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

If you have sold and transferred all your shares in Star East Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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***starEast* 東方魅力**
STAR EAST HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(1) CONNECTED TRANSACTION

**PROPOSED SUBSCRIPTION OF 1,575,000,000 NEW SHARES
BY STRATEGIC MEDIA INTERNATIONAL LIMITED**

(2) DISCLOSEABLE AND CONNECTED TRANSACTION

**PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
REALMAX HOLDINGS LIMITED AND SHAREHOLDER'S LOAN
EXTENDED BY STRATEGIC MEDIA INTERNATIONAL LIMITED
TO REALMAX HOLDINGS LIMITED
FROM STRATEGIC MEDIA INTERNATIONAL LIMITED**

AND

**(3) PROPOSED RENEWAL OF GENERAL MANDATES
TO ISSUE SECURITIES AND REPURCHASE SHARES**

Financial adviser



Independent financial adviser to the Independent Director



First Shanghai Capital Limited

A notice convening the special general meeting of the Company to be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 December 2003 at 11:00 a.m. is set out on pages 45 to 47 of this circular. Whether or not you are able to attend the special general meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars of Star East Holdings Limited in Hong Kong, Progressive Registration Limited of 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding the special general meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting should you so wish.

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DEFINITIONS

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

“Access Capital”	Access Capital Limited, the financial adviser to the Company. It is a deemed licensed corporation for types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
“acting in concert”	has the meaning defined in the Takeovers Code
“Agreements”	the Subscription Agreement and the S&P Agreement
“associate(s)”	in relation to a director, chief executive or substantial shareholder of a company listed on the Main Board, has the same meaning ascribed thereto in the Main Board Listing Rules
“Board”	the board of directors of the Company
“business day”	a day on which the Stock Exchange is open for transaction of business
“Charter”	卓京投資控股有限公司 (Charter Capital Investment & Holding Co., Ltd.), a company registered in the PRC with limited liability and is owned as to 80%, 10% and 10% by Mr. Qu Jifa, Ms. Rao Weiping and Ms. Qin Jian, respectively. Charter is the vendor of an aggregate of 50% equity interest in the JV Company under the Realmax Equity Transfer and the Richard Faith Equity Transfer. Charter and its ultimate beneficial owners are independent third parties not connected with or acting in concert with the directors, chief executives or substantial shareholders of SMI or any of its subsidiaries or any of their respective associates
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company” or “Star East”	Star East Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board
“CSH”	China Strategic Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board
“Directors”	the directors of the Company
“Executive”	the Executive Director of Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing Share Option Scheme”	the share option scheme of the Company adopted by the Shareholders on 28 August 2002
“GEM”	The Growth Enterprise Market operated by the Stock Exchange
“General Offers”	the Star East General Offer and the M Channel General Offer
“Get Nice Investment”	Get Nice Investment Limited, a deemed licensed corporation for type 1 (dealings in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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“Independent Director”	Mr. Lam Tak Shing, an independent non-executive Director, who will advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Agreements, so far as the Independent Shareholders are concerned
“Independent Financial Adviser”	First Shanghai Capital Limited, the independent financial adviser to the Independent Director in relation to the connected transactions as contemplated under the Agreements. It is a deemed licenced corporation for type 6 (advising on corporate finance) regulated activity under the SFO
“Independent Shareholders”	Shareholders other than SMI and who are entitled to vote at the SGM
“ITC”	ITC Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board. Dr. Chan Kwok Keung, Charles owns approximately 34.82% of the issued ordinary share capital of ITC through his 100% owned company, Chinaview International Limited, and is deemed to be interested in the 26.09% interest held by ITC in Star East by virtue of his shareholding interest in ITC
“Joint Announcement”	the announcement dated 6 November 2003 issued by the Company and SMI jointly in relation to, inter alia, the Agreements and the General Offers
“JV Co Equity”	any of the 30% equity interest which Richard Faith will have in the JV Company upon the completion of the Richard Faith Equity Transfer
“JV Company”	飛騰制作有限公司 (Fee Tang Production Co., Limited), a Sino-foreign equity joint venture enterprise established in the PRC, of which 40% and 60% of the equity interests were directly owned and held by Max China Limited and Charter respectively as at the Latest Practicable Date
“Kingsway Financial Services”	Kingsway Financial Services Group Limited, a deemed licensed corporation for type 1 (dealings in securities), type 4 (advising on securities), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities under the SFO
“Latest Practicable Date”	25 November 2003, the latest practicable date prior to the issue of this circular for the purpose of ascertaining certain information contained hereunder
“Long Stop Date”	5 May 2004 (or such later date as SMI and the Company may agree in writing), the latest date for the fulfillment of the conditions precedent of the S&P Agreement
“M Channel”	M Channel Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on GEM. As at the Latest Practicable Date, Star East owned approximately 26.91% of the existing issued share capital of M Channel
“M Channel General Offer”	the possible voluntary conditional general offer to be extended by the Offeror Agents, on behalf of SMI, pursuant to the Takeovers Code to acquire the outstanding issued MC Shares

DEFINITIONS

“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Main Board Listing Rules”	The Rules Governing the Listing of Securities on the Main Board
“MC Group”	M Channel and its subsidiaries
“MC Shares”	ordinary shares of HK\$0.002 each in the share capital of M Channel
“MC Shareholder(s)”	holder(s) of the MC Shares
“Mr. Xing”	Mr. Xing Jing, an executive Director and a director of certain subsidiaries of SMI
“Offeror Agents”	Kingsway Financial Services, Get Nice Investment and Young Champion Securities
“Old Share Option Scheme”	the share option scheme of the Company adopted by the Shareholders on 29 April 1996
“PRC”	the People’s Republic of China
“Proposal”	the Subscription and the Proposed Acquisition
“Proposed Acquisition”	the proposed acquisition by Star East from SMI of (i) the entire issued share capital of Realmax; and (ii) the Shareholder’s Loan pursuant to the terms and conditions of the S&P Agreement
“Proposed Purchaser”	potential purchaser(s) of the RF Shares or the JV Co Equity (as the case may be) (other than a company the shares of which are wholly-owned by Mr. Qin Hui (either directly or indirectly) or a subsidiary of any such company)
“ProSmart”	ProSmart Asia Limited, a company incorporated in the British Virgin Islands with limited liability and 100% beneficially owned by SMI (through Realmax)
“Realmax”	Realmax Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and 100% directly and beneficially owned by SMI
“Realmax Equity Transfer”	the transfer by Charter of a 20% equity interest in the JV Company to Realmax
“Repurchase Mandate”	a general mandate granted by the Shareholders to the Directors authorising the Company to repurchase its own Shares
“Richard Faith”	Richard Faith Limited, a company incorporated in the British Virgin Islands with limited liability and 100% directly and beneficially owned by SMI
“Richard Faith Equity Transfer”	the transfer by Charter of a 30% equity interest in the JV Company to Richard Faith
“RF Shares”	the entire or any part of the issued share capital of Richard Faith
“S&P Agreement”	the conditional agreement dated 6 November 2003 entered into between SMI and the Company for the sale and purchase of (i) the entire issued share capital of Realmax; and (ii) the Shareholder’s Loan

DEFINITIONS

“S&P Completion”	completion of the S&P Agreement
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	special general meeting of the Company to be held to consider and approve the transactions contemplated under the Subscription Agreement and the S&P Agreement, and the general mandates to issue securities and repurchase Shares
“Share(s)”	share(s) of HK\$0.005 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shareholder’s Loan”	the shareholder’s loan to be extended by SMI to Realmax in the amount of HK\$20 million immediately before the completion of the Realmax Equity Transfer
“Share Options”	(i) the aggregate of 36,500,000 share options entitling the holders thereof to subscribe for a total of 36,500,000 Shares granted on 3 November 2000, 23 December 2000 and 13 June 2001, respectively pursuant to the Old Share Option Scheme; and (ii) the aggregate of 154,000,000 share options (entitling the holders thereof to subscribe for a total of 154,000,000 Shares) granted on 28 July 2003 pursuant to the Existing Share Option Scheme, which are outstanding as at the Latest Practicable Date
“SMI”	Strategic Media International Limited, a company incorporated in the British Virgin Islands with limited liability
“Star East General Offer”	the possible mandatory conditional general offer to be extended by the Offeror Agents, on behalf of SMI, pursuant to Rule 26 of the Takeovers Code to acquire the outstanding issued Shares and other securities of the Company
“Stellar”	星美傳媒有限公司 (Stellar Megamedia Co., Ltd.), a company registered in the PRC with limited liability. As at the Latest Practicable Date, Charter owned an approximately 87.97% equity interest in Stellar. Mr. Qin Hui is the managing director and legal representative of Stellar
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription of the Subscription Shares under the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 6 November 2003 entered into between (i) the Company as the issuer; and (ii) SMI as the subscriber, for subscription of the Subscription Shares at the Subscription Price
“Subscription Completion”	completion of the Subscription Agreement
“Subscription Price”	subscription at a price of HK\$0.04 per Subscription Share
“Subscription Share(s)”	1,575,000,000 new Shares to be issued by the Company pursuant to the Subscription Agreement
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Transfer Notice”	a written notice to be given by SMI or Richard Faith (as the case may be) stating that it proposes to transfer the RF Shares or the JV Co Equity (as the case may be) to the Proposed Purchaser
“Young Champion Securities”	Young Champion Securities Limited, a deemed licensed corporation for type 1 (dealings in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of United States of America
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For the purpose of this circular, conversion of Renminbi into Hong Kong dollars is calculated at the approximate exchange rate of RMB1.06 to HK\$1.00, for the purpose of illustration only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate.

LETTER FROM THE BOARD

***StarEast* 東方魅力**

STAR EAST HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Directors:

Tam Wing Lun, Alan (*Chairman*)
Tsang Chi Wai, Eric (*Deputy Chairman*)
Chan Pak Cheung, Natalis (*Deputy Chairman*)
Zhu Yong De (*Deputy Chairman*)*
Wong Kun To (*Managing Director*)
Xing Jing (*Deputy Managing Director*)
Chan Chak Mo
Robert Ian Earl
Lai Ming, Leon
Li Wei
Jiang Kun*
Zhu Shi Mao*
Au Chun Kwok, Augustus**
Lam Tak Shing**

*Principal place of business
in Hong Kong:*

29th Floor
Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Registered office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

* *Non-executive Director*

** *Independent non-executive Director*

27 November 2003

To the Shareholders

Dear Sir/Madam,

**(1) CONNECTED TRANSACTION
PROPOSED SUBSCRIPTION OF 1,575,000,000 NEW SHARES
BY STRATEGIC MEDIA INTERNATIONAL LIMITED**

**(2) DISCLOSEABLE AND CONNECTED TRANSACTION
PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
REALMAX HOLDINGS LIMITED AND SHAREHOLDER'S LOAN EXTENDED BY
STRATEGIC MEDIA INTERNATIONAL LIMITED TO
REALMAX HOLDINGS LIMITED
FROM STRATEGIC MEDIA INTERNATIONAL LIMITED**

AND

**(3) PROPOSED RENEWAL OF GENERAL MANDATES
TO ISSUE SECURITIES AND REPURCHASE SHARES**

1. INTRODUCTION

Reference is made to the joint announcement dated 6 November 2003 issued jointly by Star East and SMI in relation to the Proposal and the General Offers.

In summary, the Proposal related to the following matters:

- (i) The Company has on 6 November 2003 entered into the Subscription Agreement with SMI, pursuant to which SMI has conditionally agreed to subscribe for 1,575,000,000 new Shares at a price of HK\$0.04 per Share. The Subscription is conditional upon the fulfilment of the conditions set out in the section headed "2. The Subscription Agreement" below but not the S&P Completion.

LETTER FROM THE BOARD

- (ii) The Company also has on 6 November 2003 entered into the S&P Agreement with SMI, pursuant to which the Company has conditionally agreed to acquire and SMI has conditionally agreed to dispose of (i) the entire issued share capital of Realmax; and (ii) the Shareholder's Loan, for an aggregate consideration of HK\$20 million. The consideration will be satisfied by the Company in cash.

Details of the conditions precedent of the aforesaid agreements are set out in the sections headed "2. The Subscription Agreement" and "3. The S&P Agreement" below.

SMI is a substantial shareholder of Star East holding 1,100,000,000 Shares (representing approximately 25.28% of the existing issued share capital of Star East) as at the Latest Practicable Date. Accordingly, the transaction contemplated under the Subscription Agreement constituted a connected transaction for the Company under Chapter 14 of the Main Board Listing Rules. Pursuant to Rule 14.26(3) of the Main Board Listing Rules, the transaction contemplated under the Subscription Agreement would be conditional upon the approval of the Independent Shareholders. The transaction contemplated under the S&P Agreement also constituted a discloseable and connected transaction for the Company under Chapter 14 of the Main Board Listing Rules. Pursuant to Rule 14.26(1) of the Main Board Listing Rules, the Proposed Acquisition would also be conditional upon the approval of the Independent Shareholders.

