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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

VERY SUBSTANTIAL ACQUISITION AND RESUMPTION OF TRADING OF SHARES

On 3rd January, 2007 (after trading hours), the Company entered into the Acquisition Agreement with Great Trust whereby the Company has agreed to purchase or procure the purchase of 19.25% of the issued quota of KHL, 38.5% of the issued quota of Xin Wei, the KHL Sale Loan and the Xin Wei Sale Loan for an aggregate consideration of HK\$240,000,000. The consideration shall be satisfied in cash by third party financing (which is not yet determined) and internal resources of the Company.

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and is therefore subject to the approval of the Shareholders at the SGM. As Great Trust is an Independent Third Party and has no interest in the Shares and no Shareholder has a material interest in the Acquisition which is different from the other Shareholders, no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Acquisition at the SGM.

Completion of the Acquisition Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein.

As the Acquisition Agreement may or may not complete, Shareholders and potential investors are advised to exercise caution when dealing in the Shares of the Company.

A circular containing, among other things, the details of the Acquisition Agreement, the relevant financial information of Xin Wei and KHL and a notice of the SGM will be despatched to the Shareholders as soon as practicable.

Trading in the Shares of the Stock Exchange was suspended at the request of the Company with effect from 9:30 am on 4th January, 2007 pending the release of this announcement. The Company has applied for a resumption of trading in its Shares with effect from 9:30 am on 5th January, 2007.

THE ACQUISITION AGREEMENT

Date : 3rd January, 2007 (after trading hours)

Parties:

Vendor : Great Trust

Purchaser : The Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Great Trust and its beneficial owners are Independent Third Parties. Great Trust is an investment holding company whose principal asset is its direct interest and indirect interest through Xin Wei in KHL. KHL's principal asset is the Kingsway Hotel.

Assets to be acquired:

- (i) 19.25% of the issued quota of KHL.
- (ii) 38.50% of the issued quota of Xin Wei.
- (iii) the KHL Sale Loan.
- (iv) the Xin Wei Sale Loan.

The Company announced on 15th June, 2006 that it was acquiring an aggregate indirect 61.5% of the issued quota of KHL. The Initial Acquisition has not yet completed and the longstop date for completion of that transaction has been extended to 28th February, 2007. Upon completion of the Acquisition Agreement and the Initial Acquisition, the Company will indirectly hold 100% of the issued quota of KHL.

Consideration:

The Consideration for the KHL Quota, Xin Wei Quota, KHL Sale Loan and Xin Wei Sale Loan in aggregate is HK\$240,000,000, which shall be financed by third party financing (which is not yet determined) and internal resources of the Company, has been/shall be paid in cash in the following manner:-

- (a) an initial refundable deposit ("Deposit") in the sum of HK\$24,000,000 was paid by the Company to Great Trust upon the signing of the Acquisition Agreement; and
- (b) HK\$216,000,000, being the balance of the Consideration, shall be paid by the Company to Great Trust on Completion.

The Consideration was determined after arm's length negotiations and with reference to an indicative valuation conducted by an independent professional valuer on an open market value basis valuing the Kingsway Hotel at approximately HK\$806,000,000 as at 13th June, 2006.

The obtaining of third party financing is not a condition of the Acquisition Agreement.

If the Purchaser breaches any material provisions of the Acquisition Agreement, the HK\$24,000,000 deposit will be forfeited to the Vendor on the date of occurrence of the relevant event of default as compensation payable by the Purchaser to the Vendor for the breach of the Acquisition Agreement.

If the Vendor breaches any material provisions of the Acquisition Agreement, the Vendor shall immediately return the HK\$24,000,000 deposit without interest and pay to the Purchaser an additional amount equal to the amount of the Deposit (ie. HK\$24,000,000) within five days from the date of occurrence of the relevant event of default as compensation payable by the Vendor to the Purchaser for the breach of the Acquisition Agreement.

