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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

**VERY SUBSTANTIAL ACQUISITION,
PROPOSED RIGHTS ISSUE OF NOT LESS THAN 843,769,024 RIGHTS
SHARES AND NOT MORE THAN
940,393,799 RIGHTS SHARES AT HK\$0.20 EACH
ON THE BASIS OF
ONE RIGHTS SHARE FOR EVERY TWO
EXISTING SHARES HELD ON THE RECORD DATE
AND
RESUMPTION OF TRADING**

UNDERWRITER



KINGSTON SECURITIES LIMITED

The Acquisition Agreement

The Company, the Vendor and Mr. Ng have entered into the Acquisition Agreement on 16th August, 2007 (after trading hours). Pursuant to the Acquisition Agreement, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Shares, representing 51% of the entire issued share capital of Best Mind, free from any option, charge, lien, equity, encumbrance, right of pre-emption or any other third party rights whatsoever and together with all rights attached to them at the date of Completion or subsequently becoming attached to them, at a total consideration of HK\$538,000,000 to be satisfied as to HK\$300,000,000 in cash, HK\$196,000,000 by the issue of Convertible Note I and the balance of HK\$42,000,000 by the allotment and issue of Consideration Shares I credited as fully paid.

Best Mind has entered into the Profit Agreement with Ocho and Mr. Ng to acquire the Ocho Profit.

Call Option

Pursuant to the Acquisition Agreement, the Vendor has granted a call option to the Company, pursuant to which the Company has the right to require the Vendor to sell all (but not part) of the Option Shares to the Company at a total consideration of HK\$516,900,000 and shall be exercisable by the Company at any time within twelve months from the date of Completion. The consideration for the Call Option shall be satisfied as to HK\$300,000,000 in cash, HK\$188,000,000 by the issue of Convertible Note II and the balance of HK\$28,900,000 by the allotment and issue of Consideration Shares II credited as fully paid. Upon completion of the transfer of the Option Shares, Mr. Ng will enter into a service agreement with the Company to act as a general manager of the Company for managing the Group's investment in Best Mind.

Risk factors of junket business

The gaming promotion business (commonly referred to as the junket business) operated by Ocho involves certain risk factors, details of such risk factors have been disclosed under the section headed "Risk factors of gaming promotion business" herein.

RIGHTS ISSUE

The Company proposes to raise not less than approximately HK\$168.8 million before expenses by way of a rights issue of not less than 843,769,024 Rights Shares and not more than 940,393,799 Rights Shares at a price of HK\$0.20 per Rights Share on the basis of one Rights Share for every two existing Shares held on the Record Date.

Pursuant to the Rights Issue (which is not conditional upon the Acquisition), the Qualifying Shareholders will be provisionally allotted one Rights Share in nil-paid form for every two existing Shares held on the Record Date. As at the date of this announcement, there are 193,249,550 Exercisable Share Options entitling holders thereof to subscribe for 193,249,550 Shares. The estimated net proceeds of the Rights Issue is approximately HK\$162.6 million (assuming no outstanding Exercisable Share Options are exercised on or before the Record Date) or approximately HK\$181.9 million (assuming all outstanding Exercisable Share Options are exercised in full on or before the Record Date), which is intended to be used for the Acquisition.

As at the date of this announcement, the Substantial Shareholders together are interested in an aggregate 319,199,410 Shares, representing approximately 18.92% of the issued share capital of the Company. Each has severally and irrevocably undertaken to the Company that, subject to the Rights Issue not being terminated, (i) it/he/she will subscribe and lodge acceptance for the Rights Shares which will constitute the provisional allotment of Rights Shares in respect of the Shares held by it/him/her pursuant to the terms of the Rights Issue (excluding the Excepted Shares); (ii) it/he/she will not dispose of the Shares held by it/him/her from the date of the Underwriting Agreement to the close of business on the Record Date.