The purpose of this circular is to provide you with further information on: (i) the Subscription Agreement and the S&P Agreement; (ii) the General Offers; (iii) the general mandates to issue securities and repurchase Shares; and (iv) the notice for convening the SGM in which the necessary resolutions will be proposed in order to seek Shareholders' requisite approval.

SMI (who is interested in the Subscription Agreement and the S&P Agreement) and its associates, owning in aggregate 1,100,000,000 Shares as at the Latest Practicable Date, will abstain from voting at the SGM with respect to the resolutions to approve the Subscription Agreement and the S&P Agreement.

A notice convening the SGM to be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 December 2003 at 11:00 a.m. is set out on pages 45 to 47 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions in respect of (i) the Subscription Agreement; (ii) the S&P Agreement; and (iii) the grant of general mandates to the Directors to issue securities and repurchase Shares.

Mr. Au Chun Kwok, Augustus, an independent non-executive Director, is a partner of the solicitors' firm, Messrs. Vincent T.K. Cheung, Yap & Co. which has from time to time provided legal services to ITC, CSH and the Group. Although neither Mr. Au nor his solicitors' firm is involved in the Subscription or the Proposed Acquisition, he does not consider himself appropriate to be a member of the independent board committee for the purpose of advising the Independent Shareholders. Accordingly, only Mr. Lam Tak Shing, the remaining independent non-executive Director, will advise the Independent Shareholders as to whether the terms of the Subscription Agreement and the S&P Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company as a whole. In addition, First Shanghai Capital Limited, the Independent Financial Adviser, has been appointed to advise the Independent Director with respect to the Subscription Agreement and the S&P Agreement.

2. THE SUBSCRIPTION AGREEMENT

Date: 6 November 2003

Parties: (i) The Company, the issuer
(ii) SMI, the subscriber

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- Subscription Price: The subscription price of HK\$0.04 per Share under the Subscription Agreement represents:
- a discount of approximately 24.53% to the closing price of HK\$0.053 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
 - a discount of approximately 35.48% to the closing price of HK\$0.062 per Share as quoted on the Stock Exchange on 6 November 2003 (being the date of the Joint Announcement);
 - a discount of approximately 37.50% to the average closing price of HK\$0.064 per Share for the 10 consecutive trading days up to and including 6 November 2003;
 - a discount of approximately 34.43% to the average closing price of HK\$0.061 per Share for the 30 consecutive trading days up to and including 6 November 2003;
 - a discount of approximately 18.37% to the average closing price of HK\$0.049 per Share for the 90 consecutive trading days up to and including 6 November 2003;
 - equivalent to the average closing price of HK\$0.040 per Share for the 180 consecutive trading days up to and including 6 November 2003; and
 - a premium of approximately 73.91% over the audited consolidated net tangible asset value of the Group (i.e. HK\$0.023 per Share) as at 31 March 2003, the date of the latest published audited consolidated balance sheet of the Group.

The Subscription Price was negotiated and determined on an arm's length basis between the parties to the Subscription Agreement as well as on the other factors described in the section headed "5. Basis of negotiation of the terms and conditions of the Subscription Agreement and the S&P Agreement" below.

- Subscription Shares: 1,575,000,000 new Shares to be issued under the Subscription, representing approximately 36.20% of the issued share capital of the Company as at the Latest Practicable Date or approximately 26.58% of the enlarged issued share capital of the Company immediately after the Subscription Completion. The Shares held or to be subscribed by SMI are/will not be subject to any lock up.

- Ranking of the
Subscription Shares: All Subscription Shares, upon their issuance, will rank pari passu with all other Shares in issue on the date of allotment of the Subscription Shares in all respects (including, but without limiting the generality of the foregoing, the right to any dividends or distributions declared by the Company on or after the date of allotment of the Subscription Shares).

LETTER FROM THE BOARD

Net proceeds
and application:

The net proceeds from the issue of 1,575,000,000 new Shares under the Subscription are estimated to be approximately HK\$61 million.

The net proceeds to be raised by the Subscription will be applied as follows:

- if the S&P Agreement completes, HK\$20 million will be used to acquire the entire issued share capital of Realmax pursuant to the terms of the S&P Agreement, HK\$30 million will be used as general working capital and the balance of HK\$11 million for investment in media entertainment business, in each case on such terms and subject to such conditions as the Board may resolve; or
- if the S&P Agreement is not completed, HK\$30 million will be used as general working capital and the balance of HK\$31 million will be used for investment in media entertainment business, in each case on such terms and subject to such conditions as the Board may resolve.

Conditions:

Subscription Completion is conditional upon:

- (a) the passing by the Independent Shareholders of an ordinary resolution at the SGM to be convened for the purpose of approving the transaction contemplated by the Subscription Agreement in accordance with the requirements of the Listing Rules and the memorandum and bye-laws of the Company;
- (b) the Listing Committee of the Main Board of the Stock Exchange granting the listing of, and permission to deal in, all the Subscription Shares (subject only to allotment) and such permission and listing not subsequently being revoked;
- (c) if necessary, the Bermuda Monetary Authority approving or agreeing to approve the allotment, issue and subsequent transfer of the Subscription Shares;
- (d) SMI notifying the Company in writing that it is satisfied upon inspection and investigation of the due diligence review of the Group that there is no material adverse change in the financial position of the Group since 31 March 2003 (other than any material adverse change directly caused by Severe Acute Respiratory Syndrome and/or force majeure events (i.e., any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, labour dispute, strike or lock-out));
- (e) the warranties given by the Company and SMI as contained in the Subscription Agreement remaining true and accurate and not misleading in any material respect at all times from the date of the Subscription Agreement up to and including the date of the Subscription Completion;
- (f) SMI having received an opinion from a firm of lawyers qualified to practise law in Bermuda in relation to the Company, which is in all respects to the reasonable satisfaction of SMI; and

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- (g) the current listing of the Shares not having been withdrawn, the Shares continuing to be traded on the Stock Exchange prior to the date of the Subscription Completion (save for any temporary suspension not exceeding 10 business days or any temporary suspension pending any announcement in connection with the Subscription Agreement, the S&P Agreement and/or the General Offers), and the SFC and the Stock Exchange not having indicated that the listing of the Shares on the Stock Exchange will be withdrawn or objected to.

SMI may waive any of the conditions (save and except for the conditions set out in (a), (b) and (c) above which cannot be waived) at any time by notice in writing to the Company.

If any of the conditions has not been fulfilled or waived (as the case may be) on or before 6:00 p.m. on 30 December 2003 or such other date or time as may be agreed between the Company and SMI, then SMI and the Company shall not proceed with the Subscription and the Subscription Agreement shall cease to be of any effect (save in respect of claims arising out of any antecedent breach of the Subscription Agreement).

- Completion: Subject to the fulfillment of the conditions precedent set out above, Subscription Completion shall take place on the completion date set out below.
- Completion date: The 3rd business day immediately after the day on which the last of the conditions of the Subscription Agreement (other than conditions (e) and (g)) is fulfilled or waived (as the case may be) provided that conditions (e) and (g) must be fulfilled or waived (as the case may be) on the date of the Subscription Completion or such other date and/or time as the parties may mutually agree in writing.
- Undertaking: SMI has undertaken that following and subject to the Subscription Completion, the Offeror Agents shall, on its behalf, make the General Offers in accordance with the Takeovers Code.

Application has been made by the Company to the Main Board for the listing of, and permission to deal in, the Subscription Shares.

Shareholders and potential investors of the Shares should note that the Subscription Completion is subject to a number of conditions. The despatch of this circular does not in any way imply that the Subscription Agreement, the General Offers (as described below) and the S&P Agreement (as described below) will be completed. Shareholders and the public should exercise caution when dealing in the Shares.

3. THE S&P AGREEMENT

On 6 November 2003, Star East and SMI entered into the S&P Agreement pursuant to which Star East has conditionally agreed to acquire, and SMI has conditionally agreed to dispose of (i) the entire issued share capital of Realmax (with a nominal value of US\$1); and (ii) the Shareholder's Loan, which will amount to approximately HK\$20 million on the S&P Completion, for an aggregate consideration of HK\$20 million. The Shareholder's Loan to be extended by SMI to Realmax immediately before the completion of the Realmax Equity Transfer will be used for the purpose of paying the consideration for the Realmax Equity Transfer.

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As at the Latest Practicable Date, Realmax had not carried on any business since its incorporation. It also did not have any asset and liability (other than its 100% shareholding interest in ProSmart and the financial advance from SMI to Realmax, which amounted to approximately HK\$5.2 million as at the Latest Practicable Date). Immediately before the completion of the Realmax Equity Transfer, SMI intends to increase the aforesaid financial advance to HK\$20 million and Realmax will use such financial advance to settle the Realmax Equity Transfer. ProSmart is a limited company incorporated in the British Virgin Islands, which has not carried on any business nor possessed any assets (other than the paid-up capital of US\$1).

Immediately after the completion of the Realmax Equity Transfer, the only liability of Realmax will be the Shareholder's Loan while the assets and businesses of Realmax will be its shareholding interest in ProSmart and its investment holding of a 20% equity interest in the JV Company. Details of Realmax, the JV Company and the Realmax Equity Transfer are set out in the sections headed "7c) Realmax", "7d) The JV Company" and "7e) The Realmax Equity Transfer and the Richard Faith Equity Transfer" below.

Pursuant to the S&P Agreement, the Company has the right to appoint one person as a director of the JV Company (seven directors in total) on the S&P Completion. On S&P Completion, the Company will have a 20% equity interest in the JV Company. After the S&P Completion, the JV Company will become an associated company of the Group.

Set out below are the key features of the S&P Agreement in relation to the Proposed Acquisition:

Date: 6 November 2003

Parties: (i) Star East, as the purchaser
(ii) SMI, as the vendor

SMI is a substantial shareholder of the Company holding a 25.28% interest therein as at the Latest Practicable Date. Hence, SMI is a connected person of the Company under the Main Board Listing Rules.

Assets involved in the Proposed Acquisition: 1 share of US\$1.00, representing the entire issued share capital of Realmax, and the Shareholder's Loan.

The assets and businesses of Realmax after the completion of the Realmax Equity Transfer will be its shareholding interest in ProSmart, a dormant company, and its investment holding of a 20% equity interest in the JV Company. As at the Latest Practicable Date, the JV Company was owned as to 60% and 40% by Charter and Max China Limited, respectively. It is engaged in the research, development and production of computer software, prop scene, costumes and lighting equipment, provision of consultancy and technical support service for the aforesaid products, and leasing and sale of such products. Further details of the JV Company are set out in the paragraph headed "7d) The JV Company" under the section headed "7. Information on the Company, SMI, Realmax, the JV Company, the Realmax Equity Transfer and the Richard Faith Equity Transfer" below.

Consideration: HK\$20 million, which will be satisfied by the Company in cash on the S&P Completion.

The consideration payable for the Proposed Acquisition was determined after arm's length negotiations between the parties to the S&P Agreement and based on the unaudited net tangible asset value of the JV Company as at 31 July 2003, being approximately RMB107.2 million (equivalent

LETTER FROM THE BOARD

to approximately HK\$101.1 million) as reflected in its unaudited management accounts for the seven months ended 31 July 2003.

Right of First Refusal: Subject to the completion of the Richard Faith Equity Transfer, if a Proposed Purchaser proposes to purchase from SMI the RF Shares or if a Proposed Purchaser proposes to purchase from Richard Faith the JV Co Equity at any time during a period of 24 months from the date of the S&P Completion, the Company shall have a right of first refusal with respect to the RF Shares, or subject to the persons who are, at the relevant time, joint venture partners of the JV Company (other than Richard Faith) waiving their right of pre-emption to purchase the JV Co Equity in accordance with the terms of the joint venture contract and articles of association of the JV Company or otherwise, the JV Co Equity (as the case may be).

Details of the Richard Faith Equity Transfer and the JV Company are set out in the sections headed “7e) The Realmax Equity Transfer and the Richard Faith Equity Transfer” and “7d) The JV Company” below. As at the Latest Practicable Date, Richard Faith had not carried on any business since its incorporation. It also did not have any asset or liability.

Before transferring the RF Shares or the JV Co Equity (as the case may be) to the Proposed Purchaser, SMI shall give, or shall procure Richard Faith to give, to the Company a Transfer Notice. The Company shall, for a period of 2 months after the date of the Transfer Notice, have the right to purchase in whole, but not in part, of the RF Shares or the JV Co Equity (as the case may be) at the same price and on the same terms and conditions as those upon which the Proposed Purchaser proposes to acquire the same from SMI or Richard Faith (as the case may be).

The right of first refusal will be granted pursuant to the S&P Agreement. The right of first refusal, if exercised by Star East in future, would constitute a connected transaction for Star East. Star East will comply with all applicable laws, rules and regulations (including, but without limiting the generality of the foregoing, the requirements of the Main Board Listing Rules) in respect thereof.

