

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

DISCLOSEABLE TRANSACTION AND RESUMPTION OF TRADING

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

On 3rd August, 2006, the Purchaser entered into a sale and purchase agreement with the Vendor and the Guarantor for the purchase by the Purchaser of the Sale Shares at an aggregate consideration of HK\$52,500,000. The transaction contemplated under the Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. A circular containing details of the Agreement will be despatched to the shareholders of the Company within 21 days after the publication of this announcement.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Friday, 4th August, 2006 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on Thursday, 10th August, 2006.

THE AGREEMENT

Date: 3rd August, 2006

Parties:

Vendor : Vision Harvest Limited, an investment holding company wholly-owned by the Guarantor

Purchaser : Classical Statue Limited, a wholly-owned subsidiary of the Company

Guarantor : Mr. To Shu Fai, resigned as a director of Daido with effect from 9th August, 2006

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and the Guarantor is a third party independent of and not connected with the Company and its subsidiaries, the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules.

The Purchaser and the Company and its controlling shareholders are not acting in concert with any holder of Daido Shares. Shareholders of the Company should note that on 29th May, 2006, a wholly-owned subsidiary of Daido entered into an agreement to acquire from Ever Apollo Limited 100 shares in Jumbonet International Profits Limited, a company whose principal asset is a 12% indirect attributable interest in Grand Waldo Complex in Macau. Mr. Fung Ho Sum, an independent non-executive Director of the Company, is the ultimate beneficial owner of Ever Apollo Limited and a guarantor of Ever Apollo Limited in the above Daido transaction. On 7th June, 2006, Daido made an announcement in relation to the acquisition of 100 shares in Jumbonet International Profits Limited. Such acquisition constitutes a very substantial acquisition for Daido under the Listing Rules and will therefore subject to the approval of shareholders of Daido. The Company understands that part consideration of the acquisition of the shares in Jumbonet International Profits Limited will be satisfied by issuing a convertible bond by Daido to Ever Apollo Limited in the amount of HK104.4 million upon completion of the acquisition of the shares in Jumbonet International Profits Limited. If the convertible bond is fully converted, Mr. Fung Ho Sum and his associates would be interested in 20.55% of the issue share capital of Daido. As at the date of this announcement, Mr. Fung Ho Sum has confirmed that save as disclosed herein, neither he nor his associates has any interest in Daido Shares. No other connected person of the Company has any previous business relationship with Daido.

Consideration:

The Purchaser has agreed to purchase and the Vendor has agreed to sell the Sale Shares representing 20.11% of the entire issued share capital of Daido for an aggregate consideration of HK\$52,500,000 in cash. HK\$20,000,000 will be paid by the Purchaser to the Vendor on Completion and as to the balance of HK\$32,500,000 will be paid within 10 days thereafter. The Acquisition is funded from the Company's internal resources which will include proceeds from the Company's placing of new Shares which was announced on 7th June, 2006 and completed on 7th July, 2006. As the proceeds of that placing was intended to be used for the acquisition of an interest in Kingsway Hotel Limited as announced on 15th June, 2006, accordingly, the amount of third party borrowing by the Company for that transaction will be increased.

The purchase price had been arrived at after arm's length negotiations between the parties by reference to the closing price of the Daido Shares on the Stock Exchange immediately prior to its suspension of trading on 4th August, 2006 (i.e. HK\$0.078). The price per Sale Share is HK\$0.075 and represents approximately 4% discount to the closing price of the Daido Shares on 3rd August, 2006 (being the last trading day prior to the suspension of trading in the Daido Shares before the date of this announcement).

Condition precedent and Completion

Completion of the Agreement is conditional upon the following conditions being fulfilled and remaining fulfilled or waived by the Purchaser (on or before 31st August, 2006) as at Completion:-

- (i) the Daido Shares remaining listed and traded on the Stock Exchange at all times from the date of the Agreement to Completion, save for any temporary suspension not exceeding five consecutive trading days, or such longer period as the Purchaser may accept in writing, and no indication being received on or before the date of Completion from the SFC and/or the Stock Exchange to the effect that the listing of the Daido Shares on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto) as a result of Completion or in connection with the terms of the Agreement save for such temporary suspension that may be ordered or imposed by any competent authority or such ground or reason due to any action or omission by the Purchaser;
- (ii) all consents of the shareholders of the Vendor, the Stock Exchange and the SFC (if necessary) and all filings with any relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, Bermuda or elsewhere which are required or appropriate for the entering into and the implementation of the Agreement having been given or made;
- (iii) all consents of the shareholders of the Company, the Stock Exchange and the SFC (if necessary) in connection with the transactions contemplated by the Agreement having been obtained;
- (iv) the warranties in the Agreement remaining true and accurate in all material respects;
- (v) the Stock Exchange not having notified the Company that the Company shall be treated as a new applicant for listing or that listing of the Company's securities on the Stock Exchange shall or may be cancelled at, or as a result of, completion or execution by the Purchaser of the Agreement;
- (vi) the Purchaser undertaking and completing a due diligence investigation in respect of Daido and its subsidiaries;
- (vii) the Purchaser not being required to make a general offer in respect of all the Daido Shares (other than the Sale Shares) as a result of Completion; and
- (viii) evidence satisfactory to the Purchaser that the Sale Shares currently held directly by Top Synergy Associates Limited (a company in which the Vendor holds a 50 per cent. equity interest) having been validly and legally transferred to the Vendor for valuable consideration.