Pursuant to the Underwriting Agreement, the Underwritten Shares will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement. If the Underwriter terminates the Underwriting Agreement (see sub-section headed “Termination of the Underwriting Agreement” below) or the conditions of the Rights Issue (see sub-section headed “Conditions of the Rights Issue “ below) are not satisfied or waived in whole or in part by the Underwriter, the Rights Issue will not proceed. **Accordingly, the Rights Issue may or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares or Rights Shares in their nil-paid form, and if they are in any doubt about their position, they are recommended to consult their professional adviser. Moreover, investors’ attention is drawn to the section headed “Warning of the risks of dealing in the Shares and the nil-paid Rights Shares” below.**

The last day of dealings in the Shares on a cum-rights basis is Monday, 10th September, 2007. The Shares will be dealt with on an ex-rights basis from Tuesday, 11th September, 2007. The Rights Shares are expected to be dealt with in their nil-paid form from Friday, 21st September, 2007 to Wednesday, 3rd October, 2007 (both dates inclusive). To qualify for the Rights Issue, any transfer of the Shares (together with the relevant share certificates) must be lodged for registration with the Company’s branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 12th September, 2007.

The last day for acceptance and payment of the Rights Shares is expected to be on Monday, 8th October, 2007. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both the nil-paid and fully-paid forms.

The Company will send the Rights Issue Documents to all Qualifying Shareholders by 19th September, 2007.

GENERAL

As some of the applicable percentage ratios as referred to in Chapter 14 of the Listing Rules are more than 100%, the Acquisition together with the exercise of the Call Option constitutes a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules.

A circular containing, among other things, the details of the Acquisition, the Call Option, measures for addressing money laundering in relation to Ocho’s junket business together with the notice of SGM will be despatched to the Shareholders as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in Shares on the Stock Exchange has been suspended from 9:30 a.m. on 17th August, 2007 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 31st August, 2007.

THE ACQUISITION AGREEMENT

Date : 16th August, 2007 (after trading hours)

Parties:

Purchaser : the Company

Vendor : Lucky State

Guarantor of the Vendor : Mr. Ng

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are Independent Third Parties. There are no relationships between the Vendors and any of the Directors. Mr. Ng had been an employee of a subsidiary of Riche Multi-Media Holdings Limited, an associated company of the Company, between 1st July, 2000 and 1st May, 2003.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Shares, representing 51% of the entire issued share capital of Best Mind, free from any option, charge, lien, equity, encumbrance, right of pre-emption or any other third party rights whatsoever and together with all right attached to them at the date of Completion or subsequently becoming attached to them.

Best Mind has entered into the Profit Agreement with Ocho and Mr. Ng to acquire the Ocho Profit.

Consideration

The total consideration for the Acquisition is HK\$538,000,000. The total consideration for the sale and purchase of the Sale Shares shall be satisfied by the Company as to:

- (i) a refundable amount of HK\$200,000,000 which has been paid upon the signing of the Acquisition Agreement. This amount was financed by a loan from a subsidiary, namely Kingsway Hotel Limited;
- (ii) a refundable amount of HK\$50,000,000 to be paid upon the despatch of the circular to Shareholders relating to the Acquisition Agreement and the transactions contemplated therein;
- (iv) HK\$50,000,000 cash upon Completion;
- (v) HK\$196,000,000 by the issue of Convertible Note I by the Company on Completion; and
- (vi) the balance of HK\$42,000,000 by the allotment and issue of the Consideration Shares I to the Vendor credited as fully paid on Completion.

To the extent that the Company does not have sufficient cash for the cash portion of the Acquisition, it will seek third party financing although none have yet been identified.

The refundable amounts in aggregate of HK\$250,000,000 referred to above shall immediately be returned to the Company (without interest) in the event of non-completion of the Acquisition Agreement for whatever reason. No collateral is taken from the Vendor with respect to the placing of the deposit of the Company. There has been no events which have been triggered to cause a return of the deposit.