Conditions precedent of the S&P Agreement: Completion of the S&P Agreement shall be conditional upon:

- (a) the passing by the Independent Shareholders of an ordinary resolution at the SGM to be convened for the purpose of approving the transaction contemplated by the S&P Agreement in accordance with the requirements of the Main Board Listing Rules and the memorandum and bye-laws of the Company;
- (b) the Company notifying SMI in writing that it is satisfied upon inspection and investigation as to the legal and financial due diligence review of Realmax, ProSmart and the JV Company;
- (c) the Company having received a PRC legal opinion issued by a firm of lawyers qualified to practise law in the PRC in relation to the JV Company which is in the agreed form;

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- (d) all necessary approvals, licences, permits, consents and authorisations for the Realmax Equity Transfer having been obtained from and issued by the competent PRC governmental authorities (including approvals from State Administration of Foreign Exchange), regulatory bodies and any relevant parties and completion of the Realmax Equity Transfer;
- (e) the Company having received evidence, and being satisfied, that Realmax has fully paid the purchase price under the Realmax Equity Transfer in a legal manner;
- (f) the Subscription Agreement having become unconditional in all respects;
- (g) all necessary consents, authorisations or other approvals (or, as the case may be, the relevant waiver) of any kind in connection with the entering into and performance by the Company of the terms of the S&P Agreement, which may be required under the Main Board Listing Rules, by the Stock Exchange or any regulatory authority, having been obtained; and
- (h) the current listing of the Shares not having been withdrawn, the Shares continuing to be traded on the Stock Exchange prior to the date of the S&P Completion (save for any temporary suspension pending any announcement in connection with the Subscription Agreement, the S&P Agreement and/or the General Offers), and the SFC and the Stock Exchange not having indicated that the listing of the Shares on the Stock Exchange will be withdrawn or objected to.

The Company may waive any of the conditions (save and except the conditions set out in (a), (f), (g) and (h) above which cannot be waived) at any time before S&P Completion by notice in writing to SMI.

If any of the conditions has not been fulfilled or waived (as the case may be) by the Company on or before 6:00 p.m. on the Long Stop Date, then SMI and the Company shall not be bound to proceed with the sale and purchase of the entire issued share capital of Realmax or the assigning of the Shareholders' Loan, and the S&P Agreement shall cease to be of any effect (save in respect of claims arising out of antecedent breach of the S&P Agreement).

Completion: Subject to the fulfillment of the conditions set out above, S&P Completion shall take place on the completion date set out below.

Completion date: The S&P Completion shall take place:

- (a) if condition (f) is the last of the conditions precedent to be fulfilled or waived (as the case may be) (other than condition (h), which must be fulfilled on the date of completion of the S&P Agreement), the date on which the Subscription Completion takes place; or
- (b) if condition (f) is not the last of the conditions precedent to be fulfilled or waived (as the case may be) (other than condition (h), which must be fulfilled on the date of completion of the S&P Agreement), the 3rd business day after the date on which the last

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of the conditions precedent is fulfilled or waived (as the case may be) (other than condition (h), which must be fulfilled on the date of completion of the S&P Agreement) and the date on which the condition set out in (h) is fulfilled; or

(c) on such other date as the parties may agree in writing.

Shareholders and potential investors of the Shares should note that the Proposed Acquisition would not proceed if the Subscription Agreement has not become unconditional in all respects. The despatch of this circular does not in any way imply that the Subscription Agreement and the S&P Agreement (as described above) will be completed. Shareholders and the public should exercise caution when dealing in the Shares.

4. POSSIBLE GENERAL OFFERS

Immediately after the Subscription Completion, SMI and parties acting in concert with it will own 2,675,000,000 Shares, representing approximately 45.14% of the enlarged issued share capital of the Company immediately after the Subscription Completion, and SMI will, following and subject to Subscription Completion, be required to extend a conditional mandatory general offer for all the outstanding Shares and Share Options (other than those already owned by SMI or parties acting in concert with it) in accordance with Rule 26 of the Takeovers Code. Subject to the Subscription Completion, SMI has agreed to extend a conditional voluntary general offer for all the outstanding MC Shares (other than the MC Shares then already owned by SMI or parties acting in concert with it).

(a) Possible Star East General Offer

Immediately after and subject to the Subscription Completion, the Offeror Agents will, on behalf of SMI, make a conditional mandatory general offer to acquire all the issued Shares (other than those then already owned by SMI or parties acting in concert with it) and to cancel all outstanding Share Options, other than those held by the SMI or parties acting in concert with it, on the terms to be set out in the composite offer document relating to the Star East General Offer and on the following basis:

For each Share	HK\$0.04 in cash
For each share option granted under the Old Share Option Scheme	HK\$0.001 in cash
For each share option granted under the Existing Share Option Scheme	HK\$0.007 in cash

ITC has irrevocably undertaken to SMI that: (i) it will not accept, and that it will procure its subsidiaries not to accept, the Star East General Offer; and (ii) none of them will transfer any of the 1,135,082,479 Shares held by them as at the date of the Joint Announcement or any Shares which ITC or any of its subsidiaries may acquire subsequent to the date of the Joint Announcement before the closing or lapse of the Star East General Offer. The undertaking shall lapse and cease to be binding if, and only if, the Subscription Completion does not take place.

No other Shareholder has undertaken with SMI to accept or reject the Star East General Offer.

Shareholders are advised not to take any action in connection with the Star East General Offer until they have received advice from the independent board committee of the Company, which will be contained in a composite offer document in relation to the Star East General Offer. Shareholders are also strongly advised to seek independent financial advice.

(b) Possible M Channel General Offer

Immediately after and subject to the Subscription Completion, the Offeror Agents will, on behalf of SMI, make a voluntary conditional general offer to all the MC Shareholders to acquire

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all the outstanding MC Shares (other than those then already owned by SMI or parties acting in concert with it) subject to the conditions and on the terms to be set out in the composite offer document relating to the M Channel General Offer and on the following basis:

For each MC Share HK\$0.015 in cash

Save for the MC Shares, M Channel has no options, warrants, derivatives or other securities issued by M Channel that carry a right to subscribe for or which are convertible into MC Shares.

ITC has irrevocably undertaken to SMI that: (i) it will not accept, and that it will procure its subsidiaries not to accept, the M Channel General Offer; and (ii) none of them will transfer any of the 199,840,625 MC Shares held by them as at the date of the Joint Announcement or any MC Shares which ITC or any of its subsidiaries may acquire subsequent to the date of the Joint Announcement before the closing or lapse of the M Channel General Offer. The undertaking shall lapse and cease to be binding if, and only if, the Subscription Completion does not take place.

As at the Latest Practicable Date, Star East is the single largest shareholder of M Channel and is interested in 285,500,562 MC Shares, representing approximately 26.91% of the issued share capital of M Channel. By virtue of the Takeovers Code, Star East is regarded as an associated company of SMI and will be presumed to be a person acting in concert with SMI insofar as the M Channel General Offer is concerned. Hence, the M Channel General Offer will not be extended to Star East or any of its subsidiaries. In addition, Star East has irrevocably undertaken to SMI that none of Star East or its subsidiaries will transfer any of the 285,500,562 MC Shares held by them as at the date of the Joint Announcement or purchase any MC Shares or any other securities in M Channel before the closing or lapse of the M Channel General Offer. The undertaking shall lapse and cease to be binding if, and only if, the Subscription Completion does not take place.

No other MC Shareholder has undertaken with SMI to accept or reject the M Channel General Offer.

MC Shareholders are advised not to take any action in connection with the M Channel General Offer until they have received advice from the independent board committee of M Channel, which will be contained in a composite offer document in relation to the M Channel General Offer. MC Shareholders are also strongly advised to seek independent financial advice.

(c) Future intentions of SMI on Star East and M Channel following the close of the General Offers

SMI does not intend to apply for any right which may be available to it to acquire compulsorily any Shares or MC Shares outstanding after the close of the Star East General Offer and the M Channel General Offer.

SMI intends to retain all the existing members of the Board and M Channel as directors of the Company and M Channel respectively.

There will not be any material change to the continued employment of the management and employees of the Group and MC Group as a result of the General Offers.

Following the close of the General Offers, SMI intends to continue the existing principal businesses of the Company and M Channel, and SMI has no intention to inject any new assets or businesses into the Group and M Channel and/or dispose of any assets (including fixed assets) relating to the core businesses of the Group and M Channel immediately after the completion of the General Offers, save for the Proposed Acquisition.

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(d) Maintenance of listing status of the Company and M Channel

It is the intention of SMI to maintain the listing of the Company and M Channel on the Stock Exchange and GEM after the close of the Star East General Offer and the M Channel General Offer respectively.

SMI has undertaken to the Stock Exchange and GEM that following the close of the Star East General Offer and the M Channel General Offer, appropriate steps will be taken to ensure that not less than 25% of the Shares and MC Shares will be held by the public. When the Star East General Offer and/or the M Channel General Offer close, should there be less than 25% of the Shares and/or MC Shares in public hands, the directors of SMI will take appropriate steps which may include placing down SMI's shareholding interest in the Company and/or M Channel (as the case may be) to independent third parties not connected with or acting in concert with the directors, chief executives or substantial shareholders of the Company or M Channel (the case may be) or any of their respective subsidiaries or any of their respective associates (within one month after the close of the Star East General Offer and the M Channel General Offer (as the case may be)). The Stock Exchange and GEM have stated that if less than 25% of the Shares and/or MC Shares (as the case may be) are held by the general public following the close of the Star East General Offer and/or the M Channel General Offer, **or if the Stock Exchange or GEM believes that:**

- a false market exists or may exist in the trading of the Shares and/or the MC Shares; or
- there are insufficient Shares and/or MC Shares in public hands to maintain an orderly market,

then the Stock Exchange (with regard to the Shares) and GEM (with regard to the MC Shares) will consider exercising their respective discretion to suspend trading in the Shares and/or the MC Shares (as the case may be). In this connection, it should be noted that upon the close of the Star East General Offer and/or the M Channel General Offer, there may be an insufficient public float for the Shares and/or the MC Shares and, therefore, trading in the Shares and/or the MC Shares may be suspended until a sufficient level of public float is attained.

The Stock Exchange and GEM will also closely monitor all future acquisitions or disposals of assets by the Company and M Channel. Each of the Stock Exchange and GEM has indicated that it has the discretion to require the Company and/or M Channel to issue a circular to their shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company or M Channel (as the case may be). The Stock Exchange and GEM also have the power to aggregate a series of transactions of the Company or M Channel and any such transactions may result in the Company or M Channel being treated as if it were a new listing applicant.

Warning: The General Offers are only a possibility. The making of the General Offers is subject to and conditional upon the fulfillment of various conditions precedent. The Subscription Agreement may or may not be completed, and it is uncertain whether the General Offers will be made. Shareholders and potential investors of Shares are advised to exercise caution in dealing in the Shares. Further announcement will be made by the Company regarding the General Offers when appropriate. A copy of the composite offer document to be issued by the Company and SMI in relation to the Star East General Offers (containing the advice of the Independent Financial Adviser) will be despatched to the Shareholders not later than seven days from the Subscription Completion.

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5. BASIS OF NEGOTIATION OF THE TERMS AND CONDITIONS OF THE SUBSCRIPTION AGREEMENT AND THE S&P AGREEMENT

The terms of the Subscription Agreement and the S&P Agreement were arrived at after arm's length negotiations between the parties involved and taking into account a number of factors including, among other things, (i) the current financial position of the Group; (ii) the competitive environment of the media entertainment business which the Group is currently operating in Hong Kong; (iii) the current stock market condition; and (iv) the request for new funding by the Group to explore opportunities or collaboration with its PRC business associates in the entertainment-related business.

Although the stock market in Hong Kong has since July 2003 surged to a 12-month record high (with Hang Seng Index recording 12440 on 4 November 2003 and a trading volume of HK\$1,100 million on 18 July 2003), the Directors noted that investors tend to place their emphasis on those stocks with solid track records. Given the Group has recorded consecutive losses over the past two years, the Directors face difficulties in seeking new bank financing and/or independent third party securities underwriter(s) to underwrite any equity fund raising exercise. The Subscription Price under the Subscription was determined after taking into account a number of factors, in particular, the general working capital requirement of the Group and the potential funding required by the Group to enable it to be adequately equipped to invest in any investment projects relating to the media/entertainment business arising in the coming 12 months. However, the Board at the moment has not identified nor has it commenced/contemplated any negotiation with any party in respect of any future investment project (save for the Proposed Acquisition). Hence, the Board considers the opportunity to raise approximately HK\$61 million (net of expenses) new equity funding for the Group, even though the Subscription Price per Share of HK\$0.04 represents a discount to the average closing price of the Shares as described in this section below, outweighs the likely dilutive effect to the existing shareholding, net tangible assets and future earnings (if any) of the Group following the Subscription Completion.

