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SIN  STAR

中國華星

China Sinostar Group Company Limited

中國華星集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 485)

**CONNECTED TRANSACTION
PROPOSED AMENDMENTS TO
THE TERMS AND CONDITIONS OF
THE 2017 CONVERTIBLE BONDS**

**Independent financial adviser to the independent board committee
and the independent Shareholders**

Nuada Limited

Reference is made to the announcements of the Company dated 21 March 2014, 29 May 2014, 30 July 2014, 26 January 2016 and 28 July 2017 and circular of the Company dated 24 May 2014 in relation to, among other things, the issue of the 2017 Convertible Bonds.

As at the date of this announcement, none of the 2017 Convertible Bonds have been redeemed nor converted and the conversion price of the 2017 Convertible Bonds is HK\$0.23 per Conversion Share taking into account the intervening adjustments since the issue of the 2017 Convertible Bonds.

The Board announces that on 4 August 2017, the Company and the Bondholder entered into the Amendment Deed.

THE AMENDMENT DEED

Date

4 August 2017

Parties

The Company and the Bondholder.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Bondholder is a substantial shareholder of approximately 11.50% of the entire issued share capital of the Company as at the date of this announcement and hence a connected person of the Company.

The Proposed Amendments

Pursuant to the Amendment Deed, the Company and the Bondholder agreed to amend certain terms and conditions of the 2017 Convertible Bonds as follows:

- i. the maturity date for the 2017 Convertible Bonds will be extended from 30 July 2017 to 30 October 2017;
- ii. the expiry date of the conversion period of the 2017 Convertible Bonds will be extended to 30 October 2017, being the extended maturity date;
- iii. for the extension period from 30 July 2017 to 30 October 2017, no interest shall be borne by the Company on the outstanding principal amount thereof provided that the Company shall pay the Bondholder all outstanding interest under the 2017 Convertible Bonds up to (and including) 30 July 2017 within 10 business days after the date of the Amendment Deed; and
- iv. the conversion price, which was originally HK\$0.172 per Share is currently HK\$0.23 per Share as a result of intervening adjustments since the issue of the 2017 Convertible Bonds. The current conversion price will be reflected in the Amendment Deed.

The Company will issue a new certificate (the "**New Certificate**") for the 2017 Convertible Bonds to the Bondholder with the terms and conditions attaching thereto incorporating all of the Proposed Amendments within five business days after the Amendment Deed becoming unconditional. Notwithstanding anything to the contrary in the Amendment Deed, the payment obligations of the Company under the 2017 Convertible Bonds prior to the Proposed Amendments shall remain in full force and effect prior to the delivery of the New Certificate by the Company to the Bondholder.

Except as disclosed above, there are no other material amendments to the terms of the 2017 Convertible Bonds.

The principal terms and conditions of the 2017 Convertible Bonds (as revised by the Amendment Deed) are summarized below:

Principal amount: HK\$75,000,000

| | |
|----------------------------|--|
| Maturity date: | 30 October 2017 |
| Interest: | Provided that the Company shall pay the Bondholder all outstanding interest under the 2017 Convertible Bonds up to (and including) 30 July 2017 within 10 business days after the date of the Amendment Deed, the 2017 Convertible Bonds shall bear interest on the outstanding principal amount thereof from the date of issue up to (and including) 30 July 2017 at a rate equal to 3% per annum payable half-yearly in arrears on 30 June and 31 December in each year |
| Conversion rights: | <p>The bondholder shall have the right, on any business day during the period commencing from the date of issue of the 2017 Convertible Bonds to the maturity date to convert the whole or part of the principal amount of the 2017 Convertible Bonds into the Conversion Shares at the conversion price (subject to adjustments).</p> <p>No exercise of the conversion rights attaching to the 2017 Convertible Bonds shall be allowed if (i) immediately following the conversion, the Company will be unable to meet the public float requirement under Rule 8.08 of the Listing Rules; or (ii) such conversion is prohibited under the Takeovers Code.</p> <p>The Conversion Shares shall rank pari passu with all other Shares in issue as at the date of conversion and be entitled to all dividends, bonus and other distributions the record date of which falls on a date on or after the date of conversion.</p> <p>The expiry date of conversion period is 30 October 2017.</p> |
| Conversion price: | The conversion price is HK\$0.23 per Conversion Share, subject to adjustment provisions as summarised below. |
| Anti-dilution adjustments: | <p>The conversion price shall from time to time be adjusted upon the occurrence of certain events, including the following:</p> <ul style="list-style-type: none"> (i) consolidation, sub-division or re-classification of the Shares; (ii) capitalisation of profits or reserves; (iii) capital distribution to holders of Shares; |