In the event that Completion cannot take place by virtue of the approval of Shareholders or the Stock Exchange not having been obtained, the Purchaser shall have the right to seek a third party purchaser to complete the purchase from the Vendor of the KHL Quota, the KHL Sale Loan, the Xin Wei Quota and the Xin Wei Sale Loan upon the same terms as the Acquisition Agreement. If such purchase cannot be completed by a date falling not later than 15 days from the proposed Completion Date other than as a result of a breach or refusal to complete by the Vendor, an amount of HK\$10 million from the Deposit shall be forfeited to the Vendor and the Vendor shall immediately thereafter return to the Purchaser the Deposit less an amount of HK\$10 million. The Board believe that this term is fair and reasonable because it believes that the non-approval from Shareholders is remote and that the Company is confident that it can arrange for a third party to acquire the KHL Quota, the KHL Sale Loan, the Xin Wei Quota and the Xin Wei Sale Loan.

Conditions Precedent:

The Completion is conditional upon fulfilment of the following conditions:

- (a) consent of the Stock Exchange (if necessary) and the Shareholders (other than those (if any) who are required to abstain from voting under the Listing Rules) at a general meeting of the Company to approve and ratify the Company's entry into the Acquisition Agreement and the performance of the transactions contemplated thereunder;
- (b) all necessary statutory governmental and regulatory obligations having been complied with and all necessary regulatory authority in Hong Kong or in Macau, governmental and third party consents and approvals (including those person entitled to any pre-emption rights) and waivers for the purposes of the transactions contemplated under the Acquisition Agreement having been obtained without any conditions (or subject to other conditions reasonably acceptable to the parties to the Acquisition Agreement).

The Company may waive the above conditions (save as (a)) above in whole or in part in its sole discretion. As at the date of this announcement, none of the conditions have been fulfilled.

If any of the conditions has not been fulfilled (or waived as appropriate) on or before 5:00 p.m. on the business day before the Completion Date, the Acquisition Agreement shall lapse and be of no further effect and no party to the Acquisition Agreement shall have any liability under them (without prejudice to the rights of the parties in respect of any antecedent breaches). Subject to a breach of any material provisions of the Acquisition Agreement by the Purchaser, the HK\$24,000,000 deposit paid shall be returned by the Vendor to the Purchaser in the event of non-completion of the Acquisition Agreement.

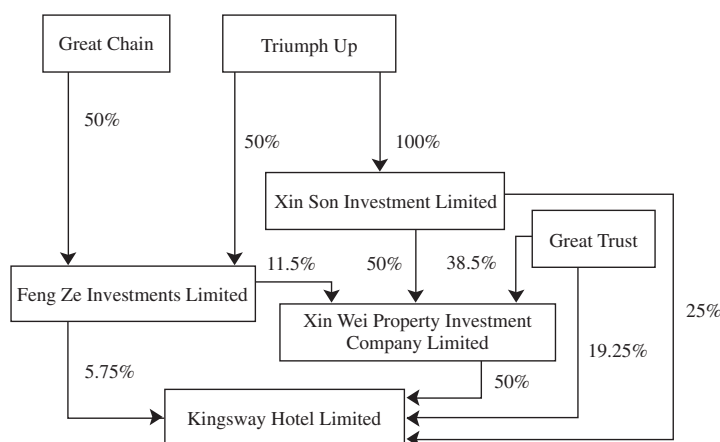
Completion is not conditional upon completion of the Initial Acquisition which has been extended to 28th February, 2007 as announced by the Company on 31st October, 2006. The Initial Acquisition has not yet completed as the financing arrangements have not been finalised. There will be no change in the board of Directors upon Completion.

Upon Completion, on the assumption that the Initial Acquisition is completed, the results of Xin Wei and KHL would be consolidated into that of the Company. In the event that the Initial Acquisition is not completed prior to Completion, the results of Xin Wei and KHL will be treated as investments in the books of the Company.