The net asset value of Daido as at 31st December, 2005 based on its latest published audited accounts is approximately HK\$315,000,000. The net profit/(loss) before taxation and extraordinary items of Daido for the years ended 31st December, 2005 and 2004 is (HK\$71,932,000) and HK\$84,447,000 respectively. The net profit/(loss) after taxation and extraordinary items of Daido for the years ended 31st December, 2005 and 2004 is (HK\$73,450,000) and HK\$86,419,000 respectively.

Guarantee

The Guarantor has agreed in the Agreement to irrevocably and unconditionally guarantee to the Purchaser the due and punctual performance of, inter alia, the undertakings, liability and obligations of the Vendor pursuant to the Agreement.

Reasons for and benefits of the Acquisition

Daido Group carries on the business of properties investment and provision of cold storage warehousing including relevant logistic services. The Group has no prior business relationship with the Daido Group. Daido had announced on 7th June, 2006 that its wholly-owned subsidiary had entered into an agreement with Ever Apollo Limited on 29th May, 2006 for the acquisition of an indirect 12% interest in Grand Waldo Complex, a five star resort complex in Macau. That transaction is still subject to Daido's shareholders' approval. The Company is confident that Daido's shareholders' approval will be obtained for the Grand Waldo acquisition as that transaction is expected to diversify the income source of Daido and improve its profitability. In light of the above, the Acquisition represents a good opportunity for the Company to participate in the growing hospitality business in

Macau. The Purchaser currently holds 23,140,000 Daido Shares (which were acquired on market over the period from 14th June, 2006 to 4th July, 2006 at a price of between HK\$0.088 and HK\$0.095 per Daido Share), representing approximately 0.67% of the issued share capital of Daido. Accordingly, on Completion, the Purchaser will hold an aggregate of 723,140,000 Daido Shares which represents approximately 20.78% of the entire issued share capital of Daido. The Group does not hold any other Daido Shares save as disclosed herein. The Group does not have any interest in Grand Waldo Complex. On Completion, Daido will be treated as an associate of the Company for accounting purposes. However, as the Daido acquisition involves the issue of the convertible bond by Daido, the Company's interest in Daido upon Completion (i.e. its 20.78% interest) is expected to be diluted to 16.51% upon full conversion of the convertible bond as announced by Daido on 7th June, 2006. After dilution, investments in Daido will become financial assets of the Group. The Company has no intention to acquire a controlling interest in Daido.

The Directors confirm that the consideration for the Acquisition have been determined after arm's length negotiations between the parties. The Directors (including the independent non-executive Directors but excluding Mr. Fung Ho Sum by virtue of his interest as the ultimate beneficial owner of the vendor in the sale of Jumbonet International Profits Limited to Daido's wholly-owned subsidiary as announced by Daido on 7th June, 2006) are of the view that the Acquisition is in the interest of the Group and the terms of the Acquisition in the Agreement are in normal commercial terms, which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

General

The Company is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, and the provision of post-production services. The Group will continue with its existing business following the Acquisition. Following Completion, apart from its existing business, the Group will also be involved in investments in Macau. The Company announced on 15th June, 2006, that, subject to shareholders' approval, it is proposing to acquire a 61.5% interest in Kingsway Hotel Limited whose principal asset is Kingsway Hotel in Macau. The Acquisition, upon Completion, will further add to the Group's Macau investment portfolio.

The transaction contemplated under the Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. A circular containing details of the Agreement will be despatched to the shareholders of the Company within 21 days after the publication of this announcement.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Friday, 4th August, 2006 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on Thursday, 10th August, 2006.

DEFINITIONS

“Acquisition”	the acquisition of the Sale Shares under the Agreement
“Agreement”	the sale and purchase agreement dated 3rd August, 2006 entered into between the Vendor, the Guarantor and the Purchaser for the sale and purchase of the Sale Shares
“Board”	the board of Directors
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition
“Daido”	Daido Group Limited, a company whose shares are listed on the main board of the Stock Exchange
“Daido Group”	Daido and its subsidiaries
“Daido Shares”	ordinary shares of HK\$0.01 each in the issued share capital of Daido
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. To Shu Fai
“Hong Kong”	The Hong Kong Special Administrative Region of the People's Republic of China
“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
“Purchaser”	Classical Statue Limited, a wholly-owned subsidiary of the Company
“Sale Shares”	700,000,000 Daido Shares, representing 20.11% of entire issued share capital of Daido
“SFC”	Securities and Futures Commission
“Shares”	ordinary shares of HK\$0.05 cash in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Vendor” Vision Harvest Limited, a company incorporated in the British Virgin Islands and wholly-owned by the Guarantor
“HK\$” Hong Kong dollars, the lawful currency of Hong Kong
“%” per cent.

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

Hong Kong, 9th August, 2006

As at the date of this announcement, the executive directors of the Company are Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung and the independent non-executive directors are Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Fung Ho Sum.