
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this Prospectus, the Whitewash Waiver (as defined herein) or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in China Star Entertainment Limited (the “Company”), you should at once hand the Prospectus Documents (as defined herein), to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

A copy of each of the Prospectus Documents, having attached thereto the documents specified in the paragraph headed “14. Documents delivered to the Registrar of Companies in Hong Kong” in Appendix III to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility for the contents of any of the Prospectus Documents.

Subject to the granting of listing of, and permission to deal in, the Rights Shares (as defined herein) in both nil-paid and fully-paid forms on the Stock Exchange (as defined herein) and compliance with the stock admission requirements of HKSCC (as defined herein), the Rights Shares in both nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS (as defined herein) with effect from their respective commencement dates of dealings on the Stock Exchange or such other date as may be determined by HKSCC. 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. You should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE

Joint financial advisers to the Company

 **KINGSTON CORPORATE FINANCE**



中國農信財務顧問有限公司
China AF Corporate Finance Limited

Underwriter of the Rights Issue

Heung Wah Keung Family Endowment Limited

Capitalised terms used in this cover have the same meanings as those defined in this Prospectus.

The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Thursday, 26 July 2018. The procedures for acceptance and payment for/or transfer of the Rights Shares are set out on pages 15 to 16 of this Prospectus.

The Rights Issue is conditional upon the fulfillment of the conditions (or, in respect of certain conditions, waiver thereof) as set out in the paragraph headed “The Underwriting Agreement – Conditions of the Rights Issue” in the “Letter from the Board” of this Prospectus.

The Underwriting Agreement in respect of the Rights Issue contains provisions entitling the Underwriter by notice in writing to the Company to terminate the obligations of the Underwriter thereunder on the occurrence of certain events including force majeure. These events are set out in the section headed “Termination of the Underwriting Agreement” on pages 7 to 8 of this Prospectus.

The Shares have been dealt in on an ex-rights basis from Tuesday, 3 July 2018. Dealings in the Rights Shares in the nil-paid form will take place from Monday, 16 July 2018 to Monday, 23 July 2018 (both days inclusive). If the conditions of the Rights Issue are not fulfilled on or before 4:00 p.m. on Monday, 30 July 2018 (or such later time and/or date as the Company and the Underwriter may determine), or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any persons contemplating selling or purchasing Shares up to the date on which all conditions of the Rights Issue are fulfilled and/or waived, as well as dealing in the Rights Shares in their nil-paid form during the period from Monday, 16 July 2018 to Monday, 23 July 2018 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.

12 July 2018

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EXPECTED TIMETABLE

EXPECTED TIMETABLE

The expected timetable of the Rights Issue is set out below. All times and dates in this Prospectus refer to Hong Kong local times and dates. The expected timetable set out below is for indicative purposes only and has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled or waived (as the case may be). The expected timetable may be subject to change, and any such change will be further announced by the Company as and when appropriate.

Event	Date
	2018
First day of dealings in nil-paid Rights Shares	9:00 a.m. on Monday, 16 July
Latest time for splitting of nil-paid Rights Shares	4:30 p.m. on Wednesday 18 July
Last day of dealings in nil-paid Rights Shares	Monday, 23 July
Latest time for acceptance of, and payment for, the Rights Shares and the application for excess Rights Shares	4:00 p.m. on Thursday, 26 July
Latest Time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Monday, 30 July
Announcement of results of the Rights Issue	Friday, 3 August
Refund cheques for wholly or partially unsuccessful applications for excess Rights Shares to be despatched on or before	Monday, 6 August
Despatch of share certificates for fully paid Rights Shares on or before	Monday, 6 August
Commencement of dealings in fully-paid Rights Shares	9:00 a.m. on Tuesday, 7 August

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE

The Latest Time for Acceptance will be postponed if there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning, if such circumstances are:

- a. in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
- b. in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead, the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the next Business Day which does not have either of the abovementioned warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance is postponed in accordance with the foregoing, the dates of the events subsequent to the Latest Time for Acceptance mentioned in this section (including, without limitation, the Latest Time for Termination) may be affected. An announcement will be made by the Company in such event.

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Announcement”	the Company’s announcement dated 19 April 2018 in relation to, among other things, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Bonus Convertible Bonds”	the bonus convertible bond(s) constituted by the deed polls executed by the Company on 9 January 2013 and 22 January 2014, respectively, carrying the right entitling holders thereof to convert its principal amount into a new Share at the adjusted conversion price of HK\$0.25 per conversion Share (being adjusted as a result of capital reorganisation of the share capital of the Company which became effective on 9 November 2015) with the aggregate outstanding principal amount of HK\$265,079.61, which is convertible into an aggregate of 1,060,317 Shares, as at the Latest Practicable Date
“Business Day”	any day (excluding a Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no.8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Circular”	the Company’s circular dated 7 June 2018 in relation to, among other things, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
“Company”	China Star Entertainment Limited (stock code: 326), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dorest”	Dorest Company Limited, an investment holding company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung
“EAF(s)”	the forms of application for use by the Qualifying Shareholders who wish to apply for excess Rights Shares, being in such usual form as may be agreed between the Company and the Underwriter
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“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
“Independent Shareholders”	Shareholders other than the Underwriter, parties acting in concert with it, and any Shareholders who are involved or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver
“Irrevocable Undertaking”	an irrevocable undertaking dated 13 April 2018 given by the Underwriter in favour of the Company, details of which are set out in the paragraph headed “The Underwriting Agreement – Irrevocable Undertaking by a Substantial Shareholder” in the “Letter from the Board” of this Prospectus

DEFINITIONS

“Last Trading Day”	13 April 2018, being the date of the Underwriting Agreement and the last trading day for the Shares on the Stock Exchange prior to the release of the Announcement
“Latest Practicable Date”	6 July 2018, being the latest practicable date prior to the printing of this Prospectus for ascertaining certain information for the purpose of inclusion in this Prospectus
“Latest Time for Acceptance”	4:00 p.m. on Thursday, 26 July 2018 or such later time or date as agreed between the Underwriter and the Company, being the latest time for acceptance of, and payment for the Rights Shares
“Latest Time for Termination”	4:00 p.m. on Monday, 30 July 2018, being the second Business Day following the Latest Time for Acceptance or such later time or date as may be agreed between the Underwriter and the Company, being the latest time to terminate the Underwriting Agreement
“Listing Committee”	has the same meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Mr. Heung”	Mr. Heung Wah Keung, a Substantial Shareholder and an executive Director and the spouse of Ms. Chen
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, a Substantial Shareholder and an executive Director and the spouse of Mr. Heung
“Non-Qualifying Shareholders”	those Overseas Shareholders whom the Directors, based on legal opinions provided by the Company’s legal advisers, consider it necessary or expedient not to offer the Rights Shares to such Shareholders on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Rights Shares to such Shareholders

DEFINITIONS

“Overseas Shareholder(s)”	the Shareholder(s) whose address(es) on the register of members of the Company on the Record Date were outside of Hong Kong
“PAL(s)”	the renounceable provisional allotment letter(s) issued to the Qualifying Shareholders in connection with the Rights Issue
“Posting Date”	Thursday, 12 July 2018 or such other date as may agree between the Underwriter and the Company for the despatch of the Prospectus Documents
“Prospectus”	this prospectus to be despatched to Shareholders containing details of the Rights Issue
“Prospectus Documents”	this Prospectus, PAL and the EAF
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company on the Record Date, other than the Non-Qualifying Shareholders
“Record Date”	Wednesday, 11 July 2018 or such other date as may be agreed between the Company and the Underwriter for the determination of the entitlements under the Rights Issue
“Registrar”	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, the Hong Kong branch share registrar and transfer office of the Company
“Relevant Period”	the period beginning 6 months immediately prior to the date of the Announcement and ending on the Latest Practicable Date
“Rights Issue”	the issue by way of rights issue to the Qualifying Shareholders on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and this Prospectus Documents
“Rights Share(s)”	new Shares to be allotted and issued under the Rights Issue, being 1,807,406,986 new Shares
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company held on Thursday, 28 June 2018 to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver
“Share(s)”	ordinary share(s) of HK\$0.01 each in share capital of the Company
“Shareholder(s)”	the holder(s) of Shares
“Share Options”	the total of 196,714 outstanding share options granted by the Company pursuant to the Share Option Scheme adopted by the Company
“Share Option Scheme”	the share option scheme adopted on 27 May 2002 which was expired on 26 May 2012, of which the outstanding Share Options granted prior to the paid expiry shall remain valid and exercisable
“Specified Event”	an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.25 per Rights Share
“Substantial Shareholder(s)”	has the meaning as ascribed thereto under the Listing Rules
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs
“Underwriter” or “HWKFE”	Heung Wah Keung Family Endowment Limited, an investment holding company incorporated in the British Virgin Islands and owned as to 50% by Mr. Heung and as to 50% by Ms. Chen and the directors of which are Mr. Heung and Ms. Chen

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 13 April 2018 entered into among the Company and the Underwriter in relation to the underwriting arrangement in respect of the Rights Issue as supplemented by a letter dated 3 May 2018 made by the same parties clarifying the maximum number of Rights Shares to be underwritten in light of the lapse of 53,720,000 Share Options on 3 May 2018
“Underwritten Shares”	being all the 1,807,406,986 Rights Shares in excess of the aggregate of 372,893,004 Rights Shares that shall be provisionally allotted to and subscribed for by the Underwriter pursuant to the Irrevocable Undertaking, which are fully underwritten by the Underwriter pursuant to the terms and subject to the conditions set out in the Underwriting Agreement
“Whitewash Waiver”	a waiver of the obligation of the Underwriter to make a mandatory general offer as a result of the underwriting of the Rights Issue for all the Shares not already owned, controlled or agreed to be acquired by them pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code by the Executive
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

TERMINATION OF THE UNDERWRITING AGREEMENT

TERMINATION OF THE UNDERWRITING AGREEMENT

If, prior to the Latest Time for Termination:

- (a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (ii) 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 Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (b) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which, in the absolute opinion of the Underwriter, is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (c) any change in the circumstances of the Company or any member of the Group which, in the absolute opinion of the Underwriter, will adversely affect the prospects of the Company, including without limiting the generality of the foregoing, the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (d) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (e) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (f) any matter which, had it arisen or been discovered immediately before the date of this Prospectus and not having been disclosed in this Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (g) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if, prior to the Latest Time for Termination:

- (a) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (b) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

If prior to the Latest Time for Termination any such notice referred to above is given by the Underwriter, the obligations of all parties under the Underwriting Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

WARNING OF THE RISK OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Shares have been dealt in on an ex-rights basis from Tuesday, 3 July 2018. The Rights Shares are expected to be dealt with in their nil-paid form from Monday, 16 July 2018 to Monday, 23 July 2018 (both days inclusive).