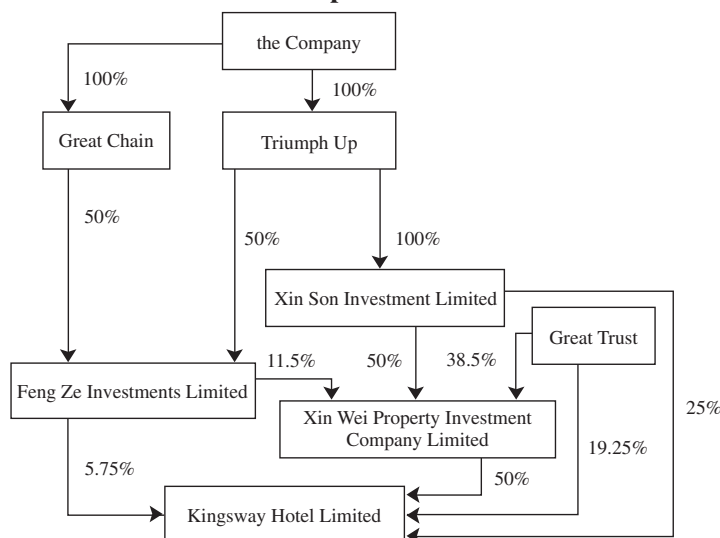
SHAREHOLDING STRUCTURE

Set out below is the simplified shareholding structure of Triumph Up, Great Chain, Xin Wei and KHL before and after completion of the Acquisition Agreement and the Initial Acquisition:

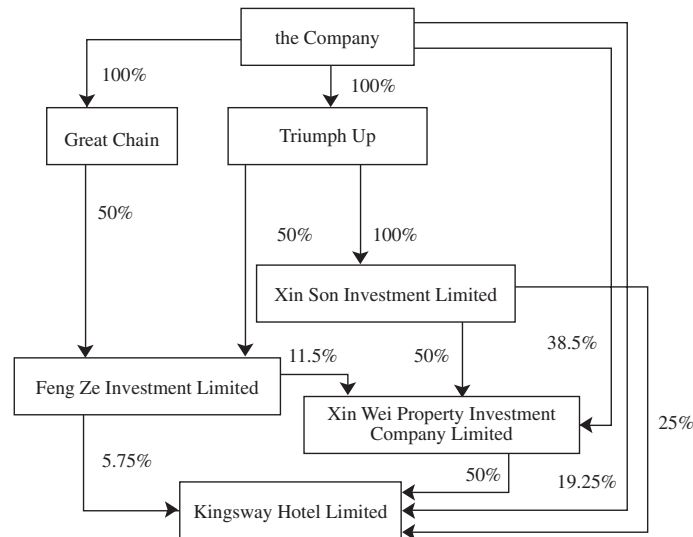
Before



After the Initial Acquisition but before Completion



After the Initial Acquisition and Completion



KINGSWAY HOTEL LIMITED AND THE KINGSWAY HOTEL

The Kingsway Hotel is a three star hotel named Kingsway Hotel wholly owned by KHL and is located at Rua De Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64-A-82, Rua De Xiamen No. 37-A-59, Macau. The Kingsway Hotel opened in 1992 and has a total of 383 guests rooms with ancillary facilities including, among others, a casino, a health spa, a night club and retail shops. The casino in the Kingsway Hotel is leased to and managed by a third party independent of KHL. For the year ended 31st December, 2005, the average occupancy rate of the Kingsway Hotel was about 83%.

Based on the advice from the Company's Macau legal adviser, Kingsway Hotel is not required to obtain any licence under Macau law to lease the casino block to the operator of the casino business, and it is the operator who has to obtain authorisation before it can operate the casino business.

According to the financial statements of KHL as shown in the accountants' report of the Company's circular dated 8th September, 2006, KHL recorded a turnover of approximately HK\$68,584,000 and HK\$62,765,000 for 2004 and 2005 respectively and a net profit of approximately HK\$21,179,000 and HK\$17,748,000 for 2004 and 2005 respectively. The net asset value of KHL amounted to approximately HK\$14,458,000 and HK\$32,177,000 respectively as at 31st December, 2004 and 31st December, 2005.

Xin Wei directly holds 50% interest in KHL. According to the management accounts of Xin Wei, Xin Wei did not recorded any turnover for 2004 and 2005 and recorded a net loss of approximately HK\$4,000 for both 2004 and 2005. The net liability of Xin Wei amounted to approximately HK\$1,202,000 and HK\$1,205,000 respectively as at 31st December, 2004 and 31st December, 2005.

