chairman*)

Wang Xing Qiao (*Chief Executive Officer*)

Zhao Shuang

*Independent non-executive Directors:*

Wang Ping

Song Wenke

Zeng Guanwei

*Registered office:*

Victoria Place, 5th Floor

31 Victoria Street

Hamilton HM10

Bermuda

*Principal place of business in*

*Hong Kong:*

Suites 2602-2603, 26/F.

Tower 1, The Harbourfront

18 Tak Fung Street, Hung Hom

Kowloon, Hong Kong

17 December 2019

*To the Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION –  
DISPOSAL OF THE ENTIRE EQUITY INTEREST IN  
HARVEST WAY HOLDINGS LIMITED  
AND  
NOTICE OF SGM**

**INTRODUCTION**

Reference is made to the Announcements dated 31 October 2019 and 4 November 2019 in relation to, among others, the Agreement and the transactions contemplated thereunder.

As disclosed in the Announcements, on 31 October 2019, the Company and the Purchaser entered into the Agreement, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest in the Target Company.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with information in respect of, among other things, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee in relation to the Agreement and the transactions contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder; and (iv) the notice convening the SGM.

### THE AGREEMENT

Summarised below are the principal terms of the Agreement:

**Date:** 31 October 2019 (after trading hours)

**Parties:** The Company, as vendor

Fairy King Prawn Holdings Limited, as purchaser

The Purchaser is ultimately owned as to 70% by Mr. Lau Sak Hong, as to 15% by Ms. Lau Jun Jun and as to 15% by Mr. Lau Yat Sun, Kevin (both are family members of Mr. Lau Sak Hong), all of whom are directors of certain subsidiaries of the Company, thus a connected person of the Company under Chapter 14A of the Listing Rules.

### Subject matter

Pursuant to the Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest in the Target Company.

### Consideration

The Consideration of HK\$7.5 million shall be paid in HK\$ in the following manner:

- (i) a refundable deposit in the sum of HK\$1.5 million, being the Deposit, shall be paid to the Company upon the signing of the Agreement and the Deposit shall be regarded as part of the Consideration to be paid by the Purchaser to the Company upon the Completion; and
- (ii) the remaining balance of the Consideration of HK\$6 million, being the Balance of Consideration, shall be deposited by the Purchaser to the bank account maintained by the Custodian as stakeholder within three Business Days after the date of the Agreement and the Custodian shall not release the Balance of Consideration to the Company until the Completion.

The Consideration was determined after arm's length negotiations between the Company and the Purchaser by reference to the net asset value of the Target Group (after deducting its non-controlling interest), the past financial performance and the future prospects of the Target Group. The Consideration

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## LETTER FROM THE BOARD

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represents deficit under the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019 (after deducting its non-controlling interest) of approximately HK\$18.5 million by approximately HK\$11.0 million.

Despite the abovesaid deficit that the Consideration represents approximately 59.5% to the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019, after considering:

- (i) the gloomy prospect of the Target Group which will be explained in the section headed “Reasons for and benefits of the Disposal” below, in particular that (a) the demand of the traditional products of the Target Group is diminishing as a result of the blooming of high-end digital products; (b) the products of the Target Group are mainly sold through major mass merchandisers and warehouse clubs, the growth of e-commerce shopping steadily eats into the share of brick-and-mortar stores which in turn creates a negative impact on the Target Group’s business performance; (c) the loss of a major client, Toys“R”Us, Inc., due to its liquidation in 2018, adversely affected the financial performance of the Target Group for the year ended 31 March 2019 and the six months ended 30 September 2019, would also affect the Target Group’s income in the future; and (d) the protectionist measures initiated by the United States and the trade war between the United States and the PRC could likely result in negative impact on the Target Group’s exports to the United States;
- (ii) the increasing loss of the Target Group from approximately HK\$4.0 million for the year ended 31 March 2018 to approximately HK\$13.3 million for the year ended 31 March 2019 and from approximately HK\$1.5 million for the six months ended 30 September 2018 to approximately HK\$4.2 million for the six months ended 30 September 2019, and that the loss is expected to continue and exert pressure on the Group’s overall profitability in the near future; and
- (iii) that it may not be easy for the Group to have a ready buyer to purchase the entire equity interest in the Target Company given the dull situation of the Target Group as explained above, the Disposal represents an opportunity for the Group to realise its investment in the Target Group and reorganise its assets portfolio so as to stop the possible loss incurred from the Target Group in future,

the Directors (including the independent non-executive Directors) are of the view that the Consideration is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### **Conditions precedent**

Completion shall be subject to and conditional upon the fulfillment and/or waivers by the Purchaser of the following conditions precedent:

- (i) all necessary prior approvals, consent and waiver for the sale and purchase of the entire issued capital of the Target Company in accordance with the Agreement having been obtained from the regulatory authorities and other relevant third parties (including without limitation the registered agent of the Target Company) and are continuing in force;



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## LETTER FROM THE BOARD

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- (ii) all the representations, warranties and undertakings made by the Company under the Agreement remain comprehensive, true and accurate, and not materially omitted or misleading in all respects at the Completion, as if they would be repeated at the Completion and all the time between the date of the Agreement and the Completion;
- (iii) the approval from the board of the directors of the Purchaser in respect of the Agreement and the transactions contemplated thereunder shall have been obtained;
- (iv) the approval from the Board in respect of the Agreement and the transactions contemplated thereunder shall have been obtained; and
- (v) the approval from the Shareholders in respect of the Agreement and the transactions contemplated thereunder shall have been obtained, if required.

The Purchaser may waive all or any such above conditions precedent at any time by notice in writing to the Company.

In the event that the above conditions are not fulfilled on or before the Long Stop Date, the Company shall, and shall procure the Custodian to, refund the Deposit and the Balance of Consideration to the Purchaser within three Business Days after the Long Stop Date and the Agreement (save for certain clauses relating to confidentiality, costs and expenses and certain miscellaneous matters) shall then lapse and become null and void, and the parties to the Agreement shall be released from all their respective obligations thereunder, save for the liabilities for any antecedent breaches thereof.

### **Completion**

Completion shall take place on the third Business Day after the date on which the last of the conditions precedent has/have been fulfilled or such later date as the parties to the Agreement may agree in writing.

Upon Completion, the Company will cease to hold any equity interest in the Target Company and the Target Company together with its subsidiaries will cease to be subsidiaries of the Company.