The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated. It should also be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate their obligations on the occurrence of certain events including force majeure. If the Underwriting Agreement does not become unconditional or is terminated, the Rights Issue will not proceed.

Any Shareholder or other person dealing in the securities of the Company up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any person dealing in the nil-paid Rights Shares during the period from Monday, 16 July 2018 to Monday, 23 July 2018 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealings in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers and exercise caution.

LETTER FROM THE BOARD



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

Executive Directors:

Mr. Heung Wah Keung (*Chairman*)
Ms. Chen Ming Yin, Tiffany (*Vice Chairman*)
Ms. Li Yuk Sheung

Independent non-executive Directors:

Mr. Hung Cho Sing
Mr. Ho Wai Chi, Paul
Mr. Tang Chak Lam, Gilbert

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

*Head office and principal place of
business in Hong Kong:*

Unit 3409
Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

12 July 2018

To the Qualifying Shareholders and, for information purpose only, the Non-Qualifying Shareholders

Dear Sir or Madam,

RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE

INTRODUCTION

References are made to the Announcement and the Circular in relation to, among other things, the Rights Issue.

On 19 April 2018, the Board announced that, among other things, the Company proposes to implement the Rights Issue on the basis of two (2) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK\$0.25 per Rights Share. The Company will provisionally allot to the Qualifying Shareholders two Rights Shares in nil-paid form for every one Share in issue and held on the Record Date. The Rights Issue will not be available to the Non-Qualifying Shareholders.

LETTER FROM THE BOARD

The Rights Issue is conditional on, among other things, the Whitewash Waiver being granted by the Executive and the passing of the ordinary resolution by the Independent Shareholders at the SGM to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver. On 26 June 2018, the Executive granted the Whitewash Waiver which was subject to, among other things, the issue of Rights Shares being approved by the Independent Shareholders by way of poll at the SGM. At the SGM, the relevant resolution approving the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder, and the Whitewash Waiver was duly passed by the Independent Shareholders by way of poll.

The purpose of this Prospectus is to provide you with, amongst other things, further information in relation to the Rights Issue, including procedures for the acceptance of, and payment for, the Rights Shares, the application for excess Rights Shares and certain financial information and other general information in respect of the Group.

RIGHTS ISSUE

Details of the Rights Issue are summarised below:

Issue statistics

Basis of the Rights Issue:	Two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date
Subscription Price:	HK\$0.25 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	903,703,493 Shares
Number of Rights Shares:	1,807,406,986 Rights Shares
Aggregate nominal value of the Rights Shares:	HK\$18,074,069.86
Number of the enlarged Shares in issue upon completion of the Rights Issue:	2,711,110,479 Shares

As at the Latest Practicable Date, there are (i) 196,714 outstanding Share Options granted by the Company exercisable into 196,714 Shares; and (ii) outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company. Save for the foregoing, there are no other options, warrants or other convertible securities granted by the Company that are subsisting as at the Latest Practicable Date.

LETTER FROM THE BOARD

The 1,807,406,986 Rights Shares to be issued pursuant to the Rights Issue represents (i) approximately 200.00% of the existing issued Shares as at the Latest Practicable Date; and (ii) approximately 66.67% of the enlarged issued Shares immediately after completion of the Rights Issue.

Qualifying Shareholders

The Rights Issue will only be available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must:

1. be registered as a member of the Company at the close of business on the Record Date; and
2. be a Qualifying Shareholder.

If a Qualifying Shareholder does not take up his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

Rights of Overseas Shareholders

The Prospectus Documents have not been registered under the applicable securities legislation of any jurisdiction other than Hong Kong.

As at the Record Date, according to the register of members of the Company, there was one Overseas Shareholder whose address is located in Macau.

In compliance with the necessary requirements of the Listing Rules, the Company has made enquiries regarding the feasibility of extending the Rights Issue to such Overseas Shareholders. Based on the advice provided by a legal adviser as to the laws of the Macau, there is no legal or regulatory restriction under the applicable legislation of Macau or requirement of any relevant regulatory body or stock exchange with respect to the Rights Issue. Accordingly, the Rights Issue will be extended to the Overseas Shareholder whose registered address is located in Macau.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for the benefits of the Company. Any unsold entitlement of Non-Qualifying Shareholders to the Rights Shares, together with any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders, will be made available for excess application on EAFs by Qualifying Shareholders.

LETTER FROM THE BOARD

Subscription Price

The Subscription Price for the Rights Shares is HK\$0.25 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (a) a discount of approximately 3.85% to the closing price of HK\$0.260 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 36.71% to the closing price of HK\$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 35.40% to the average closing price of HK\$0.387 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 41.04% to the average closing price of approximately HK\$0.424 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 16.11% to the theoretical ex-rights price of approximately HK\$0.298 per Share based on the closing price of HK\$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (f) a discount of approximately 93.11% to the audited consolidated net asset value of the Company per Share as at 31 December 2017 of approximately HK\$3.63 (based on the Company's audited consolidated net assets attributable to the owners of the Company of approximately HK\$3,281,574,000 as at 31 December 2017 and 903,703,493 Shares in issue as at the Latest Practicable Date).

The terms of the Rights Issue, including the Subscription Price, were determined after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the recent market prices of the Shares under the prevailing market conditions and the funding needs of the Group as detailed in the paragraph headed "Reasons for the Rights Issue and use of proceeds" below.

LETTER FROM THE BOARD

Based on the funding needs for the existing business of the Group of approximately HK\$450 million, the Rights Issue would need to be at least on a ratio of 7 Rights Shares for 6 existing Shares with a discount of approximately 10% to the trading prices of Shares. However, the Company is of the view that a 10% discount to the prevailing market price would be insufficient to attract the existing Shareholders or any underwriters. As such, the Company decided to proceed with a subscription ratio of at least 7 Rights Shares for 4 existing Shares, which provides the Company with more flexibility in terms of discount ratios. On this basis, the Directors considered all possible discount to the prevailing market price ranges up to 40% discount. Having reviewed the level of valid acceptance for provisional allotments of the recent comparable rights issue transactions in the market, the Board believes that the discount ranging from 30% to 40% would be sufficiently attractive to the Shareholders and potential underwriters. With a view to avoiding the potential odd lots problem that would arise due to a non-whole number offer ratio per one existing Share, the Company resolved the subscription ratio to be 2 Rights Shares for 1 existing Share and the discount to be within 40%.

The Board also observed that it is not uncommon for listed issuers in Hong Kong to set the subscription price in a rights issue at a discount to the closing prices. In addition, taking into account the scale of the Rights Issue (approximately HK\$451.85 million to approximately HK\$452.48 million in gross proceeds, being approximately 1.3 times of the Company's market capitalisation of approximately HK\$356.96 million as at the Last Trading Day), the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors) considers that it is necessary to offer a relatively deeper discount under the Rights Issue in order to encourage Qualifying Shareholders to participate in the Rights Issue by taking up their respective entitlements to maintain their shareholdings in the Company and participate in the potential growth of the Group. Given that each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the Subscription Price in proportion to his/her/its shareholding in the Company held on the Record Date, the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as they are each offered an equal opportunity to participate in the Rights Issue. Rather, the Company believes that such discount and ratio of Rights Shares will give each Qualifying Shareholder the option to maintain their respective shareholding in the Company at a relatively low price as compared to the prevailing market price, allowing them to have greater flexibility in determining the extent of his/her/its participation in the Rights Issue that is best suited to his/her/its own financial condition and/or investment strategy.

The Board is aware of the fact that the Subscription Price represents a discount of approximately 93.11% to the audited consolidated net asset value of the Company per Share as at 31 December 2017 of approximately HK\$3.63. The Board also noted that during the period from 31 December 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Last Trading Day, the Shares have been consistently traded at a discount to the net asset value per Share, ranging from approximately 82% to 90%, with an average of approximately 86%. Notwithstanding this, given the fact that the Rights Shares are offered to all existing Qualifying Shareholders on a pro-rata basis with nil-paid rights and excess application, all Shareholders are afforded the same anti-dilution protection. The Board considers that it would be more appropriate to determine the Subscription Price with reference to the prevailing market prices of the Shares, which reflect the fair market value of the Shares traded on the Stock Exchange, instead of making reference to the net asset value per Share.

LETTER FROM THE BOARD

The Board considers that the terms of the Rights Issue are the best terms available to the Company, having regard to the fact that the Company has approached three other financial institutions which could act as underwriters, yet no positive feedbacks had been received by the Company from any of these or other potential underwriters. The Company then approached its executive Director and chairman of the Company, Mr. Heung. Mr. Heung indicated his willingness to participate in underwriting the Rights Issue through HWKFE to demonstrate his commitment to and confidence in the prospects and sustainable development of the Group over the long run. The Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors) considers that the present terms and structure of the Rights Issue reflects the best commercial deal that the Company could negotiate with the Underwriter on terms commercially acceptable to both the Company and the Underwriter.

Given that (i) the Rights Shares are offered to all Qualifying Shareholders and each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to their respective shareholdings in the Company held on the Record Date; (ii) the Subscription Price has been set at a discount to the recent closing prices of the Shares with a view to encouraging the existing Shareholders to participate in the Rights Issue; and (iii) the proceeds from the Rights Issue can fulfil the funding needs of the Group, the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors) considers that the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

After deducting all relevant expenses relating to the Rights Issue, the net price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Shares will be approximately HK\$0.248.

Basis of provisional allotment

The basis of the provisional allotment shall be two (2) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders at the close of business on the Record Date.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar by 4:00 p.m. on Thursday, 26 July 2018.