The consideration was arrived at by reference to the number of gaming tables at Ocho VIP Club, the First Profit Guarantee, the Second Profit Guarantee and the price to earnings ratio of similar transactions announced by other companies listed on the Stock Exchange (ie. approximate price to earnings ratio of 7.3 times for Long Success International (Holdings) Limited and approximate price to earnings ratio of 7.5 times for Teem Foundation Group Ltd.). The price to earnings ratio for the Acquisition is approximately 5.5 times.

Conditions precedent

Completion is conditional upon the satisfaction and/or waiver of the following:-

- (A) the Company undertaking a due diligence investigation in respect of Best Mind including but not limited to the affairs, business, assets, results, legal and financing structure of Best Mind, in particular, the Profit Agreement and the Company being in its reasonable discretion satisfied with the results of such due diligence investigation;
- (B) the Company having received to its reasonable satisfaction a Macanese legal opinion on the legality and validity of the Profit Agreement and the transactions contemplated thereunder;
- (C) no event having occurred since the date of the Acquisition Agreement to Completion, the consequence of which is to materially and adversely affect the financial position, business or property, results of operations or business prospects of Best Mind and/or Ocho and such material adverse effect shall not have been caused;
- (D) the warranties in the Acquisition Agreement remaining true and accurate and not misleading at Completion as if repeated at Completion and at all times between the date of the Acquisition Agreement and Completion;
- (E) the passing by the Shareholders at the SGM approving the Acquisition Agreement, exercise of the Call Option, the issue of Convertible Note I and Convertible Note II, the allotment and issue of Shares upon conversion of CNI and CNII and the allotment and issue of the Consideration Shares I and Consideration Shares II;
- (F) Ocho providing evidence satisfactory to the Company that it has been licensed as a gaming promoter by the Macau Gaming Inspection and Coordination Bureau and appointed as a junket representative by Sociedade de Jogos de Macau, S. A.;
- (G) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares I, Conversion Shares II, Consideration Shares I and Consideration Shares II; and

- (H) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of the Conversion Shares I, Conversion Shares II, Consideration Shares I and Consideration Shares II.

The Acquisition is not conditional upon the completion of the Rights Issue.

PROFIT GUARANTEE

First Profit Guarantee

Mr. Ng has irrevocably and unconditionally guaranteed to Best Mind that the Ocho Profit for the First Relevant Period shall not be less than HK\$264,000,000. In the event the Ocho Profit received and/or receivable by Best Mind for the First Relevant Period shall be less than HK\$264,000,000, Mr. Ng has undertaken to pay to Best Mind the sum calculated in accordance with the following formula (the “First Adjustment”) within 60 days after the First Relevant Period (provided that the First Adjustment shall not be more than HK\$264,000,000):-

$$\text{First Adjustment} = (A - B)$$

where:

$$\begin{aligned} A &= \text{HK\$264,000,000} \\ B &= \text{the Ocho Profit received and/or receivable by Best Mind during the First Relevant Period} \end{aligned}$$

and if the resulting First Adjustment shall be a negative figure, Mr. Ng shall not be required to pay any adjustment for the First Relevant Period. If the First Profit Guarantee is exceeded, Best Mind and/or the Company shall not be required to make any further payments to Mr. Ng and no any further adjustment payment will be triggered.

Second Profit Guarantee

Mr. Ng has irrevocably and unconditionally guaranteed to Best Mind that the Ocho Profit for the Second Relevant Period shall not be less than HK\$120,000,000. In the event the Ocho Profit received and/or receivable by Best Mind for the Second Relevant Period shall be less than HK\$120,000,000, Mr. Ng has undertaken to pay to Best Mind the sum calculated in accordance with the following formula (the “Second Adjustment”) within 60 days after the Second Relevant Period (provided that the Second Adjustment shall not be more than HK\$120,000,000):-

$$\text{Second Adjustment} = (A - B)$$

where:

$$\begin{aligned} A &= \text{HK\$120,000,000} \\ B &= \text{the Ocho Profit received and/or receivable by Best Mind during the Second Relevant Period} \end{aligned}$$

and if the resulting Second Adjustment shall be a negative figure, Mr. Ng shall not be required to pay any adjustment for the Second Relevant Period. If the Second Profit Guarantee is exceeded, Best Mind and/or the Company shall not be required to make any further payments to Mr. Ng and no any further adjustment payment will be triggered.