### **INFORMATION OF THE PURCHASER**

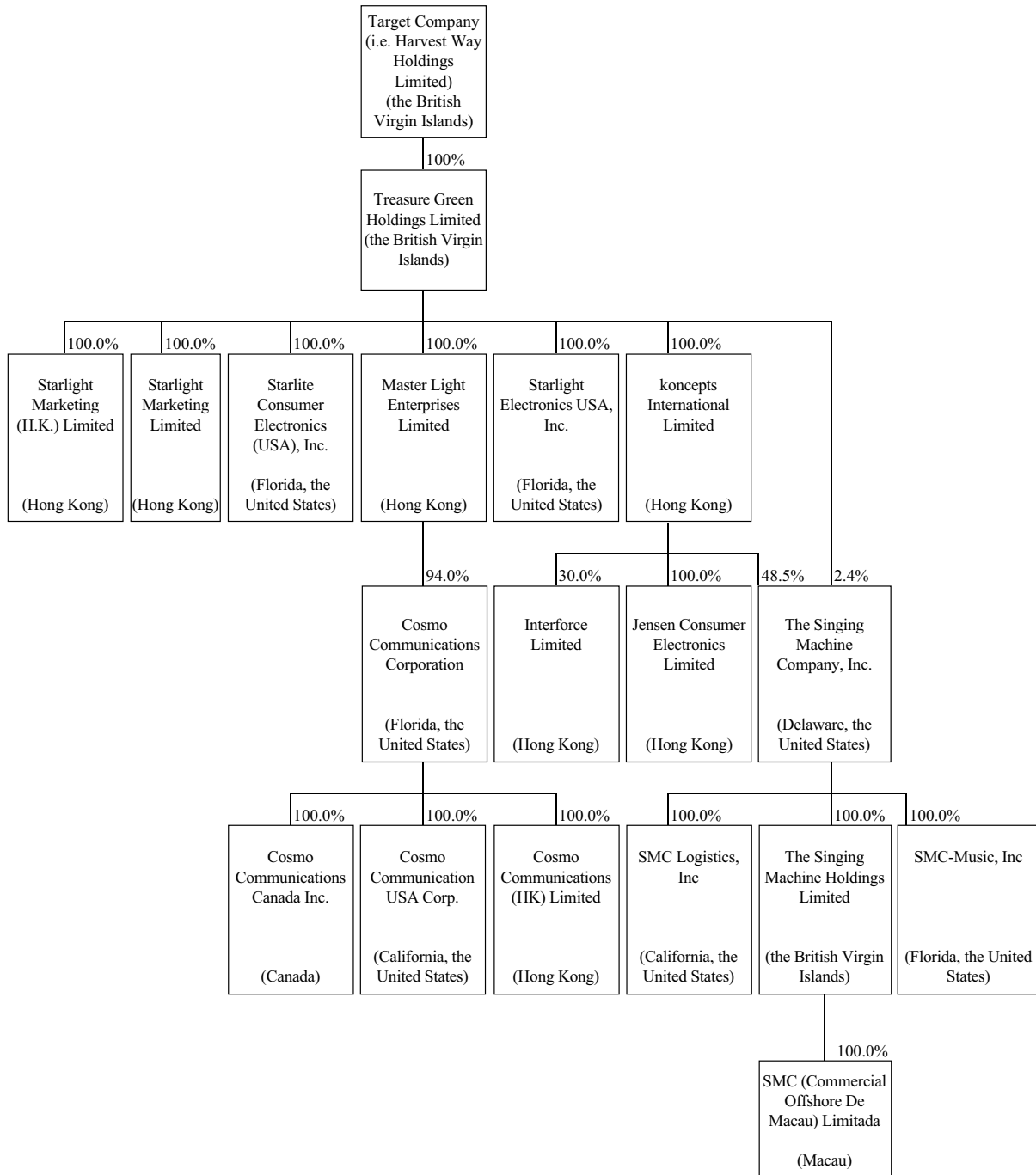
The Purchaser is an investment holding company incorporated in the British Virgin Islands and ultimately owned as to 70% by Mr. Lau Sak Hong, as to 15% by Ms. Lau Jun Jun and as to 15% by Mr. Lau Yat Sun, Kevin, both are family members of Mr. Lau Sak Hong. All of the ultimate beneficial owners of the Purchaser are directors of certain subsidiaries of the Company and were interested in an aggregate of 32,891,933 Shares as at the Latest Practicable Date.

### **INFORMATION ON THE TARGET GROUP**

The Target Company is an investment holding company incorporated in the British Virgin Islands. The Target Company, together with its subsidiaries, is engaged in the design and sale of electronic products and securities trading.

# LETTER FROM THE BOARD

The shareholding structure of the Target Group is as follows:



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## LETTER FROM THE BOARD

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Set out below is the summary of the key financial information extracted from the consolidated financial information of the Target Group for the years ended 31 March 2018 and 2019:

	For the year ended 31 March	
	2018	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Turnover	512,115	390,503
Loss before taxation	4,103	11,878
Loss after taxation	3,988	13,308

The unaudited consolidated adjusted net asset values of the Target Group were approximately HK\$21.8 million and approximately HK\$18.5 million as at 31 March 2019 and 30 September 2019 respectively after deducting the non-controlling interest of the Target Group of approximately HK\$33.9 million and approximately HK\$32.8 million as at 31 March 2019 and 30 September 2019 respectively.

### FINANCIAL EFFECTS OF THE DISPOSAL AND USE OF PROCEEDS

Based on (i) the Consideration of HK\$7.5 million; (ii) the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019 of approximately HK\$51.3 million; (iii) the deduction of non-controlling interest of the Target Group of approximately HK\$32.8 million as at 30 September 2019; and (iv) the release of the exchange reserve of approximately HK\$13.7 million, it is estimated that the Group would record, before transaction costs, an unaudited accounting gain of approximately HK\$2.7 million from the Disposal. As the Target Group has been at a loss for the years ended 31 March 2018 and 2019 and for the six months ended 30 September 2019, and having considered the prospect of the Target Group as detailed in the section headed "Reasons for and benefits of the Disposal" below, the Board expects its business to present pressure on the Group's overall profitability in the near future. Notwithstanding that the turnover of the Group will decrease upon Completion, it is expected that the Disposal can reduce loss of the Company and that the Group's earnings will improve as a result. Assuming the Disposal has taken place on 30 September 2019, it is estimated that the total assets of the Group will decrease by approximately HK\$318.1 million and the total liabilities of the Group will decrease by approximately HK\$266.8 million upon the Completion.

The abovementioned financial effects are shown for illustrative purpose only and are subject to audit and the exact final result may be different from the amount mentioned above.

Upon Completion, the Company will cease to hold any equity interest in the Target Company. Accordingly, the assets, liabilities and the financial results of the Target Group will no longer be consolidated into the financial statements of the Group.

The Company intends to apply the net proceeds from the Disposal for general working capital of its existing business. Net cash inflow is expected to be generated from the Disposal, allowing the Group to conserve more financial resources for the funding of future potential investments when opportunities arise.

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## LETTER FROM THE BOARD

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The Disposal will enable the Group to realise the value of its interest in the Target Company and help the Group to further concentrate its resources to its properties development, properties investment, environmental related and other profitable business.

### REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is engaged in the business of properties development, properties management, properties investment, operation and management of hydroelectric power stations, design and sale of electronic products and securities trading.

The Target Group is principally engaged in the design and sale of traditional consumer electronic audio and video equipment. However, the ever-changing technological landscape and the subsequent shifts in the consumption of audio and video content presented challenges for the audio and video equipment manufacturing industry over the past years. Many products in this industry may become obsolete as a result of the technological innovations and introduction of a variety of digital products. In addition, the Target Group's products are mainly sold through major mass merchandisers and warehouse clubs. The growth of e-commerce shopping steadily eats into the share of brick-and-mortar stores which in turn creates a negative impact on the Target Group's business performance. The business segment of design and sale of traditional consumer electronic audio and video equipment may not contribute significant profit to the Group and is expected to present pressure on the Group's overall profitability in the near future.

The liquidation of Toys"R"Us, Inc., one of the major clients of the Group during the year ended 31 March 2018, resulted in negative impact on the Group's financial performance for the year ended 31 March 2019 and for the six months ended 30 September 2019. Further, protectionist measures initiated by the United States and the trade war between the United States and the PRC could likely result in negative impact on the Target Group's exports to the United States.

In view of the volatility in the market of design, manufacturing and sale of consumer electronic audio and video equipment, karaoke equipment and accessories, the Disposal represents a good opportunity for the Group to realise its investment in the Target Group and reorganise its assets portfolio.

After the Disposal, the Group will cease to engage in the business of design and sale of electronic products and securities trading.

Despite the deficit of the Consideration of approximately 59.5% under the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019 (after deducting its non-controlling interest), having taken into account:

- (i) the gloomy prospect of the Target Group as explained above, in particular that (a) the demand of the traditional products of the Target Group is diminishing as a result of the blooming of high-end digital products; (b) the products of the Target Group are mainly sold through major mass merchandisers and warehouse clubs, the growth of e-commerce shopping steadily eats into the share of brick-and-mortar stores which in turn creates a negative impact on the Target Group's business performance; (c) the loss of a major client, Toys"R"Us, Inc., due to its liquidation in 2018, adversely affected the financial performance of the Target Group for the year ended 31 March 2019 and the six months ended 30 September 2019, would also affect the

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## LETTER FROM THE BOARD

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Target Group's income in the future; and (d) the protectionist measures initiated by the United States and the trade war between the United States and the PRC could likely result in negative impact on the Target Group's exports to the United States;

- (ii) the increasing loss of the Target Group from approximately HK\$4.0 million for the year ended 31 March 2018 to approximately HK\$13.3 million for the year ended 31 March 2019 and from approximately HK\$1.5 million for the six months ended 30 September 2018 to approximately HK\$4.2 million for the six months ended 30 September 2019, and that the loss is expected to continue and exert pressure on the Group's overall profitability in the near future; and
- (iii) that it may not be easy for the Group to have a ready buyer to purchase the entire equity interest in the Target Company given the dull situation of the Target Group as explained above, the Disposal represents an opportunity for the Group to realise its investment in the Target Group and reorganise its assets portfolio so as to stop the possible loss incurred from the Target Group in future,

the Board (including the independent non-executive Directors) considers that the terms of the Disposal as well as the Consideration are fair and reasonable so far as the Company and the Shareholders are concerned, and the Disposal is in the interests of the Company and the Shareholders as a whole.