Fractions of the Rights Shares

On the basis of provisional allotment of two (2) Rights Shares for every one (1) existing Share held on the Record Date, no fractional entitlements to the Rights Shares will arise as result of the Rights Issue.

LETTER FROM THE BOARD

Status of the Rights Shares

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

Procedures for acceptance and payment and/or transfer of the Rights Shares

A PAL is enclosed with this Prospectus which entitles the Qualifying Shareholders to whom it is addressed to subscribe for the number of Rights Shares shown therein. Qualifying Shareholders who wish to take up their provisional allotment of Rights Shares as specified in the PAL in full must lodge the whole of the PAL intact with the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, together with a remittance in cheque or cashier's order for the full amount payable on acceptance, by no later than 4:00 p.m. on Thursday, 26 July 2018. All remittances must be made in Hong Kong dollars by cheques which must be drawn on an account with, or by cashier's orders which must be issued by, a licensed bank in Hong Kong and made payable to "**China Star Entertainment Limited – PAL**" and crossed "**Account Payee Only**". No receipts will be given for such remittances.

It should be noted that, unless a PAL duly completed, together with the appropriate remittance, has been received by the Registrar by no later than 4:00 p.m. on Thursday, 26 July 2018, whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights and entitlements thereunder will be deemed to have been declined and will be cancelled. The Company may, at its sole discretion, treat a PAL as valid and binding on the person(s) by whom or on whose behalf it is lodged even if the PAL is not completed in accordance with the relevant instructions.

If a Qualifying Shareholder wishes to accept only part of his/her/its provisional allotment or transfer a part of his/her/its rights to subscribe for the Rights Shares provisionally allotted to him/her/it under the PAL, or to transfer all or part of his/her/its rights to more than one person, the entire original PAL must be surrendered and lodged for cancellation by no later than 4:30 p.m. on Wednesday, 18 July 2018 with the Registrar, who will cancel the original PAL and issue new PALs in the denominations required which will be available for collection from the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, after 9:00 a.m. on the second Business Day after the surrender of the original PAL. The PAL contains further information regarding the procedures to be followed for acceptance and/or transfer of the whole or part of the provisional allotment of the Rights Shares by the Qualifying Shareholders. All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Without prejudice to the other rights of the Company in respect thereof, any PAL in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the provisional allotment and all rights and entitlements thereunder will be deemed to have been declined and will be cancelled. Completion and return of a PAL together with a cheque or cashier's order in payment for the Rights Shares accepted will constitute a warranty by the applicant(s) that the cheque or cashier's order will be honoured on first presentation.

LETTER FROM THE BOARD

No action has been taken by the Company to permit the offering of the Rights Shares or the distribution of the Prospectus Documents in any territory other than Hong Kong. Accordingly, no person receiving the Prospectus Documents in any territory outside Hong Kong may treat it as an offer or invitation to apply for the Rights Shares, unless in the relevant jurisdiction, such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements. Any person (including, without limitation, agents, custodians, nominees and trustees) outside Hong Kong wishing to take up his/her/its rights under the Rights Issue must satisfy himself/herself/itself as to the full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories.

Completion and return of the PAL by any person will constitute a warranty and representation to the Company by such person, that all registration, legal and regulatory requirements, in connection with such application have been or will be duly complied with by that person. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited is subject to any of the representations and warranties above.

Any Shareholder or beneficial owner who is in any doubt as to his/her/its position should consult an appropriate professional adviser without delay. The Company reserves the right to refuse to permit any Shareholder to take up his/her/its nil-paid Rights Shares or apply for excess Rights Shares where it believes that doing so would violate applicable securities legislations or other laws or regulations of any jurisdiction. No application for the Rights Shares will be accepted from any person who is a Non-Qualifying Shareholder.

It should be noted that Hong Kong stamp duty is payable in connection with the transfer of your rights to subscribe for the relevant Rights Shares to the transferee(s) and the acceptance by the transferee(s) of such rights. The Company reserves the right to refuse to register any transfer in favour of any person in respect of which the Company believes such transfer may violate applicable legal or regulatory requirements.

If the Underwriter exercises the right to terminate or rescind the Underwriting Agreement or if any of the conditions of the Rights Issue as set out in the paragraph headed “The Underwriting Agreement – Conditions of the Rights Issue” under the section headed “Letter from the Board” of this Prospectus is not fulfilled and/or waived (as applicable) on or before the Latest Time for Termination, the monies received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form have been validly transferred or, in the case of joint acceptances, to the first-named person without interest, by means of cheques despatched by ordinary post to their respective registered addresses at their own risk by the Registrar on Monday, 6 August 2018.

LETTER FROM THE BOARD

Application for excess Rights Shares

Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders.

Applications for excess Rights Shares may be made by completing the EAFs for application for excess Rights Shares and lodging the same with a separate remittance for the amount payable on application in respect of the excess Rights Shares being applied for with the Registrar by 4:00 p.m. on Thursday, 26 July 2018. All remittances must be made in Hong Kong dollars by cheques which must be drawn on an account with, or cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "**China Star Entertainment Limited – EAF**" and crossed "**Account Payee Only**". No receipt will be given for such remittance(s).

The Directors will allocate the excess Rights Shares at their discretion on a pro rata basis in proportion to the number of excess Rights Shares being applied for under each application. No reference will be made to the Rights Shares comprised in applications by PAL or the number of existing Shares held by the Qualifying Shareholders. No preference will be given to applications to topping up odd lot holdings to whole board lot holdings.

Any Rights Shares not applied for by the Qualifying Shareholders and not taken up by excess applications will be taken up by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement.

Shareholders with Shares held by a nominee company (or which are held in CCASS) should note that the Board will regard the nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to relevant beneficial owners individually. For details of registration of the Shareholders on the register of members of the Company, please refer to the paragraph headed "Qualifying Shareholders" above.

If no excess Rights Shares are allotted to a Qualifying Shareholder, a refund cheque for the full amount tendered on application (without interest) will be posted by ordinary post to him/her/it at his/her/its own risk and, if the number of excess Rights Shares allotted to a Qualifying Shareholder is less than the number applied for, a cheque for the surplus application monies (without interest) will be posted by ordinary post to him/her/it at his/her/its own risk. Such posting is expected to take place on Monday, 6 August 2018.

All cheques and cashier's orders accompanying completed EAF(s) will be presented for payment immediately following receipt, and all interest earned on such monies (if any) will be retained for the benefit of the Company. Completion and return of an EAF together with a cheque or cashier's order in payment for the excess Rights Shares applied for will constitute a warranty by the applicant(s) that the cheque or cashier's order will be honoured on first presentation. Without prejudice to its other rights in respect thereof, the Company reserves the right to reject any application for excess Rights Shares in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation. Qualifying Shareholders are not guaranteed to be allotted all or any of the excess Rights Shares applied for.

LETTER FROM THE BOARD

No action has been taken by the Company to permit the offering of the Rights Shares or the distribution of the Prospectus Documents in any territory other than Hong Kong. Accordingly, no person receiving the Prospectus Documents in any jurisdiction outside Hong Kong may treat it as an offer or invitation to apply for the Rights Shares, unless in the relevant jurisdiction, such an offer or invitation could lawfully be made without compliance with any registration or other legal or regulatory requirements. The Company reserves the right to refuse to permit any Shareholder to take up his/her/its nil-paid Rights Shares or apply for excess Rights Shares where it believes that doing so would violate applicable securities legislations or other laws or regulations of any jurisdiction.

The EAF is for use only by the Qualifying Shareholder(s) to whom it is addressed and is not transferable. All documents, including cheques for amounts due and share certificates for all Rights Shares, will be sent by ordinary post at the risk of the relevant applicants or other persons entitled thereto.

If the Underwriter exercises the right to terminate the Underwriting Agreement or if the conditions of the Underwriting Agreement are not fulfilled or waived (as applicable), the monies received in respect of the relevant applications for excess Rights Shares will be returned to the applicants, or in case of joint applicants, to the first-named person, without interest by means of cheques despatched by ordinary post to their respective registered addresses at their own risk on Monday, 6 August 2018.

Share certificates and refund cheques for the Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue as set out in the paragraph headed “The Underwriting Agreement – Conditions of the Rights Issue” under the section headed “Letter from the Board” of this Prospectus, share certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Monday, 6 August 2018. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Monday, 6 August 2018 by ordinary post to the applicants at their own risk.

The first day of dealings in the fully-paid Rights Shares is expected to commence at 9:00 a.m. on Tuesday, 7 August 2018.

Application for listing

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms to be allotted and issued pursuant the Rights Issue.

No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

LETTER FROM THE BOARD

Rights Shares will be eligible for admission into CCASS

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. 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.

Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests. All necessary arrangements have been made to enable the Rights Shares (in both their nil-paid and fully-paid forms) to be admitted into CCASS.

Both the nil-paid Rights Shares and the fully-paid Rights Shares will be traded in board lots of 10,000 Shares in the market. It is expected that the Rights Shares will be dealt with in their nil-paid form from Monday, 16 July 2018 to Monday, 23 July 2018 (both dates inclusive).

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Stamp duty and other applicable fees and charges

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, which are registered in the register of members of the Company in Hong Kong will be subject to the payment of stamp duty and other applicable fees and charges in Hong Kong.

Taxation

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

THE UNDERWRITING AGREEMENT

On 13 April 2018 (after trading hours), the Company and the Underwriter entered into the Underwriting Agreement in respect of the underwriting arrangement for the Rights Issue. The principal terms of the Underwriting Agreement are set out as follows:

Date

13 April 2018

LETTER FROM THE BOARD

Parties

- (i) the Company (as the issuer); and
- (ii) HWKFE (as the Underwriter).

The Underwriter is an investment holding company incorporated in the British Virgin Islands and its ordinary course of business does not include underwriting. The Underwriter will not be entitled to any underwriting commission. As at the Latest Practicable Date, the Underwriter and parties acting in concert with it (including its associate, Dorest) hold an aggregate of 186,448,146 Shares, representing approximately 20.63% of the existing issued share capital of the Company.

Total number of Underwritten Shares

The Rights Issue is fully underwritten by the Underwriter. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Rights Shares not subscribed by the Qualifying Shareholders, being 1,434,513,982 Rights Shares, excluding 372,893,004 Rights Shares undertaken to be subscribed by the Underwriter pursuant to the Irrevocable Undertaking set out in the paragraph headed “The Underwriting Agreement – Irrevocable Undertaking by a Substantial Shareholder” under the section headed “Letter from the Board” of this Prospectus.