The consideration of HK\$20 million payable for the Proposed Acquisition was determined by reference to the unaudited net tangible asset value of the JV Company as at 31 July 2003 as reflected in its unaudited management accounts for the seven months ended 31 July 2003. As the consideration to be payable in cash is equivalent to its share of the net tangible asset value of the JV Company, the Directors believe that the proposed Acquisition will not have any material effect on the net tangible asset value of the Company immediately following the completion of the Proposed Acquisition. Taking into account the possible future potentials of the film and television drama production business in the PRC due to the increasing demand for entertainment contents from the vast general public in the PRC, the Board believes that by acquiring a 20% equity interest in the JV Company (one of the few non-state owned companies engaged in research, development and production of computer software, prop scene, costumes and lighting equipment, provision of consultancy and technical support service for the aforesaid products, and leasing and sale of such products in the PRC) through the acquisition of the entire issued share capital of Realmax, the Company will be able to provide cross-border auxiliary service and technical support for film production and expand its existing business scope and potential revenue stream. The Board believes that the consideration payable under the Proposed Acquisition is fair and reasonable.

Accordingly, the Board considers that under such circumstances, the terms and conditions of the Subscription Agreement and the S&P Agreement, as well as the consideration of the Subscription and the Proposed Acquisition, are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company.

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6. SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND IMMEDIATELY AFTER THE SUBSCRIPTION COMPLETION

Set out below is the shareholding structure of the Company before and after the Subscription Completion.

	Current shareholding		Immediately after the Subscription Completion	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
ITC (<i>Note</i>)	1,135,082,479	26.09	1,135,082,479	19.15
CSH (<i>Note</i>)	57,800,000	1.33	57,800,000	0.98
SMI	1,100,000,000	25.28	2,675,000,000	45.14
Public	2,058,492,676	47.30	2,058,492,676	34.73
Total	<u>4,351,375,155</u>	<u>100.00</u>	<u>5,926,375,155</u>	<u>100.00</u>

Note: ITC, through a non-wholly owned subsidiary, is holding an equity interest of approximately 31.20% in CSH as at the Latest Practicable Date. ITC and CSH are presumed to be parties acting in concert with regard to Star East under the Takeovers Code.

7. INFORMATION ON THE COMPANY, SMI, REALMAX, THE JV COMPANY, THE REALMAX EQUITY TRANSFER AND THE RICHARD FAITH EQUITY TRANSFER

a. The Company

The Group is principally engaged in entertainment-related businesses, including the production, distribution and licensing of movies, television drama series, documentary and infotainment programmes, the franchising and operation of theme restaurants under the brand name of “Planet Hollywood” and “Star East” in Asia Pacific, strategic investment in M Channel, talent management, music production, event production and marketing and property investment.

Set out below are the audited financials of the Group for the two financial years ended 31 March 2003:

	Financial year ended 31 March	
	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	179,797	139,913
Loss from operations	(264,543)	(35,357)
Loss for the year	(461,690)	(130,409)
Net assets	141,457	58,064
Net tangible assets	138,691	56,368
Net tangible assets per Share (HK\$) (<i>Note</i>)	0.079	0.023

Note: Based on 2,451,375,155 Shares in issue as at 31 March 2003 (1,751,375,155 Shares in issue as at 31 March 2002).

b. SMI

The following information of SMI are extracted from the Joint Announcement:

SMI is an investment holding company incorporated in the British Virgin Islands with limited liability on 28 February 2003. Mr. Qin Hui holds 100% of the issued share capital of SMI and is its sole director. SMI is principally engaged in investment holding in media entertainment related business. As at the Latest Practicable Date, SMI held a 25.28% interest in the Company, a

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100% interest in each of Realmax and Richard Faith and a 70% interest in Sun Satellite Television Company Limited and Sun Television Cybernetworks Enterprise Limited.

As at the Latest Practicable Date, Sun Satellite Television Group Limited held a 29% equity interests in each of Sun Satellite Television Company Limited and Sun Television Cybernetworks Enterprise Limited, while the remaining 1% equity interest in each of Sun Satellite Television Company Limited and Sun Television Cybernetworks Enterprise Limited was held by First Star International Limited. Both Sun Satellite Television Group Limited and First Star International Limited are independent third parties not connected with or acting in concert with the directors, chief executives or substantial shareholders of SMI or any of its respective subsidiaries or any of their respective associates.

Sun Satellite Television Company Limited and Sun Television Cybernetworks Enterprise Limited are engaged in the business of satellite television broadcasting and the provision of television related management and consultancy services respectively.

Save for the subscription by SMI of 1,100,000,000 new Shares, representing approximately 25.28% of the issued share capital of the Company as at the Latest Practicable Date, at the price of HK\$0.04 per Share which was completed on 9 July 2003, and the holding of 43,000,000 share options by Mr. Xing under the Existing Share Option Scheme, neither SMI, its associates nor any of the parties acting in concert with it owns any Shares and/or Share Option, nor has any of them dealt in the Shares during the six months preceding the date of the Joint Announcement.

c. Realmax

The following information of Realmax are extracted from the Joint Announcement:

Realmax is a company incorporated on 28 July 2003 in the British Virgin Islands with limited liability and was 100% directly and beneficially owned by SMI as at the Latest Practicable Date. As at the Latest Practicable Date, Realmax had not carried on any business since its incorporation. It also did not have any asset and liability (other than its 100% shareholding interest in ProSmart and the financial advance from SMI to Realmax, which amounted to approximately HK\$5.2 million). Immediately before the completion of the Realmax Equity Transfer, SMI intends to increase the aforesaid financial advance to HK\$20 million and Realmax will use such financial advance to settle the Realmax Equity Transfer. Immediately after the completion of the Realmax Equity Transfer, the only liability of Realmax will be the Shareholder's Loan while the assets of Realmax will be its shareholding interest in ProSmart and a 20% equity interest in the JV Company.

On 6 November 2003, Star East and SMI entered into the S&P Agreement pursuant to which Star East has conditionally agreed to acquire and SMI has conditionally agreed to dispose of (i) the entire issued share capital of Realmax; and (ii) the Shareholder's Loan for an aggregate consideration of HK\$20 million.

d. The JV Company

The following information of the JV Company are extracted from the Joint Announcement:

The JV Company is initially a wholly foreign owned enterprise incorporated by Fee Tang Production Co. on 11 October 1995 in Beijing, the PRC. It is principally engaged in the research, development and manufacture of computer software, prop scene, costumes and lighting equipment, provision of consultancy and technical support service for the aforesaid products, leasing and sale of such products in the PRC. On 27 April 2001, Max China Limited acquired the entire 100% equity interest in the JV Company from Fee Tang Production Co. On 9 May 2002, Stellar acquired a 60% equity interest in the JV Company from Max China Limited and the JV Company became a Sino-foreign equity joint venture company. On 25 April 2003, Stellar disposed of its 60% equity interests in the JV Company to Charter. The shareholding structure of the JV Company has not been changed since then.

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Set out below are the audited financials of the JV Company for the two years ended 31 December 2002:

	Year ended 31 December	
	2002	2001
	RMB'000	RMB'000
Turnover	4,931	8,647
Profit before tax	3,761	7,093
Net profit for the year	3,347	7,093
Net assets	107,755	118,963
Net tangible assets	107,761	118,963

Charter is owned as to 80%, 10% and 10% by Mr. Qu Jifa, Ms. Rao Weiping and Ms. Qin Jian, respectively. Mr. Qin Hui was interested in approximately 80% of the equity interest in Charter from 14 June 2000 to 18 September 2002. On 18 September 2002, Mr. Qin disposed all of his interests in Charter to Mr. Qu Jifa. As a result, as at the Latest Practicable Date, Mr. Qin did not have any interest in Charter. Save for the above, Charter and its shareholders, namely, Mr. Qu Jifa, Ms. Rao Weiping and Ms. Qin Jian are independent third parties not connected with or acting in concert with the directors, chief executives or substantial shareholders of SMI or any of its respective subsidiaries or any of their respective associates.

Each of Mr. Qu Jifa, Ms. Rao Weiping and Ms. Qin Jian is also an independent third party not connected with or acting in concert with the Company or its substantial shareholders, directors or chief executive of the Company and its subsidiaries or their respective associates.

Max China Limited is a wholly-owned subsidiary of Fee Tang Holdings Limited which is owned by an independent third party not connected with SMI or Mr. Qin Hui or the substantial shareholders, directors or chief executive of SMI and its subsidiaries or their respective associates.

Fee Tang Holdings Limited and its ultimate beneficial owner are also independent third parties not connected with the Company or its substantial shareholders, directors or chief executive of the Company and its subsidiaries or their respective associates.

e. The Realmax Equity Transfer and the Richard Faith Equity Transfer

The following information of the Realmax Equity Transfer and the Richard Faith Equity Transfer are extracted from the Joint Announcement:

On 22 September 2003, each of Realmax and Richard Faith entered into an equity transfer agreement with Charter, pursuant to which Charter agreed to transfer a 20% and a 30% equity interest in the JV Company to Realmax and Richard Faith respectively at a cash consideration of HK\$20 million and HK\$30 million respectively.

SMI is principally engaged in investment holding in media entertainment related business. As at the Latest Practicable Date, SMI held a 25.28% interest in the Company, a 100% interest in each of Realmax and Richard Faith and a 70% interest in Sun Satellite Television Company Limited and Sun Television Cybernetworks Enterprise Limited.

As the JV Company is engaged in the research, development and production of computer software, prop scene, costumes and lighting equipment in the PRC, SMI believes that the acquisition of the JV Company will underpin the media-related business of SMI in the PRC and may create new business synergy.

The Realmax Equity Transfer and Richard Faith Equity Transfer, which are not inter-conditional, are subject to the approval from Beijing Foreign Investment Supervision Bureau and Beijing Enterprise Registration Bureau. As at the Latest Practicable Date, the Realmax Equity Transfer and Richard Faith Equity Transfer have not been completed since the aforesaid equity transfers require the approval from Beijing Foreign Investment Supervision Bureau and Beijing

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Enterprise Registration Bureau. The approval applications for the Realmax Equity Transfer and the Richard Faith Equity Transfer were submitted to Beijing Foreign Investment Supervision Bureau and Beijing Enterprise Registration Bureau on 21 November 2003. Based on the administrative guideline of Beijing Foreign Investment Supervision Bureau and Beijing Enterprise Registration Bureau, SMI anticipates that the aforesaid approvals could be obtained within 2 months after the submission of approval application.

The shareholdings of the JV Company before and immediately after the completion of the Realmax Equity Transfer and Richard Faith Equity Transfer are summarised as follows:

	Before the Realmax Equity Transfer and Richard Faith Equity Transfer	Immediately after the completion of Realmax Equity Transfer and Richard Faith Equity Transfer
Charter	60%	5%
Max China Limited	40%	40%
Realmax (<i>Note 1</i>)	–	20%
Richard Faith	–	30%
Stellar (<i>Notes 2 and 3</i>)	–	5%
Total	<u>100%</u>	<u>100%</u>

Notes:

1. Immediately after and subject to the S&P Completion, Realmax will become a wholly-owned subsidiary of the Company.
2. As at the Latest Practicable Date, Charter was interested in approximately 87.97% of the equity interest of Stellar while the remaining equity interest in Stellar was held by Chongqing Harvest Communication Co., Ltd. Mr. Qin Hui had been appointed as the managing director and legal representative of Stellar since the establishment of Stellar on 6 September 2001. As mentioned above, Mr. Qin Hui was one of the shareholders of Charter from 14 June 2000 to 18 September 2002, thus Mr. Qin was also an indirect shareholder of Stellar during the same period. As Mr. Qin's managing performance in Stellar was above satisfactory, the board of directors of Stellar and the shareholders of Stellar agreed to retain Mr. Qin as the managing director and legal representative of Stellar. However, neither Mr. Qin nor SMI nor their respective associates are interested in the equity interest in Stellar.
3. The 5% equity interest in the JV Company to be held by Stellar will be transferred from Charter.

According to SMI, the Realmax Equity Transfer and the Richard Faith Equity Transfer were business decisions, while the change in the structure of the JV Company was resulted from a series of commercial negotiations between the parties and the same will be implemented irrespective of the outcome of the Proposed Acquisition.

8. REASONS FOR AND BENEFITS OF THE AGREEMENTS

Owing to the very competitive environment of the media entertainment business which the Company is currently operating in Hong Kong, the Group has been incurring losses from such business. For the two financial years ended 31 March 2003, the Group incurred net losses of approximately HK\$461.7 million and HK\$130.4 million respectively. Over the last 12 months period prior to the date of this circular, the Group has raised new equity funds of approximately HK\$74.5 million by means of (i) a subscription of 500 million new Shares by ITC on 9 July 2003 (representing approximately 20.40% of the then existing issued share capital of Star East or approximately 11.49% of the existing issued share capital of Star East); (ii) a placing of 300 million new Shares to independent third parties on 12 June 2003 (representing approximately 12.24% of the then existing issued share capital of Star East or approximately 6.89% of the existing issued share capital of Star East); and (iii) a subscription of 1,100 million new Shares by SMI on 9 July 2003 (representing approximately 44.87% of the then existing issued share capital of Star East or approximately 25.28% of the existing issued share capital of Star East). All the aforesaid new Shares were issued at the subscription price of HK\$0.04 per Share, representing a discount of approximately 4.8% to the closing price of HK\$0.042 per Share as quoted on the Stock Exchange on 21 March 2003.