### WORKING CAPITAL

The Directors, are of opinion that, taking into account of the internal resources of the Group, the financial resources available to the Group and the effect of the Disposal, the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of this circular.

### LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal exceed 25% but all are below 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to reporting, announcement and Shareholders' approval requirements under the Listing Rules.

As the Purchaser is ultimately owned as to 70% by Mr. Lau Sak Hong, as to 15% by Ms. Lau Jun Jun and as to 15% by Mr. Lau Yat Sun, Kevin (both are family members of Mr. Lau Sak Hong), all of whom are directors of certain subsidiaries of the Company, as at the Latest Practicable Date, the Purchaser was a connected person of the Company and the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### THE SGM

Set out on pages 43 to 44 of this circular is a notice convening the SGM to be held at Tang Room II, 3/F., Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Tuesday, 7 January 2020 at 10:30 a.m. at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, pass the resolution to approve the Agreement and the transactions contemplated thereunder.

The ultimate beneficial owners of the Purchaser, who were interested in an aggregate of 32,891,933 Shares as at the Latest Practicable Date, will abstain from voting at the SGM regarding the Agreement and the transactions contemplated thereunder. None of the Directors have material interest in the Agreement and the transactions contemplated thereunder, and did not abstain from voting on the relevant board resolution relating to the Disposal.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Wang Ping, Mr. Song Wenke and Mr. Zeng Guanwei, has been established to advise the Independent Shareholders on the Agreement and the transactions contemplated thereunder. Nuada Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A form of proxy for the SGM is enclosed with this circular. Whether or not you are able to attend and vote at the SGM, you are requested to complete and return the same to the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

### RECOMMENDATION

The Board considers that the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution as set out in the notice of SGM.

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## LETTER FROM THE BOARD

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### FURTHER INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

By Order of the Board  
**China Sinostar Group Company Limited**  
**Wang Xing Qiao**  
*Executive Director and Chief Executive Officer*  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee to the Independent Shareholders regarding the Agreement and the transactions contemplated thereunder.*

**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)

17 December 2019

**To the Independent Shareholders**

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION –  
DISPOSAL OF THE ENTIRE EQUITY INTEREST IN  
HARVEST WAY HOLDINGS LIMITED**

We refer to the circular of the Company to the Shareholders dated 17 December 2019 (the “Circular”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 13 of the Circular and the letter of advice from the Independent Financial Adviser as set out on pages 16 to 31 of the Circular which contains its advice in respect of the terms of the Agreement and the transactions contemplated thereunder.

Having taken into account the advice of the Independent Financial Adviser, we consider that while the entering into of the Agreement is not in the ordinary and usual course of business of the Group, the terms of the Agreement are normal commercial terms and fair and reasonable in so far as the Company and the Independent Shareholders are concerned, and the entering into of the Agreement and the transaction contemplated thereunder is in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM in relation to the Agreement and the transaction contemplated thereunder.

Yours faithfully,  
For and on behalf of  
The Independent Board Committee of  
**China Sinostar Group Company Limited**  
**Wang Ping**  
**Song Wenke**  
**Zeng Guanwei**  
*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice to the Independent Board Committee and the Shareholders from Nuada Limited dated 17 December 2019 prepared for the purpose of inclusion in this circular.*

# Nuada Limited

Unit 1606, 16/F  
OfficePlus @Sheung Wan  
93-103 Wing Lok Street  
Sheung Wan, Hong Kong  
香港上環永樂街93-103號  
協成行上環中心16樓1606室

17 December 2019

*To the Independent Board Committee  
and the Independent Shareholders of  
China Sinostar Group Company Limited*

Dear Sirs,

### **MAJOR AND CONNECTED TRANSACTION – DISPOSAL OF THE ENTIRE EQUITY INTEREST IN HARVEST WAY HOLDINGS LIMITED**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, details of which are set out in the section headed “Letter from the Board” (the “**Board Letter**”) in the Company’s circular dated 17 December 2019 to the Shareholders (the “**Circular**”), of which this letter forms part. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 31 October 2019, the Company as vendor and the Purchaser entered into the Agreement, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest in the Target Company at a Consideration of HK\$7.5 million in cash.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal exceed 25% but all are below 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to reporting, announcement and Shareholders’ approval requirements under the Listing Rules. As the Purchaser is ultimately owned as to 70% by Mr. Lau Sak Hong, as to 15% by Ms. Lau Jun Jun and as to 15% by Mr. Lau Yat Sun, Kevin (both are family members of Mr. Lau Sak Hong), all of whom are directors of certain subsidiaries of the Company. As at the Latest Practicable Date, the Purchaser was a connected person of the Company and the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Wang Ping, Mr. Song Wenke and Mr. Zeng Guanwei, has been established to advise the Independent Shareholders on the Agreement and the transactions contemplated thereunder. We, Nuada Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Disposal, there had been no other engagements between the Group and us during the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser. Apart from normal professional fees for our services to the Company in connection to the aforementioned engagements and this appointment as the Independent Financial Adviser, no other arrangement exists whereby we have received/will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we are independent from, and are not associated with the Company or its substantial shareholder(s) or connected person(s) as defined under the Listing Rules, and accordingly are considered eligible to give independent advice on the Agreement and the transactions contemplated thereunder.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information or representation relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date and should there be any material changes after the despatch of the Circular, the Shareholders would be notified as soon as possible.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed in the Circular, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information, including relevant information and documents provided by the Company and the Directors and the information published by the Company, to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our opinion and advice. We have not, however, carried out any independent verification of the information provided by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our advice in respect of the Agreement and the Disposal contemplated thereunder, we have taken into consideration the following principal factors and reasons:

#### 1 Background information on the Disposal

##### 1.1 Information of the Group

The Group is engaged in the business of properties development, properties management, properties investment, operation and management of hydroelectric power stations, design and sale of electronic products (“**Electronic Products Business**”) and securities trading.

The table below summarises the financial results of the Group for the two years ended 31 March 2018 (“**FY2018**”) and 31 March 2019 (“**FY2019**”) and for the six months ended 30 September 2018 (“**FP2019**”) and 30 September 2019 (“**FP2020**”) as respectively extracted from the annual report of the Company for FY2019 (the “**Annual Report**”) and the interim results announcement of the Company for FP2020 (the “**Interim Results**”).

	For the year ended 31 March 2018 (audited) <i>HK\$'000</i>	For the year ended 31 March 2019 (audited) <i>HK\$'000</i>	For the six months ended 30 September 2018 (unaudited) (restated) <i>HK\$'000</i>	For the six months ended 30 September 2019 (unaudited) <i>HK\$'000</i>
Revenue from continuing operations	518,038	559,286	5,280	41,716
– Design and sale of electronic products (Note)	512,115	394,365	–	–
– Development and sale of properties	–	157,429	–	38,637
– Operation and management of hydroelectric power stations	5,185	6,216	4,611	2,405
– Properties investment	738	1,276	669	644
– Properties management service and other services	–	–	–	30
– Securities trading (Note)	–	–	–	–
Gross profit	132,031	130,473	4,588	13,108
Revenue from discontinued operations	–	–	215,972	203,108
– Design and sale of electronic products (Note)	–	–	215,972	203,108
– Securities trading (Note)	–	–	–	–
Loss for the year/period	(26,721)	(11,724)	(6,520)	(8,994)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Note:* The business of design and sale of electronic products and securities trading of the Disposal Group were presented as discontinued operations in the condensed consolidated financial statements in the Interim Results in accordance with the relevant Hong Kong Financial Reporting Standards (“**HKFRS**”).

### *Period to period comparison for FY2018 and FY2019*

For FY2019, the Group recorded a revenue of approximately HK\$559.3 million, representing an increase of approximately 8.0% as compared to the revenue of approximately HK\$518.0 million for FY2018. As disclosed in the Annual Report, the deteriorated business performance of the Electronic Products Business resulted from the drastic changes and uncertainties in the global economic environment was compensated by the revenue generated from the properties development business during FY2019.