- (iv) offer to Shareholders new Shares for subscription by way of rights, or grant to Shareholders any options, warrants or other rights to subscribe for any new Shares at a price which is less than 80% of the market price as at the date of the announcement of the terms of the offer or grant;
- (v) issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 80% of the market price as at the date of the announcement of the terms of issue of such securities;
- (vi) when the rights of conversion or exchange or subscription attached to any such securities as are mentioned in (v) above are modified so that the total effective consideration per Share initially receivable for such securities will be less than 80% of the market price as at the date of the announcement of such proposal;
- (vii) when the Company issue wholly for cash any Shares at a price per Share which is less than 80% of the market price as at the date of the announcement of the terms of such issue; and
- (viii) when the Company issue Shares for the acquisition of assets at a total effective consideration per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue.

Voting:

The bondholder shall not be entitled to attend or vote at any meetings of the Company by reason only of it being the bondholder.

Transferability:

The 2017 Convertible Bonds may be freely assigned and transferred, provided that (i) no assignment or transfer shall be made to a connected person (within the meaning ascribed thereto in the Listing Rules) of the Company without the prior approval of the Company and (ii) the principal amount to be assigned or transferred is at least HK\$1,000,000 and in integral multiples of HK\$1,000,000 unless the amount of the outstanding 2017 Convertible Bonds is less than HK\$1,000,000 in which case the whole (but not part only) of that amount may be assigned and transferred.

Events of default:

If any of the following events occurs, the 2017 Convertible Bonds shall on the giving of notice by the bondholder to the Company become due and payable at its principal amount then outstanding, together with any accrued outstanding interest calculated up to and including the date of repayment:

- (i) the Company defaults in its material obligations in the CB Subscription Agreement which default is incapable of remedy or, if capable of remedy, is not remedied within 14 business days after notice of such default from the bondholder to the Company;
- (ii) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its principal operating subsidiaries;
- (iii) the Company or any of its subsidiaries becomes insolvent or is unable to pay its debts as they fall due or applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of the Company or any of its principal operating subsidiaries or the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its principal operating subsidiaries or takes any proceeding under any law for a readjustment or deferment of its obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its creditors other than the entering into of the creditors' scheme of arrangement;
- (iv) a petition is presented or a proceeding is commenced or an order is made or an effective resolution is passed for the winding-up, insolvency, administration or dissolution of the Company or any of its subsidiaries except in the case of winding-up of subsidiaries of the Company in the course of internal reorganisation;
- (v) insolvency of the Company;
- (vi) a moratorium is agreed or declared in respect of any indebtedness of the Company or any of its subsidiaries or any government authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets of the Company or any of its subsidiaries;

- (vii) other than as a result of, or in circumstances where (i) an offer made to holders of Shares (or such holders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) being made to the Company for the acquisition of all or any proportion of the Shares or such an offer becoming unconditional or (ii) the Company is required to make an announcement pursuant to Chapter 14 and 14A of the Listing Rules, the listing of the Shares on the Stock Exchange ceases or the trading of the Shares on the Stock Exchange is suspended for a continuous period of 15 business days or more on each day of which the Stock Exchange is generally open for the business of dealing in securities due to the default of, or breach of any provisions of the Listing Rules or applicable laws by any member of the Group or any of its directors, officers, employees or agents;
- (viii) any amounts of principal repayment or interest payment in relation to bank borrowings of the Company or any of its subsidiaries are not paid when due, or within the grace period and the relevant bank notifies the Company or the subsidiary that such non-payment constitutes an event of default under the terms of the relevant loan;
- (ix) the Company or any of its subsidiaries fails to pay when due or expressed to be due any amounts payable or expressed to be payable by it under any present or future guarantee for any moneys borrowed from or raised through a financial institution and the relevant financial institution notifies the Company or the relevant subsidiary that such failure to pay constitutes an event of default under the terms of the guarantee or the loan in relation to which the guarantee was given;
- (x) the Company or any of its subsidiaries consolidates or amalgamates with or merge into any other corporation (other than a consolidation, amalgamation or merger in which the Company or such subsidiary is the continuing corporation), or the Company or any of its subsidiaries sells or transfers all or substantially all of its assets;

- (xi) at any time any indebtedness, including any obligation (whether present or future, actual or contingent, secured or unsecured, as principal or surety or otherwise) for the payment or repayment of money, of the Company or any of its subsidiaries becomes due and payable prior to its stated maturity by reason of default, or event of default (howsoever described) by the Company or any of its subsidiaries; or
- (xii) the Company fails to pay the principal amount or any interest on the 2017 Convertible Bonds when due unless non-payment of such interest is due solely to administrative or technical error and payment is made within five business days of the due date.

