
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Starrise Media Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for your information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of Starrise Media Holdings Limited.

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Starrise Media Holdings Limited
星宏傳媒控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1616)

**(1) PROPOSED EXTENSION OF MATURITY DATE OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;**
**(2) PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC
MANDATE CONSTITUTING A CONNECTED TRANSACTION**
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

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



PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Please see pages ii to iii of this circular for measures being taken at the EGM in the attempt to prevent and control the spread of the novel coronavirus ("COVID-19") and in compliance with the relevant requirements or recommendations of government authorities in Beijing, including:

- (i) Compulsory body temperature checks and health declaration for every Shareholder or proxy attending the EGM.
- (ii) Each Shareholder or proxy is required to wear a surgical facial mask throughout the EGM.
- (iii) Any person who has travelled outside Beijing, from areas outside the PRC or areas announced as "high-risk areas" by the government authorities of the PRC and/or Beijing from time to time, in the 14-day period prior to the EGM will not be permitted to attend the EGM.
- (iv) Seating arrangements of all attendees shall be arranged by the Company so as to maintain a distance of not less than 1.5 meters between each of the attendees at the EGM.
- (v) No refreshment will be served and no corporate gifts will be distributed at the EGM.
- (vi) Any person who does not comply with the precautionary measures may be denied entry into the venue of the EGM at the Company's discretion, to the extent permitted by the applicable laws and regulations. In light of the epidemic situation of COVID-19, the Company wishes to remind the Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person.

Capitalised terms used herein shall have the meanings set out in the section headed "Definitions" of this circular.

A notice convening the EGM (as defined herein) of Starrise Media Holdings Limited to be held at Building A10, 50 Anjialou, Chaoyang District, Beijing, the People's Republic of China on Wednesday, 16 June 2021 at 2:00 p.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of Starrise Media Holdings Limited in Hong Kong, Tricor Investor Services 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 fixed for the holding of the meeting (i.e. Monday, 14 June 2021 at 2:00 p.m.) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should you so wish.

28 May 2021

CONTENTS

	<i>Page</i>
PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING	ii
DEFINITIONS	1
LETTER FROM THE BOARD	10
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	36
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	37
APPENDIX – GENERAL INFORMATION	60
NOTICE OF EXTRAORDINARY GENERAL MEETING	EGM-1

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

In view of the epidemic situation of the COVID-19 situation, in the attempt to prevent and control the spread of COVID-19 and in compliance with the relevant requirements or recommendations of government authorities in Beijing, the Company will take the following precautionary measures at the EGM:

- (i) Compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the venue of the EGM. Any person with a body temperature of over 37.3 degrees Celsius, or is exhibiting flu-like symptoms, may be denied entry into or be required to leave the venue of the EGM at the Company's discretion, to the extent permitted by the applicable laws and regulations.
- (ii) Each Shareholder or proxy is required to wear a surgical facial mask throughout the EGM.
- (iii) Any person attending the EGM will be required to make a declaration as to whether they have travelled outside Beijing, from areas outside the PRC or areas announced as "high-risk areas" by the government authorities of the PRC and/or Beijing from time to time, in the 14-day period to the EGM, and those who has travelled outside Beijing from those areas in the 14-day period prior to the EGM will not be permitted to attend the EGM.
- (iv) Seating arrangements of all attendees shall be arranged by the Company so as to maintain a distance of not less than 1.5 meters between each of the attendees at the EGM.
- (v) No refreshment will be served and no corporate gifts will be distributed at the EGM.

Any person who does not comply with the precautionary measures may be denied entry into the venue of the EGM at the Company's discretion, to the extent permitted by the applicable laws and regulations. In light of the epidemic situation of COVID-19, the Company wishes to remind the Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person, by completing and return the proxy form attached to this circular.

If any Shareholder chooses not to attend the EGM in person but has any question about any resolution or about the Company, or has any matter for communication with the board of directors of the Company, he/she is welcome to send such question or matter in writing to our registered office or to our email at admin@starrise.cn.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

If any Shareholder has any question relating to the EGM, please contact Tricor Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong as follows:

Tricor Investor Services Limited

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Tel: +852 2980 1333

Fax: +852 2810 8185

Email: is-enquiries@hk.tricorglobal.com

As the COVID-19 situation continues to evolve, the Company will closely monitor the situation and reserves the right to take further measures or make any changes to the arrangement of the EGM as appropriate in order to minimize any risk to the Shareholders and others attending the EGM and to comply with any requirements or recommendations of any government agencies from time to time.

DEFINITIONS

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

“1st Deed of Amendment”	the deed of amendment to the 2019 Share Charge executed by Aim Right over all of the Aim Right Shares as security for the due performance of the Company’s obligations under the conditions of the then-outstanding Bonds held by Dragon Capital during the 2nd Extended Period
“1st Extended Period”	the period commenced on the second anniversary of the Issue Date and ending on the third anniversary of the Issue Date
“1st Extension”	the extension of the Maturity Date of the Outstanding Bonds by one additional year to 28 February 2020
“1st Extension Agreement”	the amendment agreement dated 28 February 2019 entered into between the Company and Dragon Capital in relation to the 1st Extension
“1st Extension Circular”	the circular of the Company dated 20 March 2019 in relation to, among other things, the 1st Extension of the maturity date of the Bonds under specific mandate
“2019 Share Charge”	charge over the Aim Right Shares dated 28 February 2019 executed by Aim Right as security for the due performance of the Company’s obligations under the conditions of the Outstanding Bonds during the 1st Extended Period
“2nd Deed of Amendment”	the deed of amendment to the 2019 Share Charge (as amended and supplemented by the 1st Deed of Amendment) executed by Aim Right over all of the Aim Right Shares as security for the due performance of the Company’s obligations under the conditions of the Outstanding Bonds during the 3rd Extended Period until Dragon Capital ceases to hold any of the Outstanding Bonds
“2nd Extended Period”	the period commenced on the third anniversary of the Issue Date and ending on the fourth anniversary of the Issue Date
“2nd Extension”	the extension of the Maturity Date of the Outstanding Bonds by one additional year to 28 February 2021

DEFINITIONS

“2nd Extension Agreement”	the amendment agreement dated 27 February 2020 entered into between the Company, Dragon Capital and Skyland Circle Technology Limited in relation to the 2nd Extension
“2nd Extension Circular”	the circular of the Company dated 24 March 2020 in relation to, among other things, the 2nd Extension of the maturity date of the Bonds under specific mandate
“3rd Extension Period”	the period commenced on the fourth anniversary of the Issue Date and ending on 30 June 2021
“3rd Extension”	the extension of the Maturity Date of the Outstanding Bonds to 30 June 2021
“3rd Extension Agreement”	the amendment agreement dated 7 May 2021 entered into between the Company and Dragon Capital in relation to the 3rd Extension
“3rd Extension Announcement”	the announcement of the Company dated 7 May 2021 in relation to the 3rd Extension and the Transfer
“Affiliate(s)”	with respect to a person, any and all other person(s) that, directly or indirectly through one or more intermediaries, control, is controlled by, or is under common control with, such person
“Aim Right”	Aim Right Ventures Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Liu as at the Latest Practicable Date
“Aim Right Bonds”	the Bonds proposed to be issued by the Company in the aggregate principal amount of HK\$50,000,000 under the Transfer Agreement
“Aim Right Shares”	all Shares registered in the name and/or otherwise held by Aim Right as at the date of the 3rd Extension Agreement, which amounted to 202,472,656 Shares and represented approximately 12.30% of the issued share capital of the Company as at the Latest Practicable Date

DEFINITIONS

“Aim Right Specific Mandate”	the authority to be sought from the Independent Shareholders at the EGM to authorise the Directors to allot and issue the Conversion Shares upon conversion of the Aim Right Bonds to be issued under the Transfer Agreement
“Announcements”	collectively, the Initial Announcements, the Price Adjustment Announcements, the BeiTai Announcements and the 3rd Extension Announcement
“Base Redemption Amount”	<p>in respect of any principal amount of the outstanding Bonds and to be redeemed by the Company (other than in an early redemption due to the occurrence of an event of default), an amount equal to the aggregate of:</p> <ol style="list-style-type: none">(1) 100% of the principal amount of the outstanding Bonds;(2) interest accrued and unpaid under the conditions of the Bonds (including any interest accruing on overdue but unpaid amounts);(3) the Premium;(4) any default interest accrued and outstanding to the Bondholder(s) pursuant to the conditions of the Bonds; and any other payment accrued and outstanding to the Bondholder(s) pursuant to the conditions of the Bonds
“BeiTai”	BeiTai Investment LP, an exempted limited partnership established under the laws of the Cayman Islands
“BeiTai Transfer Announcements”	the announcements of the Company dated 23 and 24 April 2020, in relation to, among other things, the transfer of the Bonds in the aggregated principal amount of HK\$20,000,000 from Dragon Capital to BeiTai
“BeiTai Announcements”	collectively, the BeiTai Transfer Announcements and the announcement of the Company dated 25 February 2021 in relation to the full conversion of the Bonds in the aggregated principal amount of HK\$20,000,000 held by BeiTai

DEFINITIONS

“Board”	the board of Directors
“Bondholder(s)”	a person who is for the time being the registered holder(s) of a Bond
“Bonds”	the unlisted convertible bonds in an aggregate principal amount of HK\$300,000,000 issued by the Company on 28 February 2017 (or any part thereof)
“Business Day”	a day excluding a Saturday, Sunday, public holiday, or days on which a typhoon signal No.8 or black rainstorm signal is hoisted in Hong Kong at 9:00 a.m.) on which banks in Hong Kong are open for business throughout their normal business hours
“Circulars”	collectively, the Initial Circular, the 1st Extension Circular and the 2nd Extension Circular
“Company”	Starrise Media Holdings Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange with stock code: 1616
“Conversion Price”	the conversion price per Conversion Share after adjustment, which is currently HK\$0.156 per Conversion Share (subject to further adjustments)
“Conversion Rights”	the right(s) of a Bondholder to convert whole or part of the principal amount of any Bond into Shares subject to and in accordance with the terms and conditions of the Bonds
“Conversion Shares”	the Share(s) to be issued and allotted upon conversion of the Bonds
“Current Market Price”	in respect of a Share on a particular date, the average of the closing price for the five consecutive trading days ending on the trading day immediately preceding such date
“Directors”	the directors of the Company
“Dragon Capital”	Dragon Capital Entertainment Fund One LP, an exempted limited partnership registered in the Cayman Islands

DEFINITIONS

“Dragon Capital Bonds”	the Bonds in an aggregate principal amount of HK\$50,000,000 held by Dragon Capital as at the Latest Practicable Date
“Dragon Capital Guarantees”	the guarantee deeds executed by Aim Right and Mr. Liu, respectively, on the Issue Date in respect of the continuing guarantee over all sums due and payable to Dragon Capital under the Bonds held by Dragon Capital
“EGM”	the extraordinary general meeting of the Company to be held for considering, and if thought fit, approving the Extension Specific Mandate and the Aim Right Specific Mandate
“Extension Specific Mandate”	the authority to be sought from the Shareholders at the EGM to authorise the Directors to allot and issue the Conversion Shares upon conversion of the Outstanding Bonds at the Conversion Price of HK\$0.156 (subject to further adjustments) under the New Arrangements
“Group”	the Company and its subsidiaries from time to time
“Guarantors”	Aim Right and Mr. Liu
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors established to advise the Independent Shareholders in respect of terms of the Aim Right Bonds and the transactions contemplated thereunder
“Independent Financial Adviser”	Euto Capital Partners Limited, a licensed corporation to carry out Type 6 (advising on corporation finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Aim Right Bonds and the transactions contemplated thereunder

DEFINITIONS

“Independent Shareholders”	Shareholders other than Aim Right, Mr. Liu and their respective associates
“Independent Third Party(ies)”	a person independent of the Company and its connected person (as defined in the Listing Rules)
“Initial Announcements”	the announcements of the Company dated 22 December 2016, 30 December 2016 and 28 February 2017, in relation to, among other things, the issuance of the Bonds in the aggregate principal amount of HK\$300,000,000 to Dragon Capital and the Dragon Capital Guarantees executed by Aim Right and Mr. Liu in favour of Dragon Capital
“Initial Circular”	the circular of the Company dated 17 January 2017 in relation to the initial issuance of the Bonds to Dragon Capital
“Issue Date”	28 February 2017, being the date of issue of the Bonds
“Last Trading Day”	6 May 2021, being the last trading day preceding the date of signing of the 3rd Extension Agreement and the Transfer Agreement
“Latest Practicable Date”	24 May 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Mandatory Conversion Event Trigger”	<p>shall occur if:</p> <ul style="list-style-type: none">(a) during the third year after the Issue Date (if the Maturity Date has been extended pursuant to the conditions of the Bonds), the Closing Price of the Shares for 30 consecutive trading days ending on and including the trading day last preceding such date at any time is at or above HK\$3.30;(b) during the fourth year after the Issue Date (if the Maturity Date has been extended pursuant to the conditions of the Bonds), the Closing Price of the Shares for 30 consecutive trading days ending on and including the trading day last preceding such date at any time is at or above HK\$4.30; or(c) during the fifth year after the Issue Date (if the Maturity Date has been extended pursuant to the conditions of the Bonds), the Closing Price of the Shares for 30 consecutive trading days ending on and including the trading day last preceding such date at any time is at or above HK\$5.60
“Maturity Date”	<p>being the maturity date of the Bonds, which was initially 28 February 2019 (being the second anniversary of the Issue Date), which was further extended to 28 February 2021 pursuant to the 1st Extension and 2nd Extension; or if the 3rd Extension becomes effective, extended to 30 June 2021</p>
“Mr. Liu”	<p>Mr. Liu Zhihua (劉志華), a substantial shareholder of the Company</p>
“New Arrangements”	<p>the 3rd Extension and the transactions contemplated under the Outstanding Bonds after the 3rd Extension, which for the purposes of the Listing Rules would together be treated as new arrangements for the Company to issue the Outstanding Bonds</p>
“Obligors”	<p>the Company, Aim Right and Mr. Liu</p>

DEFINITIONS

“Outstanding Bonds”	Bonds in aggregate principal amount of HK\$50,000,000 which remain outstanding as at the Latest Practicable Date, or any part thereof
“Price Adjustment”	the adjustment to the Conversion Price of the Bonds from HK\$1.21 per Conversion Share to HK\$0.156 per Conversion Share which took effect from 19 January 2021, details of which are set out in the Price Adjustment Announcements
“Price Adjustment Announcements”	the announcements of the Company dated 17 January 2018, 5 February 2018 and 19 January 2021, respectively, in relation to, among other things, the Price Adjustment
“PRC”	The People’s Republic of China, which for the purpose of this circular excludes Hong Kong, Taiwan and the Macau Special Administrative Region
“Previous Specific Mandates”	the specific mandates previously granted by the Shareholders at the extraordinary general meetings of the Company held on (a) 6 February 2017 for the allotment and issue of the Conversion Shares upon full conversion of the Bonds at the initial Conversion Price of HK\$1.21; (b) 8 April 2019 for the grant of new specific mandate regarding the 1st Extension; and (c) 9 April 2020 for the grant of new specific mandate regarding the 2nd Extension
“Premium”	such additional amount which would make up a return of 12% per annum on the principal amount of any outstanding Bonds, calculated from the Issue Date to the date of redemption of the same, taking into account all interest of 5% per annum paid on the Bonds prior to or on the date of such redemption and the loan interest rates ranging from 8% to 13% per annum of loans of comparable companies (taking into consideration that the Premium would only be payable in aggregate at the date of redemption if the Bondholder(s) has not exercised any of the Conversion Rights before the Maturity Date which lessen the pressure on the Company’s cash flow during the Conversion Period)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Terms of 1st Extension”	the additional terms and conditions which are applicable to the Outstanding Bonds during the 1st Extended Period pursuant to the 1st Extension
“Terms of 2nd Extension”	the additional terms and conditions which are applicable to the Outstanding Bonds during the 2nd Extended Period pursuant to the 2nd Extension
“Terms of 3rd Extension”	the additional terms and conditions which are applicable to the Outstanding Bonds during the 3rd Extended Period pursuant to the 3rd Extension
“Transfer”	the sale and purchase of the Outstanding Bonds by Aim Right pursuant to the Transfer Agreement
“Transfer Agreement”	the sale and purchase agreement dated 7 May 2021 between Dragon Capital, Aim Right and the Company in respect of the Transfer
“%”	per cent.