In particular, the Electronic Products Business experienced sales slowdown and revenue generated from this segment decreased from approximately HK\$512.1 million for FY2018 to approximately HK\$394.4 for FY2019. As disclosed in the Annual Report, such decrease was mainly due to, among other, Toys“R”Us, Inc., being one of the top five customers of the Group which accounted for approximately 13% of the sales of the Group for FY2018, filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia in Richmond which subsequently turned into liquidation in April 2018. As a result, the Group recorded a segment loss of approximately HK\$10.1 million for FY2019, as compared to a segment loss of approximately HK\$1.7 million for FY2018.

Regarding the properties development business of the Group, it is disclosed in the Annual Report that leveraging on the experience and connection of the management, the Group started to engage in properties development business in FY2018. During FY2018, the Group acquired the land use right of 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 a construction area of 80,462 sq.m. for the construction of commercial and residential properties (the “**Xiguan Project**”). The Xiguan Project, featuring 19 buildings that created 775 living and 30 commercial units, is located at the key school district which is adjacent to various colleges, secondary and primary schools in Huanren County. The construction work of Xiguan Project has been completed during FY2019 and the Group accounted for 100% interest in the Xiguan Project. The Group has sold approximately 39% of the gross floor area of the Xiguan Project and has achieved contracted sales of approximately HK\$157,429,000 for FY2019, while nil was recorded for FY2018. As a result, a segment profit of approximately HK\$28.1 million for FY2019 was recorded while a segment loss of approximately HK\$0.4 million was recorded for FY2018.

### *Period to period comparison for FP2019 and FP2020*

For FP2020, the Group recorded a revenue of approximately HK\$41.7 million, representing an increase of approximately 686.8% as compared to the revenue of approximately HK\$5.3 million for FP2019. As disclosed in the Interim Results, the

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revenue was mainly contributed by the properties development business, which accounted for approximately 92.6% of the revenue for FP2020. The Xiguan Project was completed in FY2019 and properties were sold during the second half of FY2019 and FP2020, therefore the Group did not generate any revenue from the properties development business in FP2019.

The Electronic Products Business was presented as discontinued operations in the condensed consolidated financial statements in the Interim Results in accordance with the relevant HKFRS. As stated in the Interim Results, the liquidation of Toys“R”Us, Inc., one of the major clients of the Group during FY2018 had continued to negatively impact the performance of the segment in FP2020. The revenue from the segment decreased from approximately HK\$216.0 million for FP2019 to approximately HK\$203.1 million for FP2020, representing a decrease of approximately 6.0%. Meanwhile, the segment loss increased from approximately HK\$0.5 million for FP2019 to approximately HK\$3.7 million for FP2020, representing an increase of approximately 640.0%.

As stated in the Interim Results, as at 30 September 2019, the total assets of the Group amounted to approximately HK\$772.8 million, while the net assets of the Group amounted to approximately HK\$364.9 million, of which bank balances and cash amounted to approximately HK\$6.7 million.

### *Development of the properties development business*

As disclosed in the Interim Results, on 10 April 2019, the Group completed the acquisition of 100% equity interest of Benxi Zhongfu Shiye Company Limited\* (本溪中富實業有限公司). The Company, through the acquisition, indirectly acquires the land use right of a parcel of land located at Bagua Town, Huanren County, Benxi, Liaoning Province, the PRC with a floor area of approximately 5,023 sq.m. and construction area of approximately 7,500 sq.m. and for other commercial use.

Further, on 29 September 2019, the Group completed the acquisition of 100% equity interest of Benxi Zhongfu Property Development Company Limited\* (本溪中富房地產開發有限公司). The Company, through the acquisition, indirectly acquires the land use right of a parcel of land located Bagua Town, Huanren County, Benxi, Liaoning Province, the PRC with a floor area of approximately 9,188.2 sq.m. and construction area of approximately 14,700 sq.m. and for other commercial use.

### **1.2 Information on the Target Group**

The Target Company is an investment holding company incorporated in the British Virgin Islands. The Target Company, together with its subsidiaries, is engaged in the design and sale of electronic products and securities trading.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As disclosed in the Board Letter, set out below is the summary of the key financial information extracted from the consolidated financial information of the Target Group for the years ended 31 March 2018 and 2019:

	<b>For the year ended 31 March</b>	
	<b>2018</b>	<b>2019</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Turnover	512,115	390,503
Loss before taxation	4,103	11,878
Loss after taxation	3,988	13,308

The unaudited consolidated adjusted net asset value of the Target Group were approximately HK\$21.8 million and HK\$18.5 million as at 31 March 2019 and 30 September 2019 respectively after deducting the non-controlling interest of the Target Group of approximately HK\$33.9 million and HK\$32.8 million as at 31 March 2019 and 30 September 2019 respectively.

As discussed with the management of the Company, we understand that substantially all of the Electronic Products Business and securities trading of the Group were carried out by the Target Group. In addition, according to the Annual Report, we note that the securities trading segment of the Group generated no revenue and a segment loss of approximately HK\$76,000 for FY2019, with a segment assets of only approximately HK\$187,000 as at 31 March 2019. In this regard, we have discussed with the management of the Company and understand that the securities trading business carried out by the Target Group had insignificant contribution.

As almost all revenue from the Electronic Products Business is generated by the Target Group, to further understand the Electronic Products Business of the Target Group in the past, we have extracted the relevant segment information of the Electronic Products Business from the annual reports and the Interim Results of the Company as follows:

	<b>For the year ended 31 March</b>					<b>For the six months ended 30 September</b>	
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Segment revenue	366,953	381,863	425,523	457,858	512,115	394,365	203,108
Segment (loss)/profit	(172,063)	(54,192)	(2,683)	8,313	(1,729)	(10,098)	(3,736)

*Note:* As discussed with the management of the Company, the difference between the Target Group's revenue and the segment revenue for FY2019 of approximately HK\$3,862,000 was solely due to an one-off sales of electronic components (which are different from those sold by the Target

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Group) by a subsidiary of the Company which is not part of the Target Group. The profit from that one-off sales of electronic components included in the segment loss for FY2019 was approximately HK\$196,000.

As disclosed in the table above, we noted that revenue of the Electronic Products Business showed an increasing trend from the year ended 31 March 2014 to FY2018. Nevertheless, save for the year ended 31 March 2017, the Electronic Products Business had unsatisfactory performance and was loss-making in the other five out of six financial years as well as in FP2020.

### **1.3 Market outlook for the Target Group**

To further understand the market outlook for the Target Group, we focus on the Electronic Products Business given the insignificant contribution of its securities trading segment. We understand from the management of the Company that electronic products sold by the Target Group mainly consist of karaoke equipment, and the Target Group's main geographical market is the United States, the revenue from which accounted for approximately 84.0% of its total revenue for FY2019. We attempted to obtain statistics on karaoke equipment and noted that there is no such statistics, therefore we elect to examine statistics related to the import of sound recording or reproducing apparatus (which include karaoke equipment) by the United States in recent years as set out below:

<b>Year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Import of sound recording or reproducing apparatus (million US\$)	1,067.1	948.1	984.6	891.6	884.6

*Source:* International Trade Administration of United States Department of Commerce  
(<http://tse.export.gov/tse/>)

As reflected in the statistics in the above table, we noted that in recent years the import of sound recording or reproducing apparatus have shown a decreasing trend in the United States, being the main geographical market of the Target Group as mentioned above. The value of import of such products decreased from approximately US\$1,067.1 million for the year 2014 to approximately US\$884.6 million for the year 2018, representing a cumulative annual decreasing rate of approximately 4.6%.

In addition, we are also aware of the recent trade war and several waves of new tariffs imposed between the United States and the PRC. The trade war between the United States and the PRC commenced in around 2018, where the first wave of tariff imposed by the United States on imports from the PRC came into effect in July 2018. Since the start of the trade war, the United States and the PRC have negotiated on trading arrangements between the two countries, levied tariffs on a wide variety of products from the counterparty and temporarily excluded certain products from tariffs. Given the prolonged period of negotiation and various tariffs and sanctions imposed by both the United States and the PRC, we consider that outlook for the business of the Target Group remains uncertain.