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Out of the aforesaid HK\$74.5 million, approximately HK\$20 million has been applied to partially repay a shareholder loan as described in a circular to the Shareholders dated 17 April 2003, and the balance of approximately HK\$54.5 million was designated for general working capital purpose. As at the date of the Joint Announcement, approximately HK\$44.5 million has been utilized on the normal daily operations of the Group and approximately HK\$10 million remained for general working capital purpose.

As at 31 October 2003, approximately HK\$138 million banking facilities were available to the Group, of which the entire amount has been utilised. The Directors face difficulties in seeking new bank financing and/or independent third party securities underwriter(s) to underwrite any equity fund raising exercise and the financial resources of the Group are tight. Thus, the Board believes that it is necessary to expand the Group's capital base with new funding and to acquire suitable businesses as and when appropriate.

As described in the section headed "7. Information on the Company, SMI, Realmax, the JV Company, the Realmax Equity Transfer and the Richard Faith Equity Transfer" above, the Group is principally engaged in the entertainment-related businesses, including the production, distribution and licensing of movies, television drama series, documentary and infotainment programmes (i.e. content production). For the year ended 31 March 2003, the Group's segment result for the content production business (despite under an adverse local economic environment) amounted to approximately HK\$1.7 million and, as compared to a loss of approximately HK\$29.2 million for the year ended 31 March 2002, represented a significant improvement; hence, the Directors are cautiously optimistic about the growth in business opportunities in the movie industry (in view of certain local economic indicators pointing towards the beginning of a signal of economic recovery). Accordingly, the Directors believe that it is essential for the Group to raise additional funding to sustain its current content production business and to poise itself in a more favourable position to capture investment opportunities that may arise in any projects relating to the media/entertainment business in the coming 12 months.

The Directors expect that the Subscription would enable the Group to strengthen its financial position; in particular, to have sufficient working capital to develop its media entertainment business. Details of the use of proceeds are set out in the section headed "2. The Subscription Agreement" above.

Taking into account the possible future potentials of the film and television drama production business in the PRC, the Board believes that by acquiring a 20% equity interest in the JV Company (through the acquisition of the entire issued share capital of Realmax), the Company will have a broader business scope and potential revenue stream.

As stated in the Joint Announcement, SMI is principally engaged in investment holding in media entertainment related business. SMI anticipates that the film/television drama production business of SMI and the media entertainment business of the Company may create new business synergy and bring in the prospects of broadening the media platforms for the contents produced by the Group.

9. GENERAL MANDATES TO ISSUE SECURITIES AND REPURCHASE SHARES

The Board proposes to seek the approval of the Shareholders at the SGM to grant a new general mandate to the Directors to issue securities up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant resolution as enlarged by the issue of the Subscription Shares upon the Subscription Completion in order to assist in the future expansion of the Group as the Directors may consider appropriate. It is also proposed that a resolution will be put to the Shareholders at the SGM granting the Directors a general mandate for the purpose of authorising the repurchase by the Company on the Stock Exchange of up to 10% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

10. SGM

The Agreements are not inter-conditional; however, the S&P Agreement is conditional upon the Subscription Agreement having become unconditional in all respects.

LETTER FROM THE BOARD

The Subscription constitutes a connected transaction for the Company under Chapter 14 of the Main Board Listing Rules. Pursuant to Rule 14.26(3) of the Main Board Listing Rules, the transaction will be conditional upon the approval of the Independent Shareholders.

The Proposed Acquisition contemplated under the S&P Agreement constitutes a discloseable and connected transaction for the Company under Chapter 14 of the Main Board Listing Rules. Pursuant to Rule 14.26(1) of the Main Board Listing Rules, the transaction will be conditional upon the approval of the Independent Shareholders.

SMI, being a substantial shareholder and connected person of the Company (owned 1,100,000,000 Shares or approximately 25.28% of the existing issued share capital of the Company as at the Latest Practicable Date), and its associates will abstain from voting at the SGM with respect to the resolutions to approve the Agreements.

A notice convening the SGM to be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 December 2003 at 11:00 a.m. is set out on pages 45 to 47 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions in respect of:

- (i) the Subscription Agreement, including the issue of the Subscription Shares;
- (ii) the S&P Agreement and the transactions contemplated thereunder; and
- (iii) the general mandates to issue securities and repurchase Shares.

A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the branch share registrars of the Company in Hong Kong, Progressive Registration Limited of 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event, not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (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 SGM or any adjourned meeting thereof (as the case may be) should you so wish.

11. RECOMMENDATIONS

Taking into account the basis of negotiation of the terms and conditions of the Agreements and the reasons for and benefits of the Agreements, the Independent Director considers the terms of the Subscription Agreement and the S&P Agreement are fair and reasonable so far as the Shareholders are concerned and recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM in respect of the Subscription Agreement and the S&P Agreement. In addition, the Board also recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM in respect of the granting of the general mandates to the Directors to issue securities and repurchase Shares as set out in the notice convening such meeting.

We wish to draw your attention to the letter of advice from the Independent Director and the letter from the Independent Financial Adviser containing its advice to the Independent Director in relation to the Subscription Agreement and the S&P Agreement set out on page 25 and pages 26 to 37 of this circular respectively.

LETTER FROM THE BOARD

12. ADDITIONAL INFORMATION

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

On behalf of the Board
Star East Holdings Limited
Tam Wing Lun, Alan
Chairman

LETTER FROM THE INDEPENDENT DIRECTOR

***starEast* 東方魅力**
STAR EAST HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

To the Independent Shareholders

27 November 2003

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION
PROPOSED SUBSCRIPTION OF 1,575,000,000 NEW SHARES
BY STRATEGIC MEDIA INTERNATIONAL LIMITED**

**(2) DISCLOSEABLE AND CONNECTED TRANSACTION
PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
REALMAX HOLDINGS LIMITED AND SHAREHOLDER'S LOAN EXTENDED BY
STRATEGIC MEDIA INTERNATIONAL LIMITED TO
REALMAX HOLDINGS LIMITED
FROM STRATEGIC MEDIA INTERNATIONAL LIMITED**

AND

**(3) PROPOSED RENEWAL OF GENERAL MANDATES
TO ISSUE SECURITIES AND REPURCHASE SHARES**

I refer to the circular dated 27 November 2003 of the Company ("Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

I, being an independent non-executive Director, have to consider and to advise the Independent Shareholders as to whether, in my opinion, the terms of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned. First Shanghai Capital Limited has been appointed to advise me in respect of the terms of the Agreements.

I wish to draw your attention to the "Letter from the Board" set out on pages 6 to 24 of the Circular which contains, inter alia, information of the Subscription Agreement, the S&P Agreement and the granting of the general mandates to the Directors to issue securities and repurchase Shares, as well as the letter from the Independent Financial Adviser set out on pages 26 to 37 of the Circular which contains its advice in respect of the terms of the Agreements.

Having taken into account the advice of the Independent Financial Adviser, I consider that the terms of the Subscription Agreement and the S&P Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, I recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM in respect of the Subscription Agreement and the S&P Agreement.

Yours faithfully,
Lam Tak Shing
Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice to the Independent Director from the Independent Financial Adviser dated 27 November 2003 prepared for incorporation in this circular.



First Shanghai Capital Limited

19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

27 November 2003

*To the Independent Director of
Star East Holdings Limited*

Dear Sirs,

**(1) CONNECTED TRANSACTION
PROPOSED SUBSCRIPTION OF 1,575,000,000 NEW SHARES
BY STRATEGIC MEDIA INTERNATIONAL LIMITED**

**(2) DISCLOSEABLE AND CONNECTED TRANSACTION
PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
REALMAX HOLDINGS LIMITED AND SHAREHOLDER'S LOAN EXTENDED BY
STRATEGIC MEDIA INTERNATIONAL LIMITED TO
REALMAX HOLDINGS LIMITED
FROM STRATEGIC MEDIA INTERNATIONAL LIMITED**

AND

**(3) PROPOSED RENEWAL OF GENERAL MANDATES TO ISSUE SECURITIES
AND REPURCHASE SHARES**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Director in respect of the Subscription and the Proposed Acquisition (the "Transactions"). Details of the Transactions are set out in the circular dated 27 November 2003 to the Shareholders (the "Circular") of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

In our capacity as the independent financial adviser to the Independent Director, our role is to give an independent opinion as to whether the terms of the Transactions are fair and reasonable so far as the interests of the Independent Shareholders are concerned. In formulating our opinions and recommendations, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the Directors, and have assumed that all information and representations provided were true at the time they were made and continue to be true as at the date hereof. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendations. We have not, however, conducted an in-depth investigation into the businesses and affairs of the Group, SMI, Realmax and the JV Company.

BACKGROUND OF THE TRANSACTIONS

On 6 November 2003, it was announced by the respective board of directors of the Company and SMI jointly that:

- (1) The Company has entered into the Subscription Agreement with SMI on 6 November 2003, pursuant to which SMI has conditionally agreed to subscribe for 1,575,000,000 new Shares at a price of HK\$0.04 per Share. The Subscription Shares to be issued under the Subscription Agreement represents approximately 36.20% of the issued share capital of the Company as at the Latest Practicable Date or approximately 26.58% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.
- (2) The Company has entered into the S&P Agreement with SMI on 6 November 2003, pursuant to which the Company has conditionally agreed to acquire (i) the entire issued share capital of Realmax and (ii) the Shareholders's Loan for an aggregate consideration of HK\$20 million to be satisfied in cash. The S&P Agreement is conditional upon, among others, the Subscription Agreement becoming unconditional.
- (3) Immediately after and subject to the Subscription Completion, SMI will own 2,675,000,000 Shares, representing approximately 45.14% of the enlarged issued share capital of the Company immediately after the Subscription Completion. Pursuant to Rule 26 of the Takeovers Code, SMI, through the Offeror Agents, will make a mandatory conditional general offer to acquire all the Shares not already owned by or agreed to be issued to SMI or parties acting in concert with it immediately after the Subscription Completion at HK\$0.04 per Share, and to cancel all outstanding share options granted under the Old Share Option Scheme and the Existing Share Option Scheme, other than those held by SMI or parties acting in concert with it, at HK\$0.001 and HK\$0.007 per share option respectively.

SMI is a substantial shareholder of the Company interested in approximately 25.28% of the issued share capital of the Company as at the Latest Practicable Date. SMI is a connected person of the Company under the Main Board Listing Rules. Both the Subscription and the Proposed Acquisition constitute connected transactions of the Company under Chapter 14 of the Main Board Listing Rules and are conditional upon the approval of the Independent Shareholders.

The Independent Director, being Mr. Lam Tak Shing, is to advise the Independent Shareholders in respect of the Subscription and the Proposed Acquisition.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

(1) THE SUBSCRIPTION

(i) *Review of business and financial performance*

The Group is principally engaged in entertainment-related businesses, including the production, distribution and licensing of movies, television drama series, documentary and infotainment programmes, the franchising and operation of theme restaurants under the brand name of "Planet Hollywood" and "Star East" in the Asia Pacific, strategic investment in M Channel, talent management, music production, event production and marketing and property investment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We set out below a summary of the audited financials of the Group for the two years ended 31 March 2003, which are extracted from the annual report of the Company for the year ended 31 March 2003 (the “2003 Annual Report”).

	Year ended 31 March	
	2002	2003
	HK\$'000	HK\$'000
Turnover	179,797	139,913
Loss from operations	(264,543)	(35,357)
Loss for the year	(461,690)	(130,409)
Net assets	141,457	58,064
Net tangible assets	138,691	56,368
Net tangible assets per Share (HK\$)	0.079	0.023
Number of Shares in issue as at balance sheet date	1,751,375,155	2,451,375,155

Owing to the very competitive environment of the media entertainment business which the Group is currently operating in Hong Kong, the Group has been incurring losses from such businesses as can be seen from the above. There has been a 71.8% improvement in the loss position of the Group for the year ended 31 March 2003, which has reflected the Group's effort in cost cutting and reallocation of resources away from non-profitable businesses. However, the Group still incurred a significant loss of approximately HK\$130.4 million for the year ended 31 March 2003. The Group's operations were not generating sufficient working capital to sustain its businesses as evidenced by the net cash used in operating activities of approximately HK\$37.4 million for the year ended 31 March 2003. The Group had to rely on equity funding to provide working capital. In this regard, two placements of new Shares were conducted by the Company in May and June 2002 which raised net proceeds of approximately HK\$54.5 million in total. In June 2002, the Group disposed of its interest in a property located in Yuen Long, New Territories, Hong Kong and received cash proceeds of HK\$103 million. Despite the proceeds from the said placements and disposal, the bank balances and cash of the Group decreased from approximately HK\$28.4 million as at 31 March 2002 to approximately HK\$13.3 million as at 31 March 2003. Also, the Group had loans from related companies (ITC Management Limited and Paul Y. - ITC Management Limited, both being subsidiaries of ITC) of approximately HK\$78.7 million and banks and other borrowings of approximately HK\$150.6 million as at 31 March 2003. The loans from related companies were repayable within one year from 31 March 2003. For the banks and other borrowings as at 31 March 2003, approximately HK\$32.5 million were repayable within one year, approximately HK\$16.9 million were repayable between one and two years, approximately HK\$88.2 million were repayable between two and five years and approximately HK\$13.0 million were repayable over five years.

