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

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

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

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**CHINA STAR FILM GROUP LIMITED**

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8172)**

- (I) CAPITAL REORGANISATION;**  
**(II) PLACING OF NEW SHARES SUBJECT TO SHAREHOLDERS' APPROVAL;**  
**(III) CHANGE OF AUDITORS;**  
**AND**  
**(IV) NOTICE OF SPECIAL GENERAL MEETING**

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A notice convening the SGM to be held at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong at 2:30 p.m. on Friday, 15 January 2010 is set out on pages 24 to 27 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire.

23 December 2009

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## CHARACTERISTICS OF GEM

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**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“associate(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Adjusted Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company immediately upon the Capital Reorganisation becoming effective
“Announcement”	the announcement of the Company dated 7 December 2009 in respect of the Capital Reorganisation, the Placing Agreement and the change of the Company’s auditors
“Board”	the board of Directors
“Business Day”	a day on which licensed banks in Hong Kong are generally open for business, other than a Saturday or a Sunday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is issued in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon
“Bye-laws”	the bye-laws of the Company from time to time
“Capital Reduction”	the proposal for the reduction of the par value of the issued Consolidated Shares from HK\$0.05 each to HK\$0.01 each by canceling HK\$0.04 of the paid-up capital on each issued Consolidated Share
“Capital Reorganisation”	the Share Consolidation and the Capital Reduction
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

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## DEFINITIONS

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“Company”	China Star Film Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares are listed on GEM
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Consolidated Share(s)”	the ordinary share(s) of HK\$0.05 each in the issued share capital of the Company immediately after the Share Consolidation becoming effective
“Convertible Bonds”	collectively, (i) a principal amount of HK\$100,000,000 convertible bond issued by the Company to Riche (BVI) Limited on 8 April 2009 which is unsecured, interest-free and maturing in ten years after the date of issue; and (ii) a principal amount of HK\$60,000,000 convertible bond issued by the Company to China Star Entertainment Limited on 29 January 2009 which is unsecured, interest-free and maturing in ten years after the date of issue
“Directors”	the directors of the Company
“Existing Share(s)”	the ordinary share(s) of HK\$0.01 each in the existing share capital of the Company immediately before the Capital Reorganisation becoming effective
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China

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## DEFINITIONS

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“Independent Shareholders”	the Shareholders other than the Placing Agent and Riche (BVI) Limited and their respective associates
“Latest Practicable Date”	21 December 2009, being the latest practicable date for ascertaining certain information contained in this circular
“Placee(s)”	any professional, institutional or other investors procured by the Placing Agent to subscribe for the Placing Shares
“Placing”	the private placing of 200,000,000 Adjusted Shares by the Placing Agent to the Placee, on a fully underwritten basis, pursuant to the Placing Agreement
“Placing Agent”	Kingston Securities Limited, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	a conditional placing agreement dated 7 December 2009 entered into between the Company and the Placing Agent in respect of the Placing
“Placing Price”	HK\$0.30 per Placing Share
“Placing Shares”	an aggregate of 200,000,000 new Adjusted Shares to be allotted and issued pursuant to the Placing Agreement
“Promissory Note”	a promissory note in an amount of HK\$100,000,000 issued by the Company to Riche (BVI) Limited on 8 April 2009 which is unsecured, interest-free and maturing in ten years after the date of issue

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## DEFINITIONS

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“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Capital Reorganisation, the Placing Agreement and the change of the Company’s auditors
“Shareholder(s)”	the holder(s) of the issued Share(s)
“Shareholder’s Loan”	the loan of approximately HK\$255,530,000 granted by Riche (BVI) Limited on 8 April 2009 which is unsecured, interest-free and maturing in five years after the date of grant
“Shares”	the Existing Shares, Consolidated Shares and/or Adjusted Shares, as the case may be
“Share Consolidation”	the proposed consolidation of every five (5) issued Existing Shares of HK\$0.01 each into one (1) issued Consolidated Share of HK\$0.05
“Share Option Scheme”	the share option scheme of the Company adopted on 6 March 2002
“Share Options”	the options granted under the Share Option Scheme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%”	per cent

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## EXPECTED TIMETABLE

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The expected timetable for implementation of the Capital Reorganisation and the associated trading arrangements are set out below:

*2009*

Despatch of circular, notice of SGM and form of proxy . . . . . Wednesday, 23 December

*2010*

Latest time for the Shareholders to lodge the . . . . . 2:30 p.m. on  
form of proxy for SGM . . . . . Wednesday, 13 January

SGM . . . . . 2:30 p.m. on Friday, 15 January

Effective date of the Capital Reorganisation . . . . . Monday, 18 January

Commencement of dealings in the Adjusted Shares. . . . . 9:30 a.m. on Monday, 18 January

Original counter for trading in the Existing Shares  
in board lots of 20,000 Existing Shares . . . . . 9:30 a.m. on  
temporarily closes . . . . . Monday, 18 January