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### 2 Reasons for and benefits of the Disposal and use of proceeds

As disclosed in the Board Letter, the Target Group is principally engaged in the design and sale of traditional consumer electronic audio and video equipment. However, the ever-changing technological landscape and the subsequent shifts in the consumption of audio and video content presented challenges for the audio and video equipment manufacturing industry over the past years. Many products in this industry may become obsolete as a result of the technological innovations and introduction of a variety of digital products. In addition, the Target Group's products are mainly sold through major mass merchandisers and warehouse clubs. The growth of e-commerce shopping steadily eats into the share of brick-and-mortar stores which in turn creates a negative impact on Target Group's business performance. The business segment of design and sale of traditional consumer electronic audio and video equipment may not contribute significant profit to the Group and is expected to present pressure on the Group's overall profitability in the near future.

The liquidation of Toys“R”Us, Inc., one of the major clients of the Group during FY2018, resulted in negative impact on the Group's financial performance for FY2019 and for FP2020. Further, protectionist measures initiated by the United States and the trade war between the United States and the PRC could likely result in negative impact on the Target Company's exports to the United States. In view of the volatility in the market of design, manufacturing and sale of consumer electronic audio and video equipment, karaoke equipment and accessories, the Disposal represents a good opportunity for the Group to realise its investment in the Target Group and reorganise its assets portfolio.

After the Disposal, the Group will cease to engage in the Electronic Products Business and securities trading. The Company intends to apply the net proceeds from the Disposal for general working capital of its existing business. Net cash inflow is expected to be generated from the Disposal, allowing the Group to conserve more financial resources for the funding of future potential investments when opportunities arise. The Disposal will enable the Group to realise the value of its interest in the Target Company and help the Group to further concentrate its resources to its properties development, properties investment, environmental related and other profitable business.

As stated in the Letter from the Board, despite the deficit of the Consideration of approximately 59.5% under the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019, having taken into account:

- (i) the gloomy prospect of the Target Group, in particular that (a) the demand of the traditional products of the Target Group is diminishing as a result of the blooming of high-end digital products; (b) the products of the Target Group are mainly sold through major mass merchandisers and warehouse clubs, the growth of e-commerce shopping steadily eats into the share of brick-and-mortar stores which in turn creates a negative impact on the Target Group's business performance; (c) the loss of a major client, Toys“R”Us, Inc., due to its liquidation in 2018, adversely affected the financial performance of the Target Group for FY2019 and the FP2020, would also affect the Target Group's income in the future; and (d) the protectionist measures initiated by the United States and the trade war between the United States and the PRC could likely result in negative impact on the Target Group's exports to the United States;

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- (ii) the increasing loss of the Target Group from approximately HK\$4.0 million for FY2018 to approximately HK\$13.3 million for FY2019 and from approximately HK\$1.5 million for FP2019 to approximately HK\$4.2 million for FP2020, and that the loss is expected to continue and exert pressure on the Group's overall profitability in the near future; and
- (iii) that it may not be easy for the Group to have a ready buyer to purchase the entire equity interest in the Target Company given the dull situation of the Target Group as explained above, the Disposal represents an opportunity for the Group to realise its investment in the Target Group and reorganise its assets portfolio so as to stop the possible loss incurred from the Target Group in future,

the Board (including the independent non-executive Directors) considers that the terms of the Disposal as well as the Consideration are fair and reasonable so far as the Company and the Shareholders are concerned, and the Disposal is in the interests of the Company and the Shareholders as a whole.

Despite the deficit of the Consideration of approximately 59.5% under the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019 (after deducting its non-controlling interest), having considered that:

- (i) the Electronic Products Business has been loss-making for five out of the latest six financial years as stated in the paragraph headed "1.2 Information on the Target Group" above;
- (ii) the outlook of the Electronic Products Business remains uncertain as detailed in the paragraph headed "1.3 Market Outlook for the Target Group" above;
- (iii) the comparable analysis where the price-to-book ratio implied by the Disposal is within the range of comparables as detailed in the paragraph headed "3.1 Comparable analysis on the Consideration" below; and
- (iv) also taking into account the release of the exchange reserve of approximately HK\$13.7 million, it is estimated that the Group would record, before transaction costs, an unaudited accounting gain of approximately HK\$2.7 million from the Disposal as detailed in the section headed "4 Financial effect of the Disposal" below,

we are of the view and concur with the Directors' view that the Disposal (including the Consideration) is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3 Principal terms of the Agreement

The Consideration of HK\$7.5 million shall be paid in HK\$ in the following manner:

- (i) a refundable deposit in the sum of HK\$1.5 million, being the Deposit, shall be paid to the Company upon the signing of the Agreement and the Deposit shall be regarded as part of the Consideration to be paid by the Purchaser to the Company upon the Completion; and
- (ii) the remaining balance of the Consideration of HK\$6 million, being the Balance of Consideration, shall be deposited by the Purchaser to the bank account maintained by the Custodian as stakeholder within three Business Days after the date of the Agreement and the Custodian shall not release the Balance of Consideration to the Company until Completion.

The Consideration was determined after arm's length negotiations between the Company and the Purchaser by reference to the net asset value of the Target Group (after deducting its non-controlling interest), the past financial performance and the future prospects of the Target Group. The Consideration represents deficit under the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019 (after deducting its non-controlling interest) of approximately HK\$18.5 million by approximately HK\$11.0 million.

#### *3.1 Comparable analysis on the Consideration*

As the Target Group has reported consolidated loss attributable to the owners of the Company for FY2018 and FY2019, historical price-to-earnings ratio analysis cannot be performed due to negative earnings during FY2019. As such, in order to assess the fairness and reasonableness of the Consideration, we attempted to compare the price-to-book ratio (the "**PB Ratio**"), which is another commonly used benchmark in valuing a company, with listed companies on the Stock Exchange which are principally engaged in business similar to the Target Group.

Based on the selection criteria for comparable companies that (i) they are companies listed on the Stock Exchange; (ii) they are principally engaged in design and sale of electronic products (the same as the Target Group); (iii) they were loss-making in at least the recent financial year (as the Target Group was loss-making in two consecutive years); and (iv) their net assets were not more than HK\$100 million as disclosed in the latest interim reports or annual reports (as the unaudited consolidated adjusted net asset value of the Target Group was approximately HK\$51.3 million as at 30 September 2019 before deducting its non-controlling interest), we only identified one such listed company. Given such a small sample size, we relaxed criteria (iv) and did not set any limit on the net assets. Based on the new criteria, to the best of our knowledge, we identified an exhaustive list of nine comparable companies (the "**Business Comparables**") as summarised below:

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No.	Company name	Stock code	Principle business	Market capitalisation (HK\$ million) (Note 1)	Equity attributable to the shareholders of the company (HK\$ million) (Note 2)	PB Ratio (times) (Note 3)
1.	IDT International Limited	167	Design, development, manufacture, sales and marketing of sports, fitness and healthcare electronic products, smart learning products, time and weather electronic products, telecommunications products, wellness and beauty products and energy electronic product	88.4	(73.1)	N/A (Note 4)
2.	Superactive Group Company Limited	176	Manufacturing electronics products, provision of money lending service and regulated financial service activities in Hong Kong; and provision of nursery education service and property development and management in the People's Republic of China	569.1	673.4	0.85
3.	Alco Holdings Limited	328	Designing, manufacturing and selling of consumer electronic products	296.5	1,328.9	0.22
4.	China Best Group Holding Limited	370	(i) Trading on radio system and electronic appliance; (ii) provision of international air and sea freight forwarding services; (iii) consultancy income in respect of finance leases; (iv) interest income from finance leases; (v) interest income from money lending; and (vi) brokerage commission and dealing income from brokerage business	1,006.7	1,219.0	0.83

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No.	Company name	Stock code	Principle business	Market capitalisation (HK\$ million) (Note 1)	Equity attributable to the shareholders of the company (HK\$ million) (Note 2)	PB Ratio (times) (Note 3)
5.	China Healthcare Enterprise Group Limited	1143	Electronic manufacturing services, marketing and distribution of communications products, securities and other assets investment	487.5	526.4	0.93
6.	FIH Mobile Limited	2038	Manufacturing services in connection with the production of handsets	9,199.8	16,265.4 (Note 5)	0.57
7.	Coolpad Group Limited	2369	Production and sale of mobile phones and accessories, and the provision of wireless application services and financing services	1,147.6	389.5	2.95
8.	Sky Light Holdings Limited	3882	Marketing, development and manufacturing of home surveillance cameras, 360-degree cameras and other digital imaging products	309.6	321.9	0.96
9.	Millennium Pacific Group Holdings Limited	8147	Research and development, manufacture and sale of electronic devices and provision of application software development services	138.4	4.5	30.58 (Note 6)
					Minimum	0.22
					Maximum	30.58
					Mean	1.04
					Median	0.89
					<b>Target Group</b> (Note 7)	<b>0.41</b>