As mentioned in the 2003 Annual Report, the year looking ahead is expected to be another difficult year with the adverse economic environment persisting in Hong Kong, which was further dampened by the outbreak of the Severe Acute Respiratory Syndrome (“SARS”). We have been advised by the Directors that the Group's business has been affected by the outbreak of SARS, particularly in the theme restaurants business. To meet the challenges ahead, the Group will further reduce its operating costs, explore opportunities for business alliances, focus its resources on core business with profit prospects which the Directors consider to be in the area of content production (it can be seen from the 2003 Annual Report that the segment result of the Group's content production business improved from approximately HK\$29.2 million loss for the year ended 31 March 2002 to approximately HK\$1.7 million profit for the year ended 31 March 2003), set new growth platform and strengthen its foothold in the PRC so as to maintain its competitiveness.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Reasons for the Subscription*

According to the 2003 Annual Report, the Group had bank balances and cash of approximately HK\$13.3 million as at 31 March 2003. Subsequently, the Group has raised new equity funding of approximately HK\$74.5 million by means of (i) a subscription of 500 million new Shares by ITC (a substantial shareholder of the Company interested in approximately 26.09% of the issued share capital of the Company as at the Latest Practicable Date) on 9 July 2003; (ii) a placing of 300 million new Shares to independent third parties on 12 June 2003; and (iii) a subscription of 1,100 million new Shares by SMI on 9 July 2003. All of the aforesaid new Shares were issued at a subscription price of HK\$0.04 per Share.

Out of the aforesaid HK\$74.5 million new equity funding which became available to the Group since June 2003, approximately HK\$20 million has been applied to partially repay a shareholder's loan, and the balance of approximately HK\$54.5 million was designated for general working capital purpose. As at 6 November 2003, being the date of the Subscription Agreement, approximately HK\$44.5 million has been utilised on the normal daily operations of the Group and approximately HK\$10 million remained for general working capital purpose.

As at 31 October 2003, approximately HK\$138 million banking facilities were available to the Group, of which the entire amount has been utilized. Of such amount of bank borrowings, approximately HK\$31 million were repayable within one year, approximately HK\$17 million were repayable between one and two years, approximately HK\$79 million were repayable between two and five years and approximately HK\$11 million were repayable over five years. Given the above and the financial conditions of the Group as mentioned in the sub-paragraph headed "Review of business and financial performance" above, the Directors are of the view that the financial resources of the Group are tight. Thus the Directors believe that it is necessary to expand the Group's capital base with new funding to provide working capital and to acquire suitable businesses as and when appropriate. The Directors expect that the Subscription would enable the Group to strengthen its financial position and to provide sufficient working capital to develop its media entertainment business. In particular, the Directors see a recent rebound in the local movie industry as evidenced by an improvement in box office results of locally-produced movies. For example, the Group's self-produced movie entitled "Men Suddenly in Black" was released in September 2003 and achieved satisfactory box office results. In view of the recent improvement in sentiment in the local movie industry, the Group needs additional funding to sustain its current content production business, which is a business that requires substantial working capital, and to poise itself in a more favourable position to capture investment opportunities that may arise in any projects relating to the media/entertainment business, especially the content production business, in the future.

SMI is principally engaged in investment holding in media entertainment related business. As at the Latest Practicable Date, SMI held a 25.28% interest in the Company, a 100% interest in each of Realmax and Richard Faith and a 70% interest in Sun Satellite Television Company Limited and Sun Television Cybernetworks Enterprise Limited. Sun Satellite Television Company Limited and Sun Television Cybernetworks Enterprise Limited are engaged in the business of satellite television broadcasting, and the provision of television related management and consultancy services respectively. Immediately after the Richard Faith Equity Transfer, Richard Faith will have a 30% equity interest in the JV Company.

SMI is wholly-owned by Mr. Qin Hui who is the managing director and legal representative of Stellar, a PRC enterprise engaging in media and entertainment business investment and management in the PRC. Mr. Qin Hui has accumulated over 10 years' experience in management and investment management in various sectors in the PRC (including trading, communication, entertainment related and media) through his positions as manager or managing director of several companies engaged in such businesses in the PRC.

The Group anticipates that the movie/television drama production business of SMI and the media entertainment business of the Company may create new business synergy and bring in the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

prospects of broadening the media platform for the contents provided by the Group. In order to retain and/or capture a wider Cantonese and Mandarin speaking audience for the entertainment business of the Group, the Group is constantly required to expand its network to (i) promote or exchange local productions and/or artists in other markets such as the PRC; (ii) discover various artists for movie/television drama/pop music productions; and (iii) co-produce a variety of programmes in the PRC. Given the experience and relationship of Mr. Qin Hui in the media and entertainment related business in the PRC, it is expected that the strategic alliance with SMI will enable the Group to build up a close link with potential PRC business investors and/or partners in the entertainment related business. The increase in interest of SMI in the Company represents a further strengthening of the relationship between SMI and the Group. We consider that the strategic alliance with SMI would assist the Group in developing its business in the PRC.

(iii) Alternative means of funding

As the banking facilities available to the Group were fully utilised and given the unsatisfactory operating results of the Group as disclosed in the 2003 Annual Report, the Directors face difficulty in seeking new bank financing and/or independent third party securities underwriter(s) to underwrite any equity fund raising exercise. We have been advised by the Directors that, before entering into the Subscription Agreement, the Directors have approached (i) the Company's existing principal bankers for new bank financing; and (ii) independent third parties securities underwriters for placing new Shares to the market, but no favourable responses had been received. We have obtained confirmation from the Directors that they have exhausted all other means of obtaining funding for the Group, including debt financing from financial institutions and equity funding from independent third parties, before entering into the Subscription Agreement with SMI, a substantial shareholder of the Company.

(iv) The Subscription Price

(a) Reference to recent Share price performance

The Subscription Price was determined and negotiated on an arm's length basis between the parties to the Subscription Agreement. The Subscription Price of HK\$0.04 per Share under the Subscription Agreement represents:

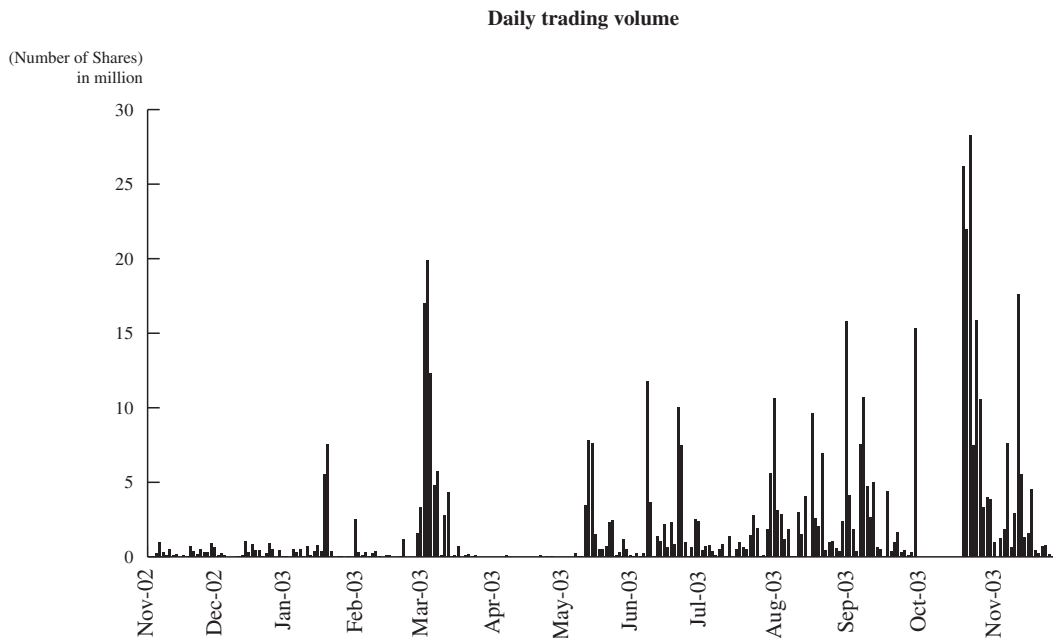
- a discount of approximately 35.48% to the closing price of HK\$0.062 per Share as quoted on the Stock Exchange on 6 November 2003, the date of the Subscription Agreement;
- a discount of approximately 37.50% to the average closing price of HK\$0.064 per Share for the 10 consecutive trading days up to and including 6 November 2003;
- a discount of approximately 34.43% to the average closing price of HK\$0.061 per Share for the 30 consecutive trading days up to and including 6 November 2003;
- a discount of approximately 18.37% to the average closing price of HK\$0.049 per Share for the 90 consecutive trading days up to and including 6 November 2003;
- equivalent to the average closing price of HK\$0.040 per Share for the 180 consecutive trading days up to and including 6 November 2003; and
- a discount of approximately 24.53% to the closing price of HK\$0.053 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We set out below two charts summarising the daily closing price and daily trading volume of the Shares for the period from 1 November 2002 up to the Latest Practicable Date.



Source: Bloomberg



Source: Bloomberg

The closing price of the Shares lingered between HK\$0.015 and HK\$0.026 for the period from 6 November 2002 to 27 February 2003. On 28 February 2003, the closing price of the Shares surged to HK\$0.04 and for the period from 28 February 2003 to 28 July 2003,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the closing price of the Shares lingered between HK\$0.023 and HK\$0.047. During this period, the Company issued 300 million new Shares to independent third parties on 12 June 2003, 500 million new Shares to ITC and 1,100 million new Shares to SMI on 9 July 2003, all at an issue price of HK\$0.04 per Share.

For the period from 29 July 2003 to 6 November 2003, being the date of the Subscription Agreement, the closing price of the Shares had been volatile with the lowest closing price of HK\$0.043 and reaching the highest point of HK\$0.067 on 27 October 2003. The price of the Shares closed at HK\$0.062 on 6 November 2003. The rising trend of the Share price during such period is in line with the rising trend of the Hang Seng Index during the same period (the daily closing value of the Hang Seng Index rose from 10,198.60 on 29 July 2003 to 12,150.09 on 6 November 2003 with the highest closing value of 12,440.72 recorded on 4 November 2003). The Directors believe that the rising trend of the Shares in such period was not supported by the fundamentals of the Group particularly given the continued loss-making performance of the Group. We notice that, during such period, the rising trend of the Shares was only supported by very thin trading volume with an average daily trading volume of approximately 4.7 million Shares (representing approximately 0.11% of the total issued Shares as at the Latest Practicable Date) and a highest daily trading volume of approximately 28.3 million Shares (representing approximately 0.65% of the total issued Shares as at the Latest Practicable Date). During the period from 7 November 2003 to the Latest Practicable Date, turnover of the Shares remained thin with an average daily trading volume of approximately 2.8 million Shares (representing approximately 0.06% of the total issued Shares as at the Latest Practicable Date) and a highest daily trading volume of approximately 17.6 million Shares (representing approximately 0.4% of the total issued Shares as at the Latest Practicable Date), whereas the closing price of the Shares lingered between HK\$0.05 and HK\$0.072. Accordingly, the recent price level of the Shares may not be sustainable.

Given (i) the unsatisfactory financial performance of the Group; (ii) the tight financial resources of the Group; (iii) the fact that the Directors have exhausted other alternative means of funding before entering into the Subscription Agreement; (iv) the financial support given by SMI to the Group as a substantial shareholder as demonstrated by its injection of capital under the Subscription; and (v) the recent price level of the Shares may not be sustainable, we consider that it is not unacceptable that the Subscription Shares are issued to SMI at a discount to recent market price of the Shares. In arriving at our opinion as to whether the terms of the Subscription Agreement are fair and reasonable, we have considered a number of other factors in addition to the Subscription Price. In this regard, please refer to the paragraph headed "Recommendations" in this letter.

(b) Reference to net tangible asset value

The Subscription Price of HK\$0.04 per Share represents a premium of approximately 73.91% over the audited consolidated net tangible asset value of the Group of approximately HK\$56.37 million (equivalent to approximately HK\$0.023 per Share on the basis of 2,451,375,155 Shares in issue) as at 31 March 2003, the date of the latest published audited consolidated balance sheet of the Group. In addition, the Subscription Price represents a premium of approximately 33.33% over the pro forma unaudited adjusted consolidated net tangible asset value of the Group of approximately HK\$130.87 million (equivalent to approximately HK\$0.03 per Share on the basis of 4,351,375,155 Shares in issue as at the Latest Practicable Date) after taking into account the total net proceeds from the placing of new Shares of approximately HK\$74.5 million in June and July 2003. Due to the premium of the Subscription Price over the net tangible asset value of the Group, the Subscription is expected to have the effect of enhancing the net tangible asset value per Share as further discussed below.