Temporary counter for trading in board lots of 4,000 Adjusted  
Shares (in the form of existing share certificates) opens . . . . . Monday, 18 January

First day of free exchange of certificates for the Existing Shares  
into new certificates for the Adjusted Shares. . . . . Monday, 18 January

Original counter for trading in the Adjusted Shares in board lots  
of 20,000 Adjusted Shares (only new certificates for . . . . . 9:30 a.m. on  
the Adjusted Shares can be traded at this counter) re-opens . . . . . Monday, 1 February

Parallel trading in the Adjusted Shares (in the form of . . . . . 9:30 a.m. on  
new and existing certificates) commences. . . . . Monday, 1 February

Designated broker starts to stand in the market to provide  
matching services for the sale and purchase of  
odd lots of the Adjusted Shares . . . . . Monday, 1 February



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## EXPECTED TIMETABLE

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Temporary counter for trading in board lots of 4,000 Adjusted Shares (in the form of existing share certificates) closes . . . . . Tuesday, 23 February 4:00 p.m. on

Parallel trading in the Adjusted Shares (in the form of new and existing certificates) ends . . . . . Tuesday, 23 February 4:00 p.m. on

Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of the Adjusted Shares . . . . . Tuesday, 23 February

Last day of free exchange of certificates for the Existing Shares into new certificates for the Adjusted Shares. . . . . Thursday, 25 February

*All times stated in this circular refer to Hong Kong times. Dates stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Capital Reorganisation will be announced as appropriate.*

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## LETTER FROM THE BOARD

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# CHINA STAR FILM GROUP LIMITED

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8172)**

*Executive Directors:*

Mr. Lai Hok Lim  
Mr. Heung Wah Keung

*Independent non-executive Directors:*

Mr. Yip Tai Him  
Mr. Law Yiu Sang, Jacky  
Ms. Chio Chong Meng

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business*

*in Hong Kong*  
Unit 3407, 34/F  
Shun Tak Centre  
West Tower  
168-200 Connaught Road Central  
Hong Kong

23 December 2009

*To the Shareholders*

Dear Sir or Madam,

**(I) CAPITAL REORGANISATION;  
(II) PLACING OF NEW SHARES SUBJECT TO SHAREHOLDERS' APPROVAL;  
(III) CHANGE OF AUDITORS;  
AND  
(IV) NOTICE OF SPECIAL GENERAL MEETING**

Reference is made to the announcements issued by the Company dated 7 December 2009, 11 December 2009 and 22 December 2009 in respect of, among others, the Capital Reorganisation, the Placing Agreement and the change of the Company's auditors.

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## LETTER FROM THE BOARD

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The purpose of this circular is to give details of (i) the Capital Reorganisation; (ii) the Placing; (iii) the change of the Company's auditors; and (iv) the notice convening the SGM.

### CAPTIAL REORGANISATION

The Directors propose to implement the Capital Reorganisation which involves:

- (i) the consolidation of shares whereby every five (5) Existing Shares of HK\$0.01 each in the issued share capital of the Company shall be consolidated into one (1) Consolidated Share of HK\$0.05 in the issued share capital of the Company;
- (ii) the reduction of the par value of each of the issued Consolidated Shares from HK\$0.05 each to the Adjusted Share of HK\$0.01 each by canceling the paid-up capital to the extent of HK\$0.04 on each issued Consolidated Share; and
- (iii) the credit of HK\$5,410,642.16 arising from the reduction of issued share capital will be transferred to the contributed surplus account of the Company and be applied to offset against the accumulated losses permitted by the laws of Bermuda and the Bye-laws.

The Capital Reorganisation is conditional upon fulfillment of the conditions as set out in the paragraph headed "Conditions of the Capital Reorganisation" below.

The SGM will be held for the Shareholders to consider and, if thought fit, approve the special resolution in respect of the Capital Reorganisation.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$30,000,000 divided into 3,000,000,000 Existing Shares, of which 676,330,271 Existing Shares had been in issue and were fully paid or credited as fully paid.

As at the Latest Practicable Date, save for the Share Options entitling the holders thereof to subscribe for 29,200,000 Existing Shares and the convertible bonds amounted to HK\$167,000,000 entitling the holders thereof to convert 727,978,657 Existing Shares, the Company had no other outstanding warrants, options or convertible securities.

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## LETTER FROM THE BOARD

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### Effects of the Capital Reorganisation

As at the date of Latest Practicable Date, the authorised share capital of the Existing Shares of the Company was HK\$30,000,000 divided into 3,000,000,000 Existing Shares of HK\$0.01 each, of which 676,330,271 Existing Shares had been issued and were fully paid. Assuming that no further Existing Shares are issued or repurchased between the Latest Practicable Date and the date of the SGM, immediately upon the Capital Reorganisation becoming effective, 135,266,054 Adjusted Shares of par value HK\$0.01 each will be in issue and the authorised share capital of the Company will remain unchanged as HK\$30,000,000 divided into 3,000,000,000 Adjusted Shares of HK\$0.01 each.