Underwriting commission

No commission will be paid to the Underwriter under the Underwriting Agreement. The Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors) is of the view that the terms of the Underwriting Agreement, including nil commission, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Rights Issue

The Rights Issue is conditional upon:

- (a) the passing of the necessary resolution by the Independent Shareholders at the SGM approving and confirming (a) the Rights Issue and the transactions contemplated thereunder (including the Underwriting Agreement), and authorizing the Directors to allot and issue the Rights Shares (in their nil paid and fully paid forms) and (b) the Whitewash Waiver, each in accordance with the bye-laws of the Company, the Listing Rules and the Takeovers Code on or before the Record Date;
- (b) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Posting Date;

LETTER FROM THE BOARD

- (c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of this Prospectus and a letter in the agreed form to the Non-Qualifying Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Posting Date;
- (d) the Listing Division of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares in nil-paid and fully-paid forms by no later than the first day of their dealings;
- (e) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated pursuant to the terms thereof prior to the Latest Time for Termination;
- (f) the Executive having granted the Whitewash Waiver to the Underwriter, and the satisfaction of all conditions (if any) attached thereto and such other necessary waiver or consent as may be required to be obtained from the Executive for the transactions contemplated under the Rights Issue;
- (g) the compliance with and performance of all undertakings and obligations of the Company under the terms of the Underwriting Agreement; and
- (h) the compliance with and performance of all undertakings and obligations of the Underwriter under the Irrevocable Undertaking.

The conditions above are incapable of being waived. If the conditions are not satisfied in whole or in part by the Company by the Latest Time for Termination or such other date as the Company and the Underwriter may agree, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches. As at the Latest Practicable Date, conditions set out in (a) and (f) as mentioned above have been satisfied.

Irrevocable Undertaking by a Substantial Shareholder

As at the Latest Practicable Date, the Underwriter is interested in an aggregate of 186,446,502 Shares, representing approximately 20.63% of the existing issued Shares of the Company. Pursuant to the Irrevocable Undertaking, the Underwriter has irrevocably undertaken to the Company, among other things, that (i) it will not dispose of, or agree to dispose of the Shares held by it from the date of the Underwriting Agreement to the close of business on the Record Date; and (ii) it will subscribe for 372,893,004 Rights Shares, representing its full entitlements to the new Rights Shares under the Rights Issue. Owing to the fact that the Shares held by Dorest, the associate of the Underwriter, are under charging order, Dorest has not given any undertaking in relation to acceptance of the 3,288 Rights Shares entitled by it.

LETTER FROM THE BOARD

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination:

- (a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (ii) 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 Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (b) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which, in the absolute opinion of the Underwriter, is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (c) any change in the circumstances of the Company or any member of the Group which, in the absolute opinion of the Underwriter, will adversely affect the prospects of the Company, including without limiting the generality of the foregoing, the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (d) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

LETTER FROM THE BOARD

- (e) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (f) any matter which, had it arisen or been discovered immediately before the date of this Prospectus and not having been disclosed in this Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (g) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if, prior to the Latest Time for Termination:

- (a) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (b) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

If prior to the Latest Time for Termination any such notice referred to above is given by the Underwriter, the obligations of all parties under the Underwriting Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

LETTER FROM THE BOARD

ADJUSTMENTS TO EXERCISE PRICES AND NUMBERS OF SHARE OPTIONS AND CONVERSION PRICE OF BONUS CONVERTIBLE BONDS

On 3 May 2018, 53,720,000 Share Options (exercisable into 53,720,000 Shares at the exercise price of HK\$3.15 per Share) granted by the Company expired. As such, as at the Latest Practicable Date, there are (i) remaining 196,714 outstanding Share Options granted by the Company exercisable into 196,714 Shares; and (ii) outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company. Save for the foregoing, there are no other options, warrants or other convertible securities granted by the Company that are subsisting as at the Latest Practicable Date. Adjustments to the exercise price and numbers of the Share Options and the conversion price of the Bonus Convertible Bonds will be required under the Share Option Scheme and the relevant terms under the deed polls constituting the Bonus Convertible Bonds respectively as a result of the Rights Issue. An approved financial adviser or the auditor of the Company will be appointed to certify the necessary adjustments to the exercise price and numbers of the Share Options and the conversion price of the Bonus Convertible Bonds. Further announcement relating to such adjustments will be made by the Company in this regard as and when appropriate.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Company is an investment holding company and the Group is principally engaged in investment, production and distribution of films and television drama series, provision of artist management services and property development and investment.

The gross proceeds from the Rights Issue will be approximately HK\$451.85 million before expenses. The estimated expenses of the Rights Issue (including professional fees and other related expenses) amount to approximately HK\$3 million and will be borne by the Company. The estimated net proceeds from the Rights Issue will be approximately HK\$448.85 million, which are intended to be used in the following manner:

- (i) approximately HK\$350.00 million will be applied to finance the business operation of the property development and investment; and
- (ii) approximately HK\$98.85 million will be applied to fund the film and television drama series related business operations.

In respect of proceeds to be allocated for financing the business operation of the property development and investment, the Group intends to utilise such proceeds to fund the development costs for the existing properties under development in Macau. As set out in the Company's annual report for the year ended 31 December 2017 (the "**2017 Annual Report**"), the Group has a positive outlook on the Macau property market and believes that there is strong demand for housing in Macau and considers that property development and investment is stable investment for maintaining stable future revenue for the Group. In regard to these development and investment, the Group expects that substantial cash resources is required to invest in this business operation in the next few years.

LETTER FROM THE BOARD

Currently, the Group has two projects under development in Macau, namely (i) the combined site at Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior, Macau (the “**Combined Site**”); and (ii) “Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande”, located at Avenida Doutor Stanley Ho (the “**Property C7**”). The construction works of the Combined Site already started in June 2017 and is expected to complete in 2019. As at the Latest Practicable Date, the Combined Site has completed foundation and basement structure works and started the reinforced concrete framed structure works. It is expected that the reinforced concrete framed structure works will complete by around October 2018, the architectural works, mechanical, electrical and plumbing (MEP) services installation and fitting-out works will complete by around August 2019, the whole Combined Site will complete by around September 2019, and occupation permit from The Land, Public Works and Transport Bureau of Macau (“**DSSOPT**”) will be obtained by around October 2019. The total construction cost of the Combined Site was estimated to be approximately HK\$1,600 million. As the Group had invested approximately HK\$212 million in the construction of the Combined Site up to 31 March 2018, the expected remaining fund required to be invested in the construction of the Combined Site would be approximately HK\$1,388 million. However, the cash and cash equivalent as at 31 March 2018 (including the actual net proceeds of approximately HK\$1,362.4 million received from a disposal of Hotel Lan Kwai Fong Macau of the Company which completed on 3 January 2018 (details of which are disclosed on the circular in relation to a very substantial disposal of the Company dated 21 November 2017)) amounted to approximately HK\$1,228 million. Having considered that the existing cash and cash equivalent is insufficient to finance the remaining fund required to be invested in the construction of the Combined Site, the Company intends to apply approximately HK\$350.00 million from the net proceeds from the Rights Issue for the development of the Combined Site.

Save for the existing cash and cash equivalent, the Company had taken into consideration other internal resources, amongst others, (i) financial assets; (ii) loan to a director; and (iii) loan receivables, in order to fund the development of the Combined Site and the cash requirement of the Group before arriving at the need of fund raising. As disclosed in the 2017 Annual Report, the financial assets were comprised of (a) market value of the equity securities listed in Hong Kong (excluding suspended trading security) of approximately HK\$508,237,000 as at 31 December 2017, which subsequently decreased to approximately HK\$257,938,000 as at 26 March 2018 (i.e. the date of the 2017 Annual Report), due to the decrease in the share prices of the equity securities (where the Group did not acquire or dispose any equity securities listed in Hong Kong during such period); and (b) call option embedded in loan to a director of approximately HK\$213,944,000 (the “**Call Option Portion**”) as at 31 December 2017. The Company adopted an investment strategy with a focus on long term investment returns and considered that such investment in the listed securities represents an opportunity for the Company and the Shareholders to capture the investment gain in the future. Moreover, the Call Option Portion and the loan to a director of approximately HK\$293,371,000 as at 31 December 2017 represented the fair value of a loan in principal sum of HK\$500,000,000 granted to Ms. Chen on 6 April 2017 (the “**Loan**”) pursuant to a loan agreement entered into between Ms. Chen and Best Combo Limited (a wholly owned subsidiary of the Company) on 29 November 2016 (the “**Loan Agreement**”). Pursuant to the Loan Agreement, Ms. Chen has agreed to grant a call option (the “**Call Option**”) to the Group which allowed the Group to require Ms. Chen to sell the entire issued share capital of Reform Base Holdings Limited which indirectly owned 25% interest in the Property C7, at HK\$500,000,000 (subject to loan amount adjustment) during the exercise period falling on the expiry of 60 months from the drawdown date of the Loan (i.e. 6 April 2017) (details of which are disclosed on the circular in relation to a very substantial acquisition of the Company dated 10 March 2017). As such, the Loan is intended to be utilised to settle the consideration for the exercise of the Call Option as and when appropriate. Under the provisions of the Loan Agreement, the Group has no right to demand early repayment of the Loan and interest accrued thereon.

LETTER FROM THE BOARD

As for the loan receivables of approximately HK\$200,000,000 as at 31 December 2017, the Company intends to apply the loan receivables (which contain a clause of repayable on demand with maturity dates during the period from July 2019 to August 2019) as the general working capital of the Company for the operations of the businesses of the Group.

Having considered that (i) the nature of the existing businesses of the Group (being investment, production and distribution of films and television drama series, provision of artist management services and property development and investment) is capital intensive; (ii) the nature of its businesses results in an uneven revenue stream due to the uneven progress of project delivery and settlement; and (iii) the Group experienced net cash outflow from operating activities for the years ended 31 December 2016 and 2017, the Company adopted a prudent approach on the reserve of general working capital and cash flows for the operations of the Group. In view that failure to acquire adequate capital may adversely affect the liquidity position and hinder the development of the business of the Group, which could materially and adversely affect business, results of operation, financial performance and financial position of the Group, the Company considered that the fund raising is necessary and in the interests of the Shareholders and the Company as a whole.