(c) Reference to price earnings multiple

As the Group incurred losses for the four consecutive years ended 31 March 2003, we consider that the analysis of the Subscription Price in terms of price earnings multiple is not relevant.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(v) *Financial effect of the Subscription*

On the basis of the net tangible asset value of the Group as at 31 March 2003 of approximately HK\$56.37 million and taking into account the net proceeds from the placing of new Shares in June and July 2003 of approximately HK\$74.5 million, the pro forma unaudited adjusted consolidated net tangible asset value of the Group would be HK\$130.87 million (equivalent to approximately HK\$0.03 per Share on the basis of 4,351,375,155 Shares in issue as at the Latest Practicable Date). Immediately after the Subscription, the pro forma unaudited adjusted consolidated net tangible asset value of the Group would be increased to approximately HK\$191.87 million (equivalent to approximately HK\$0.032 per Share on the basis of 5,926,375,155 Shares in issue as enlarged by the issue of the Subscription Shares). Accordingly, the net tangible asset value per Share would be increased by approximately 6.67% by the Subscription. Also, as the net tangible asset value of the Group would be increased by the Subscription, the Group's gearing would be reduced. On the basis the consolidated balance sheet of the Group as at 31 March 2003 and taking into account the total net proceeds from the placing of new Shares of approximately HK\$74.5 million in June and July 2003, the Group's gearing ratio would be approximately 173% (based on the total borrowings of approximately HK\$229.39 million divided by the pro forma unaudited adjusted consolidated net asset value of approximately HK\$132.56 million). On the same basis and taking into account the net proceeds from the Subscription of approximately HK\$61 million, the Group's gearing ratio would be reduced to approximately 119% (based on the total borrowings of approximately HK\$229.39 million divided by the pro forma unaudited adjusted consolidated net asset value of approximately HK\$193.56 million). Also, the Subscription would provide additional working capital to the Group thereby strengthening its financial position.

(vi) *Dilution effect of the Subscription Shares*

The Subscription Shares, being 1,575,000,000 new Shares, represent approximately 36.20% of the issued share capital of the Company as at the Latest Practicable Date or approximately 26.58% of the enlarged issued share capital of the Company immediately after the Subscription Completion.

As at the Latest Practicable Date, the Independent Shareholders were interested in an aggregate of approximately 74.72% of the issued share capital of the Company. Immediately after the Subscription Completion, the aggregate interest of the Independent Shareholders in the issued share capital of the Company would be diluted to approximately 54.86%.

Should the Company conduct its fund raising by means of a rights issue or an open offer, the Independent Shareholders would have an opportunity to participate in the fund raising exercise of the Company and thereby maintaining their proportionate interest in the Company. However, since the Company faced difficulty in procuring underwriters for any fund raising exercise, these are not options available to the Company. Having considered that (i) SMI, as a substantial shareholder, is willing to inject funding to the Company without the participation of other Shareholders despite the unsatisfactory financial performance and the tight financial resources of the Group; (ii) the Subscription has the effect of enhancing the net tangible asset value per Share; and (iii) the Subscription enables the Group to poise itself in a more favourable position to capture investment opportunities that may arise in any projects relating to the media/entertainment business in the future, we are of the view that the dilution effect of the issue of the Subscription Shares is acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(vii) *Use of proceeds from the Subscription*

The net proceeds from the issue of 1,575,000,000 new Shares under the Subscription are estimated to be approximately HK\$61 million.

The net proceeds to be raised by the Subscription will be applied as follows:

- if the S&P Agreement completes, HK\$20 million will be used to acquire the entire issued share capital of Realmax pursuant to the terms of the S&P Agreement, HK\$30 million will be used as general working capital and the balance of HK\$11 million for investment in the media entertainment business, in each case on such terms and subject to such conditions as the Board may resolve; or
- if the S&P Agreement is not completed, HK\$30 million will be used as general working capital and the balance of HK\$31 million will be used for investment in the media entertainment business, in each case on such terms and subject to such conditions as the Board may resolve.

Given the above, we are of the view that the Subscription would strengthen the financial position of the Group by providing additional working capital and capital for investments with a view to broadening the Group's earnings base.

(2) THE PROPOSED ACQUISITION

(i) *The business of the JV Company*

Immediately after the Realmax Equity Transfer, Realmax will have a 20% equity interest in the JV Company. The JV Company is principally engaged in the research, development and manufacture of computer software, prop scene, costumes and lighting equipment, provision of consultancy and technical support service for the aforesaid products, leasing and sale of such products in the PRC.

We set out below a summary of the audited financials of the JV Company for the two years ended 31 December 2002.

	Year ended 31 December	
	2002	2001
	RMB'000	RMB'000
Turnover	4,931	8,647
Profit before tax	3,761	7,093
Net profit for the year	3,347	7,093
Net assets	107,755	118,963
Net tangible assets	107,761	118,963

As advised by the Directors, the JV Company derives its income principally from the provision of filming locations, leasing of lighting and filming equipment, costumes, furniture and other decorative items for the purposes of movies and television dramas production.

As advised by the Directors, the drop in net profit of the JV Company from 2001 to 2002 was attributable to the decrease in turnover primarily caused by (i) the general adverse trading conditions in 2002; and (ii) that the JV Company had undergone a major construction and improvement project on its prop scenes in 2002 such that a smaller area was available for movie production activities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Reasons for the Proposed Acquisition

As stated in the 2003 Annual Report, the Group looks forward confidently to further growth opportunities that may emerge with the PRC's successful entry into the World Trade Organisation. The Group is expected to gradually expand its breath of operations beyond the local markets, targeting at the lucrative entertainment market in the PRC. The Group is expected to gather momentum for growth by exploring new investment, partnership and alliance opportunities in the region.

According to the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the PRC, the PRC has agreed, among other matters, that (i) Chinese language motion pictures produced in Hong Kong may be imported for distribution in the PRC on a quota-free basis after vetting and approval by the relevant PRC authority; (ii) motion pictures jointly produced by Hong Kong and the PRC are treated as PRC motion pictures for the purpose of distribution in the PRC and translated versions of the motion pictures in languages of other Chinese ethnic groups and Chinese dialects, which are based on the Mandarin version, are allowed to be distributed in the PRC; and (iii) for motion pictures jointly produced by Hong Kong and the PRC, there is no restriction on the percentage of principal creative personnel from Hong Kong although at least one-third of the leading artistes must be from the PRC, and there is no restriction on where the story takes place although the plots or the leading characters must be related to the PRC. The Directors consider that such arrangements would enable more participation of Hong Kong companies in the motion picture industry in the PRC. Taking into account the resulting possible future potential of the movie and television drama production business in the PRC, the Directors believe that by acquiring a 20% equity interest in the JV Company (through the acquisition of the entire issued share capital of Realmax), the Company will have a broader business scope and potential revenue stream. The Group will also be able to provide cross-border auxiliary service and technical support for movie production. The Proposed Acquisition is also in line with the Directors' intention to poise the Group in a more favourable position to capture investment opportunities that may arise in any projects relating to the content production business in the future.

(iii) The consideration for the Proposed Acquisition

The consideration for the Proposed Acquisition, being HK\$20 million to be satisfied in cash, was determined after arm's length negotiations between the parties to the S&P Agreement and was determined based on the unaudited net tangible asset value of the JV Company as at 31 July 2003, representing approximately RMB107.2 million (equivalent to approximately HK\$101.1 million), as reflected in its unaudited management accounts for the seven months ended 31 July 2003.

As advised by the Directors, the assets of the JV Company principally comprise land, prop scenes and film settings either constructed or are currently being constructed on the land, costumes and lighting and other equipment all of which are located in Beijing, the PRC. According to the management account of the JV Company as at 31 July 2003, the assets of the JV Company comprise, among others, land use rights of approximately RMB11 million, fixed assets of approximately RMB47 million, construction in progress of approximately RMB69 million and inventories of approximately RMB30 million. It can be seen that the business of the JV Company is asset intensive. Accordingly, it would be reasonable to value the JV Company at its net tangible asset value.

We have compared the ratio of the consideration for the Proposed Acquisition to the net tangible asset value of the JV Company ("price to book ratio") with market comparables. For this purpose, we have identified only one company listed in Hong Kong which we consider has a principal business comparable to that of the JV Company, namely, Shaw Brothers (Hong Kong) Limited. From the 2003 annual report of Shaw Brothers (Hong Kong) Limited, its principal activities

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

include the “Movie City Project”, filming facilities services and film distribution. We notice that the closing price of the shares of Shaw Brothers (Hong Kong) Limited of HK\$8.50 per share as at the Latest Practicable Date represented a price to book ratio of approximately 2.30 times (based on the net tangible asset value per share as at 31 March 2003 of approximately HK\$3.69 as extracted from its 2003 annual report). When comparing the price to book ratio of the comparable company with the price to book ratio representing the consideration for the Proposed Acquisition, which is approximately one time, the price to book ratio of the comparable company is higher by approximately 130%.

(iv) *Financial effect of the Proposed Acquisition*

(a) Net tangible asset value

As the entire issued share capital of Realmax will be purchased in cash at its attributable net tangible asset value, the Proposed Acquisition is expected to have a neutral effect on the net tangible asset value of the Group.

(b) Effect on future profit and loss account

As the entire issued share capital of Realmax will be purchased in cash at its attributable net tangible asset value, no goodwill is expected to arise from the Proposed Acquisition which will require to be amortised to the profit and loss account of the Group in the future.

Immediately after the completion of the Proposed Acquisition, Realmax will become a wholly-owned subsidiary of the Company and the JV Company will become an associated company of the Group. The future profit and loss of the JV Company will be equity accounted for in the accounts of the Group.

RECOMMENDATIONS

(1) THE SUBSCRIPTION

Having considered the above factors, and particularly that:

- with the continued loss making performance of the Group, its financial resources are tight;
- the Subscription would enable the Group to strengthen its financial position and to provide additional working capital to develop its media entertainment business;
- as the banking facilities available to the Group were fully utilised and given the unsatisfactory operating results of the Group as disclosed in the 2003 Annual Report, the Directors face difficulty in seeking new bank financing and/or independent third party securities underwriters(s) to underwrite any equity fund raising exercise; and
- the Subscription Shares will be issued at a premium to the pro forma unaudited adjusted consolidated net tangible asset value of the Group, and thereby has the effect of enhancing the net tangible asset value per Share,

we are of the opinion that the Subscription is in the overall interest of the Company and the Shareholders and that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Director to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Subscription Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Independent Shareholders should note that if the ordinary resolution to be proposed at the SGM to approve the Subscription Agreement is not passed, the Subscription Agreement will not become unconditional. In such case, the Subscription Completion will not take place and the Star East General Offer will not proceed. Should the Subscription Completion take place and the Star East General Offer proceed, Independent Shareholders are advised not to take any action in connection with the Star East General Offer until they have received advice from the independent board committee of the Company, which will be contained in a composite offer document in relation to the Star East General Offer. Independent Shareholders are also strongly advised to seek independent financial advice.

(2) THE PROPOSED ACQUISITION

Having considered the above factors, and particularly that:

- taking into account the possible future potential of the movie and television drama production business in the PRC, the Directors believe that, through the Proposed Acquisition, the Company will have a broader business scope and potential revenue stream;
- the Proposed Acquisition is in line with the Directors' intention to poise the Group in a more favourable position to capture investment opportunities that may arise in any projects relating to the content production business in the future;
- as the business of the JV Company is asset intensive, valuing it at its net tangible asset value would form a reasonable basis for the consideration for the Proposed Acquisition; and
- the price to book ratio representing the consideration for the Proposed Acquisition is substantially lower than that of the comparable company listed in Hong Kong,

we are of the opinion that the Proposed Acquisition is in the overall interest of the Company and the Shareholders and that the terms of the S&P Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Director to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the S&P Agreement.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Helen Zee **Byron Tan**
Managing Director *Executive Director*

This is an explanatory statement given to the Shareholders relating to a resolution authorising the Company to repurchase its own Shares proposed to be passed by the Shareholders by means of an ordinary resolution at the SGM.

This explanatory statement contains a summary of the information required pursuant to Rule 10.06 of the Listing Rules which is set out as follows:

(1) Exercise of the Repurchase Mandate

Resolution numbered 4 set out in the Notice of Special General Meeting will, if passed, give a general unconditional mandate to the Directors authorising the repurchase by the Company of the fully paid Shares up to a maximum of 10% of the nominal amount of the share capital of the Company immediately following the Subscription Completion as enlarged by the issue of the Subscription Shares at any time until the end of the Relevant Period as defined in resolution numbered 4 set out in the Notice of Special General Meeting dated 27 November 2003.

Accordingly, exercise in full of the Repurchase Mandate (on the basis of 5,926,375,155 Shares in issue and assuming completion of all the Agreements) would result in up to 592,637,515 Shares being repurchased by the Company during the Relevant Period.

(2) Reasons for repurchase

The Directors believe that it is in the best interests of the Company and its Shareholders to have a general authority from the Shareholders to enable the Directors to repurchase Shares. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share or its earnings per Share or both and will only be made when the Directors believe that such repurchase will benefit the Company and its Shareholders.