Based on 676,330,271 Existing Shares in issue as at the Latest Practicable Date, a credit of approximately HK\$5,410,642.16 will arise as a result of the Capital Reduction and will be transferred to the contributed surplus account of the Company and be applied to offset against part of the amount of accumulated losses of the Company permitted by the laws of Bermuda and the Bye-laws.

As at the Latest Practicable Date, the Company had 29,200,000 Share Options entitling the holders thereof to subscribe for 29,200,000 Existing Shares and the outstanding convertible bonds of HK\$167,000,000 which in aggregate entitling holders thereof to subscribe for 727,978,657 Existing Shares. Save as disclosed above, the Company does not have any other outstanding options, convertible bonds or securities in issue which are convertible or exchangeable into Shares. As the Capital Reorganisation will cause adjustments to (i) the aggregate number of the Adjusted Shares and the new Adjusted Shares to be allotted and issue upon exercising of the outstanding Share Options and exercising of the conversion rights attaching to the convertible bonds of the Company; and (ii) the exercise prices of the Share Options and the conversion prices of the convertible bonds of the Company, the Company will appoint an approved merchant bank or the auditors of the Company to certify the necessary adjustments, if any, to the conversion prices of the convertible bonds of the Company and the exercise prices and numbers of the outstanding Share Options. Further announcement will be made by the Company in this regard.

The Capital Reorganisation will not result in any change in the relative rights of the Shareholders. Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the interests of the Shareholders as a whole.

The Adjusted Shares will rank *pari passu* in all respects with the Existing Shares in issue prior to the Capital Reorganisation becoming effective to each other and there will not result in any change in the relative rights of the Shareholders.

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## LETTER FROM THE BOARD

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### **Reasons for the Capital Reorganisation**

The Capital Reorganisation will provide the Company with greater flexibility in issuing Adjusted Shares in future should such opportunities arise.

Hence, the Board is of the view that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

### **Conditions of the Capital Reorganisation**

The Capital Reorganisation is conditional upon:

- (a) the passing of the necessary resolution(s) by the Shareholders at the SGM to approve the Capital Reorganisation;
- (b) compliance with the relevant procedures and requirements under the GEM Listing Rules and the requirements under section 46(2) of the Companies Act 1981 of Bermuda to effect the Capital Reorganisation; and
- (c) the Listing Committee of GEM granting the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation.

Subject to the fulfillment of the conditions of the Capital Reorganisation, the Capital Reorganisation is expected to be effective on the Business Day next following the date of the SGM.

### **Application for listing of the new Shares**

Application will be made by the Company to the Stock Exchange for the grant of the listing of, and permission to deal in, the Adjusted Shares which will be in issue upon the Capital Reorganisation becoming effective and any Adjusted Shares which may fall to be issued upon the exercise of the conversion rights attached to the convertible bonds of the Company and the exercise of the subscription rights of the Share Options.

The Adjusted Shares will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares on GEM, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on GEM or such other date as determined by HKSCC.

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## LETTER FROM THE BOARD

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Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Shares are listed and traded on GEM. None of the Shares is listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

### **Fractional Adjusted Shares and odd lot trading arrangement**

Fractional Adjusted Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of the Adjusted Shares will be aggregated and sold for the benefit of the Company.

In order to facilitate the trading of odd lots (if any) of the Adjusted Shares, the Company will appoint Kingston Securities Limited to provide a matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Adjusted Shares to make up a full board lot, or to dispose of their holding of odd lots of the Adjusted Shares from Monday, 1 February 2010 to Tuesday, 23 February 2010 (both days inclusive). Shareholders of odd lots of the Adjusted Shares may contact Ms. Rosita Kiu of Kingston Securities Limited (telephone number: 2295-6215) during the aforesaid period. Shareholders should note that matching arrangements of odd lots of Adjusted Shares is on a best effort basis and successful matching of the sale and purchase of such odd lots is not guaranteed. The Company will bear the costs relating to the matching arrangements of odd lots of the Adjusted Shares.

### **Exchange of share certificates**

Subject to the Capital Reorganisation becoming effective, which is expected to be on Monday, 18 January 2010; Shareholders may, on or after Monday, 18 January 2010 until Thursday, 25 February 2010 (both days inclusive) submit share certificates for Shares to the Company's branch share registrar in Hong Kong (the "**Branch Registrar**"), Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, to exchange, at the expense of the Company, for certificates for the Adjusted Shares (on the basis of five (5) Existing Shares for one(1) Adjusted Share). It is expected that the new certificates for the Adjusted Shares will be available for collection within 10 Business Days after the submission of the existing share certificates to the Branch Registrar for exchange. Thereafter, certificates for Shares will remain effective as documents of legal title but will be accepted for exchange

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## LETTER FROM THE BOARD

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only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) per certificate issued or cancelled, whichever is higher, payable by Shareholders to the Branch Registrar.