Besides, the Board is of the view that the use of proceed for the development of the Combined Site would not be affected by the litigation of the Group relating to Lot 6B (details of which are disclosed in the paragraphs headed “8. Litigation” in Appendix III to this Prospectus and “3. Material adverse change” in Appendix I to this Prospectus) given that Lot 6B is not included in the development of the Combined Site.

As regards the Property C7, an architect has been engaged and is still in the process to compile a development plan of the Property C7 in accordance with the parameters for submission to DSSOPT for approval. Accordingly, at this early stage for the development of the Property C7, it is estimated that the cost of architectural design and documentation work for construction amounts to not less than approximately HK\$30 million. It is expected that substantial cash resources is also required in the next few years and its development is estimated to start after the development of the Combined Site is completed.

In respect of proceeds to be allocated for funding the film and television drama series related business operations, the Group intends to utilise approximately HK\$98.85 million from the net proceeds from the Rights Issue to fund the production of television drama series and/or films. Following the establishment of the production line in the television drama series in the beginning of 2017, the Group is in the preliminary stage of preparing the story board for its first production in television drama series after for more than 10 years from its last production in television drama series. This television drama series will be around 36 episodes which is expected to be released in internet platform. Shooting for this first television drama series is expected to start before end of 2018. Besides, more films production will commence recently so long as the feasibility study for new films is satisfactory. Accordingly, the Company expects to apply approximately HK\$98.85 million from the net proceeds of the Rights Issue to the production of films and television drama series.

Having considered that the proceeds from the Rights Issue can satisfy the Company’s expected funding needs for the next 12 months, as at the Latest Practicable Date, the Board has no intention to undertake further fundraising activities in the next 12 months based on the current plan of the business development of the Company.

LETTER FROM THE BOARD

Taking into account that the Rights Issue will provide a good opportunity for the Company to raise funds to strengthen its capital base and will be conducive to its business development, the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors) considers that the terms and conditions of the Rights Issue to be fair and reasonable and the Rights Issue is in the best interests of the Company and the Shareholders as a whole.

The Directors had considered alternative ways of fund raising, including debt financing from banks. Having considered the tight schedule of the construction and the lengthy due diligence for bank financing, the Directors considered the debt-financing may not be appropriate. Among different equity fund raising methods, the Directors have focused on evaluating the possibilities of carrying out fund raising through rights issue and open offer as they are relatively larger in scale as compared to placing of new shares under a general mandate. Moreover, unlike a rights issue which offers an opportunity for the Qualifying Shareholders to participate in the enlargement of the capital base of the Company, a placing of new Shares to third party places will result in immediate dilution to the percentage shareholding of existing Shareholders. The Rights Issue is pre-emptive in nature, allowing Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation into the Rights Issue, providing an opportunity to all Qualifying Shareholders to participate in the growth of the Group. However, under an open offer, Shareholders who do not wish to take up their entitlements will not be afforded the opportunity to sell their entitled nil-paid Rights Shares on the market as an anti-dilution protection.

The Company had approached three financial institutions and these potential underwriters did not indicate interest in acting as underwriter for the Rights Issue. Upon receiving these negative feedbacks, and having taken into account the tight time schedule of the Rights Issue, the Company began negotiations with its executive Director and chairman of the Company, Mr. Heung. Mr. Heung indicated his willingness to participate in underwriting the Rights Issue through HWKFE to demonstrate his commitment to and confidence in the prospects and sustainable development of the Group over the long run. As HWKFE agreed on the proposed terms of the Rights Issue with the Company including but not limited to accepting the tight schedule of the Rights Issue, the proposed subscription ratio, proposed price discount and nil underwriting commission, the Company did not further approach other financial institutions given the tight schedule of the construction of the Combined Site. In view of the Underwriter being the only currently commercially feasible available option for the Group which is willing to act as the underwriter for the Rights Issue under the proposed terms without charging any underwriting commission, the Directors appointed the Underwriter as the underwriter for the Rights Issue.

The Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors) considers that the Rights Issue will enable the Group to strengthen the capital base of the Group, reduce its liabilities and finance costs and equip the Group with the funding for further development of the Group's existing business. Notwithstanding the potential dilution impact of the Rights Issue as set out in the paragraph headed "Effects on the shareholding structure of the Company" below, in view of the reasons mentioned above and other relevant factors as disclosed in this Prospectus, the Board (excluding Mr. Heung and Ms. Chen who have abstained from voting on the Board resolutions, but including the independent non-executive Directors) considers that the terms and conditions of the Rights Issue and the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

The Company has not conducted any other fund raising activities in the past 12 months immediately preceding date of the Announcement.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

For illustration purpose only, set out below is the shareholding structure of the Company as at the Latest Practicable Date, and the effect on the shareholding structure of the Company upon completion of the Rights Issue in the manner contemplated under the Underwriting Agreement as set out below:

	As at the Latest Practicable Date		Assuming all the Qualifying Shareholders have taken up their respective entitlements of the Rights Shares in full		Assuming no Qualifying Shareholders (except the Underwriter) have taken up any entitlements of the Rights Shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
The Underwriter and its parties acting in concert						
The Underwriter						
(Note 1)	186,446,502	20.63	559,339,506	20.63	1,993,853,488	73.54
Dorest (Note 2)	1,644	0.00	4,932	0.00	1,644	0.00
Sub-total	186,448,146	20.63	559,344,438	20.63	1,993,855,132	73.54
Other public Shareholders	717,255,347	79.37	2,151,766,041	79.37	717,255,347	26.46
Total	903,703,493	100.00	2,711,110,479	100.00	2,711,110,479	100.00

Notes:

- HWKFE, being the Underwriter, is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.
- Dorest is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung. The Shares held by Dorest are under a charging order. These Shares had been deposited in C.A. Pacific Finance Limited which is in liquidation. Owing to the fact that the Shares held by Dorest are under charging order, Dorest has not given any undertaking in relation to acceptance of the 3,288 Rights Shares entitled by it.
- As at the Latest Practicable Date, there are (i) 196,714 outstanding Share Options granted by the Company exercisable into 196,714 Shares; and (ii) outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company. None of the Share Options and Bonus Convertible Bonds was held by the Underwriter and its parties acting in concert, and all the outstanding Share Options and Bonus Convertible Bonds are held by employees and other participants, which are counted as public Shareholders.

LETTER FROM THE BOARD

4. Save for Mr. Heung and Ms. Chen who are beneficially interested in the Shares held by HWKFE, none of the Directors had any interests or short position in the Shares, underlying Shares or debentures of the Company as at the Latest Practicable Date.
5. Certain figures and percentage figures included in the above table are subject to rounding adjustments.

As illustrated in the above table, upon completion of the Rights Issue, the Company is able to fulfill the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules.

WARNING OF THE RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

The Shares have been dealt in on an ex-rights basis from Tuesday, 3 July 2018. The Rights Shares are expected to be dealt with in their nil-paid form from Monday, 16 July 2018 to Monday, 23 July 2018 (both days inclusive).

The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated. It should also be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate its obligations on the occurrence of certain events including force majeure. If the Underwriting Agreement does not become unconditional or is terminated, the Rights Issue will not proceed.

Any Shareholder or other person dealing in the securities of the Company up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any person dealing in the nil-paid Rights Shares during the period from Monday, 16 July 2018 to Monday, 23 July 2018 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealings in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers and exercise caution.

ADDITIONAL INFORMATION

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

By Order of the Board
China Star Entertainment Limited
Heung Wah Keung
Chairman

1. THREE-YEAR FINANCIAL INFORMATION

Financial information on the Group for each of the three financial years ended 31 December 2015, 2016 and 2017 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (www.chinastar.com.hk):

- **Annual report of the Company for the year ended 31 December 2015:**

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0429/LTN20160429553.pdf>

- **Annual report of the Company for the year ended 31 December 2016:**

<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0428/LTN20170428702.pdf>

- **Annual report of the Company for the year ended 31 December 2017:**

<http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN201804271157.pdf>

2. INDEBTEDNESS STATEMENT

At the close of business on 31 May 2018, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this Prospectus, apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases, hire purchases commitments (whether guaranteed, unguaranteed, secured or unsecured), guarantees or other material contingent liabilities.

There had been no material change in indebtedness or contingent liabilities of the Group since 31 May 2018 and up to the Latest Practicable Date.

3. MATERIAL ADVERSE CHANGE

The Board confirms that there is no material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date, after taking into account, among other things:

- (i) the decrease in the fair value of the held-for-trading securities

The decrease in the fair value of the held-for-trading securities (from approximately HK\$512 million as at 31 December 2017 according to the 2017 Annual Report to approximately HK\$286 million as at 30 April 2018 based on the management account as at 30 April 2018) was attributable to the decrease in the market value of listed securities investment held by the Group. The Board is of the view that such decrease in the fair value of the held-for-trading securities is not a material adverse change in the financial or trading position of the Group since 31 December 2017, given that (i) it has been disclosed in the 2017 Annual Report that the fair value of the held-for-trading securities decreased from approximately HK\$512 million as at 31 December 2017 to approximately HK\$262 million as at 26 March 2018 (i.e. the date of the 2017 Annual Report); and (ii) it is the investment strategy with a focus on long

term investment returns adopted by the Company that such short-term decrease in the market value of the listed securities will not adversely affect the financial position of the Company; and

- (ii) the litigation of the Group

As set out in the paragraph headed “8. Litigation” in Appendix III to this Prospectus, Lot 6B will be reclaimed by the Macau Government as the Tribunal de Ultima Instancia (終審法院) rejected the application of the final appeal filed by the Group (the “**Decision**”). As stated in the abovementioned paragraph, Lot 6B is planned to be developed into a recreational area besides the Combined Site and the Group treated the development of the Sites (i.e. the Combined Site and Lot 6B collectively) as one development project in its financial position since the acquisition of the property leasehold rights of the Sites. Based on the recent property valuation report as set out in Appendix III to the Circular (the “**Valuation Report**”), the valuation of the Combined Site is approximately HK\$2,288 million and Lot 6B has no commercial value as at 30 April 2018, respectively, which together is higher than the book value of the cost of the Combined Site and Lot 6B. Given that the valuation of the Sites is higher than its book value, no significant impairment loss is expected to be recognised in respect of the stock of properties as a result of the Decision. As such, the Board is of the view that the Decision on Lot 6B has no material adverse impact on the financial and trading position of the Group.