A property valuation on the Kingsway Hotel will be conducted by the Company for the purpose of the circular to Shareholders and Shareholders should therefore refer to those figures for reference. A property valuation on the Kingsway Hotel had been conducted by a firm of independent professional valuers valuing the Kingsway Hotel at HK\$806,000,000 as at 13th June, 2006.

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and televisions drama series, and the provision of post production services. The Group will continue with its existing business following completion of the Acquisition.

Following the Company's announcement on 15th June, 2006 relating to the Initial Acquisition, the Company was approached by Great Trust to acquire the balance direct and indirect shareholding in KHL. The Company believes that it would be beneficial to acquire the entire issued quota of KHL because it will be able to consolidate control over 100% of Kingsway Hotel.

The aggregate consideration for the Acquisition shall be satisfied in cash by third party financing (which is not yet determined) and internal resources of the Company. A further announcement will be made when the financing has been arranged/made.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and is therefore subject to the approval of the Shareholders at the SGM. As Great Trust is an Independent Third Party and have no interest in the Shares and no Shareholder has a material interest in the Acquisition which is different from the other Shareholders, no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Acquisition at the SGM.

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TERMS USED IN THIS ANNOUNCEMENT

“Acquisition”	the acquisitions pursuant to the Acquisition Agreement;
“Acquisition Agreement”	the agreement entered into on 3rd January, 2007 between the Company and Great Trust relating to the sale and purchase of the KHL Quota, the Xin Wei Quota, the KHL Sale Loan and the Xin Wei Sale Loan;
“Board”	the board of directors of the Company;
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange;
“Completion”	completion of the Acquisition Agreement;
“Completion Date”	on or before 31st March, 2007, or such other date as the parties to the Acquisition Agreement may agree in writing;
“Consideration”	HK\$240,000,000;
“Directors”	directors of the Company;
“Great Chain”	Great Chain Limited, a company incorporated in Hong Kong, wholly owned by Mr. Chan Chak Mo and indirectly hold 5.75% beneficially equity interest in the issued share capital of KHL;
“Great Trust”	Great Trust – Gestao E Participacoes, Limitada, a company incorporated in Macau and is an Independent Third Party;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Third Party”	person who himself is, and (in the case of corporate entity) its ultimate beneficial owners are, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, third parties who are not connected persons of the Company and are independent of the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates (as that term is defined in the Listing Rules);
“Initial Acquisition”	the acquisition by the Company of an aggregate indirect 61.5% interest in KHL as announced by the Company on 15th June, 2006;

“KHL”	Kingsway Hotel Limited, a company incorporated in Macau whose principal asset is the Kingsway Hotel;
“KHL Quota”	19.25% of the issued quota in the capital of KHL;
“KHL Sale Loan”	all obligations, liabilities and debts owing or incurred by KHL to Great Trust prior to Completion which as at 30th April, 2006 amounted to approximately HK\$29,216,500;
“Kingsway Hotel”	the hotel building (comprising the portions being operated as a hotel under the name of Kingsway Hotel and the commercial podium having a covered floor area of about 18,165.76 sq.m.) situate at Rua De Luis Gonzaga Gomes No.176-230, Rua De Nagasaki No.64-A-82, Rua De Xiamen No.37-A-59, Macau (including all appurtenances thereto, all furniture, fittings, equipment, furnishing, operating equipment and inventories and other tangible articles used in connection with Kingsway Hotel and the operation thereof);
“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;
“Share(s)”	ordinary shares of HK\$0.05 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and if thought fit, approve the Acquisition;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Triumph Up”	Triumph Up Investments Limited, a company incorporated in the British Virgin Islands with limited liability and indirectly holds 55.75% beneficially equity interest in the issued share capital of Kingsway Hotel Limited;
“Xin Wei”	Xin Wei Property Investment Company Limited, a company incorporated in Macau;
“Xin Wei Quota”	38.5% of the issued quota in the capital of Xin Wei;
“Xin Wei Sale Loan”	all obligations, liabilities and debts owing or incurred by Xin Wei to Great Trust prior to Completion which as at 30th April, 2006 amounted to approximately HK\$44,984,000; and
“%”	per cent.

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

Hong Kong, 4th January, 2007

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.

*Please also refer to the published version of this announcement in
The Standard and Hong Kong Economic Times.*