(3) Funding of repurchases

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the laws of Bermuda, and the memorandum of association and by-laws of the Company. Such funds shall only be derived from capital paid up on the purchased Shares, fund otherwise available for dividend or distribution, and/or the proceeds of a new issue of Shares made for the purpose. The premium, if any, payable for redemption shall only be provided for out of the funds of the Company which would otherwise be available for dividend or distribution or out of the Company's share premium account before the Shares are repurchased.

The Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(4) Status of purchased Shares

The Listing Rules provide that the listing of all the Shares repurchased by the Company are automatically cancelled and the Company must ensure that the corresponding certificates are cancelled and destroyed. Under Bermuda law, the Shares so purchased will be treated as having been cancelled.

(5) Share Repurchases

The Company has not repurchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.

(6) Share prices

The highest and lowest prices at which the Shares were traded on the Stock Exchange during each of the previous twelve months were as follows:

	Highest <i>HK\$</i>	Shares	Lowest <i>HK\$</i>
2002			
November	0.025		0.014
December	0.024		0.014
2003			
January	0.026		0.016
February	0.042		0.015
March	0.049		0.032
April	0.044		0.020
May	0.040		0.020
June	0.050		0.028
July	0.052		0.028
August	0.064		0.038
September	0.080		0.040
October	0.079		0.044

(7) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company under the Repurchase Mandate if the Repurchase Mandate is approved by the Shareholders.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the laws of Bermuda.

If as a result of a share repurchase by the Company, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or group of Shareholders acting in concert, could, depending upon the level of increase in shareholding, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. If the Company were to repurchase Shares up to the permitted maximum of 10 per cent. of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, such parties may, together with any other parties acting in concert with them, become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. The Directors are aware of such obligation as a result of the above repurchase exercise.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief (other than the information relating to SMI and the JV Company) there are no other facts the omission of which would make any statement herein misleading.

The information contained in this circular relating to Star East and M Channel have been supplied by the Directors. All Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than the information relating to SMI and the JV Company), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those relating to SMI and the JV Company) have been arrived at after due and careful consideration and there are no other facts not contained in this circular (other than those relating to SMI and the JV Company) the omission of which would make any such statement contained in this circular misleading.

The information contained in this circular relating to SMI and the JV Company have been extracted from the Joint Announcement.

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short position of the Directors and chief executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in the Shares

Directors	Nature of interest	Long position	Number of Shares		Approximate percentage of existing issued share capital of the Company
				Short position	
Tam Wing Lun, Alan	Direct – personal interest	424,000	–		0.010%
Tsang Chi Wai, Eric	Direct – personal interest	394,000	–		0.009%
Chan Pak Cheung, Natalis	Direct – personal interest	394,000	–		0.009%
Chan Chak Mo	Direct – personal interest	270,000	–		0.006%

(b) Options to subscribe for Shares

Directors	Date of grant	Exercisable period	Exercise price per Share HK\$	Number of underlying Shares comprised in of the options	Approximate percentage of existing issued share capital of the Company
Tam Wing Lun, Alan	23.12.2000	23.06.2001 to 22.06.2004	0.2256	2,000,000	
	13.06.2001	13.12.2001 to 12.12.2004	0.1700	4,000,000	
				<i>Subtotal: 6,000,000</i>	0.138%
Tsang Chi Wai, Eric	03.11.2000	03.05.2001 to 02.05.2004	0.2680	2,000,000	
	23.12.2000	23.06.2001 to 22.06.2004	0.2256	2,000,000	
	13.06.2001	13.12.2001 to 12.12.2004	0.1700	4,000,000	
	28.07.2003	28.01.2004 to 27.01.2007	0.0330	35,000,000	
				<i>Subtotal: 43,000,000</i>	0.988%
Chan Pak Cheung, Natalis	23.12.2000	23.06.2001 to 22.06.2004	0.2256	2,000,000	
	13.06.2001	13.12.2001 to 12.12.2004	0.1700	4,000,000	
				<i>Subtotal: 6,000,000</i>	0.138%
Wong Kun To	23.12.2000	23.06.2001 to 22.06.2004	0.2256	2,000,000	
	13.06.2001	13.12.2001 to 12.12.2004	0.1700	4,000,000	
	28.07.2003	28.01.2004 to 27.01.2007	0.0330	33,000,000	
				<i>Subtotal: 39,000,000</i>	0.896%
Xing Jing	28.07.2003	28.01.2004 to 27.01.2007	0.0330	43,000,000	0.988%
Robert Ian Earl	03.11.2000	03.05.2001 to 02.05.2004	0.2680	5,000,000	0.115%
Li Wei	28.07.2003	28.01.2004 to 27.01.2007	0.0330	43,000,000	0.988%

Save as disclosed above, as at the Latest Practicable Date:

- (i) none of the Directors and chief executive held any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) notifiable 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 they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange;
- (ii) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group;
- (iii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group; and
- (iv) none of the Directors had entered or was proposing to enter into a service contract with any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors, the following are details of the persons (other than a director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(a) The Company

Name of Shareholder	Nature of interest	Number of Shares		Approximate percentage of existing issued share capital of the Company
		Long position	Short position	
Dr. Chan Kwok Keung, Charles ("Dr. Chan")	Indirect – corporate interest	1,135,082,479 (Note 1)	–	26.09%
Madam Ng Yuen Lan, Macy	Indirect – family interest	1,135,082,479 (Note 2)	–	26.09%
Chinaview International Limited	Indirect – corporate interest	1,135,082,479 (Note 1)	–	26.09%
Galaxyway Investments Limited ("Galaxyway")	Indirect – corporate interest	1,135,082,479 (Note 1)	–	26.09%
ITC	Indirect – corporate interest	1,135,082,479 (Note 1)	–	26.09%
ITC Investment Holdings Limited	Indirect – corporate interest	1,135,082,479 (Note 1)	–	26.09%
Vigour Services Limited	Direct – beneficial owner	1,135,082,479 (Note 1)	–	26.09%
Mr. Qin Hui	Indirect – corporate interest	2,675,000,000 (Notes 3 and 4)	–	61.47%
SMI	Direct – beneficial owner	2,675,000,000 (Note 4)	–	61.47%

Notes:

1. Dr. Chan owns the entire interest in Chinaview International Limited which in turn owns the entire interest in Galaxyway. Galaxyway owns more than one-third of the entire issued share capital of ITC. ITC owns the entire interest in ITC Investment Holdings Limited which in turn owns the entire interest in Vigour Services Limited.
2. Madam Ng Yuen Lan, Macy, the spouse of Dr. Chan, was deemed to be interested in the same interests in the Shares as Dr. Chan.
3. Mr. Qin Hui owns the entire interest in SMI and was accordingly deemed to be having the same interests in the Shares as SMI.
4. Pursuant to the Subscription Agreement, SMI has agreed to subscribe 1,575,000,000 new Shares.

(b) Other members of the Group

Name of subsidiary	Name of beneficial owner	Name of registered holder	Proportion of nominal value of issued capital/ registered capital held
Best Thought Entertainment Limited	View Top Entertainment Limited	View Top Entertainment Limited	30%
Planet Hollywood (Japan) K.K.	Kingdom 5-KR-87, Ltd	Kingdom 5-KR-87, Ltd	20%
Planet Hollywood Hong Kong Limited	Ricford Financial Corporation	Ricford Financial Corporation	17%

According to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Directors, other than the interest disclosed herein, there was no other person (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Company or in any options in respect of such capital.

MATERIAL ADVERSE CHANGES

Save for possible impairment loss recognised in respect of the Group's fixed assets and investment in listed securities, possible allowances for loans receivable and share of results of the Group's jointly-controlled entities and associated companies which may become materialised in the course of preparing the financial results for the six months ended 30 September 2003 and for the year ending 31 March 2004, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 March 2003, the date to which the latest published audited consolidated accounts for the Group have been made up.

LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

EXPERT AND CONSENT

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

The Independent Financial Adviser is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

MISCELLANEOUS

- (a) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at 29th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.
- (c) The company secretary of the Company is Ms. Wong Lai Kin, Elsa. She holds a bachelor's and master's degree in law and a master's degree in corporate finance. She was admitted as a solicitor in Hong Kong in 1991.
- (d) The branch share registrars of the Company in Hong Kong is Progressive Registration Limited of 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Iu, Lai & Li, 20th Floor, Gloucester Tower, The Landmark, Central, Hong Kong during normal business hours on any weekday, except public holidays, from the date of this circular up to and including the date of the SGM:

- the memorandum of association and bye-laws of the Company;
- the annual reports of the Company for the two years ended 31 March 2002 and 31 March 2003;
- the Subscription Agreement;
- the S&P Agreement;
- the letter from the Independent Director set out on page 25 of this circular;
- the letter from the Independent Financial Adviser set out on pages 26 to 37 of this circular; and
- the written consent referred to in the paragraph headed “Expert and consent” to this Appendix.

NOTICE OF SPECIAL GENERAL MEETING

***starEast* 東方魅力** **STAR EAST HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of Star East Holding Limited (the “Company”) will be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 December 2003 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **“THAT**, the conditional subscription agreement (the “Subscription Agreement”) dated 6 November 2003 entered into between Strategic Media International Limited (“SMI”) as subscriber and the Company as issuer, a copy of which marked “A” has been initialled by the Chairman of this meeting for the purpose of identification, be and is hereby approved, confirmed and ratified, that conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, 1,575,000,000 new shares of HK\$0.005 each in the capital of the Company (“Shares”) to be issued to SMI pursuant to Subscription Agreement, the issue of 1,575,000,000 new Shares to SMI pursuant to the Subscription Agreement be and is hereby approved, and that the directors of the Company be and are hereby authorised to do all acts and things which they may consider necessary, desirable or expedient to implement the same.”
2. **“THAT**, the conditional sale and purchase agreement (the “S&P Agreement”) dated 6 November 2003 entered into between the Company and Strategic Media International Limited (“SMI”) relating to the purchase by the Company from SMI of (i) the entire issued share capital of Realmax Holdings Limited (“Realmax”); and (ii) all the shareholder’s loan extended by SMI to Realmax as at the date of completion of the S&P Agreement, a copy of which marked “B” has been initialled by the Chairman of this meeting for the purpose of identification, be and is hereby approved, confirmed and ratified, that the transactions contemplated under the S&P Agreement be and are hereby approved, and that the directors of the Company be and are hereby authorised to do all acts and things which they may consider necessary, desirable or expedient to implement, to give effect to or otherwise in connection with the S&P Agreement.”
3. **“THAT:**
 - (a) subject to the following provisions of this resolution, the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company, and to make or grant offers, agreements or options (including bonds, notes, warrants, debentures and securities convertible into shares of the Company) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including bonds, notes, warrants, debentures and securities convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a)

NOTICE OF SPECIAL GENERAL MEETING

above, otherwise than pursuant to (i) a Rights Issue (as defined below), (ii) an issue of shares pursuant to any existing specific authority, including upon the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any bonds, notes, debentures or securities convertible into shares of the Company; (iii) any employee share option scheme or similar arrangement for the time being adopted by the Company; and (iv) an issue of shares of the Company in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as enlarged by the issue of 1,575,000,000 new shares of the Company of HK\$0.005 each to Strategic Media International Limited immediately following the completion of the Subscription Agreement (as defined in resolution numbered 1 above); and

(d) for the purposes of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law of Bermuda to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company made to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in, or in any territory outside, Hong Kong).”

4. **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to repurchase shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose (“Recognised Stock Exchange”), subject to and in accordance with all applicable laws, rules and regulations and the requirements of The Rules Governing the Listing of Securities on the Stock Exchange or of any other Recognised Stock Exchange, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the Shares which the Company is authorised to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the shares of HK\$0.005 each in the capital of the Company in issue as enlarged by the issue of 1,575,000,000 new shares of the Company to Strategic Media International Limited immediately following the completion of the Subscription Agreement (as defined in resolution numbered 1 above); and

NOTICE OF SPECIAL GENERAL MEETING

- (c) for the purposes of this resolution, “Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law of Bermuda to be held; or
 - (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”
5. “**THAT**, subject to the passing of resolutions numbered 3 and 4 as set out in the notice convening this meeting (the “Notice”), the general mandate granted to the directors of the Company to allot, issue and deal with additional shares of the Company pursuant to resolution numbered 3 set out in the Notice be and is hereby extended by the addition to it of an amount representing the aggregate nominal amount of the shares in the capital of the Company which are repurchased by the Company pursuant to and since the granting to the Company of the general mandate to repurchase shares in accordance with resolution numbered 4 set out in the Notice.”

By order of the Board
Wong Lai Kin, Elsa
Company Secretary

Hong Kong, 27 November 2003

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
29th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy of that power of attorney or authority, must be deposited at the Company’s branch share registrars, Progressive Registration Limited of 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment of it.
3. Where there are joint holders of any share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled to vote, but if more than one of such joint holders be present at the meeting in person or by proxy, the person so present whose name stands first in the register of member of the Company in respect of such share shall alone be entitled to vote in respect of it.
4. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the meeting or any adjourned meeting if he so desires. If a member attends the meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.