There are no profit guarantees after the Second Relevant Period.

Certificates I and Certificates II in escrow

The Vendor has undertaken to and covenanted with the Company that forthwith upon Completion, it shall deposit with the Company's legal advisers (or such other escrow agent as may be agreed between the parties) Certificates I on and subject to such terms and conditions of an escrow letter subject to such terms and conditions as may be agreed between the parties to the Acquisition Agreement and such escrow agent, and in particular a term to the effect that the Certificates I (or part thereof) will only be released to the Vendor if for each period set out below the following Ocho Profit figures are met/attained by Ocho:

First Relevant Period

	Ocho Profit <i>(in HK\$)</i>	Amount of Convertible Note I to be released <i>(in HK\$)</i>
– period from 17.08.2007 to 30.09.2007	24,000,000	12,250,000
– quarter ending 31.12.2007	48,000,000	24,500,000
– quarter ending 31.03.2008	48,000,000	24,500,000
– quarter ending 30.06.2008	48,000,000	24,500,000
– quarter ending 30.09.2008	48,000,000	24,500,000
– quarter ending 31.12.2008	48,000,000	24,500,000
	<hr/>	<hr/>
Total	<u>264,000,000</u>	<u>134,750,000</u>

Second Relevant Period

	Ocho Profit <i>(in HK\$)</i>	Amount of Convertible Note I to be released <i>(in HK\$)</i>
– quarter ending 31.03.2009	48,000,000	24,500,000
– quarter ending 30.06.2009	48,000,000	24,500,000
– period from 01.07.2009 to 16.08.2009	24,000,000	12,250,000
	<hr/>	<hr/>
Total	<u>120,000,000</u>	<u>61,250,000</u>

To the extent that the Ocho Profit for the relevant period is not met/attained by Ocho, the relevant Certificates I shall continue to be held in escrow until the end of the First Relevant Period or Second Relevant Period (as the case may be) and until the First Profit Guarantee or the Second Profit Guarantee is met (as the case may be).

The Vendor has undertaken and covenanted to the Company that if Ocho's junket licence is cancelled, revoked, terminated or is not renewed or amended in a material and adverse manner to Ocho by the relevant authorities in Macau at any time before the maturity date of Convertible Note I and/or Convertible Note II, the Vendor shall return the outstanding Convertible Note I and Convertible Note II to the Company and the Company shall not be obliged to pay any outstanding sums under Convertible Note I and Convertible Note II.

It is a term of Convertible Note I that upon release of the relevant Certificates I, conversion of Convertible Note I shall be permitted provided that the percentage shareholding of the Company's issued share capital held by the Noteholder resulting from each conversion of Convertible Note I by the Noteholder does not exceed the following thresholds in the period specified below:

- (i) 5% of the then issued share capital of the Company within first year after the Second Relevant Period;
- (ii) 10% of the then issued share capital of the Company within second year after the Second Relevant Period;
- (iii) 15% of the then issued share capital of the Company within third year after the Second Relevant Period; and
- (iv) 20% of the then issued share capital of the Company within fourth year after the Second Relevant Period.

In the event that Mr. Ng fails to pay in cash, in whole or in part,

- (i) the shortfall between the First Profit Guarantee and the Ocho Profit received and/or receivable by Best Mind during the First Relevant Period within 60 days after the First Relevant Period; and/or
- (ii) the shortfall between the Second Profit Guarantee and the Ocho Profit received and/or receivable by Best Mind during the Second Relevant Period within 60 days after the Second Relevant Period,

the Company can deduct from the outstanding sum payable under Convertible Note I and/or Convertible Note II the shortfall which will be equal to the difference between shortfall between the First Profit Guarantee and the Ocho Profit actually received and/or receivable by Best Mind during the First Relevant Period and/or shortfall between the Second Profit Guarantee and the Ocho Profit actually received and/or receivable by the Company during the Second Relevant Period.