LETTER FROM THE BOARD



Starrise Media Holdings Limited

星宏傳媒控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1616)

Executive Directors:

Mr. LIU Dong (*Chairman*)
Mr. LIU Zongjun (*Chief Executive Officer*)
Ms. CHEN Chen
Mr. HE Han

Independent Non-executive Directors:

Mr. LAM Kai Yeung
Ms. LIU Chen Hong
Mr. KWOK Pak Shing

Registered office

in the Cayman Islands:
P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

Principal place of

business in Hong Kong:
40/F, Dah Sing Financial Centre
248 Queen's Road East
Wanchai
Hong Kong

28 May 2021

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED EXTENSION OF MATURITY DATE OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
(2) PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC
MANDATE CONSTITUTING A CONNECTED TRANSACTION
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to:

- (a) the Initial Announcements and the Initial Circular in relation to, among other things the issuance of the Bonds in the aggregate principal amount of HK\$300,000,000 to Dragon Capital and the Dragon Capital Guarantees executed by Aim Right and Mr. Liu in favour of Dragon Capital;

LETTER FROM THE BOARD

- (b) the Price Adjustment Announcements in relation to, among other things, the adjustments in the conversion price of the Bonds to the adjusted Conversion Price of HK\$0.156 per Conversion Share;
- (c) the 1st Extension Circular in relation to, among other things, the 1st Extension of the Maturity Date of the Bonds under specific mandate;
- (d) the 2nd Extension Circular in relation to, among other things, the 2nd Extension of the Maturity Date of the Bonds under specific mandate;
- (e) the BeiTai Announcements in relation to, among other things, the transfer of the Bonds in the aggregated principal amount of HK\$20,000,000 from Dragon Capital to BeiTai and the conversion of the transferred Bonds;
- (f) the announcements of the Company dated 26 February 2021 and 24 March 2021 in relation to, *inter alia*, the potential 3rd Extension of the Maturity Date and the potential Transfer of the Outstanding Bonds in the aggregate principal amount of HK\$50,000,000 held by Dragon Capital; and
- (g) the 3rd Extension Announcement in relation to, *inter alia*, the entering into of the 3rd Extension Agreement and the Transfer Agreement.

As disclosed in the 3rd Extension Announcement, the Company has, after arm's length negotiations (a) between the Company and Dragon Capital, entered into the 3rd Extension Agreement with Dragon Capital, pursuant to which the Company and Dragon Capital have agreed to extend the Maturity Date of the Outstanding Bonds to 30 June 2021; and (b) between the Company, Dragon Capital and Aim Right, entered into the Transfer Agreement with Dragon Capital and Aim Right pursuant to which Dragon Capital conditionally agreed sell, and Aim Right as purchaser conditionally agreed to purchase, the Outstanding Bonds for the consideration of HK\$50,000,000, subject to the conditions set out therein.

The purpose of this circular is to provide you with further details of (i) the 3rd Extension, the Terms of 3rd Extension and the Extension Specific Mandate; (ii) the Transfer, the issue of Aim Right Bonds and the Aim Right Specific Mandate; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Aim Right Bonds; (iv) the notice convening the EGM; and (v) other information as required under the Listing Rules.

LETTER FROM THE BOARD

THE 3RD EXTENSION AGREEMENT

Date

7 May 2021 (after trading hours)

Parties

- (1) The Company (as the issuer); and
- (2) Dragon Capital (as the holder of the Outstanding Bonds)

Pursuant to the terms of the 3rd Extension Agreement, the Company and Dragon Capital conditionally agreed to further extend the Maturity Date of the Outstanding Bonds to 30 June 2021 on the Terms of 3rd Extension as set out below:

- (a) at any time during the 3rd Extended Period, the Company may, at its sole and absolute discretion, redeem all or part of the Outstanding Bonds at the Base Redemption Amount together with any accrued and unpaid amounts owing to the Bondholder(s) in connection with the then outstanding Bonds by serving a notice to the Bondholder(s);
- (b) at any time during the 3rd Extended Period, the Bondholder(s) may, by giving notice to the Company, require the Company to redeem all of the then outstanding Bonds at the Base Redemption Amount together with any accrued and unpaid amounts owing to the Bondholder(s) in connection with the outstanding Bonds; and
- (c) the Maturity Date may be extended up to the fifth anniversary of the issue date of the Bonds if agreed between the Company and the holder(s) of the Bonds provided that, at the time of each extension, the Company has sufficient mandate, on the basis of (i) the then effective general mandate granted by the Shareholders at the then most recent annual general meeting of the Company or (ii) the specific mandate granted by the Shareholders at the general meeting, to issue such number of new Shares to cover the exercise of all of the then outstanding Conversion Rights.

Save for the 3rd Extension and the Terms of 3rd Extension, all other terms and conditions of the Outstanding Bonds as set out in the Circulars shall remain unchanged.

LETTER FROM THE BOARD

Conditions Precedent

The 3rd Extension will become effective subject to the fulfilment of, *inter alia*, the following conditions:

- (a) the Stock Exchange having approved the 3rd Extension in accordance with the Listing Rules;
- (b) Aim Right having executed the deed of amendment to the 2019 Share Charge (as amended and supplemented by the 1st Deed of Amendment), in form and substance satisfactory to Dragon Capital, in favour of Dragon Capital pursuant to which Aim Right shall continue to provide a charge over the Aim Right Shares as security for the due performance of the Company's obligations under the conditions of the Dragon Capital Bonds during the 3rd Extended Period until Dragon Capital ceases to hold any of the Outstanding Bonds;
- (c) all necessary consents and approvals required to be obtained on the part of the Company in respect of the 3rd Extension having been obtained;
- (d) the Company having complied with all applicable requirements under the Listing Rules (including the obtaining of the approval of shareholders of the Company at a general meeting held in respect of the grant of the new Extension Specific Mandate regarding the 3rd Extension), and/or having completed, obtained and fulfilled all necessary approvals, notices and clearances of any relevant regulatory authorities or other relevant third parties as required in respect of the 3rd Extension, if applicable; and
- (e) Dragon Capital having obtained a legal opinion addressed to Dragon Capital on the 3rd Extension, in such form and substance satisfactory to Dragon Capital.

Each of the conditions set out in (a) to (e) above is not waivable under any circumstances.

The 2019 Share Charge

On 28 February 2019, Aim Right, as a substantial shareholder of the Company, executed the 2019 Share Charge in favour of Dragon Capital pursuant to which Aim Right agreed to provide a charge over all of the Aim Right Shares as security for the due performance of the Company's obligations under the conditions of the Bonds held by Dragon Capital during the 1st Extended Period.

On 27 February 2020, Aim Right executed the 1st Deed of Amendment to the 2019 Share Charge in favour of Dragon Capital pursuant to which Aim Right continued to provide a charge over all of the Aim Right Shares as security for the due performance of the Company's obligations under the conditions of the outstanding Bonds during the 2nd Extended Period.

LETTER FROM THE BOARD

As a condition precedent to the 3rd Extension, Aim Right shall execute the 2nd Deed of Amendment to the 2019 Share Charge (as in favour of Dragon Capital pursuant to which Aim Right shall continue to provide a charge over all of the Aim Right Shares as security for the due performance of the Company's obligations under the conditions of the Outstanding Bonds during the 3rd Extended Period until Dragon Capital ceases to hold any of the Outstanding Bonds.

The Dragon Capital Guarantees

As disclosed in the Circulars, the Dragon Capital Guarantees were executed by Aim Right and Mr. Liu, respectively, on 28 February 2017, being the Issue Date of the Bonds. The Dragon Capital Guarantees shall remain effective and unchanged during the 3rd Extended Period notwithstanding the 3rd Extension.

Set out below is a summary of the principal terms of the Guarantees:

Guarantors

Aim Right and Mr. Liu, respectively

Subject matter

Each of the Guarantors had, among other things:

- (a) agreed to guarantee to the relevant Bondholder the due and punctual observance and performance by each Obligor of all moneys, obligations and liabilities owing or payable or expressed to be owing or payable by the Obligors to the relevant Bondholder under or in connection with the transaction documents relating to the Bonds;
- (b) undertaken to pay the relevant Bondholder from time to time, upon demand by the relevant Bondholder, any and all sums of money which any Obligor is at any time liable, or expressed to be liable, to pay to the relevant Bondholder under or pursuant to any or all of the transaction documents relating to the Bonds and which have become, or are expressed to have become, due and payable but have not been paid at the time such demand is made as if it/he was the principal obligor in respect of that amount; and

LETTER FROM THE BOARD

- (c) agreed with the relevant Bondholder that if, for any reason, any amount claimed by the relevant Bondholder pursuant to the transaction documents relating to the Bonds is not recoverable from it/him on the basis of a guarantee, then it/he will be liable as principal debtor and primary obligor to indemnify the relevant Bondholder in respect of any loss it incurs as a result of any Obligor failing to pay any amount expressed to be payable by it under a transaction document relating to the Bonds on the date when the relevant Bondholder ought to have been paid.

Status

The Guarantees are and shall be each a continuing guarantee and indemnity, and shall each be extended to the ultimate balance of all sums payable by the Obligors under the transaction documents relating to the Bonds, regardless of any intermediate payment or discharge in part, until all moneys, obligations and liabilities owing or payable or expressed to be owing or payable by the Obligors to the relevant Bondholder under or in connection with the transaction documents relating to the Bonds have been irrevocably repaid and discharged in whole.

Reasons and benefits of the 3rd Extension

As mentioned above, the Outstanding Bonds matured on 28 February 2021. As disclosed in the Company's announcements dated 26 February 2021 and 24 March 2021, the Company had been engaging in negotiations with Dragon Capital on, *inter alia*, the potential extension of the Maturity Date of the Outstanding Bond which leads to Dragon Capital issuing a notice to the Company confirming the 3rd Extension on terms subject to the entering into of a legally binding agreement between the relevant parties. Pursuant to the terms of the 3rd Extension Agreement, the 3rd Extension would allow the Company to arrange for repayment of its debts under the Outstanding Bonds on essentially the same terms but on a much later date, and would therefore effectively provide the Group with flexibility in relation to the Group's deployment of its financial resources to fund its operation and development as well as the planning of its working capital requirements.

Without the 3rd Extension, the Company would have to apply substantial cash resources for the redemption of the Outstanding Bonds on maturity. Save for the 3rd Extension and the Terms of 3rd Extension, no other term or condition of the Bonds would be amended further to the 2nd Extension, which was been approved by ordinary resolution(s) duly passed by the Shareholders at an extraordinary general meeting held on 9 April 2020. Accordingly, the Directors (including the independent non-executive Directors) consider that the 3rd Extension is fair and reasonable, and is in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

On 7 May 2021 (after trading hours), the Company, Dragon Capital and Aim Right entered into the Transfer Agreement in relation to the Transfer of the Outstanding Bonds held by Dragon Capital to Aim Right.

THE TRANSFER AGREEMENT

Date

7 May 2021 (after trading hours)

Parties

- (1) Dragon Capital (as the vendor);
- (2) Aim Right (as the purchaser); and
- (3) The Company (as the issuer)

Under the terms of the Transfer Agreement, Dragon Capital as vendor conditionally agreed sell, and Aim Right as purchaser conditionally agreed to purchase, the Outstanding Bonds for the consideration of HK\$50,000,000.

Pursuant to the terms of the Bonds, prior written consent from the Company is required where the holder of the Bonds proposed to assign any of its rights or transfer by novation any of its rights and obligations of the Bonds (or any part thereof) to any person (except its Affiliates).

Conditions Precedent

The Transfer will become effective subject to the fulfilment of, *inter alia*, the following conditions:

- (a) each party having obtained all necessary consents, approvals authorisations required for the execution of, and performance of its respective obligations, under the Transfer Agreement;
- (b) the 3rd Extension becoming effective;
- (c) the Company having consented to, and complied with all applicable requirements under the Listing Rules (including the obtaining of the approval of shareholders of the Company at a general meeting held in respect of the grant of new specific mandate regarding the 3rd Extension and the issuance of the Aim Right Bonds to Aim Right), and obtained all necessary consents, approvals and authorisations in relation to, the transactions contemplated under the Transfer Agreement; and

LETTER FROM THE BOARD

- (d) all other necessary consents, approvals, licenses, permits and authorisations from any governmental and regulatory bodies in Hong Kong, China and other relevant jurisdictions in relation to the transactions contemplated under the Transfer Agreement having been obtained and made.

Dragon Capital, Aim Right and the Company shall use its reasonable endeavours to procure that all conditions above are satisfied on or before 30 June 2021 (the “**Long Stop Date**”). Each of the conditions set out above is not waivable under any circumstances.

If the conditions precedent set out above are not fulfilled or waived before the Long Stop Date (or such other date as the parties may agree in writing), the Transfer Agreement shall lapse and become null and void and the parties shall be released from all obligations thereunder save for liabilities for any antecedent breaches thereof.

Subject to the terms and conditions of the Transfer Agreement, the Aim Right Bonds will be issued to Aim Right in place of the Outstanding Bonds on same terms upon completion of the Transfer Agreement at the face value of HK\$50,000,000.

THE OUTSTANDING BONDS AND THE AIM RIGHT BONDS

As at the Latest Practicable Date, the Bonds in the principal amount of HK\$50,000,000, being the Outstanding Bonds held by Dragon Capital, remain outstanding.

The Outstanding Bonds (or the Aim Right Bonds after completion of the Transfer) are convertible into 320,512,820 Conversion Shares at the adjusted Conversion Price of HK\$0.156 per Conversion Share, which represents: (a) approximately 19.47% of the issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 16.30% of the issued share capital of the Company as enlarged by the issuance of such Conversion Shares.

Principal terms of the Outstanding Bonds and the Aim Right Bonds

The principal terms of the Outstanding Bonds (or the Aim Right Bonds after completion of the Transfer), as amended by the Price Adjustment, the 1st Extension, the 2nd Extension, the 3rd Extension, the Terms of 1st Extension, the Terms of 2nd Extension and the Terms of the 3rd Extension, are summarised below:

Aggregate principal amount	:	HK\$50.00 million
Maturity Date	:	30 June 2021
Conversion Price	:	HK\$0.156 per Conversion Share (subject to further adjustment(s), if any)
Interests	:	5% per annum payable in advance every three calendar months.

LETTER FROM THE BOARD

- Default interests : If an event of default occurs, interest shall accrue on the then outstanding principal amount of the outstanding Bonds from and including the date of occurrence of such event of default at an interest rate of 25% per annum and shall be payable on demand.
- Conversion Period : The period from the date of issuance of the outstanding Bonds up to the Maturity Date (both days inclusive).
- Conversion Rights : Subject to the terms and conditions of the outstanding Bonds, a Bondholder shall have the right, exercisable during the Conversion Period, to convert the whole or any part (in integral multiples of HK\$5,000,000) of the outstanding principal amount of the outstanding Bonds held by such bondholder into such number of Conversion Shares as will be determined by dividing the principal amount of the outstanding Bonds to be converted by the Conversion Price in effect on the date of conversion.
- If a Mandatory Conversion Event Trigger occurs, the Company shall issue a conversion notice to the Bondholder(s) to, subject to the terms and conditions of the outstanding Bonds, require the Bondholder to convert all or part of the outstanding Bonds held by the Bondholder(s) at that time. The Bondholder(s) shall at all times have the discretion to determine the amount of outstanding Bonds to be converted (provided that such amount is more than HK\$5,000,000 and is an integral multiple of HK\$5,000,000). Each conversion following a Mandatory Conversion Event Trigger may only occur once a year.
- Ranking : Shares converted upon exercise of the Conversion Rights shall rank *pari passu* in all respects with all other Shares in issue at the date of conversion and all Conversion Shares shall include rights to participate in all dividends and other distributions.
- Transferability : The outstanding Bonds may be transferred to an Affiliate of the Bondholder(s) without consent from the Company and may be transferred to any other person after receiving prior written consent from the Company.

LETTER FROM THE BOARD

- Adjustment of the Conversion Price : The Conversion Price shall from time to time be adjusted upon:
- (i) consolidation or sub-division;
 - (ii) capitalisation of profits or reserves;
 - (iii) capital distributions;
 - (iv) rights issues of Shares or options over Shares;
 - (v) issuance of Shares or any options, warrants or other rights to subscribe for or purchase Shares wholly for cash at less than 90% of the Current Market Price; or
 - (vi) other issues of Shares at less than 90% of the Current Market Price.
- Listing : No application has been or will be made for the listing of the Outstanding Bonds and/or Aim Right Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in the Conversion Shares under the New Arrangement and the Aim Right Bonds.
- Redemption : **Maturity:** Unless (i) the maturity of the outstanding Bonds is accelerated upon the occurrence of an event of default, or (ii) the outstanding Bonds are redeemed prior to the Maturity Date, the Company shall redeem all outstanding Bonds on the Maturity Date in the following manners:
- (1) if the Bondholder(s) has not exercised any of the Conversion Rights before the Maturity Date, the Company shall redeem all of the outstanding Bonds at the Base Redemption Amount; or
 - (2) if the Bondholder(s) has exercised all or a portion of the Conversion Rights before the Maturity Date, the Company shall redeem all such outstanding Bonds at the Base Redemption Amount (but excluding the Premium).

LETTER FROM THE BOARD

No redemption: The outstanding Bonds may not be redeemed by the Company at any time prior to the Maturity Date, save that:

- (a) at any time during the first six months of the 1st Extended Period, the Company may, at its sole and absolute discretion, redeem all or part of the outstanding Bonds at the Base Redemption Amount together with any accrued and unpaid amounts owing to the Bondholder(s) in connection with the outstanding Bonds by serving a notice to the Bondholder(s);
- (b) at any time during the last six months of the 1st Extended Period, the Bondholder(s) may, by giving notice to the Company, require the Company to redeem all of the then outstanding Bonds at the Base Redemption Amount together with any accrued and unpaid amounts owing to the Bondholder(s) in connection with the outstanding Bonds;
- (c) at any time during the 2nd Extended Period, the Company may, at its sole and absolute discretion, redeem all or part of the outstanding Bonds at the Base Redemption Amount together with any accrued and unpaid amounts owing to the Bondholder(s) in connection with the then outstanding Bonds by serving a notice to the Bondholder(s);
- (d) at any time during the 2nd Extended Period, the Bondholder(s) may, by giving notice to the Company, require the Company to redeem all of the then outstanding Bonds at the Base Redemption Amount together with any accrued and unpaid amounts owing to the Bondholder(s) in connection with the outstanding Bonds;
- (e) at any time during the 3rd Extended Period, the Company may, at its sole and absolute discretion, redeem all or part of the outstanding Bonds at the Base Redemption Amount together with any accrued and unpaid amounts owing to the Bondholder(s) in connection with the then outstanding Bonds by serving a notice to the Bondholder(s); and

LETTER FROM THE BOARD

- (f) at any time during the 3rd Extended Period, the Bondholder(s) may, by giving notice to the Company, require the Company to redeem all of the then outstanding Bonds at the Base Redemption Amount together with any accrued and unpaid amounts owing to the Bondholder(s) in connection with the outstanding Bonds.

Mandatory redemption: Notwithstanding the other provisions of the conditions of the outstanding Bonds, if either of the Guarantors:

- (1) deceases or is incapacitated;
- (2) becomes of unsound mind, or is or becomes a patient for any purpose of any applicable laws relating to mental health; or
- (3) becomes insolvent or is unable to pay its debts as they mature or applies for or consents to the appointment of any administrator, liquidator or receiver of the whole or any material part of its undertaking, property, assets or revenues or enters into a general assignment or compromise with or for the benefit of its creditors,

the Company shall redeem all of the outstanding Bonds at the Base Redemption Amount after prior notice has been given by the Bondholder(s) not less than 20 Business Days prior to the intended date of redemption.

Event of default redemption: Upon the occurrence of any of the events of default, the Company shall have a period of one month starting from the date of receipt by the Bondholder(s) of the notice of event of default to remedy such event of default. If such event of default is not remedied within such period or if such event of default is incapable of remedy, the Bondholder(s) shall be entitled to require the Bonds registered in its name to be redeemed at the Base Redemption Amount.

LETTER FROM THE BOARD

- Event of default : If any of the following events (“**Event of Default**”) set out in the terms and conditions of the outstanding Bonds occurs and (if such event of default is capable of remedy) the relevant period for the Company to remedy such event of default expires, the Bondholder(s) may give notice to the Company that the outstanding Bonds together with any amount payable by the Company pursuant to the terms of the Bonds will become immediately due and repayable:
- (i) there is a failure by the Company to pay the principal, the Premium (if any), any interest due and payable on or any amount due and payable under any Bond(s) pursuant to the terms and conditions of the Bond(s);
 - (ii) there is a failure by the Company to deliver the Conversion Shares pursuant to the conditions of the Bond(s);
 - (iii) the net asset value of the Company is less than RMB 1 billion (without taking into account any of the direct or indirect effects of the Bond(s));
 - (iv) an order is made or an effective resolution passed for winding-up or dissolution of the Company or any of its material subsidiaries, or the Company ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a consolidation, amalgamation, merger or reorganisation;
 - (v) an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the Company;
 - (vi) a distress, execution or seizure before judgement is levied or enforced upon or sued out against a material part of the assets or undertaking or property of the Company is not discharged within seven days thereof;
 - (vii) the Shares are suspended by the Stock Exchange for 10 consecutive trading days or listing of the Shares on the Stock Exchange are being revoked or withdrawn;

LETTER FROM THE BOARD

- (viii) there occurs any event that triggers cross default by the Company, the Guarantors or a material subsidiary of the Company under any financial indebtedness;
- (ix) the Company, the Guarantors or any of their material subsidiaries (where applicable) becomes insolvent or is unable to pay its debts as they mature, or in respect of the whole or any material part of its undertaking, property, assets or revenues, applies for or consents to the appointment of any administrator, liquidator or receiver, or enters into a general assignment, or comprises with or for the benefit of its creditors;
- (x) any representation, warranty, certification or statement made by or on behalf of the Company or the Guarantors in relation to any deeds, agreements, instruments executed or entered into in connection with the Bond(s) is incorrect, false, incomplete or misleading on the date which it is made;
- (xi) any case, proceeding or other action being commenced by or against any of the Company and the Guarantors seeking for bankruptcy, insolvency, reorganisation, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief, or seeking to appoint a liquidator, administrator, administrative receiver, receiver, trustee, custodian, conservator or other similar officials for him or for all or any part of his assets unless such petition is frivolous or vexatious and is stayed or dismissed within 45 days of commencement;
- (xii) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any of the property, assets or revenues of the Company or other orders applied in excess of US\$20 million, which is not discharged, terminated or cancelled or stayed within 30 days of commencement;
- (xiii) there occurred any one or more events or changes that can reasonable cause or constitute or likely to cause or constitute a material adverse effect on the Company or the Guarantors;

LETTER FROM THE BOARD

- (xiv) the Company ceases or threatens to cease to carry on its business or any substantial part of its business as a whole;
 - (xv) Aim Right creates or permits to subsist or arise any encumbrance over the whole or any part of the Aim Right Shares; or
 - (xvi) the Company does not perform or comply with any one or more of its other obligations under the Bonds which default is incapable of remedy, or is not remedied within 5 Business Days of occurrence.
- Other undertakings : (a) the Company will notify the Bondholder(s) in writing immediately upon becoming aware of the occurrence of any event of default;
- (b) the Company shall at all times use its reasonable endeavours to ensure that the minimum public shareholding requirement of the Listing Rules is complied with;
 - (c) the Company shall at all times maintain its net asset value (as determined by the Bondholder in its absolute discretion, including by reference to the Company's latest interim or annual reports) at not less than RMB1,000,000,000 (without taking into account any of the direct or indirect effects of the Bond(s));
 - (d) the Company shall at all times maintain its liability to asset ratio (by reference to the Company's latest interim or annual reports) at a level not higher than 50%; and
 - (e) Aim Right shall not, without the prior consent of Dragon Capital, dispose any of the Aim Right Shares.

LETTER FROM THE BOARD

Conversion Price:

Effective from 19 January 2021, the Conversion Price of the Bonds was adjusted from HK\$0.74 per Conversion Share to HK\$0.156 per Conversion Share pursuant to the terms and conditions of the Bonds following the issuance of 101,137,134 new Shares at HK\$0.156 per Share on such date.

The adjusted Conversion Price of HK\$0.156 per Conversion Share represents:

- (1) a premium to approximately 11.43% to the closing price of HK\$0.140 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (2) a premium to approximately 10.64% to the average closing price of HK\$0.141 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to and including the Last Trading Day; and
- (3) a premium to approximately 6.12% to the average closing price of HK\$0.147 per Share as quoted on the Stock Exchange for the last ten trading days immediately prior to and including the Last Trading Day.

The Conversion Price adjustment mechanism under the conditions of the Bonds (which were effective since the initial Issue Date of the Bonds and remain unchanged despite the 3rd Extension) was arrived at after arm's length negotiations between the Company and Dragon Capital (being the original Bondholder of the Bonds) with reference to prevailing market practice.

Terms of 3rd Extension

In addition, the Terms of 3rd Extension was also arrived at after arm's length negotiations between the Company and Dragon Capital having considered the factors set out below:

- (i) as at 31 December 2020, the Group had current net asset of approximately RMB738.81 million (which is equivalent to approximately HK\$891.97 million), net of the current liabilities attributable to the then-outstanding Bonds in the aggregate principal amount of HK\$100.00 million. Having considered the above and that (a) the Company further obtained net proceeds of approximately HK\$15.73 million raised from the subscription (the "**Subscription**") of new Shares under general mandate, which was completed on 19 January 2021; (b) the Company collected other receivables of HK\$138.00 million in relation to disposal of Power Fit Limited in March 2021 (the "**Disposal**"); and (c) the Company redeemed the Bonds in the aggregate principal amount of HK\$50.00 million held by Dragon Capital on 12 April 2021 (the "**Partial Redemption**"), leaving the remaining Bonds in the principal

LETTER FROM THE BOARD

amount of HK\$50.00 million repayable on the Maturity Date, the Directors considered that the Company would have sufficient uncommitted resources to satisfy the working capital requirements of the Group's on-going film and television drama productions;

- (ii) however, as disclosed in the Company's annual report for the year ended 31 December 2020, the Group's current assets was consisted of cash and cash equivalents of approximately RMB11.64 million (which is equivalent to approximately HK\$14.05 million), whilst the remainder was consisted of trade and other receivables of approximately RMB783.38 million (which is equivalent to approximately HK\$945.78 million) and value of the drama series and films of approximately RMB310.86 million (which is equivalent to approximately HK\$375.30 million). Out of the Group's current assets as at 31 December 2020, the Group currently expects that trade and other receivables of approximately RMB136.89 million could be recovered during the first half of 2021, but the recoverability of which is subject to the business performance and financial situation of debtors of these receivables amid the COVID-19 pandemic. Therefore, if the Outstanding Bonds of HK\$50.00 million were to be redeemed on 28 February 2021 (being the Maturity Date as extended pursuant to the 2nd Extension), any delays in recovering the Group's receivables might cause difficulties to allocate sufficient uncommitted resources to satisfy the working capital requirements of the Group's on-going film and television drama productions (which is subject to change from time to time) and the lack of such resources would adversely affect the production of the films and television dramas;
- (iii) having considered the expected working capital requirements for the Group's on-going film and television drama productions during the 3rd Extended Period, it is currently expected that the Group will have sufficient uncommitted resources to redeem the Outstanding Bonds in full during the 3rd Extended Period. Taking into account the adverse impact the COVID-19 pandemic has on the recoverability of the Group's trade and other receivables, the Company had requested that the Maturity Date of the Outstanding Bonds be extended to 30 June 2021 to allow sufficient buffer time for the Group to arrange for financial resources or alternative facilities with more favourable terms to redeem the Outstanding Bonds; and

LETTER FROM THE BOARD

- (iv) as a pre-condition for the Bondholder(s) to grant the Company such additional buffer time, the Bondholder(s) had requested additional rights to be included for the 3rd Extended Period. After arms-length negotiations, the parties have agreed that the Bondholder(s) would be granted a right, exercisable at any time during the 3rd Extended Period at the Bondholders discretion, to require the Company to redeem all of the then outstanding Bonds. Given (a) the net effect of the Subscription, Disposal and Partial Redemption resulting in net proceeds of approximately HK\$103.73 million; (b) the total expected working capital requirements of approximately RMB61.99 million (which is equivalent to HK\$74.84 million) for the Group's on-going film and television drama productions for the first half of 2021 and taking into account (c) the aforementioned trade and other receivables which are expected to be recovered during first half of 2021 of approximately RMB136.89 million (which is equivalent to approximately HK\$165.27 million), the Company considered it to have sufficient financial resources to redeem the outstanding Bonds (but subject to the actual investment and production schedule of the Group's on-going film and television drama productions and the recoverability of the Group's trade and other receivables as mentioned above) in the event that the Bondholders require the Company to redeem the outstanding Bonds during the 3rd Extended Period.

Accordingly, the Directors consider that the adjusted Conversion Price and the Terms of 3rd Extension are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

After the 3rd Extension becomes effective, the Company currently expects to redeem the outstanding Bonds on or before 30 June 2021, unless the Bondholder exercises the Conversion Rights before 30 June 2021. The Company was given to understand that, pursuant to a letter of intention received from Aim Right on 24 March 2021, Aim Right (being the Bondholder after the Transfer) intended to exercise its rights to convert the outstanding Bonds. As at the Latest Practicable Date, Aim Right confirmed that there is no change on its aforesaid intention.

LETTER FROM THE BOARD

Reasons and benefits of the Transfer and the issuance of Aim Right Bonds

As disclosed in the Company's announcement dated 24 March 2021, Dragon Capital had indicated to the Company their negotiations with Aim Right (a substantial shareholder of the Company holding approximately 12.30% of the total issued share capital of the Company as at the Latest Practicable Date) regarding the potential Transfer of the Outstanding Bonds.

As disclosed above, prior written consent from the Company is required where the holder of the Bonds proposed to assign any of its rights or transfer by novation any of its rights and obligations of the Bonds (or any part thereof) to any person (except its Affiliates) pursuant to the terms of the Outstanding Bonds. Therefore, on 7 May 2021, the Company entered into the Transfer Agreement with Dragon Capital and Aim Right pursuant to which the Company's consent to be issued in compliance with all applicable requirements under the Listing Rules is required as one of the conditions precedent.

The terms of the Transfer Agreement and the Aim Right Bonds (including the Conversion Price and the interest rate) were determined based on arm's length negotiations between the parties with reference to the prevailing market price of the Shares as quoted on the Stock Exchange and market interest rates of unsecured loans. In view that (a) the Aim Right Bonds to be issued pursuant to the Transfer Agreement would be under the same terms and conditions as the Outstanding Bonds (including the 3rd Extension) and (b) no assets pledges nor charges is required as security for the due performance of the Company's obligations under conditions of the Aim Right Bonds, the Directors (including the independent non-executive Directors after taking into account the advice from the Independent Financial Adviser) consider that although the entering into of the Transfer Agreement and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, the terms of the Transfer Agreement, the terms of the Aim Right Bonds (including the Conversion Price and the interest rate) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable, and the entering into of the Transfer Agreement and the issuance of Aim Right Bonds are in the best interests of the Company and the Shareholders as a whole. None of the Directors has a material interest in the Transfer or the issuance of Aim Right Bonds and hence no Director is required to abstain from voting on the relevant board resolutions in accordance with the Listing Rules.

LETTER FROM THE BOARD

USE OF PROCEEDS FROM THE INITIAL ISSUANCE OF THE BONDS

As disclosed in the Circulars and the annual report of the Company for the year ended 31 December 2020, the net proceeds from the initial issuance of the Bonds (after deducting the professional fees and other costs involved) of approximately HK\$295.35 million were fully utilised.

INFORMATION ABOUT THE GROUP

The principal business of the Company is investment holding. The Group is principally engaged in the business of film and television drama series production and distribution.

INFORMATION ABOUT THE BONDHOLDER

Dragon Capital

Dragon Capital Entertainment Fund One LP is an exempted limited partnership registered in the Cayman Islands. As at the Latest Practicable Date, it is part of an independent fund which focuses on investment opportunities in the technology, media and telecommunications sector.

Based on the information provided by Dragon Capital, Dragon Capital is a fund established by Dragon GP Partner Co. (“**Dragon GP**”) as general partner of Dragon Capital and is owned as to 99% by China Huarong International Holdings Limited (“**China Huarong**”) as the largest limited partner of Dragon Capital; China Huarong is owned as to 88.1% by Huarong Real Estate Co., Limited (“**Huarong Real Estate**”), which is wholly owned by China Huarong Asset Management Co., Ltd (“**China Huarong AM**”); and Dragon GP is wholly owned by Mr. Jun Zhai. China Huarong AM is a joint stock limited liability company incorporated in the PRC, H shares of which are listed on the Stock Exchange with stock code: 2799. Based on the publicly available information, China Huarong AM is owned (a) as to 63.36% H shares (“**H Shares**”) and domestic shares (“**Domestic Shares**”) of China Huarong AM by the Ministry of Finance of the PRC; (b) as to 5.27% H shares by Warburg Pincus Financial International Ltd; and (c) as to the remaining 31.37% H Shares and Domestic Shares by other shareholders each holding not more than 5% of the total issued shares of China Huarong AM.

LETTER FROM THE BOARD

CHANGES IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company has 1,646,254,080 Shares in issue. Set out below is a breakdown of the shareholding interests in the Company of the Shareholders as at (i) the Latest Practicable Date; (ii) immediately after the completion of the issue of the Conversion Shares assuming the Conversion Rights under the Outstanding Bonds are exercised by Dragon Capital in full at the adjusted Conversion Price of HK\$0.156 per Conversion Share prior to completion of the Transfer; and (iii) immediately after the completion of the issue of the Conversion Shares assuming the Conversion Rights under the Aim Right Bonds are exercised by Aim Right in full at the adjusted Conversion Price of HK\$0.156 per Conversion Share after completion of the Transfer:

	As at the date of the Latest Practicable Date		Immediately after the completion of the issue of the Conversion Shares assuming the Conversion Rights under the Outstanding Bonds are exercised by Dragon Capital in full at the adjusted Conversion Price of HK\$0.156 per Conversion Share prior to completion of the Transfer		Immediately after the completion of the issue of the Conversion Shares assuming the Conversion Rights under the Aim Right Bonds are exercised by Aim Right in full at the adjusted Conversion Price of HK\$0.156 per Conversion Share after completion of the Transfer	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Cinedigm Corp.	366,590,397	22.27%	366,590,397	18.64%	366,590,397	18.64%
Excel Orient Limited (Note 1)	307,809,902	18.70%	307,809,902	15.65%	307,809,902	15.65%
Emerge Ventures Limited (Note 2)	171,926,000	10.44%	171,926,000	8.74%	171,926,000	8.74%
He Han (Note 3)	13,998,000	0.85%	13,998,000	0.71%	13,998,000	0.71%
Bondholders						
Dragon Capital	–	–	320,512,820	16.30%	–	–
Aim Right (Note 4)	202,472,656	12.30%	202,472,656	10.29%	522,985,476	26.59%
Public Shareholders	<u>583,457,125</u>	<u>35.44%</u>	<u>583,457,125</u>	<u>29.67%</u>	<u>583,457,125</u>	<u>29.67%</u>
Total	<u>1,646,254,080</u>	<u>100.00%</u>	<u>1,966,766,900</u>	<u>100.00%</u>	<u>1,966,766,900</u>	<u>100.00%</u>

Notes:

- 307,809,902 Shares are held in the name of Excel Orient Limited, a limited liability company incorporated in the British Virgin Islands (“BVI”) which is wholly owned by Mr. Liu Dong.
- 171,926,000 Shares are held in the name of Emurge Ventures Limited, a limited liability company incorporated in Hong Kong which is wholly owned by Mr. Jin Peng.
- Mr. He Han is an executive Director of the Company.
- 202,472,656 Shares are held in the name of Aim Right, a limited liability company incorporated in the BVI which is wholly owned by Mr. Liu.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES IN THE PAST TWELVE-MONTH PERIOD

The following table summarises the equity fund raising activities of the Company for the twelve months immediately preceding the Company's announcement dated 7 May 2021:

Date of announcement	Equity fund raising activity	Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
5 January 2021	Subscription of 101,137,134 Shares by the Company under general mandate, which was completed on 19 January 2021	HK\$15.73 million	Settlement of principal and interest of the Bonds if the Company is called upon to redeem the Bonds without conversion or to apply for settlement of the Group's other debts and liabilities as they fall due, if the Bonds are converted without redemption	Utilised as intended

The Company currently does not have any plans for further equity fund raising in the near future. Having said that, the Company will continue to, from time to time, look for investment opportunities to maximise its profits and to bring value to its Shareholders. If any suitable opportunities arise and further external financing is needed, the Company may raise funds through equity financing. If the Company decides to conduct further equity financing activities, the Company shall use its best endeavours to comply with all applicable Listing Rules and all applicable laws and regulations in respect of such financing activities.

LISTING RULES IMPLICATIONS

The 3rd Extension

As stated in the Circulars, the Maturity Date may be extended if agreed between the Company and the holder(s) of the Bonds pursuant to the terms and conditions of the Outstanding Bonds.

Pursuant to Rule 28.05 of the Listing Rules, any alteration 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. The Company will apply to the Stock Exchange for the approval of the 3rd Extension pursuant to Rule 28.05 of the Listing Rules.

LETTER FROM THE BOARD

However, as the 3rd Extension would require mutual agreement between the holder(s) of the Bonds and the Company, the 3rd Extension would not take place automatically. Accordingly, the 3rd Extension would be treated as New Arrangements for the Company to issue the Outstanding Bonds to the respective holder(s) of the Bonds and the Company may not rely on the Previous Specific Mandates (as defined in the Circulars) for the New Arrangements and would be required to obtain a new Extension Specific Mandate from Shareholders for the New Arrangements pursuant to Rule 13.36(6) of the Listing Rules.

The Conversion Shares to be allotted and issued upon full conversion of the Outstanding Bonds at the Conversion Price of HK\$0.156 (subject to further adjustments) under the New Arrangements will be allotted and issued pursuant to the Extension Specific Mandate to be sought from the Shareholders at the EGM.

The Guarantees and the Share Charge

As at the Latest Practicable Date, Mr. Liu through his wholly-owned company Aim Right, is interested in 202,472,656 Shares (i.e. the Aim Right Shares), representing approximately 12.30% of the total issued share capital of the Company as at the date thereof. As such, Mr. Liu and Aim Right are each a substantial shareholder of the Company and therefore a connected person of the Company.

Each of (a) the Dragon Capital Guarantees provided by Aim Right and Mr. Liu in favour of Dragon Capital; and (b) the 2019 Share Charge (as amended and supplemented by the 1st Deed of Amendment and the 2nd Deed of Amendment) provided by Aim Right in favour of Dragon Capital would each be a form of financial assistance to the Company, and accordingly, constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the Directors (including the independent non-executive Directors) considered that each of the Dragon Capital Guarantees, the 2019 Share Charge, the 1st Deed of Amendment and the 2nd Deed of Amendment was and would be provided for the benefit of the Company on normal commercial terms or better and no security over the assets of the Group is granted thereunder, the Dragon Capital Guarantees, the 2019 Share Charge, the 1st Deed of Amendment and the 2nd Deed of Amendment would therefore be exempted from the reporting, announcement and independent Shareholders' approval requirements under the Listing Rules.

As none of the Directors has material interests in the Dragon Capital Guarantees, and the 2019 Share Charge (as amended and supplemented by the 1st Deed of Amendment and the 2nd Deed of Amendment), none of the Directors were required to abstain from voting on the Board resolutions approving the financial assistance provided by Aim Right and Mr. Liu pursuant to the Dragon Capital Guarantees and the 2019 Share Charge (as amended and supplemented by the 1st Deed of Amendment and the 2nd Deed of Amendment).

LETTER FROM THE BOARD

The Transfer and the issue of Aim Right Bonds

As Aim Right is regarded as a connected person of the Company under Chapter 14A of the Listing Rules, the issuance of Aim Right Bonds pursuant to the Transfer Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and Independent Shareholder's approval requirements pursuant to the Listing Rules.

The Conversion Shares to be allotted and issued upon full conversion of the Aim Right Bonds at the Conversion Price of HK\$0.156 (subject to further adjustments) will be allotted and issued pursuant to the Aim Right Specific Mandate to be sought from the Independent Shareholders at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lam Kai Yeung, Ms. Liu Chen Hong and Mr. Kwok Pak Shing, has been established to advise the Independent Shareholders regarding the terms of the Aim Right Bonds. An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

EXTRAORDINARY GENERAL MEETING

The EGM will be held for the purpose of, among other matters, considering, and if thought fit, approving the Extension Specific Mandate and the Aim Right Specific Mandate.

To the best knowledge of the Directors having made all reasonable enquiries, save as disclosed in this circular, none of the substantial Shareholders has entered, or contemplated to enter into any other arrangements, agreements or understanding (whether formal or informal and whether express or implied) with the Dragon Capital and their associates which will confer any of the substantial Shareholders a benefit (whether economic or otherwise) not available to the other Shareholders of the Company. As at the Latest Practicable Date, to the extent that the Company was aware having made all reasonable enquiries, no Shareholder has any material interests in the Bonds or the Extension Specific Mandate, and therefore no Shareholder is required to abstain from voting on the relevant resolution(s) at the EGM.

As at the Latest Practicable Date, Aim Right is a substantial shareholder of the Company interested in 202,472,656 Shares (representing approximately 12.30% of the total issued share capital of the Company) and is wholly-owned by Mr. Liu. As such, Mr. Liu is deemed to be interest in the 202,472,656 Shares hold by Aim Right under the SFO. To the best of the Director's knowledge, information and belief, save as to the 202,472,656 Shares hold by Aim Right, Aim Right, Mr. Liu and their respective associates are not interested in any other Shares of the Company.

LETTER FROM THE BOARD

As Aim Right and Mr. Liu have material interests in the Transfer Agreement and the transactions contemplated thereunder, Aim Right, Mr. Liu and their respective associate(s) are required to abstain from voting on the resolution(s) in relation to the Transfer Agreement at the EGM. Save for Aim Right, Mr. Liu and their respective associate(s), no other Shareholder has material interest in the Transfer (including the issuance of Aim Right Bonds pursuant to the Aim Right Specific Mandate) and is required to abstain from voting on the relevant resolution(s) at the EGM.

The notice of the EGM of the Company is set out on pages EGM-1 to EGM-4 of this circular. If you do not intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, on 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 (i.e. Monday, 14 June 2021 at 2:00 p.m.) or any adjournment thereof. The completion and delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

The register of members of the Company will be closed from Thursday, 10 June 2021 to Wednesday, 16 June 2021, both days inclusive, during which period no share transfers can be registered. In order to be eligible for attending and voting at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 9 June 2021.

VOTING BY POLL

The resolutions set out in the notice of the EGM would be decided by poll in accordance with the Listing Rules and the articles of association of the Company.

On a poll, every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy shall have one vote for every Share held. A Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy who is entitled to more than one vote need not use all his/its votes or cast all his/its votes in the same way.

After the conclusion of the EGM, the poll results will be published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 36 of the circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 37 to 59 of the circular.

Having considered the reasons abovementioned under the section headed “Reasons and benefits of the 3rd Extension”, the Directors (including the independent non-executive Directors) are of the opinion that 3rd Extension, the Terms of the 3rd Extension and the transactions contemplated under the 3rd Extension are on normal commercial terms, in the ordinary and usual course of business of the Company, and are fair and reasonable, and that the New Arrangements and the grant of the Extension Specific Mandate are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend that all Shareholders should vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the 3rd Extension Agreement and the grant of the Extension Specific Mandate.

Having considered the reasons abovementioned under “Reasons and benefits of the Transfer and issue of the Aim Right Bonds”, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice from the Independent Financial Adviser) are of the opinion that although the entering into of the Transfer Agreement and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, the terms of the Transfer Agreement and the terms of the Aim Right Bonds (including the Conversion Price and the interest rate) are on normal commercial terms, and are fair and reasonable and that the entering into of the Transfer Agreement and the grant of the Aim Right Specific Mandate are in the best interests of the Company and the Shareholders as a whole (including the Independent Shareholders). Accordingly, the Directors (including the independent non-executive Directors after taking into account the advice from the Independent Financial Adviser) recommend the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Transfer Agreement and the grant of the Aim Right Specific Mandate.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular and the notice convening the EGM.

Yours faithfully,
By Order of the Board
Starrise Media Holdings Limited
LIU Dong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Starrise Media Holdings Limited
星宏傳媒控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1616)

28 May 2021

To the Independent Shareholders,

Dear Sir or Madam,

**PROPOSED ISSUE OF
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE
CONSTITUTING A CONNECTED TRANSACTION**

We refer to the circular of the Company dated 28 May 2021 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter will have the same meanings as defined in the Circular.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser are set out on pages 10 to 35 of the Circular and pages 37 to 59 of the Circular, respectively, and the additional information set out in the appendix of the Circular.

Having taken into account the terms of the Transfer Agreement and the Aim Right Bonds and having taken into consideration of the advice of the Independent Financial Adviser in relation thereto as set out on pages 37 to 59 of this Circular, we concur with the view of the Independent Financial Adviser and, although the entering into of the Transfer Agreement and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, consider that the terms of the Transfer Agreement and the terms of the Aim Right Bonds (including the Conversion Price and the interest rate) are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Transfer Agreement and the transactions contemplated thereunder and the grant of the Aim Right Specific Mandate.

Yours faithfully,

For and on behalf of the

Independent Board Committee of
Starrise Media Holdings Limited

Mr. Lam Kai Yeung

Ms. Liu Chen Hong

Mr. Kwok Pak Shing

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Euto Capital Partners Limited to the Independent Board Committee and the Independent Shareholders in respect of the Aim Right Bonds and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



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28 May 2021

*To the Independent Board Committee and
the Independent Shareholders of Starrise Media Holdings Limited*

Dear Sirs and Madams,

CONNECTED TRANSACTION IN RELATION TO THE TRANSFER OF CONVERTIBLE BONDS TO A CONNECTED PERSON UPON EXTENSION OF THE RELEVANT MATURITY DATE BECOMING EFFECTIVE

INTRODUCTION

We refer to our appointment as the independent financial adviser (the “**Independent Financial Adviser**”) to make recommendations to the independent board committee and the independent shareholders of Starrise Media Holdings Limited (the “**Company**”) in respect of the Transfer Agreement and the transactions contemplated thereunder (the “**Transaction**”), particulars of which are set out in the section headed “Letter from the Board” (the “**Letter**”) contained in the circular of the Company to the Shareholders dated 28 May 2021, of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed “Definitions” in this circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Background of the Transaction

Reference is made to the 3rd Extension Announcement.

Prior to entering into the 3rd Extension Agreement, the Company has an Outstanding Bonds in aggregate principal amount of HK\$50,000,000 held by Dragon Capital, an independent third party who is not connected person of the Company. The Outstanding Bonds are convertible into a total of 320,512,820 Conversion Shares upon full conversion at the Adjusted Conversion Price of HK\$0.156 per Conversion Share.

1.1 The 3rd Extension Agreement

On 7 May 2021, the Company and Dragon Capital entered into the 3rd Extension Agreement, pursuant to which the Company and Dragon Capital conditionally agreed that the Maturity Date of the Outstanding Bonds shall be further extended from 28 February 2021 to 30 June 2021.

1.2 The Transfer Agreement

On 7 May 2021, the Company, Dragon Capital and Aim Right entered into the Transfer Agreement. Pursuant to the terms of the Transfer Agreement, subject to the 3rd Extension under the 3rd Extension Agreement becoming effective and other conditions precedent as set out in the Transfer Agreement being fulfilled or waived before the Long Stop Date (i.e. 30 June 2021), Dragon Capital agreed to sell, and Aim Right agreed to acquire, the Outstanding Bonds at a consideration of HK\$50,000,000.

Listing Rules Implications

Aim Right is wholly owned by Mr. Liu, who is a substantial Shareholder interested in 202,472,656 Shares, representing approximately 12.30% of the total issued share capital of the Company, through Aim Right as at the Latest Practicable Date. Therefore, Aim Right is an associate of Mr. Liu and is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Transfer Agreement constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and Independent Shareholder's approval requirements pursuant to the Listing Rules.

The Conversion Shares to be allotted and issued upon full conversion of the Outstanding Bonds (or Aim Right Bonds) will be allotted and issued pursuant to the Aim Right Specific Mandate to be sought from the Independent Shareholders at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lam Kai Yeung, Ms. Liu Chen Hong and Mr. Kwok Pak Shing, has been established to make a recommendation to the Independent Shareholders as to (i) whether the terms of the Transaction are fair and reasonable; (ii) whether the Transaction is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Transaction is in the interests of the Company and its Shareholders as a whole; and (iv) how the Independent Shareholders should vote on the Transaction. None of the members of the Independent Board Committee has any material interests in the Transaction.

In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to make recommendation to the Independent Board Committee and the Independent Shareholders as to whether (i) the terms of the Transaction are fair and reasonable; (ii) the Transaction is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) the Transaction is in the interests of the Company and its Shareholders as a whole; and (iv) the Independent Shareholders should vote in favour of or against the Transaction.

OUR INDEPENDENCE

We, Euto Capital Partners Limited (“**Euto Capital**”), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard, and such appointment has been approved by the Independent Board Committee pursuant to the Listing Rules.

Euto Capital is a licensed corporation licensed under the Securities and Futures Ordinance (“**SFO**”) to carry out Type 6 (advising on corporate finance) regulated activity, and participated in and completed various independent financial advisory transactions since 2015. Mr. Manfred Shiu (“**Mr. Shiu**”) and Mr. Felix Huen (“**Mr. Huen**”) are the persons jointly signing off the opinion letter from Euto Capital contained in this circular. Mr. Shiu has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under SFO since 2009, while Mr. Huen has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under SFO since 2019. Each of Mr. Shiu and Mr. Huen was participated in and completed various independent financial advisory transactions in Hong Kong.

As at the Latest Practicable Date, we confirmed that there is no relationship or interest between Euto Capital and the Company or any other parties that could be reasonably be regarded as hindrance to Euto Capital’s independence as set out under Rule 13.80 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are not associated with and have no significant connection, financial or otherwise, with Aim Right, Mr. Liu and parties acting in connect with it/him, the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations.

During the past two years, we have been appointed as the independent financial adviser to the Company regarding a major and connected transaction in relation to the disposal of the entire issued share capital of Power Fit Limited, of which the respective circular was dated 8 November 2019. Apart from normal professional fees payable to us in connection with the aforesaid appointment and this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We confirmed that there is no existence of or change in any circumstances that would affect our independence.

Accordingly, we consider that we have performed all reasonable steps as required under Rule 13.84 of the Listing Rules and are eligible to give independent advice on the Transaction.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transfer Agreement and the transactions contemplated thereunder, we have relied on the information, facts and representations contained or referred to in this circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries (the “**Management**”). We have assumed that all information, facts, opinions and representations made or referred to in this circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in this circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in this circular or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Company or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Transaction, as referred to in Rule 13.84 of the Listing Rules (including the notes thereof) in formulating our opinion and recommendation.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Transfer Agreement and the transactions contemplated thereunder, except for its inclusion in this circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background of the Transaction

On 7 May 2021, the Company and Dragon Capital entered into the 3rd Extension Agreement. On the same day, the Company, Dragon Capital and Aim Right entered into the Transfer Agreement.

1.1 Information of the Company and the Group

The Company is a company incorporated in the Cayman Islands with limited liability and the issued Shares of which have been listed on the main board of the Stock Exchange. The Company is an investment holding company and the holding company of the Group.

1.2 Principal business of the Group

The Group is principally engaged in (i) licensing of drama series and films, transfer of license of drama series and films; and (ii) provision of drama series and films production, distribution and related services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.3 Financial position of the Group

Set out below is a summary of the Group's audited consolidated financial position as at 31 December 2019 and 2020 as extracted from the annual report of the Company for the year ended 31 December 2020.

Table 1: Condensed statement of financial position of the Group as at 31 December 2019 and 2020

	As at December 2020	As at December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Non-current assets	202,692	607,862
Current assets		
– Drama series and films	310,860	358,666
– Trade and other receivables	783,384	844,023
– Cash and cash equivalents	<u>11,639</u>	<u>193,438</u>
	<u>1,105,883</u>	<u>1,396,127</u>
Total assets	1,308,575	2,003,989
Current liabilities		
– Trade and other payables	139,300	212,544
– Contract liabilities	3,078	3,078
– Bank loans	35,500	14,850
– Other borrowings	144,429	281,962
– Lease liabilities	5,277	5,025
– Current taxation	<u>39,487</u>	<u>39,489</u>
	<u>367,071</u>	<u>556,948</u>
Net current assets	738,812	839,179
Non-current liabilities	17,672	240,997
Total liabilities	384,743	797,945
Net assets	923,832	1,206,044

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the table above, the Group recorded audited consolidated total assets of approximately RMB1,308,575,000 as at 31 December 2020, representing a decrease of approximately RMB695,414,000 or 34.70% from audited consolidated total assets of approximately RMB2,003,989,000 as at 31 December 2019. As advised by the Management, such decrease was mainly attributable to, among other things,

- (i) the recognition of a total impairment loss of goodwill of approximately RMB286,724,000, in particular, each of (a) Solid Will Ltd. and its subsidiaries, (b) Star Will Investments Ltd. and its subsidiaries and (c) Beijing Starwise Culture Media Co., Ltd. recognized an impairment loss of goodwill of approximately RMB206,095,000, RMB62,181,000 and RMB18,448,000, respectively; and
- (ii) the recognition loss of an impairment losses on trade and other receivables of approximately RMB20,620,000 after assessing the relevant expected credit loss as required under the applicable accounting standards.

After our discussion with the Management, we understand that due to the adverse impact of the COVID-19 pandemic, the Management noted that the financial performance of drama series and films business declined and the delivery schedules of certain drama series and films were slower than expected during the year ended 31 December 2020. As such, the Management reassessed the cash flow projections and key assumptions for the drama series and films business having taken into account these circumstances in the value-in-use calculations to determine the recoverable amounts of the cash generating units (“CGUs”). As the carrying amounts of the CGUs was estimated to be higher than its recoverable amounts, an impairment loss of approximately RMB286,724,000 as mentioned above was recognised for goodwill relating to the drama series and films business as at 31 December 2020.

Apart from the assets position, the Group recorded audited consolidated total liabilities of approximately RMB384,743,000 as at 31 December 2020, representing a decrease of approximately RMB413,202,000 or 51.78% from audited consolidated total liabilities of approximately RMB797,945,000 as at 31 December 2019. As set out in the table, the total liabilities of the Group as at 31 December 2020 were mainly contributed by (i) trade and other payables of approximately RMB139,300,000, (ii) an aggregate outstanding bank loans and other borrowings of approximately RMB179,929,000 and (iii) a current tax payable of approximately RMB39,487,000 and all of which were due within one year.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Out of total outstanding bank loans and other borrowings of approximately RMB179,929,000, there were outstanding convertible bonds amounted to approximately RMB108,055,000 (equivalent to HK\$120,000,000) which were due for repayment on 28 February 2021 (the “**Bonds**”). Prior to the Bonds being matured, Beitai as a bondholder exercised its rights to convert the Bonds in a principal amount of HK\$20,000,000 into 128,205,128 Shares. On 12 April 2021, the Company redeemed the Bonds in an aggregate amount of HK\$50,000,000. As at the Latest Practicable date, the Bonds in an aggregate principal amount of HK\$50,000,000 remain outstanding and all of which are held by Dragon Capital (the “**Outstanding Bonds**”).

1.4 Information of Dragon Capital

Dragon Capital is an exempted limited partnership registered in the Cayman Islands. As at the Latest Practicable Date, it is part of an independent fund which focuses on investment opportunities in the technology, media and telecommunications sector.

Based on the information provided by Dragon Capital, Dragon Capital is a fund established by Dragon GP as general partner of Dragon Capital and is owned as to 99% by China Huarong as the largest limited partner of Dragon Capital; China Huarong is owned as to 88.1% by Huarong Real Estate, which is wholly owned by China Huarong AM; and Dragon GP is wholly owned by Mr. Jun Zhai. China Huarong AM is a joint stock limited liability company incorporated in the PRC, H shares of which are listed on the Stock Exchange with stock code: 2799. Based on the publicly available information, China Huarong AM is owned (a) as to 63.36% H Shares and Domestic Shares of China Huarong AM by the Ministry of Finance of the PRC; (b) as to 5.27% H shares by Warburg Pincus Financial International Ltd; and (c) as to the remaining 31.37% H Shares and Domestic Shares by other shareholders each holding not more than 5% of the total issued shares of China Huarong AM.

1.5 Information of Aim Right

Aim Right is a company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, Aim Right is wholly owned by Mr. Liu, who is a substantial Shareholder interested in 202,472,656 Shares, representing approximately 12.30% of the total issued share capital of the Company, through Aim Right as at the Latest Practicable Date.

Therefore, Aim Right is an associate of Mr. Liu and is a connected person of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Reasons for entering into the Transfer Agreement

As disclosed in the announcement of the Company dated 24 March 2021, the Company was informed by Dragon Capital, which is the holder of the Outstanding Bonds, that Dragon Capital has an intention to transfer the Outstanding Bonds to Mr. Liu.

Pursuant to the terms of the Transfer Agreement, prior written consent from the Company is required where the holder of the Outstanding Bonds proposed to assign any of its rights or transfer by novation any of its rights and obligations of the Outstanding Bonds (or any part thereof) to any person (except its Affiliates). Based on this, in order to further execute the transfer of the Outstanding Bonds, the Company entered into the tri-party Transfer Agreement with Dragon Capital and Aim Right for the purpose of ensuring that all applicable requirements under the terms of the Outstanding Bonds are fulfilled and the applicable Listing Rules are fully complied with.

Having considered that the Transfer Agreement enable the parties to comply with the applicable requirements under the Listing Rules, we are of the view that the entering into of the Transfer Agreement is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

3. Principal terms of the Transfer Agreement

The table below summaries the principal terms of the Transfer Agreement:

Date:	7 May 2021
Parties:	(i) Dragon Capital; (ii) Aim Right; and (iii) the Company.
Subject matter:	Dragon Capital conditionally agreed to sell, and Aim Right conditionally to acquire, the Outstanding Bonds at the consideration of HK\$50,000,000.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the terms of the Transfer Agreement, the transfer of the Outstanding Bonds shall become effective subject to the fulfilment of, *inter alia*, the following conditions:

- (a) each party having obtained all necessary consents, approvals authorisations required for the execution of, and performance of its respective obligations, under the Transfer Agreement;
- (b) the 3rd Extension becoming effective;
- (c) the Company having consented to, and complied with all applicable requirements under the Listing Rules (including the obtaining of the approval of shareholders of the Company at a general meeting held in respect of the grant of new specific mandate regarding the 3rd Extension and the issuance of the Aim Right Bonds to Aim Right), and obtained all necessary consents, approvals and authorisations in relation to, the transactions contemplated under the Transfer Agreement; and
- (d) all other necessary consents, approvals, licenses, permits and authorisations from any governmental and regulatory bodies in Hong Kong, China and other relevant jurisdictions in relation to the transactions contemplated under the Transfer Agreement having been obtained and made.

Pursuant to the terms of the Transfer Agreement, save as the maturity date, all terms and conditions of the Outstanding Bonds being transferred will remain unchanged. Immediately after completion of the Transfer, no assets pledges nor charges is required as security for the due performance of the Company's obligations under conditions of the Outstanding Bonds.

4. Principal terms of the Outstanding Bonds (or Aim Right Bonds)

The table below summaries the principal terms of the Outstanding Bonds (or Aim Right Bonds):

Aggregate outstanding principal amount:	HK\$50,000,000
Maturity Date:	30 June 2021
Conversion Price:	HK\$0.156 per Conversion Share (subject to adjustment(s), if any)
Interests:	5% per annum payable in advance every three calendar months

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Default: If an event of default occurs, interest shall accrue on the then outstanding principal amount of the outstanding Bonds from and including the date of occurrence of such event of default at an interest rate of 25% per annum and shall be payable on demand.

Conversion Period: The period from the date of issuance of the outstanding Bonds up to the Maturity Date (both days inclusive).

Conversion Rights: Subject to the terms and conditions of the outstanding Bonds, a Bondholder shall have the right, exercisable during the Conversion Period, to convert the whole or any part (in integral multiples of HK\$5,000,000) of the outstanding principal amount of the outstanding Bonds held by such bondholder into such number of Conversion Shares as will be determined by dividing the principal amount of the outstanding Bonds to be converted by the Conversion Price in effect on the date of conversion.

If a Mandatory Conversion Event Trigger occurs, the Company shall issue a conversion notice to the Bondholder(s) to, subject to the terms and conditions of the outstanding Bonds, require the Bondholder to convert all or part of the outstanding Bonds held by the Bondholder(s) at that time. The Bondholder(s) shall at all times have the discretion to determine the amount of outstanding Bonds to be converted (provided that such amount is more than HK\$5,000,000 and is an integral multiple of HK\$5,000,000). Each conversion following a Mandatory Conversion Event Trigger may only occur once a year.

Redemption: Maturity: Unless (i) the maturity of the outstanding Bonds is accelerated upon the occurrence of an event of default, or (ii) the outstanding Bonds are redeemed prior to the Maturity Date, the Company shall redeem all outstanding Bonds on the Maturity Date in the following manners:

- (1) if the Bondholder(s) has not exercised any of the Conversion Rights before the Maturity Date, the Company shall redeem all of the outstanding Bonds at the Base Redemption Amount; or

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (2) if the Bondholder(s) has exercised all or a portion of the Conversion Rights before the Maturity Date, the Company shall redeem all such outstanding Bonds at the Base Redemption Amount (but excluding the Premium).

As disclosed in this circular, the aforesaid Premium represents an additional amount which would make up a return of 12% per annum on the principal amount of any outstanding Bonds, calculated from the Issue Date to the date of redemption of the same, taking into account all interest of 5% per annum paid on the Bonds prior to or on the date of such redemption.

For details of the terms of the Outstanding Bonds, please refer to the Letter.

5. Evaluation of the Conversion Price

5.1 The Conversion Price

Effective from an adjustment to the conversion prices of the Bonds upon completion of a subscription of new Shares contemplated by the Company on 19 January 2021, the conversion price of the Bonds was adjusted from HK\$0.74 per Conversion Share to HK\$0.156 per Conversion Share (the “**Adjusted Conversion Price**”).

The Adjusted Conversion Price represents

- (i) a premium of approximately 5.41% over the closing price of HK\$0.148 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 11.43% over the closing price of HK\$0.140 per Share as quoted on the Stock Exchange on the date of the Transfer Agreement; and
- (iii) a premium of approximately 10.64% over the average closing price of HK\$0.141 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to the date of the Transfer Agreement.

As set out in the Letter, the Adjusted Conversion Price, which will remain unchanged after the 3rd Extension (subject to further adjustment), was determined at after arm’s length negotiations between the parties with reference to the prevailing market price of the Shares as quoted on the Stock Exchange and market interest rates of unsecured loans.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

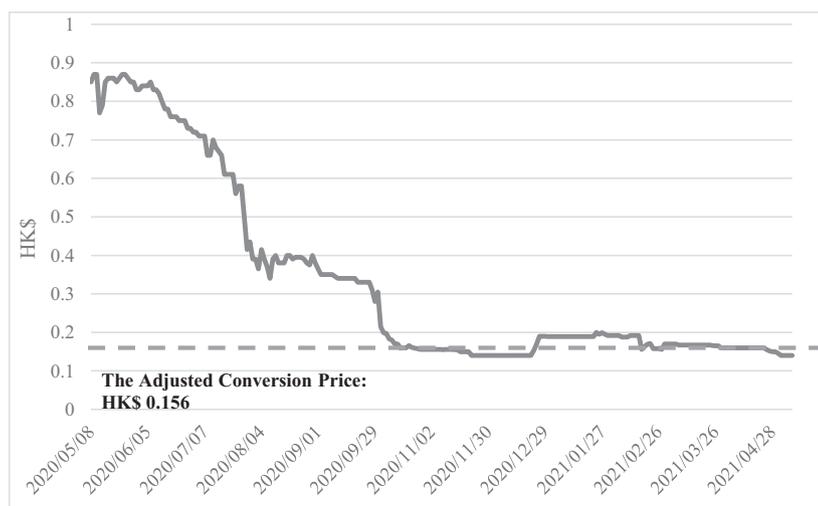
5.2 Evaluation on the Adjusted Conversion Price

In assessing the fairness and reasonableness of the basis of the Adjusted Conversion Price, we have compared the Adjusted Conversion Price with reference to (i) the historical performance of the Share price; (ii) trading volume and liquidity of the Shares; and (iii) the market comparables in respect of the recent issuance of convertible bonds/notes.

5.2.1 Review on the historical performance of Share prices

Set out below is a chart illustrating the movement of the closing price of the Shares during the period commencing from 8 May 2020 to 7 May 2021, being the 12 months prior to the date of the Transfer Agreement up to and including the date of the Transfer Agreement (the “**Review Period**”). We consider that a sampling period of approximately 12 months prior to the date of the Transfer Agreement is adequate as it provides a general overview of the recent price performance of the Shares before the date of the Transfer Agreement for our analysis on the historical closing prices of the Shares and the Adjusted Conversion Price.

Chart: Historical closing price of the Share during the Review Period



Source: The website of the Stock Exchange (www.hkex.com.hk)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated from the chart above, during the Review Period, the closing price of the Shares ranged from the lowest of HK\$0.14 per Share to the highest of HK\$0.87 per Share, with an average closing Share price of approximately HK\$0.335 per Share. The Adjusted Conversion Price of HK\$0.156 represents (i) a premium of approximately 11.43% over the lowest closing Share price; (ii) a discount of approximately 82.07% to the highest closing Share price (i.e. being the closing share price on 11 May 2020); and (iii) a discount of approximately 53.43% to the average closing Share price during the Review Period.

Further, after reviewing the trend of the daily closing Share price during the Review Period, we note that the closing Share price had fallen sharply since 11 May 2020, being the date the Company published an announcement in relation to a change in shareholding structure of the Company. After the release of such announcement, the closing Share price was on a descending trend falling from HK\$0.87 per Share on 11 May 2020 to HK\$0.375 per Share on 27 August 2020.

On 28 August 2020, the Company published an unaudited interim results announcement for the six months ended 30 June 2020 (“**2020 Interim Results**”), demonstrating a deteriorating financial performance of the Group for the six months ended 30 June 2020 as compared to the corresponding period in 2019. The closing Share price decreased to HK\$0.38 per Share on the next trading day after the release of the 2020 Interim Results and further dropped gradually from HK\$0.38 per Share on 31 August 2020 to HK\$0.189 per Share on 4 January 2021 and recorded a minimum closing Share price of HK\$0.14 per Share on 20 November 2020.

On 5 January 2021, the Company released an announcement in relation to a subscription of new Shares under general mandate. After the release of such announcement, the closing price of the Shares maintained at a level between HK\$0.156 per Share and HK\$0.20 per Share during the period from 5 January 2021 to 24 March 2021.

After the Company released the annual results announcement for the year ended 31 December 2020 on 24 March 2021, the closing Share price further dropped from HK\$0.166 per Share on 25 March 2021 to HK\$0.14 per Share on 7 May 2021, being the date of the Transfer Agreement.

To conclude, we are of the view that the change in Share price during the Review Period reflects the change in the fundamentals of the Company and therefore, the Share price during such period serve a fair and meaningful indicator for assessing the Adjusted Conversion Price. On this basis, we consider the Adjusted Conversion Price is fair and reasonable to the Independent Shareholder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5.2.2 Review on trading volume and liquidity of the Shares

Set out below is the table showing (i) monthly total trading volume of the Shares; (ii) the number of trading dates of each month; (iii) the average daily trading volume of the Shares; and (iv) the percentage of the average daily trading volume of the Shares to the total issued Shares at the end of each month during the Review Period:

Month	Monthly trading volume of Shares (A) (Shares)	Number of trading days in the month (B) (Days)	Average daily trading volume of the Shares (C) = (A)/(B) (Shares)	Total issued Shares at the end of each Month (D) (Shares)	Percentage of the average daily trading volume of the Shares to the total issued Shares at the end of each month (C)/(D) Approx. %
2020					
June	83,570,000	21	3,979,524	1,416,911,818	0.281
July	95,286,000	22	4,331,182	1,416,911,818	0.306
August	9,168,003	21	436,572	1,416,911,818	0.031
September	2,382,000	22	108,273	1,416,911,818	0.008
October	8,104,000	18	450,222	1,416,811,818	0.032
November	11,388,000	21	54,190	1,416,911,818	0.004
December	2,562,762	22	116,489	1,416,911,818	0.008
2021					
1 January to 18 January	548,000	11	49,818	1,416,911,818	0.004
19 January to 31 January	110,000	8	13,750	1,518,048,952 (Note 2)	0.001
1 February to 25 February	2,456,000	18	136,444	1,518,048,952	0.009
26 February to 28 February	-	1	-	1,646,254,080 (Note 3)	0.000
March	828,000	23	36,000	1,646,254,080	0.002
April	1,508,000	19	79,368	1,646,254,080	0.005
May (up to 7 May 2021)	600,000	5	120,000	1,646,254,080	0.007

Source: The website of the Stock Exchange (www.hkex.com.hk)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The calculation is based on the average daily trading volume of the Existing Shares divided by the total issued Shares at the end of each month/period or as at the Latest Practicable Date as applicable.
2. On 19 January 2021, a total of 101,137,134 Shares have been allotted and issued pursuant to a completion of a subscription of new Shares on 19 January 2021.
3. On 26 February 2021, a total of 128,205,128 Shares have been allotted and issued pursuant to a full conversion of the Bonds in an aggregate principal amount of HK\$20,000,000 at the Adjusted Conversion Price of HK\$0.156 per Share.

As illustrated in the above table, the monthly average daily trading volume of the Shares during the Review Period has not been consistent, ranged from the lowest of 34,632 Shares (i.e. weighted average of average daily trading volume of the Shares in January 2021: $49,818 \text{ Shares} \times 11/19 + 13,750 \text{ Shares} \times 8/19$) to the highest of 4,331,182 Shares (i.e. July 2020), representing approximately 0.003% and 0.306% of the total issued Shares at the end of the relevant month respectively.

It is noted that the number of Shares traded daily decreased significantly after publication of the Company's 2020 Interim Results on 28 August 2020. Besides, we also noted that the number of Shares traded daily decreased significantly after publication of the announcement in relation to a subscription of new Shares under general mandate on 5 January 2021.

Further, after publication of the Company's annual results announcement for the year ended 31 December 2020 on 24 March 2021, the monthly trading volume of the Shares reached 1,508,000 Shares, with an average daily trading volume of 79,368 Shares, representing approximately 0.005% of the total issued Shares.

Save for the aforementioned, we are not aware of any reasons for such fluctuations during the Review Period and believed that it was the result of the market response to the relevant published announcements of the Company. Hence, we consider the trading of Shares did not appear to be active during the Review Period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the low liquidity of the Shares during the Review Period, we have considered (i) it may be difficult for the Group to obtain favorable terms on other ways of equity financing such as placement of new Shares to settle the Outstanding Bonds; (ii) the 3rd Extension, which the terms and conditions of the Outstanding Bonds remain unchanged (except the relevant maturity date), is in the interest of the Company and the Shareholders as a whole; (iii) the terms and conditions of the Outstanding Bonds remain unchanged after the Transfer becoming effective. Therefore, we are of view that the Adjusted Conversion Price is fair and reasonable to the Company and the Independent Shareholders as a whole.

5.2.3 Comparison with recent transactions

In assessing the fairness and reasonableness of the basis of the Adjusted Conversion Price, we have conducted a comparison of the Adjusted Conversion Price against the comparable transactions by comparing (i) the premium/(discount) of the issue price over/to the closing price of the last trading day prior to the date of the relevant agreement; and (ii) the premium/(discount) of the issue price over/to the closing price of the last 5 trading days prior to the date of the relevant agreement.

In order to carry out the above analysis, we have based on the information available from the Stock Exchange's website, identified an exhaustive list of 10 transactions announced by 10 companies listed on the Stock Exchange during 8 November 2020 to and including the date of the Transfer Agreement (i.e. 7 May 2021), being the last six (6) months preceding the date of announcement of the Transfer (the "**Comparables**"). We consider that a six (6) months comparison could provide the most recent information and hence a reasonable and meaningful comparison could be reached. For the purpose of our selection of the Comparables, the basis of our selection of the Comparables is as follows:

- i) companies listed on the Stock Exchange;
- ii) companies that had published announcements in relation to the subscription/placing of convertible bonds/notes under specific mandate; and
- iii) the above relevant transaction constituted a connected transaction.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on above criteria, we considered that the Comparables provide a relevant benchmark for the purpose of assessing the Adjusted Conversion Price. We consider the Comparables an exhaustive list of relevant comparable companies based on the said criteria above and the selection of comparable companies within an approximate six (6) months period to be sufficient and appropriate for our analysis as it has covered the prevailing market conditions and sentiments in the Hong Kong stock market at the time which the terms of the Adjusted Conversion Price were determined.

Set out below is the list of transaction involved issue of convertible bonds/ notes as announced by the Comparables during the last six (6) months prior to and including the date of the Transfer Agreement.

No	Date of announcement	Stock code	Company name	Annual interest rate %	Premium/ (discount) of the issue price over/ to the closing price of the last trading day prior to the date of the relevant agreement	Premium/ (discount) of the issue price over/ to the closing price of the last 5 trading days prior to the date of the relevant agreement
					Approx. %	Approx. %
1.	20 October 2020	8158	China Regenerative Medicine International Limited	-	(1.48)	0.50
2.	17 November 2020	115	Grand Field Group Holdings Limited	5.0	5.13	4.77
3.	3 December 2020	699	CAR Inc.	5.0	5.82	6.10
4.	22 December 2020	433	North Mining Shares Company Limited	8.0	6.67	3.90
5.	22 December 2020	3681	SinoMab BioScience Limited	4.95	24.69	45.35
6.	29 December 2020	2666	Genertec Universal Medical Group Company Limited	2.0	14.29	12.71
7.	30 December 2020	959	Century Entertainment International Holdings Limited	-	8.70	2.90
8.	26 January 2021	6161	Target Insurance (Holdings) Limited	-	(8.06)	(12.31)
9.	27 January 2021	1097	i-CABLE Communications Limited	2.0	13.30	13.00
10.	1 April 2021	851	Sheng Yuan Holdings Limited	1.0	-	1.33
			Maximum	8.0	24.69	45.35
			Minimum	-	(8.06)	(12.31)
			Average	2.8	6.91	7.83
			The Transfer	5.0	11.43	10.64

Source: The website of the Stock Exchange (www.hkex.com.hk)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Analysis on the Adjusted Conversion Price

We noted that the of the Comparables as shown in the above table is only ten in total, however, considering (i) the Comparables represent an exhaustive list which provide the most recent information as published in the Stock Exchange; (ii) the selection of the Comparables has taken into account the subscription or placement of convertible bonds/notes under specific mandate which represent as fair and reasonable sample size; and (iii) there is no specific reasons to eliminate any of the transactions criteria from the selection of Comparables for a fair comparison, we consider that the Comparables is representatives and the above analysis provides a meaningful analysis for the fairness and reasonableness of the Adjusted Conversion Price.

As shown in the above table of the Comparables, the issue prices of the Comparables to the relevant closing price on the date of the agreement ranged from a premium of approximately 24.69% to a discount of approximately 8.06%, with an average premium of approximately 6.91%. We noted that the Adjusted Conversion Price of HK\$0.156 represents a premium of approximately 11.43% to the closing price of HK\$0.14 per Share based on the closing price per Share as quoted on Stock Exchange on 7 May 2021, being the date of the Transfer Agreement, and such premium lies between the abovementioned range of the Comparables.

Further, the issue prices of the Comparables to the relevant average closing price for the five trading days immediately prior to the day of announcement of the issue price ranged from a premium of approximately 45.35% to a discount of approximately 12.31%, with an average premium of approximately 7.83%. The Adjusted Conversion Price of HK\$0.156 represents a premium of approximately 10.64% to the average closing price of approximately HK\$0.141 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the date of the Transfer Agreement, and such discount lies between the relevant range of the Comparables.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Analysis on the interest rate

As regards to the interest rate, the annual interest rate of the Comparables ranged from interest free to 8.0% per annum. The interest rate of the Outstanding Bonds falls within the aforesaid Comparables range, therefore, we consider that such interest rate is in the interest of the Company and is fair and reasonable

Besides, according to the terms of the Outstanding Bonds, in any event if the bondholder redeems all of the Outstanding Bonds before the Maturity Date, there is a Premium, representing an additional amount which would make up a return of 12% per annum on the principal amount of any outstanding Bonds, payable by the Company to the bondholder. Based on this, we have inquired the Management and reviewed a letter of intention given by Aim Right to the Company on 24 March 2021 which stated that, subject to the completion of the transactions contemplated under the Transfer Agreement, it is the intention of Aim Right to exercise its right to convert the Outstanding Bonds into the Conversion Shares. As at the Latest Practicable Date, Aim Right confirmed that there is no change on its aforesaid intention. Therefore, having considered the undertakings provided by Aim Right to convert the Outstanding Bonds, save as the above annual interest cost, there is no additional finance cost incurred to the Company upon such Conversion Rights being exercised. Based on this, save as the Premium, we are of the view that the terms of the Outstanding Bonds is fair and reasonable.

5.2.4 Results of the evaluation of the basis of the Adjusted Conversion Price

Given that (i) the thin liquidity of the Shares during the Review Period; (ii) the determination of the Adjusted Conversion Price is within the range of that of the Comparables; and (iii) there is no change on the terms (including the Adjusted Conversion Price) and conditions of the Outstanding Bonds before and after the 3rd Extension and the Transfer becoming effectice, we consider that the Adjusted Conversion Price is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Assessment on the events of default and other undertakings under the terms of the Outstanding Bonds

According to the terms and conditions of the Outstanding Bonds as disclosed in the Letter, being one of the events as stated under the clause “Event of Default”, item (iii) stated that if the net asset value of the Company is less than RMB1 billion (without taking into account any of the direct or indirect effects of the Bond(s)), the Bondholder(s) may give notice to the Company that the Outstanding Bonds together with any amount payable by the Company pursuant to the terms of the Bonds will become immediately due and repayable.

Based on this, we noted that as stated in the annual report of the Company for the year ended 31 December 2020, the net asset value of the Company as at 31 December 2020 was approximately RMB923,832,000, which was less than RMB1 billion requirement as mentioned above. However, after taking into account the effects of the Outstanding Bonds, which amounted to approximately RMB108,055,000, the net asset value shall be adjusted to approximately RMB1,031,887,000 (i.e. RMB923,832,000 + 108,055,000). In view of that, we considered that the event of default as mentioned above has not been occurred before the Latest Practicable Date and there is no adverse impact on the 3rd Extension Agreement in relation to such undertaking.

Further, being one of the conditions under the clause “Other undertakings”, the Company shall at all times maintain its net asset value (by reference to the Company’s latest interim or annual reports) at not less than RMB1 billion. Based on this, we have reviewed the relevant Bond instrument and noted that the interpretation of such RMB1 billion is the same as that of item (iii) under the clause “Event of default” as mentioned above, which refers to a net asset value without taking into account any of the direct or indirect effects of the Bond(s)). In light of this, having taking into account the effects of the Outstanding Bonds, we concur with the Company that there is no legal implication or breach of other undertakings by the Company pursuant to the terms of the Outstanding Bonds.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7. Effects on the Company’s shareholding structure

As at the Latest Practicable Date, the Company has 1,646,254,080 Shares in issue. Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the allotment and issue of the Conversion Shares (the “**Completion**”), assuming the transfer of the Outstanding Bonds becoming effective and the conversion rights under the Outstanding Bonds (or Aim Rights Bonds) are being exercised in full, and save as the Conversion Shares, there is no change in the issued share capital of the Company from the Latest Practicable Date to the Completion:

Shareholders	As at the Latest Practicable Date		Immediately after Completion, assuming the transfer of the Outstanding Bonds becoming effective and the conversion rights under the Outstanding Bonds (or Aim Rights Bonds) are being exercised in full, and save as the Conversion Shares, there is no change in the issued share capital of the Company from the Latest Practicable Date to the Completion	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
	<i>Shares</i>	<i>Approx. %</i>	<i>Shares</i>	<i>Approx. %</i>
Cinedigm Corp.	366,590,397	22.27	366,590,397	18.64
Excel Orient Limited (<i>Note 1</i>)	307,809,902	18.70	307,809,902	15.65
Emerge Ventures Limited (<i>Note 2</i>)	171,926,000	10.44	171,926,000	8.74
He Han (<i>Note 3</i>)	13,998,000	0.85	13,998,000	0.71
Aim Right (<i>Note 4</i>)	202,472,656	12.30	522,985,476	26.59
Public Shareholders	<u>583,457,125</u>	<u>35.44</u>	<u>583,457,125</u>	<u>29.67</u>
 Total	 <u>1,646,254,080</u>	 <u>100.00</u>	 <u>1,966,766,900</u>	 <u>100.00</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. 307,809,902 Shares are held in the name of Excel Orient Limited, a limited liability company incorporated in the British Virgin Islands (“BVI”) which is wholly owned by Mr. Liu Dong.
2. 171,926,000 Shares are held in the name of Emerge Ventures Limited, a limited liability company incorporated in Hong Kong which is wholly owned by Mr. Jin Peng.
3. Mr. He Han is an executive Director of the Company.
4. 202,472,656 Shares are held in the name of Aim Right, a limited liability company incorporated in the BVI which is wholly owned by Mr. Liu.

Assuming the Conversion Shares would be issued and delivered to Aim Right in full and there was no further issue of Shares between the Latest Practicable Date and the date of Completion, the public Shareholder’s holdings upon Completion would be diluted from approximately 35.44% to approximately 29.67% of total shareholdings, that is a 5.77% reduction.

Having said that the terms and conditions of the Outstanding Bonds remain unchanged, we consider that the possible dilution effects on the shareholding interests of the public Shareholders are fair and reasonable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that although the Transaction is not conducted in the ordinary and usual course of business of the Group, we considered that (i) the terms of the Transaction are fair and reasonable; (ii) the Transaction is on normal commercial terms; and (iii) the Transaction is in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Transaction and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully
For and on behalf of
Euto Capital Partners Limited
Felix Huen
Director

Yours faithfully
For and on behalf of
Euto Capital Partners Limited
Manfred Shiu
Director

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 Group. 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. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests of the Directors, chief executive of the Company and their associates in the 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/she/it is taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the “**Model Code**”), were as follows:

Name of Director	Capacity/ nature of interest	Number and class of Shares held (Note 1)	Approximate percentage (Note 2)
Mr. Liu Dong (Note 3)	Interest of controlled corporation	307,809,902 (L)	18.70%
Mr. He Han	Beneficial owner	13,998,000 (L)	0.85%

Notes:

- (L) denotes a long position.
- Shareholding percentage is based on 1,646,254,080 issued Shares as at the Latest Practicable Date.
- The Shares are held by Excel Orient Limited which is a company incorporated in the BVI and the entire issued capital of which is beneficially owned by Mr. Liu Dong, one of the executive Directors of the Company.

As at the Latest Practicable Date, save as disclosed above, none of the Directors or the chief executive of the Company or their respective spouse or associates had any interests or short positions in the equity or debt securities of the Company or its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Division 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 which were required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests of Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of SFO, the following persons and companies (other than the Directors or chief executive of the Company) had an interest or short position in the shares and the underlying shares of the Company which fell to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Capacity/ nature of interest	Number and class of interest in underlying Shares (Note 1)	Number and class of Shares held (Note 1)	Approximate percentage (Note 2)
Cinedigm Corp. (Note 3)	Beneficial owner	–	366,590,397 (L)	22.27%
Dragon Capital (Notes 4 and 5)	Beneficial owner	320,512,820 (L)	–	19.47%
Dragon GP Partner Co (Note 4)	Interest of controlled corporation	320,512,820 (L)	–	19.47%
Mr. Zhai Jun (Note 4)	Interest of a controlled corporation	320,512,820 (L)	–	19.47%
China Huarong International Holdings Ltd (Notes 5 and 6)	Interest of controlled corporation	320,512,820 (L)	–	19.47%
Huarong Real Estate Co. Ltd. (Notes 6 and 7)	Interest of controlled corporation	320,512,820 (L)	–	19.47%
China Huarong Asset Management Co., Ltd. (Notes 7 and 8)	Interest of controlled corporation	320,512,820 (L)	–	19.47%
Ministry of Finance of the PRC (Note 8)	Interest of controlled corporation	320,512,820 (L)	–	19.47%

Name of Shareholders	Capacity/ nature of interest	Number and class		Approximate percentage (Note 2)
		of interest in underling Shares (Note 1)	Number and class of Shares held (Note 1)	
Excel Orient Limited (Note 9)	Beneficial owner	–	307,809,902 (L)	18.70%
Ms. Wang Lingli (Note 10)	Interest of spouse	–	307,809,902 (L)	18.70%
Aim Right (Note 11)	Beneficial owner	–	202,472,656 (L)	12.30%
Mr. Liu (Note 11)	Interest of controlled corporation	–	202,472,656 (L)	12.30%
Ms. Zou Guoling (Note 12)	Interest of spouse	–	202,472,656 (L)	12.30%
Emerge Ventures Limited (Note 13)	Beneficial owner	–	171,926,000 (L)	10.44%
Mr. Jin Peng (Note 13)	Interest of controlled corporation	–	171,926,000 (L)	10.44%
Ms. Shen Si (Note 14)	Interest of spouse	–	171,926,000 (L)	10.44%
BeiTai (Note 15)	Beneficial Owner	–	128,205,128 (L)	7.79%
Jinbi Market (Hong Kong) Limited (Note 16)	Beneficial Owner	–	101,137,134 (L)	6.14%
Yunnan Jinma Biji Tourism Hypermall Co., Ltd (Note 17)	Interest of controlled corporation	–	101,137,134 (L)	6.14%
Kunming Municipal Infrastructure Integrated Development and Construction (Group) Shares Co., Ltd. (Note 17)	Interest of controlled corporation	–	101,137,134 (L)	6.14%
Pioneer Investment Co., Ltd. (Notes 17 and 18)	Interest of controlled corporation	–	101,137,134 (L)	6.14%
Shi Zhengmin (Note 18)	Interest of controlled corporation	–	101,137,134 (L)	6.14%

Notes:

1. (L) denotes a long position.
2. Shareholding percentage is based on 1,646,254,080 issued Shares as at the Latest Practicable Date.
3. The Shares are held by Cinedigm Corp. which is a company registered in Delaware with its Class A Common Stock listed on the NASDAQ Global Market with stock code: CIDM.
4. Pursuant to the terms of the Bonds issued to Dragon Capital on 28 February 2017, assuming the conversion rights attached to the Bonds are exercised in full at the conversion price of HKD1.21 per conversion share, 247,933,884 new Shares will fall to be issued to Dragon Capital. On 5 February 2018, the conversion price is adjusted to HK\$0.74 per conversion share. On 25 February 2019, Dragon Capital transferred the Bonds in the principal amount of HK\$120,000,000 (the “**BeiTai Bonds**”), which were convertible into 162,162,162 ordinary shares at the conversion price of HK\$0.74 per share, to BeiTai. On the same date, BeiTai exercised the conversion rights to convert the bonds at the conversion price of HK\$0.74 per share. On 13 November 2019, Dragon Capital transferred the Bonds in the principal amount of HK\$60,000,000 (the “**Skyland Circle Bonds**”), which were convertible into 81,081,081 ordinary shares at the conversion price of HKD0.74 per share, to Skyland Circle Technology Limited (“**Skyland Circle**”). As at 14 December 2020, the Company, pursuant to the terms and conditions of the Bonds and as agreed between the Company and Skyland Circle, early redeemed the Skyland Circle Bonds in full. On 24 April 2020, Dragon Capital transferred the Bonds in the principal amount of HK\$20,000,000 to BeiTai. On 19 January 2021, the conversion price is adjusted to HK\$0.156 per conversion share. On 12 April 2021, the Company redeemed the Bonds held by Dragon Capital in the aggregate principal amount of HK\$50,000,000. Assuming the conversion rights attached to the remaining Bonds in the principal amount of HK\$50,000,000 held by Dragon Capital are exercised in full at the conversion price of HK\$0.156 per Share, 320,512,820 new Shares will fall to be issued to Dragon Capital.

According to the relevant disclosure of interest filings to the Stock Exchange, Dragon Capital is or deemed to be interested in (i) the 320,512,820 underlying Shares to be issued upon the full exercise of the Dragon Capital Bonds; and (ii) the 202,472,656 Shares held by Aim Right pursuant to the 2019 Share Charge (which duplicates with those of Aim Right as described in Note 8 below).

Dragon Capital is an exempted limited partnership registered in the Cayman Islands, and is a fund established by Dragon GP Partner Co. as general partner of Dragon Capital. Dragon GP Partner Co. is wholly owned by Mr. Zhai Jun. By virtue of the SFO, Mr. Zhai Jun is deemed to be interested in all the Shares which Dragon GP Partner Co. is interested in.

5. Dragon Capital is controlled by China Huarong International Holdings Limited. Dragon Capital is owned as to 99% by China Huarong International Holdings Limited as the only limited partner of Dragon Capital.
6. China Huarong International Holdings Limited is a limited liability company registered in the PRC owned as to 88.1% by Huarong Real Estate Co., Ltd. By virtue of the SFO, Huarong Real Estate Co., Ltd. is deemed to be interested in all the Shares which China Huarong International Holdings Limited is interested in.

7. Huarong Real Estate Co., Ltd. is a limited liability company registered in the PRC wholly owned by China Huarong Asset Management Co., Ltd. By virtue of the SFO, China Huarong Asset Management Co., Ltd. is deemed to be interested in all the Shares which Huarong Real Estate Co., Ltd. is interested in.
8. China Huarong Asset Management Co., Ltd. is a limited liability company registered in the PRC owned as to 63.36% by the Ministry of Finance of the People's Republic of China. By virtue of the SFO, Ministry of Finance of the People's Republic of China is deemed to be interested in all the Shares which China Huarong Asset Management Co., Ltd. is interested in.
9. Excel Orient Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Liu Dong, one of the executive Directors of the Company. Therefore, Mr. Liu Dong is also deemed to be interested in the shares held by Excel Orient Limited.
10. Ms. Wang Lingli is the spouse of Mr. Liu Dong. Therefore, Ms. Wang Lingli is deemed, or taken to be interested in the shares of the Company which Mr. Liu Dong is interested in for the purpose of the SFO.
11. The Shares are held by Aim Right, a limited liability company incorporated in the BVI wholly owned by Mr. Liu. By virtue of the SFO, Mr. Liu is deemed to be interested in all the Shares held by Aim Right. Pursuant the 2019 Share Charge (as amended and supplemented by the 1st Deed of Amendment), these Shares held by Aim Right are charged in favour of Dragon Capital as security for the due performance of the Company's obligations under the terms of the convertible bonds issued to Dragon Capital on 28 February 2017.
12. Ms. Zou Guoling is the spouse of Mr. Liu. Therefore, Ms. Zou Guoling is deemed, or taken to be interested in the shares of the Company which Mr. Liu is interested in for the purpose of the SFO.
13. The Shares are held by Emerge Ventures Limited, a limited liability company incorporated in Hong Kong wholly owned by Mr. Jin Peng. By virtue of the SFO, Mr. Jin Peng is deemed to be interested in all the Shares held by Emerge Ventures Limited.
14. Ms. Shen Si is the spouse of Mr. Jin Peng. Therefore, Ms. Shen Si is deemed, or taken to be interested in the shares of the Company which Mr. Jin Peng is interested in for the purpose of the SFO.
15. The Shares are held by BeiTai, an exempted limited partnership established under the laws of the Cayman Islands.
16. The Shares are held by Jinbi Market (Hong Kong) Limited which is a company incorporated in Hong Kong and the entire issued capital of which is beneficially owned by Yunnan Jinma Biji Tourism Hypermall Co., Ltd.

17. Yunnan Jinma Biji Tourism Hypermall Co., Ltd. is a limited liability company registered in the PRC owned as to 83.72% by Kunming Municipal Infrastructure Integrated Development and Construction (Group) Shares Ltd. and as to 2.33% by Pioneer Investment Co., Ltd. Kunming Municipal Infrastructure Integrated Development and Construction (Group) Shares Ltd., a limited liability company registered in the PRC, is in turn owned as to 69.34% by Pioneer Investment Co., Ltd. By virtue of the SFO, Kunming Municipal Infrastructure Integrated Development and Construction (Group) Shares Ltd. and Pioneer Investment Co., Ltd. are deemed to be interested in all the Shares which Yunnan Jinma Biji Tourism Hypermall Co., Ltd. is interested in.
18. Pioneer Investment Co., Ltd. is a limited liability company registered in the PRC owned as to 70% by Mr. Shi Zhengmin. By virtue of the SFO, Mr. Shi Zhengmin is deemed to be interested in all the Shares which Pioneer Investment Co., Ltd. is interested in.

Save as disclosed above, to the best of the Directors' knowledge and belief, as at the Latest Practicable Date, no other person (other than the Directors and chief executive of the Company) had an interest or short position in the Shares and the underlying Shares which fell to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

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

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had: (a) any direct or indirect interests in any assets which have been since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (b) any subsisting material interest in any contract or arrangement which is significant in relation to the business of the Group.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or any of their respective close associates had any interest in any business which competes or likely to compete, either directly or indirectly, with the business of the Group.

6. LITIGATION

As at the Latest Practicable Date, as far as the Directors were aware of, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by the Group within two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the sale and purchase dated 13 August 2019 entered into between the Company as the vendor and Excel Orient Limited as the purchaser in respect of the Disposal of the entire issued share capital of Power Fit Limited at the total consideration of RMB335,318,840;
- (b) the 2nd Extension Agreement;
- (c) the subscription agreement dated 5 January 2021 entered into between the Company as the issuer and Jinbi Market (Hong Kong) Limited as the subscriber in respect of the Subscription of 101,137,134 new Shares under general mandate;
- (d) the 3rd Extension Agreement; and
- (e) the Transfer Agreement.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statement of the Company were made up.

9. QUALIFICATION AND CONSENT OF EXPERTS

The following is the qualification of the expert who have given opinions, letters or advice which are contained in this circular:

Name	Qualification
Euto Capital Partners Limited	a licensed corporation to carry out Type 6 (advising on corporation finance) regulated activities under the SFO

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 references to its name in the form and context in which it is included.

As at the Latest Practicable Date, none of the above experts had beneficially interested in the share capital of any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any interest, either direct or indirect, in any assets which have been, since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up, acquired, disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

10. MISCELLANEOUS

- (a) The registered office of the Company P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (b) The principal place of business in Hong Kong is 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited, located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Ms. Chan Yin Wah, who is a fellow member of The Hong Kong Institute of Chartered Secretaries, The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom and the Association of Chartered Certified Public Accountants in the United Kingdom.
- (e) If there is any inconsistency between this circular and the Chinese translation of this circular, the English text of the circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three financial years ended 31 December 2018, 2019 and 2020;
- (c) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 36 of this circular;
- (e) the letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 37 to 59 of this circular;
- (f) the written consents referred to in the paragraph headed "Qualification and Consent of Experts" in this Appendix; and
- (g) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Starrise Media Holdings Limited

星宏傳媒控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1616)

NOTICE IS HEREBY GIVEN that a general meeting (the “**Meeting**”) of Starrise Media Holdings Limited (the “**Company**”) will be held at Building A10, 50 Anjialou, Chaoyang District, Beijing, the People’s Republic of China on Wednesday, 16 June 2021 at 2:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. To consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

“**THAT:**

- (a) the entering into of the amendment agreement dated 7 May 2021 (the “**3rd Extension Agreement**”) entered into between the Company and Dragon Capital Entertainment Fund One LP (“**Dragon Capital**” or the “**Bondholder**”) in relation to the extension of the maturity date of the existing unlisted bonds in aggregate principal amount of HK\$50,000,000 (the “**Outstanding Bonds**”) previously issued on 28 February 2017 by the Company to the Bondholder(s) to 30 June 2021, and the transactions contemplated under the 3rd Extension Agreement and the Outstanding Bonds as modified by the 3rd Extension Agreement (collectively, the “**New Arrangements**”), and all other matters thereof and incidental thereto and in connection therewith, be and are hereby approved, confirmed and ratified in all respects;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Listing Committee**”) granting the listing of, and permission to deal with the conversion shares issued pursuant to exercise of the conversion rights of the Outstanding Bonds, the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate to exercise powers of the Company to issue and allot such number of shares of the Company as may be required to be issued and allotted upon exercise of the conversion rights attached to the Outstanding Bonds at the conversion price of the Outstanding Bonds (subject to adjustments in accordance with the terms of the Outstanding Bonds) (including, for the avoidance of doubt, such additional number of shares of the Company that may be required to be issued and allotted upon the exercise of the conversion rights attached to the Outstanding Bonds following adjustments to the conversion price of the Outstanding Bonds) under the New Arrangements; and
- (c) any one or more Directors be and are hereby authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things, as the case may be, as they may in their discretion consider necessary, desirable or expedient in connection with (i) the performance of the rights and/or obligations under the 3rd Extension Agreement and in accordance with the terms of the Outstanding Bonds under the New Arrangements, and (ii) the issue and allotment of the shares of the Company upon exercise of the conversion rights attached to the Outstanding Bonds at the conversion price of the Outstanding Bonds (subject to adjustments in accordance with the terms of the Outstanding Bonds) under the New Arrangements.”
2. To consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

“THAT:

- (a) the entering into of the transfer agreement dated 7 May 2021 (the “**Transfer Agreement**”) entered into between the Company, Dragon Capital and Aim Right Ventures Limited (“**Aim Right**”) in relation to the transfer of the Outstanding Bonds from Dragon Capital to Aim Right and the transactions contemplated under the Transfer Agreement (including the issuance of the Bonds to Aim Right (the “**Aim Right Bonds**”) on the same terms as the Outstanding Bonds), and all other matters thereof and incidental thereto and in connection therewith, be and are hereby approved, confirmed and ratified in all respects;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) conditional upon the Listing Committee granting the listing of, and permission to deal with the conversion shares issued pursuant to exercise of the conversion rights of the Aim Right Bonds, the Directors be and are hereby (i) authorised to issue the Aim Right Bonds to Aim Right; and (ii) granted a specific mandate to exercise powers of the Company to issue and allot such number of shares of the Company as may be required to be issued and allotted upon exercise of the conversion rights attached to the Aim Right Bonds at the conversion price of the Aim Right Bonds (subject to adjustments in accordance with the terms of the Aim Right Bonds)(including, for the avoidance of doubt, such additional number of shares of the Company that may be required to be issued and allotted upon the exercise of the conversion rights attached to the Aim Right Bonds following adjustments to the conversion price of the Aim Right Bonds) pursuant to the terms of the Aim Right Bonds; and
- (c) any one or more Directors be and are hereby authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things, as the case may be, as they may in their discretion consider necessary, desirable or expedient in connection with (i) the performance of the rights and/or obligations under the Transfer Agreement and in accordance with the terms of the Aim Right Bonds, and (ii) the issue and allotment of the shares of the Company upon exercise of the conversion rights attached to the Aim Right Bonds at the conversion price of the Aim Right Bonds (subject to adjustments in accordance with the terms of the Aim Right Bonds) pursuant to the terms of the Aim Right Bonds.”

By Order of the Board
Starrise Media Holdings Limited
Liu Dong
Chairman

Beijing, the PRC, 28 May 2021

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person duly authorised to sign the same.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting (i.e. Monday, 14 June 2021 at 2:00 p.m.) or any adjourned meeting thereof (as the case may be).
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoke.
5. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.
6. The register of members of the Company will be closed from Thursday, 10 June 2021 to Wednesday, 16 June 2021, both days inclusive, during which period no share transfers can be registered. In order to be eligible for attending and voting at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 9 June 2021.

As at the date of this notice, the Board comprises seven Directors, namely Mr. LIU Dong, Mr. LIU Zongjun, Ms. CHEN Chen and Mr. HE Han as executive Directors; and Mr. LAM Kai Yeung, Ms. LIU Chen Hong and Mr. KWOK Pak Shing as independent non-executive Directors.