Conditions precedent

The Proposed Amendments are subject to the following conditions precedent:

- i. the Shareholders in the SGM approving the Amendment Deed and the Proposed Amendments and the grant of Specific Mandate to issue the Conversion Shares;
- ii. all necessary consents and approvals required to be obtained on part of the Bondholder in respect of the Proposed Amendments having been obtained; and
- iii. the Stock Exchange approving the Proposed Amendments including the approval for the grant of the listing of, and permission to deal in, the Conversion Shares arising from conversion of the 2017 Convertible Bonds during the extended conversion period as mentioned above.

In the event that the conditions precedent set out above are not satisfied by 30 September 2017, unless otherwise agreed between the parties, the Amendment Deed shall terminate and cease to be of any effect and neither party thereto shall have any claim against the other party for any costs, damages, compensation or otherwise in respect of the Amendment Deed other than in respect of antecedent breaches thereof.

Conversion price per Conversion Share

The conversion price of the 2017 Convertible Bonds of HK\$0.23 per Share represents:

- (i) a premium of approximately 58.62% over the closing price of the Shares of HK\$0.1450 on 3 August 2017, being the Last Trading Day;
- (ii) a premium of approximately 56.68% over the average closing price of the Shares for the five consecutive trading days prior to the Last Trading Day of HK\$0.1468;

- (iii) a premium of approximately 51.12% over the average closing price of the Shares for the ten consecutive trading days prior to the Last Trading Day of HK\$0.1522; and
- (iv) a premium of approximately 167.44% over the net asset value per Share of approximately HK\$0.086 as at 31 March 2017.

Assuming the conversion rights attaching to the 2017 Convertible Bonds are exercised in full at the conversion price of HK\$0.23 per Conversion Share, 326,086,956 Conversion Shares will fall to be issued to the Bondholder, representing approximately 8.93% of the issued capital of the Company as at the date of this announcement and approximately 8.20% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares.

Shareholding structure of the Company

The following table sets out the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after conversion of the whole of the principal amount of the 2017 Convertible Bonds by the Bondholder:–

| | As at the date of this announcement | | Immediately after conversion of the whole of the principal amount of the 2017 Convertible Bonds by the Bondholder | |
|---|--|-----------------------|--|-----------------------------------|
| | No of Shares | % | No of Shares | % |
| Achieve Prosper Capital Limited (Note 1) | 2,171,827,290 | 59.49% | 2,171,827,290 | 54.61% |
| Wang Xing Qiao (Note 2) | 3,275,000 | 0.09% | 3,275,000 | 0.08% |
| Bondholder | 420,000,000 | 11.50% | 746,086,956 | 18.76% |
| Public Shareholders | <u>1,055,608,315</u> | <u>28.92%</u> | <u>1,055,608,315</u> | <u>26.55%</u> ^(Note 3) |
| Total | <u><u>3,650,710,605</u></u> | <u><u>100.00%</u></u> | <u><u>3,976,797,561</u></u> | <u><u>100.00%</u></u> |

Notes: 1. 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. Mr. Wang Jing, our executive Director, is the sole director of and the beneficial owner of 82.8% of the equity interest in Liaoning Shihua (Group) Property Development Limited. By virtue of the Securities and Futures Ordinance, Mr. Wang Jing is deemed to be interested in these 2,171,827,290 Shares.

2. Wang Xing Qiao is an executive Director of the Company.

3. Pursuant to the terms of the 2017 Convertible Bonds, no exercise of conversion rights attaching to the 2017 Convertible Bonds is allowed if immediately following the conversion, the Company will be unable to meet the public float requirement under Rule 8.08 of the Listing Rules.

Specific Mandate to issue the Conversion Shares

On 19 June 2014, Shareholders granted an Original Specific Mandate to the Directors for the allotment and issue of new Shares upon exercise of the conversion rights attached to the 2017 Convertible Bonds. Due to the extended maturity date of the 2017 Convertible Bonds, the Conversion Shares will be issued under a revised Specific Mandate which will supersede the Original Specific Mandate and is subject to the approval of the Shareholders at the SGM.

Ranking

The Conversion Shares, when fully paid, issued and allotted, will rank pari passu in all respects with all Shares in issue as at the date of issue of the Conversion Shares.

Listing application for the Conversion Shares

An application will be made by the Company to the Stock Exchange for the granting of the listing of, and the permission to deal in the Conversion Shares.

Equity fund raising by the Company

The Company did not carry out any equity fund raising activities in the 12 months period immediately before the date of this announcement.