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*Notes:*

1. The market capitalisations are calculated based on the prices of the shares of the Business Comparables and the numbers of shares quoted on the Stock Exchange as at the date of the Agreement.
2. The equity attributable to the shareholders of the company for the Business Comparables are respectively referenced to the annual reports or interim reports of the Business Comparables for the respective latest financial year/period.
3. PB Ratio is calculated as market capitalisation divided by equity attributable to the shareholders of the company.
4. As the IDT International Limited recorded a net deficit of approximately HK\$73.1 million, the PB Ratio is not applicable.
5. The equity attributable to the shareholders of the company for FIH Mobile Limited was converted from US\$ to HK\$ at an approximate exchange rate of US\$1 to HK\$7.85. The exchange rate is adopted for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rate at all.
6. As the PB Ratio of Millennium Pacific Group Holdings Limited of approximately 30.58 times is substantially higher than the rest of the Business Comparables with the next highest PB Ratio being approximately 2.95 times, it is excluded from the calculation of the mean PB Ratio of the Business Comparables.
7. The PB Ratio of the Target Group implied by the Disposal (the “*Implied PB Ratio*”) is calculated as Consideration of HK\$7.5 million divided by the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019 (after deducting its non-controlling interest) of approximately HK\$18.5 million.

As shown in the above table, we noted that one of the Business Comparable had negative equity attributable to the owners of the company, i.e. a net deficit. The PB Ratios of the Business Comparables range from approximately 0.22 times to 30.58 times, with a mean (excluding the Business Comparable with substantially higher PB Ratio) and median of approximately 1.04 and 0.89 times respectively. The Implied PB Ratio of approximately 0.41 times is below the corresponding mean and median but within the range of the Business Comparables.

Notwithstanding the fact that (i) the Implied PB Ratio was lower than the mean and median of the PB Ratio of the Business Comparables; and (ii) the Consideration represents deficit under the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019 by approximately 59.5%, having considered that

- (i) the Electronic Products Business has been loss-making for five out of the latest six financial years as stated in the paragraph headed “1.2 Information on the Target Group” above;

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- (ii) the outlook of the Electronic Products Business remains uncertain as detailed in the paragraph headed “1.3 Market Outlook for the Target Group” above;
- (iii) there is a Business Comparable with net deficit (i.e. negative book value) and another Business Comparable with a lower PB Ratio than the Implied PB Ratio; and
- (iv) also taking into account the release of the exchange reserve of approximately HK\$13.7 million, it is estimated that the Group would record, before transaction costs, an unaudited accounting gain of approximately HK\$2.7 million from the Disposal as detailed in the section headed “4 Financial effect of the Disposal” below,

we consider the Consideration is justifiable.

### **3.2 Other terms of the Agreement**

We have also reviewed other terms of the Agreement including, among others, the conditions under the Agreement, and noted that the clauses of the Agreement are normal commercial terms.

In light of the foregoing, we are of the view and concur with the Directors’ view that the terms of the Agreement (including the Consideration) is in the interests of the Company and the Shareholders as a whole.

## **4 Financial effect of the Disposal**

Upon Completion, the Company will cease to hold any equity interest in the Target Company. Accordingly, the assets, liabilities and the financial results of the Target Group will no longer be consolidated into the financial statements of the Group.

Based on (i) the Consideration of HK\$7.5 million; (ii) the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019 of approximately HK\$51.3 million; (iii) the deduction of non-controlling interest of the Target Group of approximately HK\$32.8 million as at 30 September 2019; and (iv) the release of the exchange reserve of approximately HK\$13.7 million, it is estimated that the Group would record, before transaction costs, an unaudited accounting gain of approximately HK\$2.7 million from the Disposal. As the Target Group has been loss making for FY2018, FY2019 and FP2020, and having considered the prospect of the Target Group, the Board expects its business to present pressure on the Group’s overall profitability in the near future. Notwithstanding that the turnover of the Group will decrease upon Completion, it is expected that the Disposal can reduce loss of the Company and that the Group’s earnings will improve as a result of the Disposal. Assuming the Disposal has taken place on 30 September 2019, it is estimated that the total assets of the Group will decrease by approximately HK\$318.1 million and the total liabilities of the Group will decrease by approximately HK\$266.8 million upon the Completion. The actual amount of the gain or loss on the Disposal to be recognised is subject to audit and the exact final result may be different from the amount mentioned above.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OPINION

Despite the fact that the Consideration represents deficit under the unaudited consolidated adjusted net asset value of the Target Group as at 30 September 2019 by approximately 59.5%, having considered the aforementioned principal factors and reasons, including:

- (i) based on our observation of the past financial performance of the Target Group, the Electronic Products Business which has been carried out by the Target Group has been loss-making for five out of the latest six financial years, with the Target Group recording an unaudited loss after taxation of approximately HK\$13.3 million for FY2019, as stated in the paragraph headed “1.2 Information on the Target Group” above;
- (ii) based on our research on the market conditions and outlook of the Electronic Products Business, the import of relevant electronic products by the United States, being the major market of the Target Group, has shown a decreasing trend, and there has been trade war between the United States and the PRC, rendering the outlook of the Electronic Products Business uncertain as detailed in the paragraph headed “1.3 Market Outlook for the Target Group” above;
- (iii) based on our study of the market comparables, while the Implied PB Ratio was lower than the mean and median of the Business Comparables, there is a Business Comparable with net deficit (i.e. negative book value) and another Business Comparable with a lower PB Ratio than the Implied PB Ratio as detailed in the paragraph headed “3.1 Comparable analysis on the Consideration” above; and
- (iv) based on our observation of the financial effect of the Disposal, also taking into account the release of the exchange reserve of approximately HK\$13.7 million, it is estimated that the Group would record, before transaction costs, an unaudited accounting gain of approximately HK\$2.7 million from the Disposal as detailed in the section headed “4 Financial effect of the Disposal” above,

we are of the view that (i) the Disposal is in the interests of the Company and the Shareholders as a whole; (ii) the transactions contemplated under the Agreement are on normal commercial terms but not in the ordinary and usual course of business of the Group; and (iii) the terms of the Agreement (including the Consideration) are fair and reasonable so far as the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Nuada Limited**  
**Kim Chan**  
*Director*



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Mr. Kim Chan is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 16 years of experience in corporate finance industry.*

*The English names of the entities marked with “\*” in this letter are translations from their Chinese names and are for identification purpose only. If there is any inconsistency, the Chinese names shall prevail.*

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## APPENDIX I FINANCIAL AND OTHER INFORMATION ON THE GROUP

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### FINANCIAL INFORMATION

Financial information of the Group for the years ended 31 March 2017, 2018 and 2019, and the six months ended 30 September 2019 is disclosed in the annual reports of the Company for the years ended 31 March 2017, 2018 and 2019, and the interim results announcement for the six months ended 30 September 2019, respectively, which are available on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.00485.hk](http://www.00485.hk)).

Annual report for the year ended 31 March 2017 (pages 55 to 159):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0731/ltn20170731183.pdf>

Annual report for the year ended 31 March 2018 (pages 62 to 179):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0727/ltn20180727747.pdf>

Annual report for the year ended 31 March 2019 (pages 66 to 191):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0729/ltn20190729153.pdf>

Interim results announcement for the six months ended 30 September 2019 (pages 1 to 24):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1128/2019112801251.pdf>

### 1. FINANCIAL AND TRADING PROSPECTS

The Group is engaged in the business of properties development, properties management, properties investment, operation and management of hydroelectric power stations, design and sale of electronic products and securities trading. Upon Completion, the Group will cease to engage in the business of design and sale of electronic products and securities trading.