### **Adjustments to the outstanding Share Options and the outstanding convertible bonds of the Company**

The Placing and Capital Reorganisation may lead to adjustments to the exercise prices and/or the number of the Adjusted Share to the Share Options and conversion prices and/or the number of Adjusted Shares to be issued upon conversion of the convertible bonds of the Company. As to the adjustments to the number of Adjusted Shares to be issued and the conversion prices in respect of the convertible bonds and the exercise prices in respect of the Share Options, the Company will appoint its auditors or an approved merchant bank to certify the necessary adjustments, if any, to the conversion price of the outstanding convertible bonds and the exercise prices and numbers of the outstanding Share Options as soon as possible.

The Company will notify the holders thereof by way of announcement regarding adjustments to be made (if any) pursuant to the terms of the Share Options and the convertible bonds of the Company.

### **GENERAL**

Pursuant to Rule 24.09(6) of the GEM Listing Rules, the Company is required to offer for inspection of the summary of the relevant regulatory provisions (statutory or otherwise) to which the Company is subject in Bermuda (where the Company is incorporated) and a summary of all provisions of the constitutive documents of the Company. Copies of such documents are available for inspection at the principal place of business of the Company at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM.

### **THE PLACING AGREEMENT**

**Date:** 7 December 2009 (after trading hours)

**Parties:** The Company and the Placing Agent

#### **Placing Agent**

The Placing Agent has conditionally agreed to place 200,000,000 Placing Shares by tranches provided that the aggregate number of Placing Shares for each tranche is in integral multiples of 50,000,000, on a fully underwritten basis, to the Placees.

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## LETTER FROM THE BOARD

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In consideration of the prevailing market rate of the placing commission, the Directors (including the independent non-executive Directors) are of the view that the placing commission of 1% on the gross proceeds of the actual number of Placing Shares being placed for each tranche is fair and reasonable. To the best of Directors' knowledge, information and belief and having made all reasonable inquiries, an aggregate of 11,029,027 Existing Shares are being held by the Placing Agent and its associates, representing approximately 1.63% of the issued share capital of the company as at 7 December 2009 (being the date of the Placing Agreement). As the Placing Agent has interests in the Placing Agreement, the Placing Agent and its associates are required to abstain from voting to approve the Placing Agreement and the transactions contemplated thereunder at the SGM.

### **Placees**

Pursuant to the Placing Agreement, the Placing Agent undertakes to place the Placing Shares to not fewer than six Placees who and whose ultimate beneficial owners will be independent of and not be connected persons of the Company and its connected persons. It is expected that none of the Placees will become a substantial Shareholder (as defined under the GEM Listing Rules) immediately after the relevant tranche of the Placing.

### **Placing Price**

The Placing Price of HK\$0.30 represents:

- (i) a discount of approximately 41.18% to the closing price of HK\$0.510 per Existing Share adjusted for the Capital Reorganisation as quoted on the GEM as at the date of the Announcement;
- (ii) a discount of approximately 38.52% to the average of the closing prices per Existing Share adjusted for the Capital Reorganisation of approximately HK\$0.488 for the last five consecutive trading days prior to the date of the Announcement;
- (iii) a discount of approximately 36.71% to the average of the closing prices per Existing Share adjusted for the Capital Reorganisation of approximately HK\$0.474 for the ten consecutive trading days prior to the date of the Announcement; and
- (iv) a discount of approximately 6.25% to the closing price of HK\$0.32 per Existing Share adjusted for the Capital Reorganisation as quoted on GEM as at the Latest Practicable Date.

The net price for each Placing Share will be approximately HK\$0.295.



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## LETTER FROM THE BOARD

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The Placing Price was determined after arm's length negotiation between the Company and the Placing Agent after taking into account (a) the market sentiment; (b) the low trading volume of the Shares; (c) the performance of the Shares and the attractiveness to the potential investors procured by Placing Agent; (d) the substantial losses incurred by the Group for the two financial years ended 31 December 2008; and (e) the Placing is fully underwritten. The Directors (including the independent non-executive Directors) consider that the terms of the Placing, including the Placing Price with discount, are on normal commercial terms and are fair and reasonable as the Company can broaden its Shareholders' base and strengthen the Company's financial position. As such, the Placing is in the interests of the Company and the Shareholders as a whole.

### **Placing Shares**

Pursuant to the Placing Agreement, 200,000,000 Placing Shares will be placed by the Placing Agent to the Placees on a fully underwritten basis, representing (i) approximately 147.86% of the issued share capital of the Company of 135,266,054 Existing Shares adjusted for the Capital Reorganisation as at 7 December 2009 (being the date of the Placing Agreement); and (ii) approximately 59.65% of the Company's issued share capital of 335,266,054 Adjusted Shares (immediately after the Capital Reorganisation) as enlarged by the issue of 200,000,000 Placing Shares. The aggregate nominal value of the Placing Shares under the Placing will be HK\$2,000,000.