4. MATERIAL CHANGE

The Directors confirm that, save as below, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made, up to and including the Latest Practicable Date:

- (i) the completion of the disposal of entire equity interest in Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited and their respective subsidiaries on 3 January 2018 at a total consideration of HK\$2,034.4 million (after adjustment). Details of which are set out in the announcements of the Company dated 16 October 2017, 17 November 2017, 11 December 2017, 3 January 2018 and 15 March 2018 respectively and the circular of the Company dated 21 November 2017;
- (ii) the increase in cash as a result of the completion of the disposal in point (i) above;
- (iii) based on the management account as at 30 April 2018, the fair value of the held-for-trading securities decreased by approximately 44% from approximately HK\$512 million as at 31 December 2017 to approximately HK\$286 million as at 30 April 2018 as a result of the decrease in the market value of listed securities investment held by the Group; and
- (iv) the redemption of the promissory note with the principal amount of HK\$200,000,000 by the Company on 18 January 2018.

5. WORKING CAPITAL

Taking into account the net proceeds from the Rights Issue, its presently available financial resources, including internally generated funds from operations and available financial facilities of the Group, the Directors after due and careful enquiry are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this Prospectus.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Following the completion of the disposal of the entire issued share capital of each of Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited and their subsidiaries, the Group has finished its recent restructuring and repositioning of business and now focuses its resources to the remaining businesses, including the property development and investment operations and the film related business operations.

The development of the combined site at Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior, Macau (the “**Combined Site**”) and “Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande”, located at Avenida Doutor Stanley Ho (the “**Property C7**”) is the Group’s major future investment in Macau. After the construction work of the Combined Site has started in June 2017, the Group has concentrated its resources to complete the project of the Combined Site in year 2019. Property C7 is in the process of preparing the development plan and will submit to The Land, Public Works and Transport Bureau of Macau (“**DSSOPT**”) for approval once ready. In recent years, the residential property market of Macau shows a general growth trend. Given that land is a scarce resource in Macau and the land supply of Macau is limited, the Group is positive on the Macau property market and believes that there is strong demand for housing in Macau. The Group considers that property development and investment are more stable investment for maintaining stable future revenue. In regard to these development and investment, the Group is expected that substantial cash resources are required to invest in this business operation in the next few years. Besides, the Group will continue to source and invest in properties if proper opportunity arises.

The culture and entertainment industry of the People’s Republic of China’s has entered into an unprecedented “golden age”. Driven by policy, internet, and capital, “new giants” are emerging, in particular, internet companies have used resource advantages to gradually penetrate the entertainment industry and build an ecosystem. In respond to this golden age, the Group will continue its furtherance and development of its already well established film production business. The Group has also formed its television drama series department in the beginning of year 2017 and has invited experienced staffs to join for the production and distribution of television drama series. Given our experience in production of film/television drama series and the distribution network in the film/television drama series industry, the Group is confident in capture this golden opportunities in the film/television drama series industry and maximizing our value and return.

Looking forward, the Group will continue to strive to achieve healthy and stable growth by enhancing profitability, maximize its investment return and position to appropriate business opportunity.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The unaudited pro forma statement of adjusted consolidated net tangible assets of China Star Entertainment Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) (the “**Unaudited Pro Forma Financial Information**”) as at 31 December 2017 has been prepared by the directors of the Company (the “**Directors**”) in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) to illustrate the effect of the proposed rights issue on the basis of two rights shares for every one existing share held on the record date at HK\$0.25 per rights share (the “**Rights Issue**”) on the consolidated net tangible assets of the Group as if the Rights Issue had taken place on 31 December 2017.

The Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, and because of its hypothetical nature, it may not reflect a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue.

The Unaudited Pro Forma Financial Information is prepared based on the consolidated net tangible assets of the Group attributable to owners of the Company derived from the consolidated statement of financial position of the Group as at 31 December 2017 as extracted from the published annual report of the Company for the year ended 31 December 2017, after incorporating the adjustments described in the accompanying notes.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 (Note 1) HK\$'000	Add: Estimated net proceeds from the Rights Issue HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 upon completion of the Rights Issue HK\$'000
Based on 1,807,406,986 rights shares at subscription price of HK\$0.25 per rights share to be issued	3,281,574	448,852	3,730,426
		(Note 2)	
Based on 1,809,921,048 rights shares at subscription price of HK\$0.25 per rights share to be issued	3,281,574	458,794	3,740,368
		(Note 3)	

Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue based on 2,711,110,479 shares (*Note 4*) HK\$1.376 per share

Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue based on 2,714,881,572 shares (*Note 5*) HK\$1.378 per share

Notes

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 was approximately HK\$3,281,574,000, which is the same as net assets of the Group attributable to owners of the Company as at 31 December 2017, given that the Group did not have any intangible assets and the carrying amounts of goodwill is zero, as extracted by the Directors from the published annual report of the Company for the year ended 31 December 2017.
2. The estimated net proceeds from the Rights Issue of approximately HK\$448,852,000 are based on 1,807,406,986 rights shares to be issued at HK\$0.25 per rights share and after deduction of estimated related expenses of approximately HK\$3,000,000 and assumed that no outstanding share options being exercised and bonus convertible bonds (“**Bonus CBs**”) being converted, and that there is no change in the number of issued shares from the date of this Prospectus up to the record date.
3. The estimated net proceeds from the Rights Issue of approximately HK\$458,794,000 are based on 1,809,921,048 rights shares to be issued at HK\$0.25 per rights share, proceeds of approximately HK\$9,314,000 for exercised of all outstanding share options as at date of this Prospectus and after deduction of estimated related expenses of approximately HK\$3,000,000 and assumed that all outstanding share options as at date of this Prospectus being exercised and Bonus CBs being converted in full, and that there is no other change in the number of issued shares from the date of this Prospectus up to the record date.
4. The calculation of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue are calculated based on 2,711,110,479 shares, comprising 903,703,493 shares in issue as at 31 December 2017 and 1,807,406,986 rights shares to be issued as described in note 2.
5. The calculation of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue are calculated based on 2,714,881,572 shares, comprising 903,703,493 shares in issue as at 31 December 2017 and 1,809,921,048 rights shares to be issued and assumed that 196,714 outstanding share option as at date of this Prospectus granted by the Company exercised into 196,714 shares and all outstanding Bonus CBs had been converted into 1,060,317 shares as described in note 3.
6. On 3 January 2018, the Group had completed to dispose of the entire equity interest in Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited, wholly-owned subsidiaries of the Company, and their respective subsidiaries (collectively referred to as the “**Disposal Group**”), and sale loans due by the Disposal Group at sale price of approximately HK\$2,034.4 million (after adjustment). This subsequent event has not reflected in the Unaudited Pro Forma Financial Information of the Group.
7. On 18 January 2018, the Group had early redeemed the remaining outstanding promissory note with the principal amount of HK\$200,000,000 to Ms. Chen Min Ying, Tiffany, the Director. This subsequent event has not reflected in the Unaudited Pro Forma Financial Information of the Group.
8. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report received from the reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this Prospectus.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

12 July 2018

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF CHINA STAR ENTERTAINMENT LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information (“**Unaudited Pro Forma Financial Information**”) of China Star Entertainment Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The Unaudited Pro Forma Financial Information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 and related notes as set out in Part A of Appendix II to the prospectus dated 12 July 2018 (the “**Prospectus**”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Part A of Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed rights issue on the basis of two rights shares for every one existing share held on the record date at HK\$0.25 per rights share (the “**Rights Issue**”) on the Group's consolidated net tangible assets attributable to owners of the Company as at 31 December 2017 as if the Rights Issue had taken place as at 31 December 2017. As part of this process, information about the Group's consolidated net tangible assets attributable to owners of the Company as at 31 December 2017 has been extracted by the Directors from the audited financial statements of the Group for year ended 31 December 2017, on which annual report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions as at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Hon Koon Fai, Alex

Practicing Certificate Number: P05029

Hong Kong

1. RESPONSIBILITY STATEMENT

This Prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Prospectus misleading.

2. SHARE CAPITAL

(I) Share Capital

The authorised and issued share capital of the Company as at the Latest Practicable Date, and upon completion of the Rights Issue and assuming no new Shares being issued or repurchased by the Company on or before the Record Date, are set out as follows:

<i>Authorised share capital:</i>	<i>HK\$</i>
50,000,000,000 Shares	500,000,000.00
<i>Issued and fully paid up:</i>	<i>HK\$</i>
903,703,493 Shares	9,037,034.93
1,807,406,986 Rights Shares	18,074,069.86
2,711,110,479 Shares	27,111,104.79

No part of the equity or debt securities of the Company is listed or dealt in, nor is listing or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

There are no arrangements under which future dividends will be waived or agreed to be waived.

The Rights Shares, when allotted and fully paid, will rank pari passu in all respects, including the rights to dividends, voting and return of capitals with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

No Shares have been issued since 31 December 2017, being the date on which the latest audited financial statements of the Group were made up.

(II) Share Options

As at the Latest Practicable Date, no capital of any member of the Group was under option or agreed conditionally or unconditionally to be put under option, other than the 196,714 Share Options under the Share Option Scheme, which are outstanding and entitling the holders of Share Options to convert into 196,714 Shares as at the Latest Practicable Date.

Holders of the Share Options	Date of grant of Share Options	Exercise price per Share	Exercisable period	Number of Share Options held (i.e. number of underlying shares of the Company)	Approximate percentage of the existing issued share capital of the Company
Employees of the Group	21 August 2008	HK\$47.35	21 August 2008 to 20 August 2018	174,585	0.02
Other participants	21 August 2008	HK\$47.35	21 August 2008 to 20 August 2018	22,129	0.00
				196,714	0.02

(III) Bonus Convertible Bonds

As at the Latest Practicable Date, the Company has outstanding Bonus Convertible Bonds in respect of 1,060,317 Shares convertible under the deed polls executed by the Company.