#### Properties Development

During the year ended 31 March 2018, the Group acquired the land use right of a parcel of land located at Xiguan Village, Huanren County, Benxi, Liaoning Province, the PRC with a floor area of 46,242.6 square meters (“**sq.m.**”) and a construction area of 80,462 sq.m. for the construction of commercial and residential properties (the “**Xiguan Project**”). The construction work of Xiguan Project has been completed during the year ended 31 March 2019 and the Group accounted for 100% interest in the Xiguan Project. The Group sold 39% and 8% of the gross floor area of the Xiguan Project for the year ended 31 March 2019 and for the six months end 30 September 2019, respectively. The Group achieved contracted sales of approximately HK\$157,429,000 and approximately HK\$38,637,000 for the year ended 31 March 2019 and for the six months ended 30 September 2019, respectively while nil was recorded for the year ended 31 March 2018 and for the six months ended 30 September 2018. A segment profit of approximately HK\$28,066,000 for the year ended 31 March 2019 was recorded while a segment loss of approximately HK\$388,000 was recorded for the year ended 31 March 2018. A segment profit of approximately HK\$9,595,000 for the six months ended 30 September 2019 was recorded as compared to a segment loss of approximately HK\$466,000 for the six months ended 30 September 2018.

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## APPENDIX I FINANCIAL AND OTHER INFORMATION ON THE GROUP

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The Group believes that quality land reserves guarantee its continuous growth and future performance. On 10 April 2019, the Group completed the acquisition of 100% equity interest of Benxi Zhongfu Shiye Company Limited\* (本溪中富實業有限公司) (“**Zhongfu Shiye**”). The Group, through the acquisition, indirectly acquires the land use right of a parcel of land located at Bagua Town, Huanren County, Benxi, Liaoning Province, the PRC with a floor area of approximately 5,023 sq.m. and construction area of approximately 7,500 sq.m. for other commercial use. The land reserve is expected to generate continuous growth and enhance future performance of the Group.

On 29 September 2019, the Group completed the acquisition of 100% equity interest of Benxi Zhongfu Property Development Company Limited\* (本溪中富房地產開發有限公司) (“**Zhongfu Property**”). The Group, through the acquisition, indirectly acquires the land use right of a parcel of land located Bagua Town, Huanren County, Benxi City, Liaoning Province, the PRC with a floor area of approximately 9,188.2 sq.m. and construction area of approximately 14,700 sq.m. for other commercial use. The land reserve is expected to generate continuous growth and enhance future performance of the Group.

The Board is optimistic towards the properties development business and will proactively follow and respond to the adjustment and calling of national policy, keeping in step with the policy trend and capture the potential opportunities in the properties development market in order to enhance the Shareholder’s value.

### **Properties Management**

During the six months ended 30 September 2019, the Group started to engage in properties management business and delivered comprehensive property management services for residential and commercial properties of Xiguan Project. At the initial stage, the Group focused on building up a professional properties management team by providing integrated training in properties management sectors to its front line and back office staff, acquiring and improving its properties management system. For the six months ended 30 September 2019, the Group recorded a revenue and a segment profit of approximately HK\$30,000 and approximately HK\$14,000, respectively, while nil revenue and segment results were recorded for the six months ended 30 September 2018.

### **Properties Investment**

Revenue from properties investment was mainly derived from the leasing of several parcels of land in the PRC. For the year ended 31 March 2019, the revenue was approximately HK\$1,276,000, representing an increase of 73% as compared to approximately HK\$738,000 for the year ended 31 March 2018. The segment loss also decreased from approximately HK\$2,471,000 for the year ended 31 March 2018 to approximately HK\$1,185,000 for the year ended 31 March 2019. For the six months ended 30 September 2019, the revenue was approximately HK\$644,000, representing a decrease of 4% as compared to approximately HK\$669,000 for the six months ended 30 September 2018. A segment loss of approximately HK\$652,000 and approximately HK\$519,000 for each of the six months ended 30 September 2019 and 2018 was recorded, respectively.

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## APPENDIX I FINANCIAL AND OTHER INFORMATION ON THE GROUP

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### Operation and Management of Hydroelectric Power Stations

During the financial years of 2017 and 2018, the Group acquired two companies in the PRC which engaged in the operation and management of hydroelectric power stations that are connected to the national power grid in the northern PRC. The revenue and profit generated from the hydroelectric power business increased over the years. The revenue for the year ended 31 March 2019 was approximately HK\$6,216,000, representing an increase of 20% as compared to the amount of approximately HK\$5,185,000 for the year ended 31 March 2018, while the segment profit increased from approximately HK\$630,000 for the year ended 31 March 2018 to approximately HK\$1,855,000 for the year ended 31 March 2019. The revenue and segment profit for the six months ended 30 September 2019 were approximately HK\$2,405,000 and approximately HK\$615,000, respectively, whereas the revenue and segment profit for the six months ended 30 September 2018 were approximately HK\$4,611,000 and approximately HK\$2,022,000, respectively. Sustainable development in clean and renewable energy is the world trend. The Group is confident that investments in renewable energy business will benefit the Group in the long run.

Looking forward, it is believed that the forthcoming year remains challenging in terms of political, economy, global trade war all over the markets. The Group will maintain its prudent investment strategy and will adhere to its strategy of focusing on the business in properties development as well as clean energy development in the PRC and other thriving sectors. Furthermore, the Group will continue to seek for possible investment opportunities in different industries and to expand the revenue streams of the Group in order to generate better results and prospect for the Group.

## 2. INDEBTEDNESS

As at the close of business on 31 October 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding bank loans of approximately HK\$65,380,000 (equivalent to approximately US\$8,382,000), other borrowing of approximately HK\$21,159,000 (equivalent to approximately RMB19,000,000), lease liabilities of approximately HK\$9,375,000 and bonds payable of approximately HK\$11,500,000.

The bank loans were secured by first priority security interests in all of the named borrowers' tangible and intangible assets as well as first priority security interests of 100% of member or ownership interests of any of its domestic existing or newly formed subsidiaries and first priority lien on up to 65% of the borrowers' foreign subsidiary's existing or subsequently formed or acquired foreign subsidiaries. The bank loans were also secured by a related-party debt subordination agreement with Starlight Marketing Development, Ltd. in the amount of approximately HK\$6,263,000 (equivalent to approximately US\$803,000).

Other borrowing was secured by investment properties owned by the Group and interest bearing at 12% per annum.

Lease liabilities were interest bearing at a range of 3.68% to 9%.

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## **APPENDIX I FINANCIAL AND OTHER INFORMATION ON THE GROUP**

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Bonds payable was corporate bonds issued under the placing agreement dated 13 November 2018 for bonds issuing with an aggregate principal amount of up to HK\$200,000,000. The issued bonds carry a fixed annual interest rate of 6% to 6.5% per annum and will be matured in the years from 2021 to 2024.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 October 2019.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness of the Group since 31 October 2019, up to and including the Latest Practicable Date.

### **3. CONTINGENT LIABILITIES**

Banking facilities with an aggregate principal amount of approximately HK\$26,449,000 (equivalent to approximately RMB23,750,000) were granted to third parties and secured by the Group's land use rights on a parcel of land located in the PRC (included in properties for sale under development). The bank loans drawn down by third parties were in the amount of approximately HK\$26,449,000 (equivalent to approximately RMB23,750,000) as at 31 October 2019.

### **4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 March 2019, being the date to which the latest published audited accounts of the Company have been made up.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. INTERESTS OF DIRECTORS

### (a) Interests of Directors and chief executive in the Shares, underlying shares and debentures of the Company

As at the Latest Practicable Date, 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 SFO which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (the “**Model Code**”) to be notified to the Company and the Stock Exchange were as follows:

#### *Long positions in the Shares*

Name of Director	Capacity	Number of Shares held	Approximate percentage of issued share capital in the Company
Wang Jing <i>Executive Director</i>	Interest of controlled corporation	2,171,827,290 <sup>(Note 1)</sup>	51.02% <sup>(Note 2)</sup>
Wang Xing Qiao <i>Executive Director</i>	Beneficial owner	3,275,000	0.08% <sup>(Note 2)</sup>
Zeng Guanwei <i>Independent non-executive Director</i>	Beneficial owner	5,510,000	0.13% <sup>(Note 2)</sup>

#### *Notes:*

- These 2,171,827,290 Shares are held by Achieve Prosper Capital Limited 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)房地產開發有限公司) (“**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 4,256,797,561 Shares in issue as at the Latest Practicable Date.