The Placing Shares will be allotted and issued subject to Shareholders' approval at the SGM. The Placing Shares will, when fully paid, be allotted and issued in accordance with the memorandum of association and Bye-laws and with the relevant rules and regulations applicable to the Company in Hong Kong and Bermuda and will, upon allotment and issue, be free from all liens, charges, encumbrances or third party rights of whatsoever nature and together with all rights attaching thereto at completion of each tranche of the Placing and thereafter.

The Placing Shares will rank, upon issue, *pari passu* in all respects with the existing Shares in issue on the date of allotment and issue of the Placing Shares.

### **Conditions Precedent**

Completion of the Placing is conditional upon:

- (i) the Listing Committee of GEM granting the listing of, and permission to deal in the Placing Shares under the relevant tranche of the Placing;
- (ii) the passing of resolution(s) by the Independent Shareholders to approve the Placing Agreement and the transactions contemplated thereunder, including the allotment and issue of the Placing Shares at the SGM;

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## LETTER FROM THE BOARD

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- (iii) the obligation of the Placing Agent under the Placing Agreement becoming unconditional and not being terminated in accordance with the terms thereof, including provisions regarding force majeure event;
- (iv) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of the Placing Shares under the relevant tranche of the Placing; and
- (v) the Capital Reorganisation becoming effective.

### **Completion of the Placing**

Completion of each tranche of the Placing will take place within four Business Days after the fulfillment of the above conditions precedent for each tranche but not later than three months after the date of the SGM.

The Company and the Placing Agent have agreed that the Placing will be completed partially by tranches provided that the number of the Placing Shares for each tranche of the Placing is in integral multiples of 50,000,000 and that the listing approval as referred to condition (i) above in respect of the relevant tranche of the Placing Shares has been obtained and that the completion of the Placing shall apply to each of such partial completion.

### **Termination of the Placing**

- (i) Unless otherwise agreed between the Company and the Placing Agent, the Placing Agent's appointment shall terminate upon the earlier of (a) completion of the Placing and (b) termination of the Placing by the Placing Agent in accordance with the terms and conditions of the Placing Agreement, whereby the Company will be formally notified by the Placing Agent in writing in accordance with the terms of the Placing Agreement.
- (ii) The Placing Agent reserves its right to terminate the Placing Agreement by notice in writing prior to 10:00 a.m. on the date of completion of each tranche of the Placing, if in the absolute opinion of the Placing Agent, the success of the Placing would be materially and adversely affected by any force majeure events (as defined below).

For this purpose, a "force majeure event" refers to

- (a) the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

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## LETTER FROM THE BOARD

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- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the Placing Agreement) of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances (inclusive of any pandemic or epidemics) which may, in the absolute opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group or adversely prejudices the success of the placing of the Placing Shares to potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Placing; or
  - (c) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction or trading in securities) occurs which affect the success of the Placing (such success being the placing of the Placing Shares to potential investor(s)) or otherwise in the absolute opinion of the Placing Agent makes it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the Placing.
- (iii) If, at or prior to 10:00 a.m. on the date of completion of each tranche of the Placing;
- (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed or assumed under the Placing Agreement; or
  - (b) any suspension in the trading of the Shares on GEM for more than ten consecutive trading days save for the purposes of clearing of the announcement relating to the Placing Agreement or circulars relating to the Placing; or

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## LETTER FROM THE BOARD

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- (c) the Placing Agent shall become aware of the fact that any of the representations or warranties contained in the Placing Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if repeated and the Placing Agent shall determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the financial or trading position or prospects of the Group taken as a whole or will otherwise likely to have a material prejudicial effect on the Placing.

The Placing Agent shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Placing Agent from its obligations under the Placing Agreement.

- (iv) Upon giving of notice pursuant to the paragraph above, all obligations of the Placing Agent under the Placing Agreement shall cease and determine and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Placing Agreement, save for any antecedent breaches.

### **Listing**

Application will be made by the Company to the Listing Committee of GEM for the grant of the listing of, and permission to deal in, the Placing Shares (or the Adjusted Shares, as the case may be) under the relevant tranche of the Placing.

### **REASONS FOR AND BENEFIT OF THE PLACING AND USE OF PROCEEDS**

China Star Film Group Limited is principally engaged in property investment, the provision of artists management services, investment in jointly controlled entity which is principally engaged in distribution of high-end apparel and accessories, film production and film distribution.

According to the interim report of the Company for the period ended 30 September 2009, the loss attributable to equity holders of the Company amounted to HK\$1.5 million. In order to improve the financial position of the Group, the Company had streamlined its loss-making business of the Group and the Group has been actively seeking new investment opportunities in other areas to broaden its investment portfolio and enhance the Group's flexibility in future developments or investment as and when investment opportunities arise. In addition, the Group had outstanding debts of approximately HK\$515.53 million (the "Debts") which comprise the Shareholder's Loan, the Convertible Bonds and the Promissory Note as at 30 November 2009.