Bonus Convertible Bonds	Prevailing conversion price	Conversion period	Number of Shares issuable upon full conversion	Approximate percentage of the issued share capital of the Company
Bonus convertible bond(s) constituted by the deed poll executed by the Company on 9 January 2013	HK\$0.25 per conversion Share	no maturity date	758,697	0.08
Bonus convertible bond(s) constituted by the deed poll executed by the Company on 22 January 2014	HK\$0.25 per conversion Share	no maturity date	301,620	0.03
			1,060,317	0.11

Except for the Rights Shares and save as disclosed above, as at the Latest Practicable Date, no Shares, options, warrants, conversion rights or any equity or debt securities of the Company was outstanding or was proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

Save as disclosed above, as at the Latest Practicable Date, the Company had no other outstanding options, warrants, derivatives or other convertible securities in issue which are convertible or exchangeable into Shares.

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors, supervisors and chief executive of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which, (a) were required to be notified to the Company and the Stock Exchange pursuant to provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or the chief executive of the Company have 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 Issuers to be notified to the Company and the Stock Exchange.

Name of Director	Capacity/Nature of interests	Number of Shares held (Note 1)	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
Mr. Heung	Interests of controlled corporations	1,993,855,132 (L) (Note 2)	220.63
Ms. Chen	Interests of controlled corporations	1,993,855,132 (L) (Note 2)	220.63

Notes:

- (1) The letters "L" denote long position in the Shares.
- (2) The Shares comprise (i) 186,446,502 Shares held by the Underwriter (which is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen) and 1,644 Shares held by Dorest (which is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung) as at the Latest Practicable Date; (ii) 372,893,004 Rights Shares undertaken to be taken up by the Underwriter pursuant to the Irrevocable Undertaking; and (iii) the 1,434,513,982 Rights Shares which the Underwriter is interested under the Underwriting Agreement on the assumption that there is no other acceptance by the Qualifying Shareholders under the Rights Issue.

(b) Substantial Shareholders and persons having 5% or more shareholding

As at the Latest Practicable Date, other than the interests disclosed above in respect of certain directors and chief executive of the Company, the interests and short positions of persons in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any member of the Group are set out as follows:

Name	Capacity/Nature of interests	Number of Shares held (Note 1)	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
HWKFE (Note 2)	Beneficial owner	559,339,506 (L)	61.89
	The Underwriter	1,434,513,982 (L)	158.74

Notes:

- (1) The letters "L" denote long position in the Shares.
- (2) HWKFE is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.

Save (i) as disclosed above; and (ii) the Underwriter's interest in the Underwritten Shares, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, 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 by the employer within one year without payment of compensation (other than statutory compensation)).

5. DIRECTOR'S INTEREST IN CONTRACTS AND ASSETS

None of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2017 (being the date to which the latest published annual report for the audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

As at the Latest Practicable Date, other than the Loan Agreement (as defined herein), there was no contract or arrangement in which any Director was materially interested and which is significant in relation to the business of the Group.

6. MATERIAL CONTRACTS

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

- (i) the placing agreement dated 18 October 2016 and entered into between the Company as issuer and VMS Securities Limited as placing agent, in relation to the placing of 150,600,000 Shares to not fewer than six places at a price of HK\$0.53 per Share;
- (ii) the conditional sale and purchase agreement dated 29 November 2016 and entered into between Best Combo Limited (“**Best Combo**”) as purchaser and Ms. Chen as vendor in relation to the disposal of the entire issued share capital of Modern Vision (Asia) Limited (“**Modern Vision**”) and the total obligations, liabilities and debts owing or incurred by Modern Vision to Ms. Chen at completion of the disposal at an aggregate consideration of HK\$1,000 million, as supplemented by a supplemental agreement dated 8 March 2017 entered into between the same parties in relation to the time frame in respect of the adjustment of consideration;
- (iii) the loan agreement dated 29 November 2016 (the “**Loan Agreement**”) and entered into between Ms. Chen and Best Combo and as supplemented by a deed of variation dated 5 December 2016 between the same parties regarding the granting of a loan in the principal sum of HK\$500 million which is interest bearing at 5% per annum and repayable on the date following 60 months from drawdown date;
- (iv) the conditional sale and purchase agreement dated 29 March 2017 and entered into between China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company as vendor and China Healthwise Holdings Limited as purchaser for the sale and purchase of the issued share capital of Ace Season Holdings Limited and its shareholder's loan at an aggregate consideration of HK\$85 million;

- (v) the conditional sale and purchase agreement dated 10 October 2017 and entered into between China Star Entertainment (BVI) Limited (as vendor), a direct wholly-owned subsidiary of the Company and Mr. Chan Meng Kam (as purchaser), an individual who is an independent third party (as defined in the Listing Rules), in relation to the disposal of the entire issued share capital of Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited (which are indirect wholly-owned subsidiaries of the Company) at an aggregate consideration of approximately HK\$2,034.4 million (after adjustment); and
- (vi) the Underwriting Agreement.

7. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$3 million, which are payable by the Company.

8. LITIGATION

As at the Latest Practicable Date, save as disclosed below, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the Group:

Owing to the delay by the government of Macau Special Administrative Region (the “**Macau Government**”) in granting the proposed development of the Combined Site, the land concession of Lot B in Quarteirão 6 at Zona de Aterros do Porto Exterior (ZAPE) (“**Lot 6B**”) has expired on 25th December 2014. The Land, Public Works and Transport Bureau of Macau (“**DSSOPT**”) has started the administration work to reclaim it on dispatch 50/2016 published in the Official Gazette no. 47, II, of 23rd November 2016 according to Macau new Land Law effective in March 2014 for the reason that Lot 6B is undeveloped land on the expiry of the land concession on 25th December 2014. The Group has filed an appeal to the President of the Macau Second Instance Court on 30th December 2016. On 11 June 2018, the Company received a letter dated 8 June 2018 from the Tribunal de Ultima Instancia (終審法院) of the Macau Government, in which the Tribunal de Ultima Instancia (終審法院) rejected the application of the final appeal (the “**Decision**”). Accordingly, Lot 6B will be reclaimed by the Macau Government. According to the legal opinion obtained by the Company, the Group has strong legal ground to seek compensation for damages sustained by the Group as a result and the Court will consider and rule taking into account all the essential points including delays caused by the Macau Government. As such, the Group is now seeking legal advice from its Macau legal representative and will make an application in this regard as soon as possible. As at the Latest Practicable Date, the Group is liaising with the Macau legal representative in relation to Lot 6B. Meanwhile, the Group is studying and taking reference from recent similar court cases in preparation of relevant documents for seeking legal advice from its Macau legal representative. No legal advice has been obtained as at the Latest Practicable Date.

As disclosed in the 2017 Annual Report, one of the Group's properties in Macau included Lot 6B and the Combined Site (together the "Sites"). Lot 6B is in trapezium shape with a site area of 1,420 square meters next to Hotel Lan Kwai Fong Macau and Lot 6C, Lot 6D and Lot 6E are in rectangular shape with each site area of 1,292 square meters next to Lot 6B and adjacent to each other with three six-meter width roads dividing them separately. In order to enhance the commercial value of the Sites, the Group had decided to build a luxury residential and commercial complex of two towers with spacious apartment units in the Combined Site and Lot 6B will be developed into a recreational area between the Combined Site and Hotel Lan Kwai Fong Macau (the Group had no plan to dispose of Hotel Lan Kwai Fong Macau at the development planning stage), which is expected to have higher selling prices than the existing development plan of the individual Lot 6B, Lot 6C, Lot 6D and Lot 6E. This development plan is also in response to the local planning authorities' push for connectivity with the existing city and thus considerable portions of the area of the Sites have been dedicated to public use. Besides, the Board had considered the fact that the expiry of land concession of Lot 6B is 25 December 2014 and Lot 6C, Lot 6D and Lot 6E are all 21 December 2019.

Immediately after the acquisition of the property leasehold rights of the Sites in year 2011, the Group held meetings with various departments of the Macau Government to seek their views on the proposed development of the Sites as the Combined Site. In May 2012, the Group submitted the architectural design and drawings of the Combined Site to the DSSOPT for approval. Following the submission, meetings had been held with various departments of the Macau Government for following up on the proposed development plan. Given that the location of the Sites is adjacent to Macao Polytechnic Institute and several tourist spots, Forum de Macao, Grand Prix Museum, Wine Museum and Golden Lotus Square, and is a few blocks away from Macau Fisherman's Wharf and Sands Casino, it is believed that the Macau Government required longer time to study the impacts of the proposed development of the Combined Site on traffic, environment and cultural heritage in the surrounding area, before the grant of an approval. Besides, Lot 6B, Lot 6C, Lot 6D and Lot 6E are properties classified as those of 65 properties which non-development are not the responsibility of the land concessioner announced in year 2011. Finally, the DSSOPT approved the combination of development of the Combined Site of Lot 6C, Lot 6D and Lot 6E but do not reply on the suggested development of the recreational area of Lot 6B prior to reclaiming it.

As stated above, Lot 6B is planned to develop into a recreational area besides the Combined Site and the Group treated the development of the Sites (i.e. the Combined Site and Lot 6B collectively) as one development project in its financial position since the acquisition of the property leasehold rights of the Sites. Based on the recent property valuation report as set out in Appendix III to the Circular (the "Valuation Report"), the valuation of the Combined Site is approximately HK\$2,288 million and Lot 6B has no commercial value as at 30 April 2018, respectively, which together is higher than the book value of the cost of the Combined Site and Lot 6B. Given that the valuation of the Sites is higher than its book value, no significant impairment loss is expected to be recognised in respect of the stock of properties as a result of the Decision. As such, the Board is of the view that the Decision on Lot 6B has no material adverse impact on the financial and trading position of the Group. Furthermore, according to the Valuation Report from JP Assets Consultancy Limited (the "Valuer"), no value-added factor of the recreational area of Lot 6B was included in the valuation of the Combined Site given that (i) each of the Combined Site and Lot 6B was valued severally; and (ii) the market comparison method which is based

on the principle of substitution, where comparison is made based on prices realized on actual sales and/or asking prices of comparable properties, was adopted. As such, the Board is of the view that the valuation of the Combined Site as assessed in the Valuation Report would not be influenced by the Decision. The Board has informed and discussed with the Valuer on the Decision, and the Valuer concurs with the view of the Board in this regard.