*Directors' interests in the shares of associated corporations*

Name of associated corporation	Name of Director	Capacity	Number of issued ordinary shares held in Achieve Prosper Capital Limited	Approximate percentage of issued share capital in Achieve Prosper Capital Limited
Achieve Prosper Capital Limited	Wang Jing	Interest of controlled corporation	1,000,000 (Long Position)	100%

Achieve Prosper Capital Limited 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 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 1,000,000 Shares of Achieve Prosper Capital Limited.

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 Latest Practicable Date, 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.

**(b) Substantial Shareholders**

As at the Latest Practicable Date, the following persons, other than the interest disclosed in the section headed "2. Interests of Directors – (a) Interests of Directors and chief executive in the Shares, underlying shares and debentures of the Company", having 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 shareholder	Capacity	Number of Shares and underlying Shares	Approximate percentage of issued share capital of the Company
Achieve Prosper Capital Limited <i>(Note 1)</i>	Beneficial owner	2,171,827,290	51.02% <i>(Note 4)</i>
Hong Kong Shihua Holdings Limited <i>(Note 1)</i>	Interest of controlled corporation	2,171,827,290	51.02% <i>(Note 4)</i>
Liaoning Shihua <i>(Note 1)</i>	Interest of controlled corporation	2,171,827,290	51.02% <i>(Note 4)</i>
Hu Bao Qin <i>(Notes 1, 2)</i>	Spouse interest	2,171,827,290	51.02% <i>(Note 4)</i>
Lushan Investment Holding Limited <i>(Note 3)</i>	Person having a security interest in shares	2,917,914,246	68.55% <i>(Note 4)</i>
China Harong Asset Management Co., Ltd <i>(Note 3)</i>	Interest of controlled corporation	2,917,914,246	68.55% <i>(Note 4)</i>
China Huarong International Holdings Ltd <i>(Note 3)</i>	Interest of controlled corporation	2,917,914,246	68.55% <i>(Note 4)</i>
Chu Xuefeng	Beneficial Owner	280,000,000	6.58 <i>(Note 4)</i>

## Notes:

1. Achieve Prosper Capital Limited 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 Capital Limited.
2. Ms. Hu Bao Qin is the spouse of Mr. Wang Jing, and is therefore deemed to be interested in the Shares held by Mr. Wang Jing. Please refer to the above disclosure of interests in this section for further details.
3. On 30 December 2015, Achieve Prosper Capital Limited 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 Capital Limited entered into a share charge with Lushan Investment Holdings Limited, pursuant to which Achieve Prosper Capital Limited 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 Capital Limited was transferred to Lushan Investment Holdings Limited pursuant to the sale and purchase agreement entered by the Achieve Prosper Capital Limited and Lushan Investment Holdings Limited (please refer to the announcement of the Company dated 16 March 2016 for further details).

4. Based on 4,256,797,561 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person, other than the interest disclosed in the section headed “2. Interests of Directors – (a) Interests of Directors and chief executive in the Shares, underlying, underlying shares and debentures of the Company”, having interest 5% or more in the Shares and underlying shares of the Company who 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.

**(c) Interests of Directors in the assets of the Company**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had, since 31 March 2019, being the date of the latest published audited financial statements of the Company, been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

**(d) Interests of Directors in contracts**

There was no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested in and which is significant to the business of the Group.

**3. DIRECTORS’ SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group which does not expire or which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

**4. DIRECTORS’ INTERESTS IN COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors, the controlling Shareholder and their respective associates is considered by the Company to have interests in business which compete with, or might compete with, either directly or indirectly, with the business of the Group.

**5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 March 2019, being the date to which the latest published audited accounts of the Company have been made up.

## 6. EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinion or letter contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Nuada Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
ZHONGHUI ANDA CPA Limited	certified public accountants

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name, in the form and context in which they are included.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group and did not have the right to subscribe for or to nominate persons to subscribe for shares in any members of the Group.

As at the Latest Practicable Date, each of the above experts did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

## 7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

## 8. MATERIAL CONTRACTS

Set out below are summary of the principal contents of the material contracts (not being contracts entered into in the ordinary course of business) entered into by any members of the Group within the two years immediately preceding the Latest Practicable Date:

- (i) the sale and purchase agreement dated 25 March 2019 entered into between Benxi Xinshijie Shiye Company Limited\* (本溪新世界實業有限公司), an indirect wholly-owned subsidiary of the Company, as purchaser and Ms. Chu Xuefeng and Zhongfu Property as vendors in relation to the acquisition of 100% equity interest in Zhongfu Shiye at a consideration of RMB10 million;

- (ii) the sale and purchase agreement dated 27 September 2019 entered into between Benxi Xinshijie Shiye Company Limited\* (本溪新世界實業有限公司), an indirect wholly-owned subsidiary of the Company, as purchaser and Ms. Wang Huiqin and Huanren Jinfeng Miaomu Company Limited\* (桓仁津楓苗木有限公司) as vendors in relation to the acquisition of 100% equity interest in Zhongfu Property at a consideration of RMB20 million; and
- (iii) the Agreement.

**9. MISCELLANEOUS**

- (a) The company secretary of the Company is Mr. Lam Wai Kei who is a practising member of The Hong Kong Institute of Certified Public Accountants.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The registered office of the Company is situated at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda.
- (d) The principal place of business in Hong Kong of the Company is situated at Suites 2602-2603, 26/F., Tower 1, The Harbourfront, 18 Tak Fung Street, Hunghom, Kowloon, Hong Kong.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Suites 2602-2603, 26/F., Tower 1, The Harbourfront, 18 Tak Fung Street, Hunghom, Kowloon, Hong Kong, during normal business hours on any weekday, except public holidays, from the date of this circular up to and including the date of the SGM:

- (a) the memorandum and articles of association and bye-laws of the Company;
- (b) the annual reports of the Company for the years ended 31 March 2018 and 31 March 2019;
- (c) the material contracts referred to in the paragraph headed "8. Material Contracts" of this Appendix;
- (d) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;
- (e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (f) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;

- (g) the written consent of the expert referred to in the paragraph headed “6. Experts’ Qualifications and Consents” of this appendix;
- (h) the Agreement; and
- (i) this circular.

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NOTICE OF SGM

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**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)

**NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**Meeting**”) of China Sinostar Group Company Limited (the “**Company**”) will be held at 10:30 a.m. on Tuesday, 7 January 2020 at Tang Room II, 3/F., Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as ordinary resolution:

**ORDINARY RESOLUTION**

“**THAT:**

- (a) the sale and purchase agreement dated 31 October 2019 (the “**Agreement**”), a copy of which is marked “A” and signed by the chairman of the Meeting for the purposes of identification, entered into between the Company and Fairy King Prawn Holdings Limited (the “**Purchaser**”), pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest in Harvest Way Holdings Limited for a consideration of HK\$7.5 million and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one or more directors of the Company (the “**Directors**”) be and are hereby authorised to execute all documents and do all such things and take all such steps which, in his opinion, may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated in and for the completion of the Agreement and to agree to such variation, amendment or waiver in relation thereto.”

By Order of the Board

**China Sinostar Group Company Limited**

**Wang Xing Qiao**

*Executive Director and Chief Executive Officer*

17 December 2019

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## NOTICE OF SGM

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*Notes:*

- (1) Any shareholder of the Company (“**Shareholder**”) entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A Shareholder who is the holder of two or more shares of the Company (“**Shares**”) may appoint more than one proxy to attend on the same occasion. A proxy needs not be a Shareholder.
- (2) In order to be valid, a form of proxy and the power of attorney (if any) or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be deposited at the Hong Kong branch share registrar and transfer office of the Company, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjournment thereof.
- (3) Delivery of the form of proxy will not preclude a Shareholder from attending and voting in person at the Meeting convened and in such event, the form of proxy shall be deemed to be revoked.
- (4) In the case of joint registered holders of any Share, any one of such joint registered holders may vote at the Meeting, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint registered holders be present at the Meeting, the vote of the senior who tenders a vote either personally or by proxy shall be accepted to the exclusion of the votes of the other joint registered holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
- (5) As at the date of this notice, the board of Directors comprises Mr. Wang Jing, Mr. Wang Xing Qiao and Mr. Zhao Shuang as executive Directors of the Company; and Mr. Wang Ping, Mr. Song Wenke and Mr. Zeng Guanwei as independent non-executive Directors of the Company.