INFORMATION ON THE BONDHOLDER

The Bondholder is a company incorporated in the British Virgin Islands with limited liability, the principal business of which is investment holding. It is a wholly-owned subsidiary of China Huarong International Holdings Limited (中國華融國際控股有限公司).

LISTING RULES IMPLICATION

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. As at the date of this announcement, the Company has applied for the approval of the Stock Exchange in respect of the Proposed Amendments.

Further, since the Bondholder is a substantial shareholder of approximately 11.50% of the entire issued share capital of the Company as at the date of this announcement and hence a connected person of the Company, the entering into of the Amendment Deed constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules subject to approval of the independent Shareholders by way of poll at the SGM. As the Bondholder has a material interest in the Amendment Deed, the Bondholder and its associates are required to abstain from voting for the relevant resolution to approve the Amendment Deed and the transactions contemplated thereunder at the SGM.

REASONS AND BENEFITS OF THE PROPOSED AMENDMENTS

The Group is principally engaged in the design and sale of wide range of electronic products, sales and installation of elevators, properties investment, operation and management of hydroelectric power stations and securities trading.

The Board considers that the extended time for the repayment to the Bondholder on the interest-free basis for the extended time will be beneficial to the Company and its operations by alleviating the pressure on its cash flows and profits. The Proposed Amendments are arrived at after arm's length negotiation between the Company and the Bondholder. Based on the above, the Board (other than the independent non-executive Directors, whose view will be set out in the circular after taking into account the independent financial adviser's advice to be set out the circular) is of the view that the terms of the Amendment Deed and 2017 Convertible Bonds (as amended by the Amendment Deed) are fair and reasonable and are in the interest of the Company and its shareholders as a whole.

GENERAL

The entering into of the Amendment Deed, the Proposed Amendments and the allotment and issue of the Conversion Shares under the Specific Mandate are subject to independent Shareholders' approval at the SGM. An independent board committee (comprising all independent non-executive Directors) has been formed to advise the independent Shareholders and, with the approval of the independent board committee, Nuada Limited has been appointed as the independent financial adviser to advise the independent board committee and the independent Shareholders regarding the Proposed Amendments. Nuada Limited is a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance.

A circular containing, amongst other things, (i) further details of the Amendment Deed and the Proposed Amendments; (ii) a letter from the independent board committee to the independent Shareholders; (iii) a letter from advice from independent financial adviser to the independent board committee and the independent Shareholders in relation to the Amendment Deed and the Proposed Amendments; and (iv) a notice of the SGM is expected to be despatched to the Shareholders as soon as possible in accordance with the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

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| “2017 Convertible Bonds” | the 3% convertible bonds in the aggregate principal amount of HK\$75,000,000 issued by the Company, details of which are set out in the Company’s announcements dated 21 March 2014 and 26 January 2016 |
| “Amendment Deed” | the amendment deed dated 4 August 2017 entered into between the Company and the Bondholder in relation to the Proposed Amendments |
| “Board” | the board of Directors |
| “Bondholder” | Lushan Investment Holdings Limited, a limited company incorporated in the British Virgin Islands with limited liability |
| “CB Subscription Agreement” | the subscription agreement entered into between the Company and Achieve Prosper Capital Limited on 30 January 2014 in relation to the subscription of the 2017 Convertible Bonds, details of which are set out in the Company’s announcement dated 21 March 2014 |
| “Company” | China Sinostar Group Company Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 485) |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Conversion Share(s)” | the new Shares to be issued upon the exercise of the conversion rights attached to the 2017 Convertible Bonds |
| “Director(s)” | the director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “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 |
| “Last Trading Day” | the last trading day prior to the date of this announcement |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |

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| “Original Specific Mandate” | the specific mandate to allot and issue new Shares granted to the Board pursuant to the ordinary resolution 1(c) at the special general meeting of the Company held on 19 June 2014 |
| “PRC” | the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan |
| “Proposed Amendments” | the proposed amendments to the 2017 Convertible Bonds pursuant to the terms of the Amendment Deed |
| “SGM” | the special general meeting of the Company to be convened and held to consider, and if thought fit, to approve the Amendment Deed and the transactions contemplated therein including the grant of the Specific Mandate |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the share capital of the Company |
| “Shareholder(s)” | the holder(s) of issued Shares |
| “Specific Mandate” | the specific mandate proposed to be granted to the Directors at the SGM to allot, issue and deal with the Shares to be allotted upon conversion of the 2017 Convertible Bonds |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Takeovers Code” | the Codes on Takeovers and Mergers and Share Buy-backs, which is issued by the Securities and Futures Commission, as amended from time to time |
| “%” | per cent |

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

Hong Kong, 4 August 2017

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