The Board is also of the view that the Decision will (i) not affect the development of the Combined Site (including its development plan and schedule of the construction) as the Combined Site excluded Lot 6B; and (ii) have minimal effect on the development value of the Combined Site (as the existing development value of the Combined Site had excluded Lot 6B).

9. EXPERTS AND CONSENTS

The following is the qualifications of the experts who had given opinions, letters or advices contained in this Prospectus:

Name	Qualification
HLB Hodgson Impey Cheng Limited	Certified Public Accountants, Hong Kong
JP Assets Consultancy Limited	Independent property valuer

Each of the above mentioned experts has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its letters, reports and/or opinion, as the case may be, and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above mentioned experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and did not have any interest, either direct or indirect, in any assets which had been since 31 December 2017 (being the date to which the latest published consolidated audited financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

10. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION

Registered office	Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
Head office and principal place of business in Hong Kong	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong

Authorised representatives	Ms. Wong Shuk Han, Dorothy Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
	Ms. Li Yuk Sheung Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
Company secretary	Ms. Wong Shuk Han, Dorothy Associate member of the Hong Kong Institute of Certified Public Accountants
Auditors and reporting accountants	HLB Hodgson Impey Cheng Limited Certified Public Accountants 31/F Gloucester Tower The Landmark 11 Pedder Street Central, Hong Kong
Underwriter	Heung Wah Keung Family Endowment Limited Portcullis Trustnet Chambers P. O. Box 3444 Road Town Tortola, British Virgin Islands
Joint financial advisers to the Company	Kingston Corporate Finance Limited 2801 One International Finance Centre 1 Harbour View Street Central, Hong Kong
	China AF Corporate Finance Limited Units 2303-2306, 23/F Great Eagle Centre 23 Harbour Road Wan Chai, Hong Kong

Legal adviser to the Company	<i>As to Hong Kong law:</i> Robertsons 57th Floor The Center 99 Queen's Road Central Hong Kong
Principal bankers	Industrial and Commercial Bank of China (Macau) Limited ICBC Tower, Macau Landmark 555 Avenida da Amizade Macau The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong
Bermuda principal share registrar and transfer office	MUFG Fund Services (Bermuda) Limited 26 Burnaby Street Hamilton HM11 Bermuda
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong

11. PARTICULARS OF THE DIRECTORS

(i) Name and address

Name	Business address
<i>Executive Directors</i>	
Mr. Heung Wah Keung (<i>Chairman</i>)	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
Ms. Chen Ming Yin, Tiffany (<i>Vice Chairman</i>)	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong

Ms. Li Yuk Sheung
Unit 3409
Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

Independent non-executive Directors

Mr. Hung Cho Sing
Unit 3409
Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

Mr. Ho Wai Chi, Paul
Unit 3409
Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

Mr. Tang Chak Lam, Gilbert
Unit 3409
Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

(ii) Qualification and position held

Executive Directors

Mr. Heung Wah Keung, aged 69, is the Chairman and executive Director. He is the husband of Ms. Chen. He has over 30 years of experience in the entertainment and multimedia industries. He was the founder of Win's Entertainment Limited ("Win's") and One Hundred Years of Film Company Limited ("One Hundred Years"), which produces films recommended by audiences and distributors around the world. He is also the honorable chairman and director of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited. Mr. Heung was appointed as an executive Director in 1996.

Ms. Chen Ming Yin, Tiffany, aged 61, is the Vice Chairman and executive Director and the wife of Mr. Heung. She has over 25 years of experience in the entertainment and multimedia industries and over 10 years of experience in property development. Ms. Chen has produced a number of blockbuster films for Win's and One Hundred Years. In 2003, she was selected as one of 2003 Women in Entertainment – International Power by The Hollywood Reporter. For the years from 2006 to 2010, Ms. Chen was involved in the planning, monitoring and management of the renovation and operation of "Beijing Jianguo Apartment" into serviced apartment by Beijing Shama Real Estate Development Co. Ltd.

Ms. Chen was responsible for all planning and monitoring of the purchase of Macau Kingsway Hotel in 2007 and then renovated and designed it into two years later's Hotel Lan Kwai Fong Macau that launched in August 2009. Hotel Lan Kwai Fong Macau has been awarded with several international accolades, which included the "5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China" and the "2012 TripAdvisor Travelers' Choice 2012 Winner – Trendiest". In respect of promoting the notion of environmental protection, Hotel Lan Kwai Fong Macau has won the "AHF Asia Awards 2010 – Leading Green Hotel of Asia" and the "Macao Green Hotel Award 2010 – Bronze Award". The result has been obvious and encouraging. Other than the duties and responsibilities of the Vice Chairman, Ms. Chen is also responsible for implementation, monitoring and management of the approval, planning and development of the property development projects of the Group. Ms. Chen was appointed as an executive Director in 1996.

Ms. Li Yuk Sheung, aged 50, is an executive Director. She has more than 20 years experience of management in the entertainment and multimedia industries. She is responsible for the overall operations, and is familiar with the Group's system. Ms. Li Yuk Sheung was appointed as an executive Director in 2001.

Independent non-executive Directors

Mr. Hung Cho Sing, aged 77, is an independent non-executive Director. He has over 30 years of experience in the film distribution industry and founded Delon International Film Corporation in 1970. He has been the chairman of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited since 1991 and was the chairman of Hong Kong Film Awards Association from 1992 to 1995. He was also appointed as a consultant of the China Film Association. Mr. Hung Cho Sing is also a member of the 1,200-member-HKSAR Election Committee and a vice-chairman of the Cultural Profession Committee of the Guangdong, Hong Kong and Macau Cooperation Promotion Council (廣東省粵港澳合作促進會文化專業委員會副主任委員), and was elected the vice-chairman of Film Association of Guangdong, China for the period from November 2016 to November 2021. Mr. Hung Cho Sing was awarded the Bronze Bauhinia Star (BBS) by the HKSAR Government in 2005 in recognition of his contribution to the Hong Kong film industry. Mr. Hung Cho Sing was appointed by the HKSAR as a member of the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries under the Economic Development Commission on an ad personam basis for a term of two years on 17th January 2013, and renewal for a term of two years twice on 2015 and 2017 respectively. Mr. Hung Cho Sing was an independent non-executive director of Hengten Networks Group Limited (formerly known as Mascotte Holdings Limited) and Freeman FinTech Corporation Limited (formerly known as Freeman Financial Corporation Limited), all companies are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), during the period from 9th January 2013 to 26th October 2015 and 22nd January 2013 to 25th January 2017 respectively. He was appointed as an independent non-executive director of Unity Investments Holdings Limited and Miko International Holdings Limited since 10th October 2014 and 14th April 2016 respectively, and was appointed as an executive director of Universe International Financial Holdings Limited (formerly known as Universe International Holdings Limited) since 16th October 2013. All these companies are listed on the Main Board of the Stock Exchange. Mr. Hung Cho Sing was also appointed as an independent non-executive director of Koala Financial Group

Limited (formerly known as Sunrise (China) Technology Group Limited), and an executive director of Eje (Hong Kong) Holdings Limited (formerly known as Jia Meng Holdings Limited) since 15th May 2015 and 23rd May 2016 respectively. Mr. Hung Cho Sing was also the chairman of the board of Eje (Hong Kong) Holdings Limited during the period from 23rd May 2016 to 20th November 2017. Both companies are listed on the GEM Board of the Stock Exchange. Mr. Hung Cho Sing was appointed as a non-executive Director in 1996.

Mr. Ho Wai Chi, Paul, aged 67, is an independent non-executive Director. He is the managing partner of Paul W. C. Ho & Company, Certified Public Accountants (Practising), and is an associate of the Institute of Chartered Accountants in England and Wales, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants. He is currently an independent non-executive director of Bel Global Resources Holdings Limited and Ngai Hing Hong Company Limited, both companies are listed on the Main Board of the Stock Exchange. Mr. Ho Wai Chi was appointed as a non-executive Director in 1996.

Mr. Tang Chak Lam, Gilbert, aged 67, is an independent non-executive Director. He is a practising solicitor in Hong Kong since 1987 and is a senior partner of Messrs. Gilbert Tang & Co.. He was a director of Pok Oi Hospital in 1993 and a member of the Kowloon West Advisory Committee of Hong Kong Bank Foundation District Community Programme between July 1991 and November 1995. Mr. Tang Chak Lam holds a Bachelor of Law Degree from the University of Buckingham in the United Kingdom, and a Diploma in Chinese Law from the University of East Asia in Macau. Mr. Tang Chak Lam was appointed as an independent non-executive Director in 2011.

12. MISCELLANEOUS

- (i) The company secretary of the Company is Ms. Wong Shuk Han, Dorothy, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (ii) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its head office and principal place of business is at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.
- (iii) The registered office of the Underwriter is at Portcullis Trustnet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The Underwriter is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen and the directors are Mr. Heung and Ms. Chen.
- (iv) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

13. BINDING EFFECT

The Prospectus Documents, and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, so far as applicable.

14. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

A copy of each of the Prospectus Documents and the written consents as referred to under the paragraph headed “9. Experts and consents” in this appendix, have been registered by the Registrar of Companies in Hong Kong pursuant to section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours from 10 a.m. to 6 p.m. on any Business Day during the period from the date of this Prospectus up to and including the Latest Time for Acceptance:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the memorandum and articles of association of the Underwriter;
- (c) the annual reports of the Company for the two financial years ended 31 December 2016 and 2017;
- (d) the Irrevocable Undertaking by the Underwriter;
- (e) the report from HLB Hodgson Impey Cheng Limited on the unaudited pro forma financial information of the Group as set out in Appendix II to this Prospectus;
- (f) the valuation report relating to the property interests of the Group from JP Assets Consultancy Limited as set out in Appendix III to the Circular;
- (g) the material contracts referred to in the paragraph headed “6. Material contracts” in this appendix;
- (h) the written consents referred to in the paragraph headed “9. Experts and consents” in this appendix;
- (i) the Circular; and
- (j) this Prospectus.