Completion

Completion shall take place on the second Business Day or on such date as may be agreed between the parties after the last of the conditions of the Acquisition Agreement having been fulfilled or waived.

THE CALL OPTION

Pursuant to the Acquisition Agreement, the Vendor has irrevocably granted to the Company the Call Option, to have effect on and from Completion, to require the Vendor to sell the Option Shares, which shall be exercisable by the Company at any time within 12 months from the date of Completion.

The price for the Option Shares shall be in aggregate HK\$516,900,000 and payable as to HK\$300,000,000 in cash, HK\$188,000,000 by the issue of Convertible Note II and the balance of HK\$28,900,000 by the allotment and issue of Consideration Shares II credited as fully paid.

To the extent that the Company does not have sufficient cash to satisfy the cash portion of the Call Option, it will seek, inter alia, third party financing.

Upon completion of the transfer of the Option Shares, the Company will enter into a service agreement with Mr. Ng, pursuant to which Mr. Ng will be employed by the Company to act as a general manager of the Company for managing the Group's investment in Best Mind. Please refer to the paragraph headed "Service Agreement" herein for further details.

In the event that the Call Option is exercised, the Certificates II shall be deposited with the Company's lawyers (or such other escrow agent may be agreed between the parties hereto) as security for the Full Profit Guarantee.

The Certificates II shall only be released to the Vendor upon payment and/or satisfaction in full of the Ocho Profit guaranteed under the Full Profit Guarantee given by Mr. Ng pursuant to the Profit Agreement.

It is a term of Convertible Note II that upon release of the relevant Certificates II, conversion of Convertible Note II shall be permitted provided that the percentage shareholding of the Company's issued share capital held by the Noteholder resulting from each conversion of Convertible Note II by the Noteholder does not exceed the following thresholds in the period specified below:

- (i) 5% of the then issued share capital of the Company within first year after the Second Relevant Period;
- (ii) 10% of the then issued share capital of the Company within second year after the Second Relevant Period;
- (iii) 15% of the then issued share capital of the Company within third year after the Second Relevant Period; and
- (iv) 20% of the then issued share capital of the Company within fourth year after the Second Relevant Period.

The exercise of the Call Option will require the approval of Shareholders in a separate general meeting. The Company will comply with the Listing Rules upon the exercise of the Call Option.

TERMS OF CONVERTIBLE NOTE I

The terms of Convertible Note I have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK\$196,000,000

Interest

Convertible Note I will carry interest at the rate of 5% per annum, payable annually in arrears.

Maturity

A fixed term of ten years from the date of issue of Convertible Note I. Unless previously redeemed (if applicable), converted or cancelled in accordance with the instrument, the Company shall redeem the outstanding principal amount of Convertible Note I on the maturity date.

Conversion

The Noteholder may at any time during Conversion Period I convert the whole or part (in multiples of HK\$1,000,000) of the principal amount of Convertible Note I into new Shares at Conversion Price I provided that it and its concert parties shall in any event hold not more than 29.99% of the issued share capital of the Company.

Subject to the conditions provided in the instrument, the Company may at any time during Conversion Period I by at least 7 days' prior notice in writing request the Noteholder to convert certain amount of Convertible Note I as specified therein and the Noteholder shall convert such amount of Convertible Note I registered its names into Conversion Shares I as so requested by the Company.

Under the respective terms of Convertible Note I, the Noteholder cannot convert Convertible Note I or part thereof if upon the exercise of the conversion rights under Convertible Note I, the Noteholder and parties acting in concert with it, shall be interested in 30% of the voting rights (or such amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the then enlarged issued share capital of the Company at the date of the relevant exercise.

Conversion Price I

Conversion Price I is HK\$0.30 per Conversion Share I subject to adjustments.

The adjustments for Conversion Price I include the followings:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;

- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;
- (iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 80% of the market price on the date of announcement of the terms of the issue of such securities;
- (vi) an issue of Shares wholly for cash at a price per Share which is less than 80% of the market price on the date of announcement of the terms of such issue; and
- (vii) an issue of Shares for the acquisition of assets at a total effective consideration per Share which is less than 80% of the market price of the date of the announcement of the terms of such issue.

Conversion Price I represents (i) a premium of approximately 23.97% over the closing price of HK\$0.242 per Share as quoted on the Stock Exchange on 16th August, 2007, being the date immediately prior to the date of the suspension of trading in the Shares; (ii) a premium of approximately 8.7% over the average of the closing prices of approximately HK\$0.276 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 16th August, 2007, being the date immediately prior to the date of the suspension of trading in the Shares; (iii) a discount of approximately 5.96% to the average of the closing prices of HK\$0.319 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 16th August, 2007, being the date immediately prior to the date of the suspension of trading in the Shares; and (iv) a discount of approximately 61.24% of net asset value per Share of HK\$0.774 based on the audited consolidated accounts of the Group as at 31st December, 2006 adjusted for the placings of Shares as completed in April, May and June 2007.

Conversion Price I is arrived at after arm's length negotiation between the parties and is based on the average closing price at HK\$0.319 for the last 10 trading days prior to the suspension and by taking into account the net asset value per Share as at 31st December, 2006 and the expected profitability of Best Mind.

Conversion Shares I

Assuming there is an immediate exercise in full of the conversion rights attaching to Convertible Note I in the aggregate principal amount of HK\$196,000,000 at Conversion Price I by the Noteholder, the Company will allot and issue an aggregate of 653,333,333 new Shares, representing approximately (i) 38.72% of the existing issued share capital of the Company, and (ii) 27.91% of the issued share capital of the Company as enlarged by the exercise in full of the conversion rights attaching to Convertible Note I. Conversion Shares I will be issued pursuant to the specific mandate to be sought at the SGM.

Early redemption

The Company may at any time before the maturity date, by serving at least 7 days' prior written notice on the Noteholder with the total amount proposed to be redeemed from the Noteholder specified therein, redeem Convertible Note I (in whole or in part) at par.

Ranking

Conversion Shares I, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue on the date of allotment and issue of such Conversion Shares I.

Status of the Convertible Note I

Convertible Note I constitutes a direct, unconditional, unsubordinated and unsecured obligation of the Company and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Voting rights

Convertible Note I does not confer any voting rights at any meetings of the Company.

Cancellation of Convertible Note I or deduction from the outstanding sum

The Company has right to cancel the Convertible Note I or deduct the shortfall from the outstanding sum under Convertible Note I if Mr. Ng does not pay the shortfall between the Ocho Profit guaranteed and the Ocho Profits actually received and/or receivable by Best Mind during the relevant periods.

The Vendor has undertaken and covenanted to the Company that if Ocho's junket licence is cancelled, revoked, terminated or is not renewed or amended in a material and adverse manner to Ocho by the relevant authorities in Macau at any time before the maturity date of Convertible Note I, the Vendor shall return the outstanding Convertible Note I (without interest) to the Company and the Company shall not be obliged to pay any outstanding sums under Convertible Note I.

Application for listing and miscellaneous

No application will be made by the Company for the listing of Convertible Note I. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, Conversion Shares I.

The Company will undertake to the Stock Exchange that it will notify the Stock Exchange as soon as possible upon becoming aware of any dealings in Convertible Note I by connected persons of the Company.

TERMS OF CONVERTIBLE NOTE II

The terms of Convertible Note II have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK\$188,000,000

Interest

Convertible Note II will carry interest at the rate of 5% per annum, payable annually in arrears.

Maturity

A fixed term of ten years from the date of issue of Convertible Note II. Unless previously redeemed (if applicable), converted or cancelled in accordance with the instrument, the Company shall redeem the outstanding principal amount of Convertible Note II on the maturity date.

Conversion

The Noteholder may at any time during Conversion Period II convert the whole or part (in multiples of HK\$1,000,000) of the principal amount of Convertible Note II into new Shares at Conversion Price II provided that it and its concert parties shall in any event hold not more than 29.99% of the issued share capital of the Company.

Subject to the conditions provided in the instrument, the Company may at any time during Conversion Period II by at least 7 days' prior notice in writing request the Noteholder to convert certain amount of Convertible Note II as specified therein and the Noteholder shall convert such amount of Convertible Note II registered in its name into Conversion Shares II as so requested by the Company.

Under the respective terms of Convertible Note II, the Noteholder cannot convert Convertible Note II or part thereof if upon the exercise of the conversion rights under Convertible Note II, the Noteholder and parties acting in concert with it, shall be interested in 30% of the voting rights (or such amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the then enlarged issued share capital of the Company at the date of the relevant exercise.

Conversion Price II

Conversion Price II is HK\$0.30 per Conversion Share II subject to adjustments.

The adjustments for Conversion Price II include the followings:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;
- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;
- (iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 80% of the market price on the date of announcement of the terms of the issue of such securities;
- (vi) an issue of Shares wholly for cash at a price per Share which is less than 80% of the market price on the date of announcement of the terms of such issue; and
- (vii) an issue of Shares for the acquisition of assets at a total effective consideration per Share which is less than 80% of the market price of the date of the announcement of the terms of such issue.

Conversion Price II represents (i) a premium of approximately 23.97% over the closing price of HK\$0.242 per Share as quoted on the Stock Exchange on 16th August, 2007, being the date immediately prior to the date of the suspension of trading in the Shares; (ii) a premium of approximately 8.7% over the average of the closing prices of approximately HK\$0.276 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 16th August, 2007, being the date immediately prior to the date of the suspension of trading in the Shares; (iii) a discount of approximately 5.96% to the average of the closing prices of HK\$0.319 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 16th August, 2007, being the date immediately prior to the date of the suspension of trading in the Shares; and (iv) a discount of approximately 61.24% of net asset value per Share of HK\$0.774 based on the audited consolidated accounts of the Group as at 31st December, 2006 adjusted for the placings of Shares as completed in April, May and June 2007.

Conversion Price II is arrived at after arm's length negotiation between the parties and is based on the average closing price at HK\$0.319 for the last 10 trading days prior to the suspension and by taking into account the net asset value per Share as at 31st December, 2006 and the expected profitability of Best Mind.

Conversion Shares II

Assuming there is an immediate exercise in full of the conversion rights attaching to Convertible Note II in the aggregate principal amount of HK\$188,000,000 at Conversion Price II by the Noteholder, the Company will allot and issue an aggregate of 626,666,666 new Shares, representing approximately (i) 37.13% of the existing issued share capital of the Company, and (ii) 27.08% of the issued share capital of the Company as enlarged by the exercise in full of the conversion rights attaching to Convertible Note II. Conversion Shares II will be issued pursuant to the specific mandate to be sought at the SGM.

Early redemption

The Company may at any time before the maturity date, by serving at least 7 days' prior written notice on the Noteholder with the total amount proposed to be redeemed from the Noteholder specified therein, redeem Convertible Note II (in whole or in part) at par.

Ranking

Conversion Shares II, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue on the date of allotment and issue of such Conversion Shares II.

Status of the Convertible Note II

Convertible Note II constitutes a direct, unconditional, unsubordinated and unsecured obligation of the Company and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Voting rights

Convertible Note II does not confer any voting rights at any meetings of the Company.

Cancellation of Convertible Note II or deduction from the outstanding sum

The Company has right to cancel the Convertible Note II or deduct the shortfall from the outstanding sum under Convertible Note II if Mr. