THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer 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 to the purchaser(s) or transferee(s) or to the stockbroker, registered dealer in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any shares of the Company.

星宏传媒
STARRISE MEDIA

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)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF POWER FIT LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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

Euto 裕韜
Capital Partners

A letter from the Board is set out on pages 4 to 18 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 19 to 20 of this circular. A letter from Euto Capital Partners Limited, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 60 of this circular.

A notice convening the extraordinary general meeting of the Company (the "**EGM**") to be held at Building A10, 50 Anjialou, Chaoyang District, Beijing, the PRC on Tuesday, 26 November 2019 at 2:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at 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, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e 2:00 p.m. on Sunday, 24 November 2019) 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 EGM or any adjournment thereof (as the case may be) should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

8 November 2019

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The following expressions in this circular have the meanings set out below unless the content requires otherwise:

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than Saturdays, Sundays and public holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted or in effect between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are open for business
"Company"	Starrise Media Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange with stock code: 1616
"Completion"	the completion of the Disposal in accordance with the terms and conditions of the Sale and Purchase Agreement
"Conditions Precedent"	the conditions precedent to the Completion as set out in the Sale and Purchase Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	RMB335,318,840, being the consideration payable by the Purchaser to the Company pursuant to the Sale and Purchase Agreement
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the entire issued share capital of the Target Company by the Company to the Purchaser
"EGM"	the extraordinary general meeting of the Company to be convened to approve, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder

"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"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 the Sale and Purchase Agreement 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 Sale and Purchase Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than the Purchaser, Mr. Liu Dong and their respective associates
"Latest Practicable Date"	4 November 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	The People's Republic of China
"Purchaser"	Excel Orient Limited (東越有限公司), a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Liu Dong
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 13 August 2019 between the Company and the Purchaser in respect of the Disposal

"Sale Interests"	Collectively, the Sale Shares and the Sale Loans
"Sale Loan(s)"	the entire loans owing by the Target Group to the Company and its affiliates on Completion
"Sale Shares"	the entire issued share capital of the Target Company, which is wholly owned by the Company prior to the entering into of the Sale and Purchase Agreement
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Power Fit Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Target Group"	the Target Company and its subsidiaries
"Yinshilai New Material"	Zibo Yinshilai Textile New Material Technology Co., Ltd* (淄博銀仕來紡織新材料科技有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of Yinshilai Textile
"Yinshilai Textile"	Zibo Yinshilai Textile Co., Ltd* (淄博銀仕來紡織有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of YSL (HK)
"YSL (HK)"	YSL (HK) Limited (銀仕來(香港)有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company

* *For identification purposes only*

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
Mr. TAN Bin

Independent Non-executive Directors:
Mr. LAM Kai Yeung
Ms. LIU Chen Hong
Mr. WANG Liangliang

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:
40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

8 November 2019

To the Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF POWER FIT LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 13 August 2019 in relation to the Disposal.

On 13 August 2019 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Interests, representing the entire issued and paid up share capital of the Target Group and all the shareholders' loans owing by the Target Group to the Company and its affiliates on Completion, at the Consideration of RMB335,318,840.

The purpose of this circular is to provide you with, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the terms of the Sale and Purchase Agreement; (iii) a letter from the Independent Financial Adviser contained their advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Sale and Purchase Agreement; and (vi) a notice of the EGM.

THE SALE AND PURCHASE AGREEMENT

A summary of the principal terms of the Sale and Purchase Agreement is set out below:

Date: 13 August 2019 (after trading hours)

Parties: (1) The Company, as the vendor; and

(2) The Purchaser, as the purchaser.

Consideration

The Consideration of RMB335,318,840 for the Sale Interests will be settled in full by payment in cash by the Purchaser in the following manner (the "**Consideration Payment Terms**"):

(a) First installment – the amount equals to 20% of the Consideration shall be payable within 6 months from the date of the Sale and Purchase Agreement;

(b) Second installment – the amount equals to 30% of the Consideration shall be payable within 12 months from the date of the Sale and Purchase Agreement;

(c) Third installment – the amount equals to 30% of the Consideration shall be payable within 18 months from the date of the Sale and Purchase Agreement; and

(d) Fourth installment – the amount equals to 20% of the Consideration shall be payable within 24 months from the date of the Sale and Purchase Agreement.

The Purchaser agrees to pay interests (the "**Interest Income**") based on the accrued unpaid amount of the Third and Fourth installment at a simple interest rate of 6.5% per annum to the Company.

The Consideration has been determined after arm's length negotiations between the parties with reference to:

(i) the unaudited consolidated net asset value of the Target Group in the amount of approximately RMB180.34 million as at 31 May 2019, based on the management accounts of the Target Group;

(ii) the market value of the land held by the Target Group (the "**Land**") in the amount of approximately RMB64.18 million as at 30 June 2019, based on market valuation of the land as accessed by an independent valuer appointed by the Company; and

(iii) the Sale Loan in the amount of approximately RMB145.43 million as at the date of the Sale and Purchase Agreement.

Taking into account: (a) the unaudited consolidated net asset value of the Target Group in the amount of approximately RMB180.34 million as at 31 May 2019; (b) the adjusted net asset value of the Target Group in the amount of approximately RMB182.87 million, taking into account the premium of approximately RMB2.53 million to the market value of the Land (based on the difference between the net asset value of the Land as at 31 May 2019 of approximately RMB61.65 million and the market value of the Land as at 30 June 2019 of approximately RMB64.18 million); (c) the Sale Loan in the amount of approximately RMB145.43 million as at the date of the Sale and Purchase Agreement; and (d) the premium of approximately RMB7.01 million, representing an interest compensation of the Sale Loan which bears a higher interest rate than the standard interest rate of the People's Bank of China of 4.75%, the Directors consider that the Consideration is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

To secure the due and timely performance of the Purchaser of its obligations under the Sale and Purchase Agreement, the Purchaser has agreed to (i) provide proof of its assets and available capital to allow the Directors to be reasonably assured of its ability to pay the Consideration (the "**Asset Proof**"); (ii) deposit an amount which equals to the first installment of the Consideration at a designated account of a custodian on Completion (the "**Deposit**"); and (iii) grant the Company a charge (the "**Share Charge**") over the entire issued share capital of the Target Company on Completion and such charge shall remain effective until the full amount of the Consideration has been paid by the Purchaser to the Company. In addition, the Purchaser agreed to procure that Mr. Liu Dong (being the sole beneficial owner of the Purchaser) to undertake to the Company, in the event that the Purchaser is unable to pay any part of the Consideration on time in accordance with the Sale and Purchase Agreement, Mr. Liu Dong shall immediately pay the Company all such amount which maybe outstanding and payable by the Purchaser to the Company at the time pursuant to the Sale and Purchase Agreement ("**Mr. Liu's Undertaking**").

Conditions Precedent

The Disposal will be subject to the following Conditions Precedent:

(a) the Company has obtained all necessary consents, approvals and permits in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder;

(b) the Purchaser has obtained all necessary consents, approvals and permits in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder;

(c) the Purchaser having executed the Share Charge in the agreed form;

(d) the Company having obtained Mr. Liu's Undertaking in the agreed form; and

(e) the Company having complied with all applicable requirements under the Listing Rules (including the obtaining of the approval of Independent Shareholders at the EGM in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder), 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 Sale and Purchase Agreement and the transactions contemplated thereunder, if applicable.

The Company and the Purchaser shall use its reasonable endeavours to procure that all Conditions above are satisfied on or before 31 December 2019 (the "**Long Stop Date**"). None of the Conditions Precedent above may be waived by any party in any event. As at the Latest Practicable Date, none of the Conditions Precedent had been fulfilled.

If the Conditions Precedent are not fulfilled or waived before the Long Stop Date (or such other date as the parties may agree in writing), the Sale and Purchase Agreement shall lapse and become null and void and the parties shall be released form all obligations thereunder save for liabilities for any antecedent breaches thereof.

Completion

Completion shall take place within two Business Days after the day on which the last Condition is fulfilled or such other date as the parties may agree in writing.

INFORMATION ON THE PURCHASER

The Purchaser is an investment holding company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Liu Dong, who is the chairman of the Company and an executive Director. As at the Latest Practicable Date, the Purchaser is a substantial shareholder of the Company interested in 273,609,836 Shares (representing approximately 19.31% of the issued share capital of the Company).

INFORMATION ON THE TARGET GROUP

As at the Latest Practicable Date, the Target Group comprise the Target Company, YSL(HK), Yinshilai Textile and Yinshilai New Material.

The Target Company

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability. Its subsidiaries are principally engaged in the sales of textile products and the provision of textile products processing services. As at the Latest Practicable Date, the entire issued share capital of the Target Company is held by the Company.

YSL(HK)

YSL(HK) is an investment holding company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, the entire issued share capital of YSL(HK) is held by the Target Company.

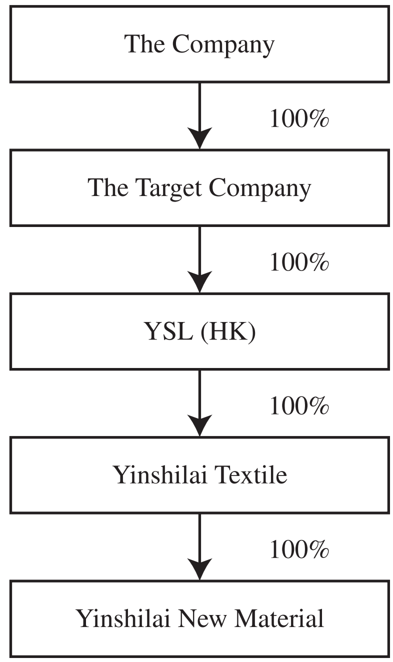
Yinshilai Textile

Yinshilai Textile is a company incorporated in the PRC with limited liability, which is principally engaged in the manufacturing and sales of textile products. As at the Latest Practicable Date, the entire issued share capital of Yinshilai Textile is held by YSL(HK).

Yinshilai New Material

Yinshilai New Material is a company incorporated in the PRC with limited liability, which is principally engaged in the manufacturing and sales of textile products. As at the Latest Practicable Date, the entire issued share capital of Yinshilai New Material is held by Yinshilai Textile.

The structure of the Target Group as at the Latest Practicable Date is set out as follows:



As at 31 May 2019, the unaudited consolidated total asset value and net asset value of the Target Group were approximately RMB720.43 million and RMB180.34 million, respectively. The unaudited consolidated net loss before taxation attributable to the Target Group for the 5 months ended 31 May 2019 is approximately RMB4,680,000.

The Target Group is principally engaged in design, manufacturing and sale of jacquard fabric. For the 5 months ended 31 May 2019, the Target Group recorded a sharp decrease in sales order for its major products such as jacquard cotton fabric and small jacquard cotton fabric of approximately 88.3% and 54.8% respectively as compared to the corresponding period of 2018. As a result, the gross profit of the Target Company significantly decreased from approximately RMB31.90 million for the 5 months ended 31 May 2018 to approximately RMB20.57 million for the 5 months ended 31 May 2019. Despite the Target Group's efforts to adopt stringent cost saving measures, the Target Group recorded an unaudited consolidated net loss before taxation of approximately RMB4,680,000 for the 5 months ended 31 May 2019.

The Target Group did not record any one-off expenses nor losses which lead to such unaudited consolidated net loss before taxation of the Target Group for the 5 months ended 31 May 2019.

The unaudited consolidated net profit/(loss) attributable to the Target Group for the two years immediately preceding the date of the Sale and Purchase Agreement are as follows:

	For the year ended 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
Net profit before taxation	8,523	11,323
Net profit after taxation	7,966	7,700

Upon Completion, the Target Group will cease to be subsidiaries of the Company.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in (i) the sales of textile products and the provision of textile products processing services (the "**Textile Business**"); and (ii) the licensing of drama series and films and the provision of drama series and films production, distribution and related services (the "**Media Business**").

As disclosed in the Company's annual report for the year ended 31 December 2018, while the Group's Media business focuses on creativity, innovation and culture targeting end-users, the business model of the Group's textile business focuses on conventional industrial production targeting enterprise customers such as home textiles and clothing manufactures. Given such difference in business model, the skill sets of management personnel involved, the target customers and the corporate culture are very different between the two segments.

Since 2016, the overall textile industry in the PRC has been experiencing a consistent, notable decline. According to the statistics published by the National Bureau of Statistics of China, the overall sales value of the textile industry in the PRC was approximately RMB2,724 billion for the year ended 31 December 2018, representing a decline of approximately 28.27% as compared to approximately RMB3,798 billion of the corresponding period in 2017; whilst the gross profit of the textile industry in the PRC for the year ended 31 December 2018 was approximately RMB294 billion, representing a decline of approximately 28.46% as compared to approximately RMB400.0 billion of the corresponding period in 2017. It is expected that the textile industry in the PRC will not recover in short term due to the domestic economic slowdown together with instability in global economic growth as a result of international trade disputes and the advent of trade protectionism. In addition, due to the low return on assets nature of the textile industry and as part of a traditional production industry which is over saturated and highly reliant on efficiency and cost control for its success (as opposed to the reliance on creativity and forward thinking in the media industry), the growth potential of the traditional Textile Business would be limited. In view of above, the PRC Government has since implemented various guidance to promote the upgrading and transformation of the industrial textile industry in the PRC. Innovative, cost-effective and environmentally-friendly efforts are the key development area to promote such transformation.

In view of the overall decline in the textile industry in the PRC and in anticipation of the US-China trade war which the Company expects to further affect the overall textile industry in the PRC with the new tariffs imposed causing an overall increase in product price but decrease in product demand for textile products made in China, the price of the raw materials used by the Target Group increased in 2018. As such, the increase in the Target Company's overall cost of producing the fabrics products created pressure and caused the Target Company to reconsider its pricing strategies. However, the Target Company decided in second half of 2018 to maintain the sales price of its major products (including import processed fabric and cotton yarn) in the attempt to increase the number of orders of its jacquard fabrics. As a result of the Target Company's pricing strategies together with the customers anticipating the increase in overall sales price of textile products made in China due to the new tariffs, the amount of textile products sold by the Target Group increased but with a further decline in the gross profit margins of its major products.

Apart from the increase in the revenue that contributes to the increase in the Target Group's net profit before taxation for the year ended 31 December 2018, such increase of approximately RMB2.8 million was also attributable to the net gain recognised by the Target Group from the one-off disposal of machinery and equipment of approximately RMB2.6 million and the decreased in distribution cost as part of the Target Group's efforts for adopting cost saving measures.

However, despite the short-term effects from the Target Group's adjusted strategies, the combined effect of the overall decline in the textile industry together with the US-China trade war resulted in a sharp decline in demand of textile-related products by the end customers. As such, the Target Group recorded a sharp decrease in the orders for its jacquard fabrics and the gross profit for the 5 months ended 31 May 2019 as compared to the corresponding period in 2018.

The Group adopted various measures and efforts in line with the guidance with the view to upgrade its Textile Business. However, despite the efforts, the Target Group experienced further decline in profitability from a gross profit margin of 18.3% for the year ended 31 December 2016 to 13.1% for the year ended 31 December 2018 and had been loss-making since the start of 2019. In comparison, the gross profit margin of the Group's Media Business was 37.0% for the year ended 31 December 2018. Together the decline with the slowdown of the overall textile industry in the PRC, the Board, after detailed consultation, discussion and analysis, considered that the Textile Business has to be disposed timely in order to avoid any adverse impact on the overall consolidated financial performance of the Group.

In order to implement the Disposal plan, the Board publicly invited prospective buyers to submit tenders for acquiring the Textile Business. Despite all reasonable efforts to identify prospective buyers over a material period of time, the Board had not received any bid for the Textile Business which, to the Company, was more favourable than that offered by the Purchaser. During the negotiation process, the Purchaser indicated that there is a practical difficulty to arrange the payment in HK dollars (as per the Company's request so as to prioritize the settlement of the Group's foreign payment needs) timely due to certain procedures requirement on foreign currency conversion in the PRC, including but not limited to obtaining the prior approval of the State Administration of Foreign Exchange* (國家外匯管理局) and filing record by providing certain evidencing documents (e.g. the Sale and Purchase Agreement and the relevant board resolutions, etc.). As advised by the Vendor, such approval and filling process normally takes more than 6 months to complete subject to the size of the fund remittance (which takes longer approval time if large amount of fund is being remitted). In addition, the Company requested and the Purchaser agreed to provide the Asset Proof, the Deposit, the Share Charge and Mr. Liu's Undertaking in order to secure the due and timely performance of the Purchaser of its obligations under the Sale and Purchase Agreement. In light of the above, it was agreed under arm's length negotiation between the parties that the Consideration could be settled under the Consideration Payment Terms with the agreed compensation (being the Interest Income) and protection (being the Asset Proof, the Deposit, the Share Charge and Mr. Liu's Undertaking) to the Company.

Based on the agreed compensation and protection terms and having made all reasonable enquiries and due diligence on Mr. Liu Dong (the ultimate beneficial owner of the Purchaser and the guarantor in respect of its payment obligation), the Board is satisfied that Mr. Liu Dong has adequate financial capacity to fulfil the aggregate payment obligations of the Purchaser under the Disposal based on the following factors: (i) Mr. Liu Dong, through the Purchaser, holds 273,609,836 shares of the Company (representing approximately 19.31% of the issued share capital of the Company), which represents approximately HK$364 million based on the average closing share price of HK$1.33 per share as quoted on the Stock Exchange for the last five consecutive trading days prior to the date of the Sale and Purchase Agreement; (ii) pursuant to Mr. Liu's Undertaking, Mr. Liu Dong has among other things agreed to undertake to the Company that he will not do anything or permit anything to be done which would have the effect of reducing his net-worth level lower than his outstanding payment obligation under the Disposal, failure of which shall entitle the Company to enforce the Share Charge and take possession of the Sale Shares; and (iii) the Purchaser, which is a company wholly owned by Mr. Liu Dong, also agreed to provide to the Board the Asset Proof to ensure that it has adequate assets and available capital fulfil its obligations to pay the Consideration. In addition, the Purchaser has agreed to pay an amount which equals to the first installment of the Consideration at the designated account of the Company within 14 days from the date of the EGM (subject to the Independent Shareholders' approval of the Disposal at EGM), the Board considered that the payment obligation of the Purchaser will be fully secured by the agreed compensation and protection terms described above.

Given the limited growth potential of the Textile Business and the loss attributable to the Target Group for the 5 months ended 31 May 2019 as described above, the Directors consider that the Disposal represents a good opportunity for the Group to achieve a strategic transformation and allows the Group to reallocate its resources to its Media Business (which has higher return) and other investment opportunities as and when they arise.

Having considered that:

(a) there is a clear strategic need for the Company to dispose of its Textile Business and the offer by the Purchaser represented the most favorable offer despite all reasonable efforts made by the Board to identify potential buyers;

(b) the financial performance of the Textile Business has been steadily declining over the last few years;

(c) the cotton and textile market is becoming uncertain as a result of the Sino-US trade war;

(d) the Consideration Payment Terms shall entitle the Company to interest income of 6.5% per annum on a significant portion of the Consideration which is significantly higher than the People's Bank of China's benchmark lending rate of 4.75% as at 13 August 2019;

(e) the payment obligation of the Purchaser will be fully secured by the agreed compensation and protection terms (which includes the Share Charge and Mr. Liu's Undertaking);

(f) having made all reasonable enquiries and due diligence on Mr. Liu Dong, the ultimate beneficial owner of the Purchaser and the guarantor in respect of its payment obligation, the Board is satisfied that the net worth of Mr. Liu Dong is significantly higher than the aggregate payment obligations of the Purchaser under the Disposal;

(g) Mr. Liu Dong has among other things agreed to undertake to the Company that he will not do anything or permit anything to be done which would have the effect of reducing his net-worth level lower than his outstanding payment obligation under the Disposal, failure of which shall entitle the Company to enforce the Share Charge and take possession of the Sale Shares; and

(h) the Purchaser has agreed to pay an amount which equals to the first installment of the Consideration at the designated account of the Company within 14 days from the date of the EGM (subject to the Independent Shareholders' approval of the Disposal at EGM),

the Directors (including the independent non-executive Directors after taking into account the advice from the Independent Financial Adviser but excluding Mr. Liu Dong who has a material interest in the Disposal) consider that the terms of the Sale and Purchase Agreement are fair and reasonable and the entering into of the Sale and Purchase Agreement (including the Consideration Payment Terms) is in the best interests of the Company and the Shareholders as a whole.

FINANCIAL IMPACT OF THE DISPOSAL

Upon Completion, the Company will cease to have any equity interest in the Target Group. As such, the results of the Target Group will no longer be consolidated into the financial statements of the Group.

Based on (i) the consideration of the Disposal of approximately RMB335.32 million; (ii) the unaudited consolidated net asset value of the Target Group as at 31 May 2019 of approximately RMB180.34 million and (iii) the Sale Loan in the amount of approximately RMB145.43 million, it is expected that the Company will record a gain on the Disposal of approximately RMB9.55 million, which will be subject to audit. The actual amount of the gain to be recognised by the Group can only be determined when the consolidated net asset value of the Target Group as at the date of Completion and the transaction costs attributable to the Disposal are ascertained, and therefore maybe different from the aforesaid amount.

Assets and liabilities

According to the unaudited consolidated financial statements of the Group as at 30 June 2019, total assets and total liabilities of the Group are approximately RMB2.2 billion and RMB1.0 billion, respectively. Assuming the Completion had taken place on 30 June 2019 and based on the unaudited consolidated financial statements of the Target Group as at 30 June 2019, the unaudited total assets of the Group would decrease by approximately RMB0.52 billion to approximately RMB1.66 billion and the unaudited total liabilities of the Group would decrease by approximately RMB0.52 billion to approximately RMB0.49 billion.

Earnings

Based on the unaudited consolidated financial statements of the Target Group as at 30 June 2019, the Target Group recorded net loss for the six months ended 30 June 2019.

The Directors anticipate that the Group would expect to record a gain from the Disposal.

USE OF PROCEEDS

The gross proceeds and net proceeds from the Disposal amount to approximately RMB335.32 million and RMB333.84 million, respectively, of which RMB145.43 million shall be set off against the Sale Loan which remained outstanding upon the Completion. It was intended that the net proceeds from the Disposal will be used by the Company: (a) as to approximately RMB145.43 million for repayment of the Group's debts and liabilities as they fall due; and (b) as to approximately RMB188.41 million for the Group's business development and investments of the Media Business and general working capital purposes.

The details of the use of net proceeds from the Disposal are set out below:

No.	Expected amount of the net proceeds from the Disposal to be utilised	Expected use of net proceeds	Expected timetable
(a)	***the Group's business development and investments of the Media Business***		
(i)	approximately RMB60,000,000	1st part investment of a historical story drama entitled "血盟千年"	1st quarter of 2020
(ii)	approximately RMB15,000,000	2nd part investment of a historical story drama entitled "血盟千年"	2nd quarter of 2020
(iii)	approximately RMB42,500,000	1st part investment a drama series entitled "新大頭兒子小頭爸" (201 to 300 episodes)	2nd quarter of 2020
(iv)	approximately RMB7,500,000	2nd part investment a drama series entitled "新大頭兒子小頭爸" (201 to 300 episodes)	3rd quarter of 2020
(b)	***Repayment of debt***		
(v)	approximately RMB145,430,000	Debt repayment after receipt from the settlement of the Sale Loan – repayment of the outstanding bond carrying an interest rate of 6% per annum	March 2021
(c)	***General working capital***		
(vi)	approximately RMB63,410,000	General working capital of the Group	Utilised when required
Total:	**RMB333,840,000**		

IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceed 25% but are less than 75%, the Disposal constitutes a major transaction for the Company and is subject to the announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Purchaser is a substantial shareholder of the Company interested in 273,609,836 Shares (representing approximately 19.31% of the issued share capital of the Company). Accordingly, the Purchaser is a connected person of the Company. The Disposal constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Based on the information provided by the Purchaser, the Purchaser is a company wholly owned by Mr. Liu Dong, who is the chairman of the Company and executive Director. Therefore, Mr. Liu Dong has a material interest in the Disposal and has abstained from voting on the board resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. Save for Mr. Liu Dong, none of the other Directors has any material interest in the Disposal.

The Independent Board Committee, comprising all independent non-executive Directors, has been established to advise the Independent Shareholders regarding the terms of the Sale and Purchase Agreement. Euto Capital Partners Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

THE EGM

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, the Purchaser is a substantial shareholder of the Company holding 273,609,836 Shares (representing approximately 19.31% of the issued share capital of the Company) and is wholly-owned by Mr. Liu Dong, who is the chairman of the Company and an executive Director. As such, Mr. Liu Dong is deemed to be interested in the 273,609,836 Shares under the SFO. Save as to the 273,609,836 Shares hold by the Purchaser, the Purchaser, Mr. Liu Dong and their respective associates are not interested in any other Shares of the Company.

As the Purcahser and Mr. Liu Dong have material interests in the Disposal, the Purchaser, Mr. Liu Dong and their respective associate(s) are required to abstain from voting on the resolution(s) in relation to the Sale and Purchase Agreement at the EGM. Save for the Purchaser, Mr. Liu Dong and their respective associate(s), no other Shareholder has material interest in the Disposal and is required to abstain from voting on the resolution(s) in relation to the Sale and Purchase Agreement at the EGM.

A notice convening the EGM to be held at Building A10, 50 Anjialou, Chaoyang District, Beijing, the PRC on Tuesday, 26 November 2019 at 2:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at 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, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e 2:00 p.m. on Sunday, 24 November 2019) 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 EGM or any adjournment thereof (as the case may be) should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

The register of members of the Company will be closed from Thursday, 21 November 2019 to Tuesday, 26 November 2019, 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, 20 November 2019.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 19 to 20 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 21 to 60 of the Circular.

Having considered the reasons above mentioned under the section headed "REASONS FOR AND BENEFITS OF THE DISPOSAL" of this circular, the Directors (including the independent non-executive Directors after taking into account the advice from the Independent Financial Adviser but excluding Mr. Liu Dong who has a material interest in the Disposal) consider that although the Disposal is not in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and the entering into of the Sale and Purchase Agreement is 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 but excluding Mr. Liu Dong who has a material interest in the Disposal) recommend the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Starrise Media Holdings Limited
Liu Zongjun
Chief Executive Officer and Executive Director

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)

8 November 2019

To the Independent Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF POWER FIT LIMITED

We refer to the circular of the Company dated 8 November 2019 (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 have been appointed as members of the Independent Board Committee to consider the Disposal and to advise you on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. Euto Capital Partners Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of the independent advice of the Independent Financial Adviser, together with the principal factors and reasons the Independent Financial Adviser has taken into consideration, are set out on pages 21 to 60 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 18 of the Circular and the additional information set out in the appendices to the Circular.

Having taken into account the advice of the Independent Financial Adviser and, in particular, the factors, reasons and recommendations as set out in its letter, we consider that although the Disposal is not in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, so far as the Independent Shareholders are concerned. Accordingly, we recommend you to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

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. Wang Liangliang**
Independent non-executive Directors

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 Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.

Euto Capital Partners Limited
Room 2418, Wing On Centre,
111 Connaught Road Central,
Hong Kong

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F +852 3582 4722
www.eutocapital.com

8 November 2019

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

Dear Sirs and Madams,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF POWER FIT LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser (the "**Independent Financial adviser**") to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transaction 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 8 November 2019 (the "**Circular**"), of which this letter forms part. Unless the contest requires otherwise, capitalized terms used in this letter shall have the same meanings as ascribed to them under the section headed "Definitions" in this Circular.

Reference is made to the Letter in relation to, among others, the Disposal.

1. The Sale and Purchase Agreement

On 13 August 2019 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Interest, representing the entire issued and paid up share capital of the Target Group and all the shareholder's loan owned by the Target Group to the Company and its affiliates on Completion, at a consideration of RMB335,318,840.

Upon Completion, the Company will cease to have any equity interest in the Target Group. As such, the results of the Target Group will no longer be consolidated into the financial statements of the Group.

2. Listing Rules implications

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceed 25% but are less than 75%, the Disposal constitutes a major transaction for the Company and is subject to the announcement, circulate and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Purchaser is a substantial Shareholder interested in 273,609,836 Shares, representing approximately 19.31% of the issued share capital of the Company. Accordingly, the Purchaser is a connected person of the Company. The Disposal constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Lam Kai Yeung, Ms. Liu Chen Hong and Mr. Wang Liangliang, has been established to consider the terms of the Sale and Purchase Agreement and the transaction contemplated thereunder, and to advise the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement are on the normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. None of the members of the Independent Board Committee has any material interest in the Disposal.

In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of the Listings Rules, our role is to give an independent opinion to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole, being fair and reasonable so far as the Independent Shareholders are concerned.

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. Ms. Regina Wong ("**Ms. Wong**") is the person signing off the opinion letter from Euto Capital contained in the Circular. Ms. Wong has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under SFO since 2017 and has 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 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Shareholders in respect of the Transaction.

We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of the existence of or change in any circumstances that would affect our independence. Euto Capital did not provide any service to the Company in the last two years. Accordingly, we consider that we are eligible to give independent advise on the terms of the Sale and Purchase Agreement and the transaction contemplated thereunder.

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 Sale and Purchase Agreement and the transaction contemplated thereunder, we have relied on the information, facts and representations contained or referred to in the 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 the 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, the Management and its subsidiaries. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the 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.

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 the 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 the 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 Transactions, as referred to in Rule 13.80 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 Sales and Purchase Agreement and the transaction contemplated thereunder, except for its inclusion in the 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 REASON CONSIDERED

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

1. Background of the Disposal

On 13 August 2019, the Company entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Interest, representing the entire issued and paid up share capital of the Target Group and all shareholders' loans owned by the Target Company to the Company and its affiliates on Completion.

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 Target Company.

(a) Principal business of the Group

The *Group* is principally engaged in (i) the sales of textile products and the provision of textile products processing services (the "**Textile Business**"); and (ii) the licensing of drama series and files and the provision of drama series and films production, distribution and related services (the "**Media Business**").

(b) Audited financial performance of the Group

Set out below is the audited consolidated financial performance of the Group as extracted from the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**").

Table 1: Summary of the audited consolidated financial performance of the Group

		For the year ended 31 December	
		2017	**2018**
		RMB'000	*RMB'000*
		(audited)	(audited)
Revenue generated from continuing operations			
Textile Business segment			
– Sale of textile operations		383,375	581,717
– Provision of textile products processing services		28,654	27,326
Sub-total of revenue generated from Textile Business segment	*(A)*	412,029	609,043
Media Business segment			
– Licensing of drama series and films		40,348	247,924
– Provision of drama series and films production, distribution and related services		36,781	104,402
Sub-total of revenue generated from Media Business segment	*(B)*	77,129	352,326
Total revenue generated from continuing operations	*(A) + (B)*	489,158	961,369
Reportable segment result generated from continuing operations			
– Textile Business segment		8,523	11,323
– Media Business segment		(10,013)	83,084
Total segment profit before tax from continuing operations		(1,490)	94,407
Loss before taxation from continuing operations		(108,691)	(131,907)
Loss for the year from continuing operations		(112,383)	(144,363)

For the year ended 31 December 2018

As set out in the above table, the audited consolidated total revenue generated from the continuing operations of the Group for the year ended 31 December 2018 was increased by approximately RMB472.2 million or 96.5% to approximately RMB961.4 million, as compared with approximately RMB489.2 million for the year ended 31 December 2017.

As disclosed in the 2018 Annual Report, such increase in total revenue was mainly attributable to an increase of revenue generated from (i) the Textile Business by approximately RMB197.0 million or 47.8% from approximately RMB412.0 million for the year 2017 to approximately RMB609.0 million for the year 2018; and (ii) the Media Business by approximately 275.2 million or 356.9% from approximately RMB77.1 million for the year 2017 to approximately RMB352.3 million for the year 2018.

As stated in the 2018 Annual Report, the increase in the revenue generated from the Textile Business was mainly attributable to (i) the introduction of Amoeba operating model during the year 2018 in order to optimize and automate the production capabilities of the Group; and (ii) the accreditation of the brand "Yinshilai"(銀仕來) owned by the Company as "China Famous Trade Mark" by the Trademark Office of National Intellectual Property Administration of the PRC during the year 2018, both of which brought into a positive image and financial performance to the Group's Textile Business. However, it was noted by the Management that the gross profit margin of the textile business was decreased insignificantly as compared to the same period in 2017 given the outbreak and intensification of the China-US trade. It is advised that due to the US-China trade war which is expected to affect the industry as the outcome of the new tariffs would be higher cost of textile raw materials in China, the overall cost of the Target Group was increased as a result. Specifically, we understand that the gross profit margin of its major textile products such as small jacquard cotton fabric*(小提花純棉坯布), dyed fabric*(染色坯布) and import processed fabric*(來料加工坯布) and cotton yarn*(棉紗) have been decreased by approximately 8.2%, 7.2%, 8.9% and 0.9% respectively. As such, even the overall revenue of the Textile Business has been increased and the gross profit margin of the minor products have been maintained or increased, the net result of the overall gross profit margin was still reduced.

On the other hand, the increase in the revenue generated from the Media Business was mainly attributable to the successful investment a series of Chinese films and television dramas including but not limited to "Chengzhongtang"(誠忠堂), "The New Big Head Son and The Little Head Father"(新大頭兒子和小頭爸爸), and "The Family in That City"(那座城這家人), with remarkable achievements in both reputation and box office.

Further set out in the above table, the Group recorded a loss after taxation of approximately RMB144.4 million for the year 2018, representing an increase of loss of approximately 28.5% as compared to that of the year 2017 of approximately RMB112.4 million. As disclosed in the 2018 Annual Report, such increase in the loss after taxation was mainly derived from, amongst others, the losses on change in fair value recognized in profit or loss of approximately RMB176.5 million in relation to the derivatives embedded in convertible bonds issued by the Group;

It is further noted that the Group recorded a segment profit generated by the Textile Business of approximately RMB11,323,000 for the year 2018, representing an increase of approximately RMB2.8 million as compared to that of the year 2017 (i.e. approximately RMB8,523,000). It is advised that such increase was mainly attributable to (i) the increase in revenue and gross profit as mentioned above; (ii) the net gain recognized from the disposal of machinery and equipment of approximately RMB2,648,000; and (iii) the decreased distribution cost by approximately 8.11% as compared to last year.

(c) Financial position of the Group

Set out below is the consolidated financial position of the Group as extracted from the annual report of the Company for the 2018 Annual Report.

Table 2: Summary of the audited consolidated financial position of the Group

	As at 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
	(audited)	(audited)
Non-current assets	898,790	947,831
Current assets	958,633	1,161,247
Total assets	1,857,423	2,109,078
Current liabilities	608,769	935,144
Non-current liabilities	230,697	221,419
Total liabilities	839,466	1,156,563
Net current assets	349,864	226,103
Total equity	1,017,957	952,515

As at 31 December 2018

- Non-current assets and current assets

As set out in the table 2 above, as at 31 December 2018, non-current assets and current assets of the Group were amounted to approximately RMB947.8 million and RMB1,161.2 million respectively. Set out below is the breakdown of the non-current assets and current assets of the Group as at 31 December 2018 and 31 December 2017.

Table 3: Breakdown of the audited consolidated total assets of the Group

	As at 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
	(audited)	(audited)
Non-current assets		
Property, plant and equipment	389,434	431,054
Interests in leasehold land held for own use under operating leases	62,968	61,648
Intangible assets	17	1,069
Goodwill	441,475	441,475
Investments in equity securities	1,000	–
Other receivables	2,984	10,799
Deferred tax assets	912	1,786
	898,790	947,831
Current assets		
Inventories	131,137	140,120
Drama series and films	201,747	224,958
Trade and other receivables	437,267	500,480
Pledged bank deposits	32,884	11,000
Cash and cash equivalents	155,598	284,689
	958,633	1,161,247
Total assets	1,857,423	2,109,078

As set out in the above table, the non-current assets of the Group was increased from approximately RMB898.8 million as at 31 December 2017 to approximately RMB947.8 million as at 31 December 2018, representing an increase of approximately RMB49.0 million or 5.5%.

The slight increase in non-current assets of the Group was mainly due to (i) several acquisitions of buildings, machinery and equipment of approximately RMB92.8 million as at 31 December 2018 which was partial offset by several disposals of buildings, machinery and equipment of approximately RMB72.5 million as at 31 December 2018.

As further set out in the above table, the current assets of the Group was increased from approximately RMB958.6 million as at 31 December 2017 to approximately RMB1,161.2 million as at 31 December 2018, representing an increase of approximately RMB202.6 million or 21.1%. Such an increase was mainly due to

(i) an increase of cash and cash equivalents from approximately RMB155.6 million as at 31 December 2017 to approximately RMB284.7 million as at 31 December 2018, representing an increase of approximately RMB129.1 million or 83.0%. As advised by the Management, the increase in cash and cash equivalents was mainly attributable to the cash flow generated from proceeds from bank loans, shares issuance and issuance of bonds during the year 2018; and

(ii) an increase of drama series and films in production from approximately RMB201.7 million as at 31 December 2017 to approximately RMB225.0 million as at 31 December 2018, representing an increase of approximately RMB23.3 million or 11.6% which was principally due to delays in the release of several sizeable television dramas.

- Non-current liabilities and current liabilities

As set out in the table 2 above, as at 31 December 2018, non-current liabilities and current liabilities of the Group were amounted to approximately RMB221.4 million and RMB935.1 million respectively. Set out below is the breakdown of the non-current liabilities and current liabilities of the Group as at 31 December 2018 and 31 December 2017.

Table 4: Breakdown of the audited consolidated total liabilities of the Group

	As at 31 December	
	2017	**2018**
	RMB'000	*RMB'000*
	(audited)	(audited)
Current liabilities		
Trade and other payables	230,040	268,954
Contract liabilities	–	11,233
Bank loans	201,250	180,500
Other borrowings	159,659	434,480
Obligations under finance leases	–	12,201
Current taxation	17,820	27,776
	608,769	935,144
Non-current liabilities		
Other borrowings	229,672	206,345
Obligations under finance leases	–	11,973
Deferred tax liabilities	1,025	3,101
	230,697	221,419
Total liabilities	839,466	1,156,563

As set out in the above table, the current liabilities of the Group was increased by approximately RMB326.3 million or 53.6% from approximately RMB608.8 million as at 31 December 2017 to approximately RMB935.1 million as at 31 December 2018. The increase in current liabilities of the Group was mainly due to the increase in the amount of other borrowings from approximately RMB159.7 million as at 31 December 2017 to approximately RMB434.5 million as at 31 December 2018 by approximately RMB274.8 million or 172.1% which was mainly due to the issuance of bonds by the Company on 10 May 2018 with an aggregate face value of HKD235.5 million during the year 2018.

As further set out in the above table, the non-current liabilities of the Group was decreased by approximately RMB9.3 million or 4.0% from approximately RMB230.7 million as at 31 December 2017 to approximately RMB221.4 million as at 31 December 2018. Such a decrease in non-current liabilities was mainly attributable to the decrease of other borrowing from approximately RMB229.7 million as at 31 December 2017 to approximately RMB206.3 million as at 31 December 2018 by approximately RMB23.4 million or 10.2% which was mainly due to the settlement of part of the convertible bonds during the year 2018.

1.2 Information of the Purchaser

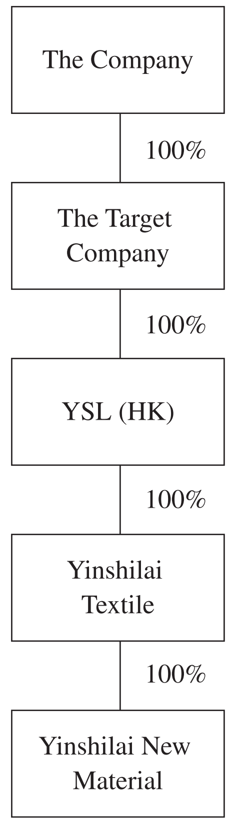
The Purchaser is a substantial Shareholder interested in 273,609,836 Shares, representing approximately 19.31% of the issued share capital of the Company. Accordingly, the Purchaser is a connected person of the Company.

1.3 Information of the Target Group

(a) Shareholding structure of the Target Company

As at the Latest Practicable Date, the Target Group comprise the Target Company, YSL (HK), Yinshilai Textile and Yinshilai New Material.

Set out below is the shareholding structure of the Target Group as at the Latest Practicable Date:



i) The Target Company

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, the entire issued share capital of the Target Company is held by the Company.

ii) YSL(HK)

YSL(HK) is an investment holding company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, the entire issued share capital of YSL(HK) is held by the Target Company.

iii) Yinshilai Textile

Yinshilai Textile is a company incorporated in the PRC with limited liability, which is principally engaged in the manufacturing and sales of textile products. As at the Latest Practicable Date, the entire issued share capital of Yinshilai Textile is held by YSL(HK).

iv) Yinshilai New Material

Yinshilai New Material is a company incorporated in the PRC with limited liability, which is principally engaged in the manufacturing and sales of textile products. As at the Latest Practicable Date, the entire issued share capital of Yinshilai New Material is held by Yinshilai Textile.

(d) Financial information of the Target Group (being the Group's Textile Business)

Set out below is the consolidated financial performance of the Target Group as extracted from the 2018 Annual Report and unaudited consolidated management accounts of the Target Group for the 5 months ended 31 May 2019 (the "**2019 Target Results**").

Table 5: Summary of the consolidated financial performance of the Target Group

	For the year ended 31 December		For the 5 months ended 31 May	
	2017	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue generated from the Textile Business	412,029	609,043	270,506	210,638
Profit/(loss) before tax generated from Textile Business	8,523	11,323	5,675	(4,681)

For the year ended 31 December 2018

As set out in the above table, the audited consolidated total revenue generated from the Textile Business for the year ended 31 December 2018 was increased by approximately RMB197.0 million or 47.8% from approximately RMB412.0 million for the year 2017 to approximately RMB609.0 million for the year 2018.

As stated in the 2018 Annual Report, the increase in the revenue generated from the Textile Business was mainly attributable to (i) the introduction of Amoeba operating model during the year 2018 in order to optimize and automate the production capabilities of the Group; and (ii) the accreditation of the brand "Yinshilai"(銀仕來) owned by the Company as "China Famous Trade Mark" by the Trademark Office of National Intellectual Property Administration of the PRC during the year 2018, both of which brought into a positive image and financial performance to the Group's Textile Business. However, it was noted by the Management that the gross profit margin of the textile business was decreased insignificant as compared to the same period in 2017 given the outbreak and intensification of the China-US trade.

Further set out in the above table, the Target Group recorded a profit before taxation of approximately RMB11,323,000 for the year ended 31 December 2018, representing an increase of profit of approximately RMB2.8 million as compared to that of the year 2017 of approximately RMB 8,523,000. It is advised that such increase was mainly attributable to (i) the increase in revenue and gross profit as mentioned above; (ii) the net gain recognized from the disposal of machinery and equipment of approximately RMB2,648,000; and (iii) the decreased distribution cost by approximately 8.11% as compared to last year.

For the 5 months ended 31 May 2019

As set out in the table 5 above, the unaudited consolidated total revenue generated from the Textile Business for the 5 months ended 31 May 2019 was decreased by approximately RMB59.9 million or 22.1% as compared to the same period in 2018 (i.e. unaudited figures of approximately RMB270.5 million). As advised by the management of the Target Group, given the adverse impact of the economic growth rate on the overall China textile industry due to the United States-China trade tensions, there was a significant decline in the overall purchase order placed by the Target Group's customers during the period.

In light of the above, the overall revenue of the Target Group for the period was significantly reduced. Specifically, the major products of the Target Group such as jacquard cotton fabric*（大提花純棉坯布）and small jacquard cotton fabric, the sales of which have been decreased by approximately 88.3% and 54.8% respectively for the 5 months ended 31 May 2019 as compared to the same period of 2018. It is expected by the management of the Target Group that the Target Group's business is under downward pressure due to the mentioned unsatisfied economic environment and such pressure will resulted in an adverse impact on its overall financial performance in the upcoming years.

Further, the Target Group recorded a net loss after taxation of approximately RMB4,681,000 for the 5 months ended 31 May 2019. As noticed by the Management, since the start of 2019, this is the first-time net loss incurred by the Target Group over the last decade. As advised, such loss was mainly attributable to a sharp decrease of overall purchase orders, especially the purchase order on luxurious and high gross profit margin textile products, and the dramatically growing manufacturing cost and labor cost.

In addition to the above, despite there is no one-off expenses or loss recorded for the 5 months ended 31 May 2019, having considered (i) the gross profit margin of some major products has been decreasing since 2018 as mentioned previously; (ii) the overall revenue of the Target Group has been decreased; and (iii) no gain on disposal of property, plant and equipment, which is an one-off revenue, was recognized during the period, the Target Group still recorded a segment loss for the period.

Set out below is the consolidated financial position of the Target Group as extracted from the 2018 Target Results.

Table 6: Summary of the consolidated financial position of the Target Group

	As at 31 December 2018	**As at 31 May 2019**
	RMB'000	*RMB'000*
	(audited)	(unaudited)
Non-current assets	504,190	490,508
Current assets	210,731	229,926
Total assets	714,921	720,434
Current liabilities	516,097	533,926
Non-current liabilities	12,404	6,165
Total liabilities	528,501	540,091
Net current assets	(305,366)	(304,000)
Total equity	186,420	180,343

As at 31 May 2019

- Non-current assets and current assets

As set out in the table 6 above, as at 31 May 2019, non-current assets and current assets of the Group are amounted to approximately RMB490.5 million and RMB230.0 million respectively. Set out below is the breakdown of the non-current assets and current assets of the Target Group as at 31 December 2018 and 31 May 2019.

Table 7: Breakdown of the audited consolidated total assets of the Target Group

	As at 31 December 2018	As at 31 May 2019
	RMB'000	*RMB'000*
	(audited)	(unaudited)
Non-current assets		
Property, plant and equipment	429,618	412,105
Interests in leasehold land held for own use under operating leases	61,648	61,647
Intangible assets	1,041	1,406
Goodwill	6,394	6,394
Other receivables	4,479	7,946
Deferred tax assets	1,010	1,010
	504,190	490,508
Current assets		
Inventories	140,120	151,911
Trade and other receivables	45,915	45,916
Pledged bank deposits	11,000	9,728
Cash and cash equivalents	13,696	22,371
	210,731	229,926
Total assets	714,921	720,434

As set out in the above table, the non-current assets of the Target Group was decreased from approximately RMB504.2 million as at 31 December 2018 to approximately RMB490.5 million as at 31 May 2019, representing a decrease of approximately RMB13.7 million or 2.7%. The slight decrease in non-current assets of the Target Group was mainly due to the recognition of depreciation incurred by the property, plant and equipment during the period.

As further set out in the above table, the current assets of the Target Group was increased from approximately RMB210.7 million as at 31 December 2018 to approximately RMB229.9 million as at 31 May 2019, representing an increase of approximately RMB19.2 million or 9.1%. Such an increase was mainly due to (i) an increase in the amount of finished goods produced by the Target Group and a slow-moving condition under the recent slowdown of the textile industry; and (ii) an increase of cash and cash equivalents generated from the settlement of accounts receivable during the year.

- Non-current liabilities and current liabilities

As set out in the table 6 above, as at 31 May 2019, non-current liabilities and current liabilities of the Group are amounted to approximately RMB6.2 million and RMB533.9 million respectively. Set out below is the breakdown of the non-current liabilities and current liabilities of the Group as at 31 May 2019 and 31 December 2018.

Table 8: Breakdown of the audited consolidated total liabilities of the Target Group

	As at 31 December 2018	As at 31 May 2019
	RMB'000	*RMB'000*
	(audited)	(unaudited)
Current liabilities		
Trade and other payables	319,140	330,745
Contract liabilities	9,450	9,450
Bank loans	167,500	167,500
Receipt in advance	–	5,194
Obligations under finance leases	12,201	13,230
Current taxation	7,806	7,806
	516,097	533,926
Non-current liabilities		
Obligations under finance leases	11,973	5,734
Deferred tax liabilities	431	431
	12,404	6,165
Total liabilities	528,501	540,091

As set out in the above table, the total liabilities of the Target Group was increased by approximately RMB11.6 million or 2.2% from approximately RMB528.5 million as at 31 December 2018 to approximately RMB540.1 million as at 31 May 2019. The slight increase in total liabilities of the Target Group was mainly due to an increase in trade and other payables and receipt in advance incurred during the period.

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

(a) Background and reasons for the Disposal

As stated in the Letter, since 2016, the overall textile industry in the PRC has been experiencing an obvious decline. It is expected that the textile industry in the PRC will not recover in short term due to the domestic economic slowdown together with instability in global economic growth as a result of international trade disputes and the advent of trade protectionism. In addition, due to the low return on assets nature of the textile industry and as part of a traditional production industry which is over saturated and highly reliant on efficiency and cost control for its success (as opposed to the reliance on creativity and forward thinking in the media industry), the growth potential of the Textile Business would be limited.

The Target Group had been loss-making since the start of 2019 and such loss was mainly due to the decline in purchase orders in 2019. Given the limited growth potential of the Textile Business and the loss attributable to the Target Group for the 5 months ended 31 May 2019, the Directors consider that the Disposal represents a good opportunity for the Group to realise remaining investment in the Target Group and allows the Group to reallocate its resources to its other existing businesses and other investment opportunities as and when they arise.

Having considered all of the above factors, the Directors (excluding the independent non-executive Directors who have deferred the expression of their views pending the obtaining of advice from the Independent Financial Adviser and excluding Mr. Liu Dong who has a material interest in the Disposal) considered that the terms of the Sale and Purchase Agreement are fair and reasonable and the entering into of the Sale and Purchase Agreement is in the best interests of the Company and the Shareholders as a whole.

(b) Factors in assessing the fairness and reasonableness of entering into the Sale and Purchase Agreement

In assessing the fairness and reasonableness of entering into the Sale and Purchase Agreement, we have considered the following factors:

(i) Overview of the PRC economic condition

As a resurgence of trade tensions with the United States, we noted that there is a potential economic slowdown in the PRC which may adversely affect the growth of the textile industry. Based on this, we have conducted research through public domains on (1) the PRC's GDP growth rate; and (2) the import and export value of the PRC in order to demonstrate the economic conditions of the PRC.

Review on the PRC's gross domestic product ("**GDP**") growth

As stated in a statistic published by Trading Economics (an internet data provider who provides its users with accurate information for 196 countries including historical data for more than 20 million economic indicators, exchange rates, stock market indexes, government bond yields and commodity prices), the Chinese economy advanced 6.4 percent year-on-year GDP growth rate in the December quarter of 2018, after a 6.5 percent growth in the previous quarter. In the second quarter of 2019, such GDP growth rate was further slowing from the aforesaid 6.4 percent expansion to a 6.2 percent year-on-year growth. It is further noted in the information published by Trading Economics that such GDP growth rate was the lowest growth rate since the global financial crisis, amid intense trade dispute with the United States, weakening domestic demand and alarming off-balance-sheet borrowings by local governments. Considering full 2018, the economy expanded 6.6 percent, the weakest pace since 1990.

Review on the recent import and export value of the PRC

Influenced by the United States-China trade tensions, the import and export recorded a marginal decline in recent period. As stated in a statistic published by CEIC (a data provider who publishes macroeconomic and industry databases used worldwide by economists and analysts in financial institutions, academia, government and corporations), we noted that in December 2018, the total Chinese exports fell to US$221.25 billion, down 1.4 per cent from November and 4.4 per cent from the same month in 2017. It is noted from the statistic that such monthly drop represents the biggest since December 2016, when China grew at its slowest pace since 1990 which give the first indication of the full impact of the US-China trade war. Besides, we also noted that total Chinese imports also fell to US$164.19 billion in December 2018, a drop of 10 per cent from last month and down 7.6 per cent a year earlier. After studying the aforementioned research information, we considered that such drop in each of the exports and imports value represents a bad sign for the Chinese economic outlook, indicating a rapid weakening of Chinese domestic demand.

Given that the growth of the PRC economy is slowing down as indicated above, we considered that domestic and foreign demand of the PRC is facing downward pressure in the coming years and may potentially lead to decline in the textile industry.

(ii) Overview of the textile industry in the PRC

As mentioned above, the China's economy has continued to decline under the impact of the Sino-United States trade war. Having considered the extra tariff on products exporting to the United States which causes a downward pressure on both the domestic demand and foreign trade, the condition of Chinses textile industry may be adversely affected.

Reasons on the PRC's textile industry slowdown

As stated in the report entitled "China and the World" published by McKinsey Global Institute (a research institute who provides in-depth reports covering more than 20 countries and 30 industries focusing on productivity and growth, natural resources, labor markets, the evolution of global financial markets, the economic impact of technology and innovation, and urbanization) in July 2019, we noted that as incomes continue to rise, China's comparative advantage in apparel is being lost to other emerging economies; production capacity and employment are already moving to Bangladesh, Pakistan, and Vietnam, for instance. It stated that in 2013, China's exports of apparel accounted for 60 percent of the rest of the world's production, but the proportion has since dropped to 51 percent in 2019. According to an article entitled "How is the China Textile trends are depleting?" publish by Global Apparel Forum (a platform to showcase knowledge and information on apparel, textile and retail industry) in April 2018, there are many Asian countries like India and other neighbor countries where the manufacturing rates and costs are low. China is predicted to make the official agreements with these countries to cover their manufacturing demand and supply management system and the profit margin of China in the international market will shrink. As a result, Chinese textile industry is currently facing keen competition from other neighbor countries with lower production costs.

Apart from the above, the growing costs of land, energy and labor dramatically increased the comprehensive costs of textile enterprises in China, which placed them in an inferior position in international competition. Higher labour and other production costs compared to Vietnam and other Southeast Asian countries are becoming an increasing disadvantage to China-based manufacturers.

Finally, as indicated by the export and import figures below, there is also currently a clear oversupply of textiles in the market, partly down to the trade war.

Review on the overall performance of the PRC's textile industry

According to an article entitled "China's textile industry in Doldrums as demand products decline" published by Fashionating World (a seamless network of web platforms with sector focused approach on fashion retail, apparel and textiles) in June 2019, as official statistics by China Customs reveal, China's total import and export value in the first five months declined by 1.6 per cent from the previous year. Its exports to the United States declined by 8.4 per cent year-on-year, while imports fell by 29.6 per cent year-on-year. In May 2019, China's total import and export value declined by 3.4 per cent. Of this, its imports declined by 8.5 per cent.

In additions, the profitability of the China textile industry has declined, and the slowdown in revenue and gross profit growth has been the main tone of the industry at this stage. In terms of profitability indicators, we noted that according to the statistics published by the National Bureau of Statistics of China, the overall sales value of the China textile industry was recorded at approximately RMB2,724.23 billion for the year ended 31 December 2018, representing a decline of 28.27% as compared to RMB3,797.67 billion for the year of 2017. Further, the gross profit for the year ended 31 December 2018 is approximately RMB293.60 billion, representing a decline of approximately RMB106.4 billion or 28.46% from approximately RMB400.00 billion for the year of 2017. In light of above declined figures, we are of the view that with the acceleration of industrial restructuring of the textile industry and the phasing out of backward enterprises, low-speed growth has become the main tone of the development of the industry at this stage.

After considering the above research information and figures, we concluded that in the long run, the costs of the PRC textile industry rise that the production capacity of the textile industry will continue to transfer overseas, which will undermine the overall advantages of China textile industry chain.

(iii) Implication of the financial performance of the Group's Textile Business

As stated in the sub-section headed "Financial information of the Target Group" of this letter, we noted that due to a recent trade friction between China and the United States, the Group's Textile Business has been adversely affected. It is noted that for the 5 months ended 31 May 2019, the Target Group recorded an unaudited revenue of approximately RMB210,638,000, representing a decline of approximately 22.1% as compared to RMB270,506,000 for that of the corresponding period. Besides, the unaudited consolidated net loss of the Target Group was recorded at approximately RMB4,681,000, which is the first-time net loss recorded by the Target Group over the last decade.

Having considered the overall prospect of the China textile industry and the growing costs of land, energy and labor as compared to other Asian countries, it is expected by the Management that the domestic production capacity will continue to shift to overseas in the long run and we concur with the Management that the financial performance of the Target Group will continue to decline or remain at a low level in light of the aforementioned situations.

(iv) Intended use of proceeds

As stated in the Letter, the gross proceeds and net proceeds from the Disposal amount to approximately RMB335.32 million and RMB333.84 million, respectively, of which RMB145.43 million shall be set off against the Sale Loan which remained outstanding upon the Completion.

It was intended that the net proceeds from the Disposal will be used by the Company: (a) as to approximately RMB145.43 million for repayment of the Group's debts and liabilities as they fall due; and (b) as to approximately RMB188.41 million for the Group's business development and investments of the Media Business and general working capital purposes.

As mentioned previously, it is expected by the Management that the Group would be facing potential reduction in the net return from the Textile Business due to the possible downturn of the Textile Industry in the PRC. In light of this, we have further inquired the Management and understand that details of the use of the net proceeds from the Disposal are set out below:

No.	Expected amount of the net proceeds from the Disposal to be utilized	Expected use of net proceeds	Expected timetable
a) the Group's business development and investments of the Media Business			
i)	approximately RMB60,000,000	1st part investment of a historical story drama entitled "血盟千年"	1st quarter of 2020
ii)	approximately RMB15,000,000	2nd part investment of a historical story drama entitled "血盟千年"	2nd quarter of 2020
iii)	approximately RMB42,500,000	1st part investment a drama series entitled "新大頭兒子小頭爸" (201 to 300 episodes)	2nd quarter of 2020
iv)	approximately RMB7,500,000	2nd part investment a drama series entitled "新大頭兒子小頭爸" (201 to 300 episodes)	3rd quarter of 2020
b) Repayment of debt			
v)	approximately RMB145,430,000	Debt repayment after receipt from the settlement of the Sale Loan – repayment of the outstanding bond carrying an interest rate of 6% per annum	March 2021
c) General working capital			
vi)	approximately RMB63,410,000	General working capital of the Group	Utilized when required
Total	**RMB333,840,000**		

Having considered that (i) the expected timing of the receipt of Consideration from the Purchaser are matched with the planned payment by the Group; (ii) part of the use of proceeds from the Disposal would be utilized by the Group on investments of the Media Business, which is profitable and contributed approximately 88.01% of the segment result (i.e. segment result of the Media Business of approximately RMB83,084,000 over the overall segment result of the Group of approximately RMB94,407,000); and (iii) the general working capital needs of the Group which is expected to be utilized for the next 12 months, we are of the view that the Group's intended use of proceeds are fair and reasonable.

It is considered that the Disposal, which provides the Group with certainty that it potentially disposes the Target Group at an appropriate time with an agreed consideration which has been determined under arm's length negotiation, will allow the Management to better allocate the Group's resources efficiently and timely towards the development, operations and management of the Group's Media Business.

Conclusion

Having considered the above, although the Disposal does not fall within the ordinary and usual course of business of the Group, given the aforesaid benefits expected to be accrued to the Group, we concur with the Directors' view that the Disposal is beneficial and in the interests of the Company and the Independent Shareholders as a whole.

3. Principal terms of the Sale and Purchase Agreement

On 13 August 2019, the Company entered into the Sale and Purchase Agreement with the Purchaser. The principal terms of the Sale and Purchase Agreement are set out below.

(a) Subject matter

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to sell and the Purchase has conditionally agreed to acquire the Sale Interest, representing the entire issued and paid up capital of the Target Group and all the shareholders' loans owned by the Target Group to the Company and its affiliates on Completion.

(b) Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration of RMB335,318,840 for the Sale Interest will be settled in full by payment in cash by the Purchaser in the following consideration payment terms ("**Consideration Payment Terms**"):

No.	Stage of installment	Payment amount	Payment time
i)	First installment	RMB67,063,768 (equals to 20% of the Consideration)	Within 6 months from the date of the Sale and Purchase Agreement
ii)	Second installment	RMB100,595,652 (equals to 30% of the Consideration)	Within 12 months from the date of the Sale and Purchase Agreement
iii)	Third instalment	RMB100,595,652 (equals to 30% of the Consideration)	Within 18 months from the date of the Sale and Purchase Agreement
iv)	Fourth installment	RMB67,063,768 (equals to 20% of the Consideration)	Within 24 months from the date of the Sale and Purchase Agreement

The Purchaser agrees to pay interests based on the accrued unpaid amount of the Third and Fourth installment at a simple interest rate of 6.5% per annum to the Company.

(c) Basis of the Consideration

As stated in the Letter, the Consideration has been determined after arm's length negotiations between the parties with reference to (i) the unaudited consolidated net asset value of the Target Group as at 31 May 2019; (ii) the market value of the land (the "**Land**") held by the Target Group as at 30 June 2019; and (iii) the amount of Sale Loan as at the date of the Sale and Purchase Agreement.

(d) Evaluation of the Consideration

In assessing the fairness and reasonableness of the Consideration, we note that the Consideration was arrived at based on the followings:

		Amount *RMB*
i)	the unaudited consolidated net asset value of the Target Group as at 31 May 2019	180,343,000
ii)	the fair value gain derived from the market value of the land held by the Target Group as at 30 June 2019	2,535,700
iii)	the amount of Sale Loan as at the date of the Sale and Purchase Agreement	145,427,640
Sub-total of (i) + (ii) + (iii)		328,306,340
Add: premium of 2.14%		7,012,500
The Consideration		335,318,840

(i) Evaluation on the unaudited consolidated net asset value of the Target Group

As stated above, the Consideration was determined with reference to the unaudited consolidated net asset value of the Target Group as at 31 May 2019. We have discussed with the Management and understand that by employing the net asset value method as the basis of determining the Consideration, the book value of the assets and liabilities of the Target Company are analysed, adjusted and appraised individually by the Board.

Given that (i) the prospect of the China's textile industry and the Target Group has a loss-making indication as shown in the latest available financial information; and (ii) the Group could not identify any prospective buyer to acquire the Target Group after public tenders at the beginning of 2019, hence, the net asset value method is considered to be a prudent assessment basis for the assets and liabilities of the Target Group; we therefore concur with the Directors that the audited net asset value is an appropriate method in assessing the market value of individual assets less liabilities.

Review and assess the net asset value of the Target Group

In assessing the fairness and reasonableness of the basis of determination using the consolidated net asset value, we have made enquiry with the Management and obtained a copy of the 2019 Target Results. The Management explained that the value of the equity interests in the Target Group was determined based on the difference between the value of the total assets and total liabilities.

Set out below is the table setting out our work done and view on the major assets of the Target Group:

No.	**Assets and/or liabilities**	**Amount and percentage to the total assets**	**Our work done and view**
1.	Property, plant and equipment	Approximately RMB412,105,000 (accounts for approximately 57.2% of the Target Group's total assets as at 31 May 2019)	The value of the property, plant and equipment mainly comprise of building, machinery and equipment, office equipment, construction in progress and motor vehicles. Having considered that the above properties are referred to as the special-use properties where there aren't enough similar properties for comparison. Given the absence of market-based evidence to produce a reliable valuation on the above property plant and equipment, we considered that there is no open market value which could realise sold on the open market by a willing vendor. In light of this, we concur with the Board that valuing the property, plant and equipment using its book value is fair and reasonable.
2.	Interests in leasehold land	Approximately RMB61,647,000 (accounts for approximately 8.56% of the Target Group's total assets as at 31 May 2019)	As advised by the Valuer, such land cost was stated at cost less accumulated depreciation and impairment losses and no fair market value has been assessed and recognized in the 2019 Annual Results.
3.	Inventories and trade and other receivables	Aggregate of approximately RMB197,827,000(accounts for approximately 27.54% of the Target Group's total assets as at 31 May 2019)	Given the value of the inventories and trade and other receivables have been agreed by the Purchaser without any impairment, we considered that such values have not been discounted or understated.
4.	Pledged bank deposits and cash and cash equivalents	Aggregate of approximately RMB32,099,000 (accounts for approximately 4.46% of the Target Group's total assets as at 31 May 2019)	Having considered that the nature of such assets which are not subject to market change and depreciation, we consider that valuing the pledged bank deposits and cash and cash equivalents using its book value is fair and reasonable.

Result of the assessment

After assessing the above NAV, we recognized that despite the Interests in leasehold land was recognized based on the actual cost less depreciation and amortisation, we considered that the above net asset value has not taken into account the fair market value of the Land. Save as the aforesaid, we have considered (i) all liabilities have been agreed by the parties to the Sale and Purchase Agreement that it would be fully taken up by the Purchaser; (ii) the credit risk of those trade and other receivable would be borne by the Purchaser upon Completion; and (iii) the property, plant and machinery would be agreed to value at its book value even there is no "open market value", it is of the view that we have not identified any major factors which cause us to doubt the fairness and reasonableness of net asset value adopted for the determination of the Consideration.

(ii) Valuation of the market value of the Land

As advised by the management of the Target Group, the Target Group has legally and validly obtained and holds the land use rights for the Land. According to the land certificate provided by the Target Group management, the Land is located at 博山經濟開發區 (Boshan Economic Development Area*) in Shandong Province with a total site area of approximately 236,971.52 square metres. Having considered that the unconsolidated net asset value of the Group has not taken into account the fair market value of the Land, the Company engaged 中水致遠資產評估有限公司(Zhongshui Zhiyuan Assets Appraisal Company Limited*) (the "**Valuer**"), an independent property valuer to assess the appraised value of the Land as at 30 June 2019 (the "**Land Valuation**").

As stated in the Land Valuation, the Land is appraised by the Valuer at RMB64,182,700 as at 30 June 2019. Based on this, we have performed work done and review on the valuation report (the "**Valuation Report**") dated 30 July 2019 relating to such Land Valuation.

Review on the Valuation Report and the relevant valuation approach

In assessing the fairness and reasonableness of the Land Valuation, we have discussed with the Management to understand the principal basis in determining the Land Valuation and obtained a copy of the Valuation Report. The Valuation Report was prepared by the Valuer on 30 June 2019. We have reviewed the Valuation Report and discussed with the Valuer regarding the methodologies adopted for and the basis and assumptions used in arriving at the market value of the Land.

In the course of our discussion with the Valuer, we noted that site inspection of the Land was carried out by the Valuer in July 2019 for inspection of the exterior of the Land and further noticed by the Valuer, we noted in the course of the aforesaid inspection, the Valuer did not notice any serious defects.

Review on the methodology and assumptions used in the Land Valuation

The Land Valuation was prepared by the Valuer using the direct comparison approach. We have reviewed and inquired the Valuer regarding the methodology of, and basis and assumptions adopted for, the Land Valuation. The Valuer explained that they have adopted the direct comparison method which consist of comparisons based on prices realized or current asking prices of comparables properties. During our discussion with the Valuer, we understand how the Land Valuation was being derived and how the comparable properties of similar size, character and location were weighed against their respective advantage and drawbacks.

We have discussed with the Valuer on the valuation methodology applied, and reviewed the comparables provided by the Valuer, we consider that the basis being adopted are appropriate, fair and reasonable. As further confirmed by the Valuer, it was assumed that (i) the Land is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value; (ii) the transferable land use rights in respect of the Land for its specific term at nominal annual land use fee has been granted and that any premium payable has already been fully paid; and (iii) the owner of the Land has enforceable title to the Land and have free and uninterrupted rights to use, occupy or assign the Land for the whole of the unexpired terms as granted. In view of the above, while we have taken reasonable steps to review on the Land Valuation, we have not used other valuation methodology to assess the value of the Land.

Review on the competency of the Valuer

For our due diligence purposes, we have reviewed and enquired into (i) the terms of engagement of the Valuer; (ii) the Valuer's qualification and experience in relation to the preparation of the Land Report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the Land Valuation. We noted that the Valuer is a qualified real estate and land property appraiser in the PRC with the relevant qualified certificates comprising the real estate valuation organization registration certificate (房地產估價機構備案証書) and the land valuation organization certificate (土地估價機構証書). It is further noted that the Valuer has over 20 years' experience in valuation of properties, mine and business valuation in the PRC. From the engagement letter and other relevant information provided by the Valuer and based on our interview with it, we are satisfied with the terms of engagement of Land as well as its qualification and experience for preparation of the Valuation Report.

Results on the assessment of the Land Valuation

After reviewed and assessed the Land Valuation, we concluded that the Board has made an assessment on the latest fair market value of the Land, which is one of the major assets of the Target Group.

As stated above, the Land is revalued by the Valuer at RMB64,182,700 as at 30 June 2019. As compared to the net book value of the Land of approximately RMB61,647,000 as set out in the 2019 Target Results, there is an excess market value of the Land over its book value of approximately RMB2,535,700.

Apart from the above findings, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for or the information used in the Land Valuation.

(iii) Evaluation on the fairness and reasonableness of the Consideration

In assessing the fairness and reasonableness of the Consideration, we have primarily considered the price-to-book ratio ("**P/B Ratio(s)**") and the price-to-earnings ratio ("**P/E Ratio(s)**") which are a commonly used valuation benchmark for valuing companies in the industry of the Target Group.

Based on this, we have conducted research on comparable companies based on the following criteria:

(i) are listed on the Stock Exchange of Hong Kong;

(ii) are principally engaged in Textile Business (which at least 90% of the total revenue are attributable to such business based on the latest published full year results announcement); and

(iii) excluded the companies generated negative net profit for the latest published full year results announcement.

Based on the aforesaid selection criteria and our researches conducted on a best effort basis on the website of the Stock Exchange, we have identified an exhaustive list of 13 companies (the "**Comparables**") and the list of which and their respective P/E Ratios and the P/B Ratios are set out below.

Company name (Stock code)	**Principle business**	**Market Capitalization** *(Note 1)* *RMB'million*	**P/B Ratios** *(Note 2)* *Approximately times*	**P/E Ratios** *(Note 3)* *Approximately times*
Texwinca Holdings Ltd. (321)	Production, dyeing and sale of knitted fabric and apparel businesses;	2,708	0.47	8.45
Fountain Set (Holdings) Ltd. (420)	Production and sales of Dyed Fabrics; and production and sales of garments	1,491	0.42	8.37
Kingdom Holdings Ltd. (528)	Sales of linen yarn, hemp yarn and scraps	1,039	0.75	8.84
Speedy Global Holdings Ltd. (540)	Apparel supply chain servicing and apparel retail business	180	0.62	8.10
Embry Holdings Ltd. (1388)	Manufacture and sale of ladies' brassieres, panties, swimwear, sleepwear and others.	710	0.30	4.69
Hingtex Holdings Ltd. (1968)	Manufacturing and trading of stretchable denim fabrics	195	0.45	2.68
Best Pacific International Holdings Ltd. (2111)	Manufacturing and trading of elastic fabric, lace and elastic webbing	2,641	1.06	18.72
Casablanca Group Ltd. (2223)	Manufacture and sales of bedding products	207	0.50	34.20
Kam Hing International Holdings Ltd. (2307)	Manufacture and sales of fabric products and garment products.	470	0.24	6.68
Eagle Nice (International) Holdings Ltd. (2368)	Manufacturing of professional and leisure sportswear.	1,160	0.88	8.40

Company name (Stock code)	Principle business	Market Capitalization *(Note 1)* *RMB'million*	P/B Ratios *(Note 2)* *Approximately times*	P/E Ratios *(Note 3)* *Approximately times*
Texhong Textile Group Ltd. (2678)	Manufacturing and sale of yarns, grey fabrics and garment fabrics as well as garments.	6,533	0.75	4.91
China Weaving Materials Holdings Ltd. (3778)	Manufacturing and trading of yarns and polyester staple fibres	426	0.57	4.69
St International Holdings Co. Ltd. (8521)	Sales of functional knitted fabrics and apparel	108	0.72	4.49
		Average	0.60	9.48
		Maximum	1.06	34.20
		Minimum	0.24	2.68
		The Disposal ***(Note 4)***	1.02	24.66

Source: the website of the Stock Exchange

Notes:

1. The market capitalization of the Comparables are calculated on their respective closing prices as at the Latest Practicable Date.

2. The P/B Ratios of the Comparables are calculated based on their respective closing prices as at the Latest Practicable Date and the net assets value of the Comparables attributable to their respective shareholders as extracted from their respective latest published balance sheet divided by the total number of issued shares as at their respective balance sheet dates.

3. The P/E Ratios of the Comparables are calculated based on their respective closing prices as at the Latest Practicable Date and the net profit of the Comparables attributable to their respective shareholders as extracted from their latest annual report/ annual result announcement divided by the total number of issued shares as at their respective year end dates.

4. The Target Group recorded an audited profit after taxation attributable to its shareholders of approximately RMB7,699,588 for the year ended 31 December 2018 and the Target Group recorded an audited net assets of approximately RMB186,420,606 as at 31 December 2018. Based on the adjusted consideration of the Disposal (which is calculated by excluding the Sale Loan of RMB145,427,640 from the Consideration) is approximately RMB189,891,200, the implied P/E Ratio and the P/B Ratio of the Disposal us approximately 24.66 times and 1.02 times, respectively.

With reference to the table set out above, the P/B Ratios of the Comparables ranged from a minimum of approximately 0.24 times to a maximum of approximately 1.07 times with an average P/B Ratios of approximately 0.62 times. Further the P/E Ratios of the Comparables ranged from a minimum of approximately 2.68 times to a maximum of approximately 34.2 times with an average P/E Ratios of approximately 9.48 times.

The implied P/B ratio in relation to the Disposal of approximately 1.02 times and the implied P/E ratio in relation the Disposal of approximately 24.66 times is therefore above the average and within the range of the Comparables.

Having considered (i) the domestic economic adverse impact together with instability in global economic growth as a result of international trade disputes and the advent of trade protectionism; (ii) the overall slowdown prospect of the China textile industry; (iii) the foreseeable decline of the financial performance of the Target Group; and (iv) both the implied P/B ratio and P/E ratio in relation to the Disposal is within the range and above the above the average of the Comparables, we consider that the Consideration is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

(iv) the value of Sale Loan as at the date of the Sale and Purchase Agreement

As stated in the subsection headed "Basis of Consideration" of this letter, we understand that the outstanding balance of the Sale Loan as at the date of the Sale and Purchase Agreement is approximately RMB145.43 million.

As informed by the Management, the Sale Loan is interest free, unsecured and no fixed repayment terms as at the date of the Sale and Purchase Agreement. Pursuant to the Sale and Purchase Agreement, there would be a simple interest rate of 6.5% per annum calculated based on the accrued unpaid amount of the Third and Fourth installment paid by the Purchaser to the Company, based on this, we have taken into account,

(1) despite there is no interest rate compensation for the first 12 months from the date of the Sale and Purchase Agreement (i.e. from 13 August 2019 to 12 August 2020), it is considered that due to a potential decline in the Textile Business, there would be an expected net loss recognized in the coming years. Besides, the premium of approximately RMB7.01 million calculated when determining the Consideration represents a higher interest rate compensation of the Sale Loan to the Company using the standard interest rate of 4.75% under a People's Bank of China ("**PBOC**") rate (i.e. approximately RMB145.43 million x 4.75% = approximately RMB6.91 million);

    The PBOC rate of 4.75% represents a 1-5 year lending base lending rate as at the Latest Practicable Date, subject to adjustment from time to time. Given that the Sale Loan is repayable within 2 years, we consider that the standard rate of 4.75% is for loans with similar term and period as the Sale Loan.

(2) there is an interest rate of 6.5% per annum paid by the Purchaser to the Company for the period from 13 August 2020 to 12 August 2021, which is higher than the above standard PBOC rate; and

(3) the maturity date would be agreed at within 24 months from the date of the Sale and Purchase Agreement.

Hence, we are of the view that the agreed terms of the Sale Loan and the value of such Sale Loan which are recorded in the consolidated financial statements under dollar-to-dollar basis, is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

(e) Evaluation of the Consideration Payment Terms

As stated in the Letter, the Sale Interest will be settled in full by payment in cash by the Purchaser under the Consideration Payment Terms.

(i) Controls taken and agreed by the parties to the Sale and Purchase Agreement

As stated in the Letter, in order to secure the due and timely performance of the Purchaser of its obligations under the Sale and Purchase Agreement, the Purchaser has agreed to (i) provide proof of its assets and available capital to allow the Directors to be reasonably assured of its ability to pay the Consideration; (ii) deposit an amount which equals to the first instalment of the Consideration at a designated account of a custodian on Completion; and (iii) grant the Company a charge (the "**Share Charge**") over the entire issued share capital of the Target Company on Completion and such charge shall remain effective until the full amount of the Consideration has been paid by the Purchaser to the Company. In addition, the Purchaser agreed to procure that Mr. Liu Dong (being the sole beneficial owner of the Purchaser) to undertake to the Company, in the event that the Purchaser is unable to pay any part of the Consideration on time in accordance with the Sale and Purchase Agreement, Mr. Liu Dong shall immediately pay the Company all such amount which maybe outstanding and payable by the Purchaser to the Company at the time pursuant to the Sale and Purchase Agreement ("**Mr. Liu's Undertaking**").

(ii) Our view

Based on the above Consideration Payment Terms, we have discussed with the Management and has taken into account of the following factors:

– having considered the reasons of entering into the Sale and Purchase agreement and the transaction contemplated under as set out in the sub-section headed "*Reasons for and benefits of the Disposal and use of proceeds*" of this letter, we concur with the Management that in order to avoid any adverse impact on the overall consolidated financial performance of the Group, it is reasonable for the Target Group to be disposed timely even the Completion is before the receipt of all instalment payments of the Consideration;

– we further noted from the Management that during the negotiation process, the Company has indicated that in order to match the Group's foreign payment needs (i.e. repayment of bonds) with the use of proceeds from the Disposal, it would better for the Purchaser to settle the Consideration in HK dollars as a first priority. However, it was advised by the Purchaser that there is a practical difficulty to arrange the payment timely due to certain procedures requirement on foreign currency conversion in the PRC (i.e. approval from the State Administration of Foreign Exchange of the PRC). In light of this, after considered the protection mechanism as stated above, we concur with the Management that the reasons for the Consideration Payment Terms is fair and reasonable;

– we have based on the Consideration Payment Terms and having made all reasonable enquiries and due diligence on Mr. Liu Dong, the ultimate beneficial owner of the Purchaser and the guarantor in respect of its payment obligation, we considered that Mr. Liu Dong could provide the Company a reasonable assurance on settlement of the aggregate payment obligations of the Purchaser under the Disposal;

– the compensation interest rate of 6.5% on the 3rd and 4th installment of the Consideration is higher than that of the PBOC rate of 4.75% which is reasonable; and

– despite there is no interest rate compensation for the 1st and 2nd installment of the Consideration, it is considered that the premium of approximately RMB7.01 million calculated when determining the Consideration represents a higher interest rate compensation to the Company on the Sale Loan using the standard interest rate of 4.75% under a PBOC rate (i.e. approximately RMB145.43 million x 4.75% = approximately RMB6.91 million).

Based on this above, we concur with the Management that the payment obligation of the Purchaser will be fully secured by the Share Charge and Mr. Liu's Undertaking and the Consideration Payment Terms is fair and reasonable.

4. Financial effects of the Disposal

Upon Completion, the Company will cease to have any equity interest in the Target Group. As such the results of the Target Group will no longer be consolidated into the financial statements of the Group.

Based on (i) the consideration of the Disposal of approximately RMB335.32 million; (ii) the unaudited consolidated net asset value of the Target Group as at 31 May 2019 of approximately RMB180.34 million and (iii) the Sale Loan in the amount of approximately RMB145.43 million, it is expected that the Company will record a gain on the Disposal of approximately RMB9.55 million, which will be subject to audit. The actual amount of the gain to be recognised by the Group can only be determined when the consolidated net asset value of the Target Group as at the date of Completion and the transaction costs attributable to the Disposal are ascertained, and therefore maybe different from the aforesaid amount.

RECOMMENDATION

Having considered the above principal factors, we are of the opinion that the terms of the Sale and Purchase Agreement and the transaction contemplated therein does not fall within the ordinary and usual course of business of the Group, but are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the Disposal and the transaction contemplated thereunder.

Yours faithfully
For and on behalf of
Euto Capital Partners Limited
Regina Wong
Director

* *For identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese names prevail.*

Note: Ms. Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Euto Capital to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.

1. AUDITED/UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Financial information of the Group for the year ended 31 December 2016, 2017 and 2018 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.starrise.cn):

- annual report of the Company for the year ended 31 December 2016 (pages 63 to 140):
  https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0426/ltn20170426487.pdf

- annual report of the Company for the year ended 31 December 2017 (pages 66 to 154):
  https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0426/ltn20180426617.pdf

- annual report of the Company for the year ended 31 December 2018 (pages 70 to 172):
  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426631.pdf

- interim report of the Company for the six months ended 30 June 2019 (pages 28 to 56):
  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0923/ltn20190923165.pdf

2. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Group's existing cash and bank balances, the available credit facilities, the expected internally generated funds from ordinary business operations and the net proceeds from the Disposal, the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of this circular.

3. INDEBTEDNESS STATEMENT

As at the close of business on 15 September 2019, being the latest practicable date for the purpose of determining this statement of indebtedness prior to the date of the circular, the Group had outstanding bank loans and lease liabilities of approximately RMB 204.1 million and convertible bond and bond of approximately RMB 513.2 million, details of which are set out as follows:

Bank loans and lease liabilities

As at the close of business on 15 September 2019, the Group had outstanding borrowings of approximately RMB 204.1 million, which comprised of (i) secured and guaranteed bank loans of approximately RMB 94.8 million; (ii) unsecured and guaranteed bank loans of approximately RMB 67.5 million; (iii) secured and guaranteed lease liabilities of approximately RMB 16.7 million; and (iv) unsecured and unguaranteed lease liabilities of RMB 25.1 million.

Convertible bond and bond

As at the close of business on 15 September 2019, the Group had outstanding convertible bond and bond with carrying amount of approximately RMB 513.2 million, which comprised of (i) convertible bond with carrying amount of approximately RMB 296.9 million carry a nominal interest rate of 5% per annum and shall mature on 28 February 2020; (ii) bond with carrying amount of approximately RMB 216.3 million carry a nominal interest rate of 6% per annum and shall mature on 9 March 2021.

Contingent liabilities

As at the close of business on 15 September 2019, the Group had issued guarantees in the aggregate amount of RMB 20.0 million in respect of loans made by banks to Zibo Huiyin Textile Co., Ltd.. As at 15 September 2019, the directors do not consider it probable that claims will be made against the Group under any of the guarantees. The maximum liability of the Group as at 15 September 2019 under the guarantees issued is the outstanding amount of the loans of the Zibo Huiyin Textile Co., Ltd. of RMB 20.0 million.

Pledge of assets

As at 15 September 2019, the Group pledged its machinery and equipment with a net book value of approximately RMB 10.4 million to the banks and finance providers as securities for borrowings.

Save as disclosed above and apart from the intra-group liabilities and normal trade and other payables, as at the close of business on 15 September 2019, the Group did not have any other debt securities issued or outstanding, and authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchases commitments, mortgages and charges, guarantees or other material contingent liabilities.

4. FINANCIAL AND BUSINESS PROSPECTS OF THE GROUP

Upon Completion, the Group will only be engaged in the Media Business and no longer participate in Textile Business.

The Media Business shows a high growth and profitability potential over the recent years. A number of the Group's films and television dramas have achieved positive results. The Group has recorded an increase in the revenue and gross profit for Media Business of approximately RMB232.0 million and RMB66.2 million, respectively, from the year ended 31 December 2016 to the year ended 31 December 2018.

The Group believes that the Media Business will continue to be profitable because of the following factors: (i) the favourable government policies in the PRC in respect of the television and film industry; (ii) the Company's business strategies focusing on production and investment in high-quality television films and dramas benefited from government policies in the PRC; (iii) the Company's competitiveness on intellectual property resources to capture the market share of internet films and dramas; and (iv) the concentrated utilisation of the Group's financial and management resources for the development of Media Business.

Looking forward, the Group will further explore opportunities to invest in the television and film industry so as to achieve sustainable growth and to improve returns for shareholders.

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	273,609,836 (L)	19.31%
Mr. He Han	Beneficial owner	13,998,000 (L)	0.99%

Notes:

1. (L) denotes a long position.

2. Shareholding percentage is based on 1,416,911,818 issued Shares as at the Latest Practicable Date.

3. The shares are held by Excel Orient Limited which is a company incorporated in the British Virgin Islands ("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 Director	**Capacity/nature of interest**	**Number and class of interest in underling Shares** *(Note 1)*	**Number and class of Shares held** *(Note 1)*	**Approximate percentage** *(Note 2)*
Excel Orient Limited *(Note 3)*	Beneficial owner	–	273,609,836 (L)	19.31%
Ms. Wang Lingli *(Note 4)*	Interest of spouse	–	273,609,836 (L)	19.31%
Dragon Capital Entertainment Fund One LP ("**Dragon Capital**") *(Note 5)*	Beneficial owner	243,243,243 (L)	–	11.44%
Dragon GP Partner Co *(Note 6)*	Interest of controlled corporation	243,243,243 (L)	–	11.44%
China Huarong International Holdings Ltd *(Note 7)*	Interest of controlled corporation	243,243,243 (L)	–	11.44%
Huarong Real Estate Co. Ltd. *(Note 8)*	Interest of controlled corporation	243,243,243 (L)	–	11.44%
China Huarong Asset Management Co., Ltd. *(Note 9)*	Interest of controlled corporation	243,243,243 (L)	–	11.44%
Ministry of Finance of the PRC *(Note 10)*	Interest of controlled corporation	243,243,243 (L)	–	11.44%

Name of Director	Capacity/nature of interest	Number and class of interest in underling Shares *(Note 1)*	Number and class of Shares held *(Note 1)*	Approximate percentage *(Note 2)*
Emerge Ventures Limited	Beneficial owner	–	209,000,000 (L)	14.75%
Mr. Jin Peng *(Note 11)*	Interest of controlled corporation	–	209,000,000 (L)	14.75%
Ms. Shen Si *(Note 12)*	Interest of spouse	–	209,000,000 (L)	14.75%
Aim Right Ventures Limited	Beneficial owner	–	202,472,656 (L)	14.29%
Mr. Liu Zhihua *(Note 13)*	Interest of controlled corporation	–	202,472,656 (L)	14.29%
Ms. Zou Guoling *(Note 14)*	Interest of spouse	–	202,472,656 (L)	14.29%
BeiTai Investment LP ("**BeiTai**") *(Note 5)*	Beneficial owner	–	162,162,162 (L)	11.44%
BeiTai Investment Limited *(Note 15)*	Interest of controlled corporation	–	162,162,162 (L)	11.44%
Mr. Wang Jian *(Note 16)*	Interest of controlled corporation	–	162,162,162 (L)	11.44%

Notes:

1. (L) denotes a long position.

2. Shareholding percentage is based on 1,416,911,818 issued Shares as at the Latest Practicable Date.

3. 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.

4. 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.

5. Pursuant to the terms of the convertible bonds issued to Dragon Capital on 28 February 2017, assuming the conversion rights attached to the convertible bonds are exercised in full at the conversion price of HK$1.21 per conversion share, 247,933,884 new Shares will fall to be issued to Dragon Capital. On 5 February 2018, the conversion price was adjusted to HK$0.74 per conversion share. On 25 February 2019, Dragon Capital transferred the convertible bonds in the principal amount of HK$120,000,000 (the "**BeiTai Transferred 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. Assuming the conversion rights attached to the remaining convertible bonds held by Dragon Capital are exercised in full at the conversion price of HK$0.74 per share, 243,243,243 new Shares will fall to be issued to Dragon Capital.

6. Dragon Capital is an exempted limited partnership registered in the Cayman Islands controlled by Dragon GP Partner Co. By virtue of the SFO, Dragon GP Partner Co. is deemed to be interested in all the Shares held by Dragon Capital.

7. Dragon GP Partner Co. is controlled by China Huarong International Holdings Limited. By virtue of the SFO, China Huarong International Holdings Limited is deemed to be interested in all the Shares which Dragon GP Partner Co. is interested in.

8. 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.

9. 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.

10. China Huarong Asset Management Co., Ltd. ("**China Huarong**") is a limited liability company registered in the PRC owned as to 88.24% (in respect of domestic shares of China Huarong) and 56.27% (in respect of H shares of China Huarong) by the Ministry of Finance of the People's Republic of China based on publicly available information. 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.

11. Emerge Ventures Limited is 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.

12. 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.

13. Aim Right Ventures Limited is a limited liability company incorporated in the BVI wholly owned by Mr. Liu Zhihua. By virtue of the SFO, Mr. Liu Zhihua is deemed to be interested in all the Shares held by Aim Right Ventures Limited.

14. Ms. Zou Guoling is the spouse of Mr. Liu Zhihua. Therefore, Ms. Zou Guoling is deemed, or taken to be interested in the shares of the Company which Mr. LIU Zhihua is interested in for the purpose of the SFO.

15. BeiTai is controlled by BeiTai Investment Limited. By virtue of the SFO, BeiTai Investment Limited is deemed to be interested in all the Shares which BeiTai is interested in.

16. BeiTai Investment Limited is controlled by Mr. Wang Jian. By virtue of the SFO, Wang Jian is deemed to be interested in all the Shares which BeiTai Investment Limited 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 2018 (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 subscription agreement dated 10 May 2018 entered into between the Company as the issuer and Bison Global Investment SPC as the subscriber in respect of the issuance of the 6% coupon unsecured and unlisted bonds in an aggregate principal amount of up to HK$235.5 million with a maturity date on 9 May 2020 (as supplemented by a notice of extension dated 1 August 2019 which both parties mutually agreed to extend the maturity date to 9 March 2021); and

(b) the Sale and Purchase 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 2018, 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 2018, 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 is 40th Floor, Sunlight Tower, 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 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, Sunlight Tower, 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 financial years ended 31 December 2017 and 2018;

(c) interim report of the Company for the six months ended 30 June 2019;

(d) the material contracts referred to in the paragraph headed ''Material Contracts'' in this appendix;

(e) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 19 to 20 of this circular;

(f) 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 21 to 60 of this circular;

(g) the written consents referred to in the paragraph headed ''Qualification and Consent of Experts'' in this Appendix; and

(h) this circular.

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 OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Starrise Media Holdings Limited (the "**Company**") will be held at Building A10, 50 Anjialou, Chaoyang District, Beijing, the PRC on Tuesday, 26 November 2019 at 2:00 p.m for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions:

ORDINARY RESOLUTION

1. "**THAT**

(a) the sale and purchase agreement (the "**Sale and Purchase Agreement**") dated 13 August 2019 entered into between Starrise Media Holdings Limited and Excel Orient Limited in relation to the disposal of the entire issued shares of Power Fit Limited and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any director of the Company (save for Mr. Liu Dong) be and is hereby authorised to take such action, do such things and execute such further documents as the director may at his/her absolute discretion consider necessary or desirable to implement and/or give effect to the Sale and Purchase Agreement or any transactions contemplated thereunder and all other matters incidental there to or in connection therewith."

Yours faithfully,
By order of the Board
Starrise Media Holdings Limited
Liu Zongjun
Chief Executive Officer and Executive Director

Shangdong, the PRC, 8 November 2019

NOTICE OF EXTRAORDINARY GENERAL MEETING

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:
40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

Notes:

(a) A shareholder entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his/her/its behalf. A proxy need not be a shareholder of the Company.

(b) Where there are joint registered holders of any Share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such Shares as if he was solely entitled thereto; but if more than one of such joint holders be present at the meeting, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote and such vote will be accepted to the exclusion of other joint registered holders of Share.

(c) To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM (i.e 2:00 p.m. on Sunday, 24 November 2019) or any adjournment thereof.

(d) The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, must be signed under the hand of an officer duly authorized on that behalf together with a company chop.

(e) Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting or any adjournment thereof and, in such event, the form of proxy shall be deemed to be revoked.

(f) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

(g) The register of members of the Company will be closed from Thursday, 21 November 2019 to Tuesday, 26 November 2019, 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, 20 November 2019.

As at the date of this announcement, the Board comprises eight directors of the Company, namely Mr. LIU Dong, Mr. LIU Zongjun, Ms. CHEN Chen, Mr. HE Han and Mr. TAN Bin as executive directors of the Company; and Mr. LAM Kai Yeung, Ms. LIU Chen Hong and Mr. WANG Liangliang as independent non-executive directors of the Company.