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## LETTER FROM THE BOARD

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The Company is currently in negotiation of a possible investment of multi-media business (the “**Possible Acquisition**”) with an independent third party. The Possible Acquisition, if it materialises, will constitute a notifiable transaction under Chapter 19 of the GEM Listing Rules. Yet, no terms and conditions of the Possible Acquisition have been finalised and no binding agreement has been entered into between the parties in respect of the Possible Acquisition as at the Latest Practicable Date. An announcement in respect of the Possible Acquisition will be made by the Company as and when appropriate.

The Board intends to apply the net proceeds from the Placing to finance the Possible Acquisition if the Possible Acquisition is finalised prior to the completion of the Placing. In the event that the Possible Acquisition is not finalised prior to the completion of the Placing, the Board proposes that the net proceeds from the Placing shall be used to repay the Debts proportionally. Despite the fact that there is no urgent need to repay the Debts, the Board has explored various alternatives to reduce the Debts in order to strengthen the Group’s balance sheet and enhance the Group’s financial flexibility for future developments or investments of the Group.

In 2008 and 2009, the Group has experienced a downturn in its businesses caused by the global financial crisis. Given that the major central banks are preparing for departures from their quantitative easing measures and the hot money is leaving Hong Kong after the massive influx in the past few months, the Board considers that the Placing provides an excellent opportunity for the Company to raise funds in general and in particular for the Possible Acquisition (or reducing the Group’s outstanding borrowings, if the Possible Acquisition does not materialise) before a major correction in the equity market occurs.

Based on the foregoing, the Directors (including the independent non-executive Directors) consider the entering into the Placing Agreement is in the interests of the Company and the Shareholders as a whole.

The gross proceeds from the Placing will be approximately HK\$60 million and the net proceeds from the Placing will be approximately HK\$59 million.

For effect on the Shareholding structure of the Company from the Placing, please refer to the “Effect on shareholding structure on the Capital Reorganisation and the Placing” below in this circular.

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## LETTER FROM THE BOARD

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### FUND RAISING ACTIVITY OF THE COMPANY IN THE PAST TWELVE MONTHS IMMEDIATELY PRECEDING THE DATE OF THE ANNOUNCEMENT

Save as disclosed below, the Company has not conducted any fund raising activities in the past twelve months before the date of the Announcement:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds as announced	Actual use of proceeds
8 December 2008	Issue of convertible bonds to China Star Entertainment Limited, a company listed on the main board of the Stock Exchange, in the principal amount of HK\$60.0 million	HK\$60.0 million	All of the proceeds will be used for general working capital purposes of the Group and/or borrowings repayment	HK\$38.2 million has been utilised for the repayment of convertible bonds; HK\$15.9 million has been used for borrowings repayment and HK\$5.9 million has been utilised for investment purpose
8 December 2008	Issue of convertible bonds to Xing Lin Medical Information Technology Company Limited (formerly known as Brilliant Arts Multi-Media Holding Limited), a company listed on GEM, in the principal amount of HK\$100 million	HK\$100.0 million	All of the proceeds will be used for general working capital purposes of the Group and/or borrowings repayment	All the proceeds have been utilised for borrowings repayment
23 April 2009	Placing of 11,560,000 Existing Shares at the placing price of HK\$0.205 per Existing Share	HK\$2.3 million	All of the proceeds will be used for general working capital of the Group	HK\$2.3 million has been used for general working capital of the Group
23 April 2009	Open offer of 555,031,352 Existing Shares at the issue price of HK\$0.10 per Existing Share	HK\$54.4 million	All of the proceeds will be used for reducing the Group's borrowings, finance any future possible investment and/or for general working capital of the Group	HK\$12.3 million has been utilised for investment purpose and HK\$42.1 million has been used for borrowings repayment

There has been no change in the above use of proceeds for the captioned raising activities.

## LETTER FROM THE BOARD

### EFFECT ON SHAREHOLDING STRUCTURE TO THE CAPITAL REORGANISATION AND TO THE PLACING

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company (i) the Capital Reorganisation becoming effective assuming no further new Existing Shares are issued; and (ii) the Capital Reorganisation becoming effective assuming no further new Existing Shares are issued and upon completion of the Placing are set out as below:

	As at the Latest Practicable Date		Immediately after the Capital Reorganisation becoming effective		Immediately after the Capital Reorganisation becoming effective and the completion of the Placing	
	<i>No. of Existing Shares</i>	<i>Approximately percentage</i>	<i>No. of Adjusted Shares</i>	<i>Approximately percentage</i>	<i>No. of Adjusted Shares</i>	<i>Approximately percentage</i>
Riche (BVI) Limited <i>(Note 1)</i>	105,922,746	15.66%	21,184,549	15.66%	21,184,549	6.32%
<i>Public Shareholders:</i>						
Placees	—	—	—	—	200,000,000	59.65%
Others	570,407,525	84.34%	114,081,505	84.34%	114,081,505 <i>(Note 2)</i>	34.03%
Total	<u>676,330,271</u>	<u>100.00%</u>	<u>135,266,054</u>	<u>100.00%</u>	<u>335,266,054</u>	<u>100.00%</u>

*Notes:*

1. Riche (BVI) Limited is a wholly-owned subsidiary of China Star Investment Holdings Limited, a company whose shares are listed in the main board of the Stock Exchange. As at the Latest Practicable Date, Riche (BVI) Limited held a HK\$100,000,000 convertible bond of the Company which entitles to convert 436,681,222 Existing Shares.
2. Some Placees may be the existing Shareholders (holding less than 5% of the entire issued share capital of the Company as at the Latest Practicable Date). Any of the existing holdings of the Placees, if any, are included under “Other public Shareholders”.

**Shareholders should be aware of and take note that the completion of the Capital Reorganisation and the Placing are conditional upon satisfaction of the conditions precedents set out in the paragraph headed “Conditions of the Capital Reorganisation” and “Conditions of the Placing” above. As the Capital Reorganisation and the Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.**

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## LETTER FROM THE BOARD

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### CHANGE OF AUDITORS

The Company received a letter of resignation from Vision A.S. Limited dated 7 December 2009 in respect of their resignation as auditors of the Group with effect from the date of the said letter of resignation.

Vision A.S. Limited was appointed by the Company in the Company's extraordinary general meeting held on 19 January 2009 to hold office until the conclusion of the next annual general meeting of the Company.

In the said letter of resignation, Vision A.S. Limited has confirmed in their letter of resignation that, there were no circumstances connected with their resignation which they considered should be brought to the attention of the Shareholders or creditors of the Group. Moreover, the Board was not aware of any matters, including any disagreement or any unresolved issues between the Company and Vision A.S. Limited that should be brought to the attention of the Shareholders and creditors of the Group in relation to their resignation.

The Board now proposes to appoint HLB Hodgson Impey Cheng as the auditors of the Company to fill the casual vacancy following the resignation of Vision A.S. Limited and to hold office until the conclusion of the next annual general meeting of the Company, subject to the appointment being approved by the Shareholders at an SGM to be held. Such proposed appointment of HLB Hodgson Impey Cheng as the auditors of the Company is subject to the approval of the Shareholders by way of an ordinary resolution at the SGM.

### GEM LISTING RULES IMPLICATIONS

At the SGM, no Shareholder is required to abstain from voting in respect of the resolutions to approve the Capital Reorganisation and the change of Company's auditors at the SGM. The Placing Agent and its associates who held 11,029,027 Existing Shares as at the Latest Practicable Date are required to abstain from voting to approve the Placing Agreement and the transactions contemplated thereunder at the SGM. Given (i) the net proceeds from the Placing may be applied to repay the Debts; (ii) Riche (BVI) Limited is the substantial Shareholder and a wholly-owned subsidiary of China Star Investment Holdings Limited; and (iii) Mr. Heung Wah Keung is the common directors of the Company, China Star Investment Holdings Limited and China Star Entertainment Limited, Mr. Heung Wah Keung and Riche (BVI) Limited and their respective associates are also required to abstain from voting in respect of the Placing Agreement and the transactions contemplated thereunder at the SGM.



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## LETTER FROM THE BOARD

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### SGM

A notice convening the SGM at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong on Friday, 15 January 2010 at 2:30 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, (i) the ordinary resolution to approve the Placing Agreement and the transactions contemplated thereunder; (ii) the special resolution to approve the Capital Reorganisation; and (iii) the change of the Company's auditors are set out on pages 24 to 27 of this circular.

A form of proxy for use by the Shareholders at SGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire.

### RESPONSIBLY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

### COMPETING INTEREST

As at the Latest Practicable Date, Mr. Heung Wah Keung was the common director of the Company, China Star Investment Holdings Limited and China Star Entertainment Limited and was interested in 24.92% and 0.006% of the issued share capital of China Star Investment Holdings Limited and China Star Entertainment Limited, respectively. From time to time, such companies are involved in film distribution. In this regard, Mr. Heung Wah Keung is considered to have interests in businesses which compete, or might compete, either directly or indirectly, with the businesses of the Group.

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## LETTER FROM THE BOARD

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Save for disclosed above, none of the Directors and his/her associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

### RECOMMENDATION

The Board considers that the Capital Reorganisation and the change of Company's auditors are in the interests of the Company and the Shareholders as a whole, and the terms of the Placing Agreement, and the transactions contemplated thereunder are fair and reasonable and the Placing is in the interests in the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of the resolutions at the SGM.

By the Order of the Board  
**China Star Film Group Limited**  
**Lai Hok Lim**  
*Chairman*

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## NOTICE OF THE SGM

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# CHINA STAR FILM GROUP LIMITED

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8172)**

**NOTICE IS HEREBY GIVEN THAT** an special general meeting (the “**SGM**”) of China Star Film Group Limited (the “**Company**”) will be held at 2:30 p.m. on Friday, 15 January 2010 at Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong for the following purpose of considering and, if thought fit, passing with or without amendments, the following resolutions:

### **SPECIAL RESOLUTION**

- (1) “**THAT** subject to and conditional upon, (i) the Listing Committee of the Growth Enterprise Market operated by the The Stock Exchange of Hong Kong Limited granting or agree to grant the listing of and permission to deal in the Adjusted Shares (as defined below); and (ii) compliance by the Company with the requirements of section 46(2) of the Companies Act 1981 of Bermuda (as amended) to effect the Capital Reorganisation (as defined below), with effect from 9:30 a.m. on the business day next following the day on which this resolution is passed:
- (a) every five (5) issued shares of par value of HK\$0.01 each in the share capital of the Company (the “**Existing Shares**”) be consolidated into one issued (1) share of par value of HK\$0.05 each (the “**Consolidated Shares**”) (the “**Share Consolidation**”);
  - (b) the total number of the Consolidated Shares in the issued share capital of the Company be rounded down to the nearest whole number by cancelling the fractional Consolidated Share in the total number of the issued Consolidated Shares immediately following the Share Consolidation;
  - (c) the paid-up capital of each Consolidated Share be reduced from HK\$0.05 to HK\$0.01 by cancelling HK\$0.04 (together with sub-paragraph (b) above are hereinafter referred to as the “**Capital Reduction**”) so as to form a new share of HK\$0.01 (the “**New Share**”);

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## NOTICE OF THE SGM

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- (d) the amount of credit arising from the Capital Reduction be credited to the contributed surplus account of the Company and the directors of the Company (the “**Directors**”) be and are hereby authorised to apply such amount in the contributed surplus account of the Company to set-off accumulated losses of the Company and in any manner permitted by the laws of Bermuda and the bye-laws of the Company (together with the Share Consolidation and the Capital Reduction are herein referred to as the “**Capital Reorganisation**”); and
- (e) the Directors be and are hereby authorised generally to do all such acts, deeds and things and to sign all documents as they may, in their absolute discretion, deem necessary, desirable or appropriate to give effect and implement any of the foregoing.”

### ORDINARY RESOLUTIONS

- (2) “**THAT** conditional upon passing of resolution 1 above:
  - (a) the placing of 200,000,000 new shares of HK\$0.01 each of the Company (the “**Placing Shares**”) by tranches (in which each tranche shall not be less than 50,000,000 Placing Shares, save for the last tranche) (the “**Placing**”) pursuant to the Placing Agreement (as defined and described in the circular of the Company date 23 December 2009 (the “**Circular**”)) be and is hereby approved, ratified and confirmed and the board of directors of the Company (the “**Board**”) be and is hereby granted a specific mandate to allot and issue Placing Shares in connection with the Placing, which specific mandate can be exercised once or more than once;
  - (b) the allotment and issue of the Placing Shares pursuant to and in accordance with the terms and conditions of the Placing Agreement be and is hereby approved; and
  - (c) contingent on the Board resolving to issue and allot Placing Shares pursuant to paragraph (2)(a) and (b) above, the Board be and is hereby generally and unconditionally authorised to:
    - (i) determine and deal with at its discretion and with full authority, matters relating to the Placing (including but not limited to the specific timing of issue, final number of Placing Shares to be issued (in any event not more than 200,000,000 new Shares), offering mechanism, pricing mechanism, issue price (subject to the basis for determining the issue

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## NOTICE OF THE SGM

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price described on page 14 in the Circular), target subscribers and the number in proportion of Placing Shares to be issued to each subscriber); and

- (ii) do all such acts and things, to sign and execute all such further documents for and on behalf of the Company by hand, or in case of execution of documents under seal, to do so jointly with any of a second director, a duly authorised representative of the director or the secretary of the Company and to take such steps as he/she may in his/her absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Placing.”
- (3) “**THAT** HLB Hodgson Impey Cheng be and is hereby appointed as auditors of the Company and its subsidiaries in place of the resigned auditors, HLB Hodgson Impey Cheng to hold office until the conclusion of the next annual general meeting of the Company, and the directors of the Company be and are hereby authorized to fix the remuneration for the appointed auditors.”

By the Order of the Board  
**China Star Film Group Limited**  
**Lai Hok Lim**  
*Chairman*

Hong Kong, 23 December 2009

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business in Hong Kong:*

Unit 3407, 34/F  
Shun Tak Centre  
West Tower  
168-200 Connaught Road Central  
Hong Kong

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## NOTICE OF THE SGM

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*Notes:*

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxy to attend and, subject to the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. Whether or not you intend to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.
4. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.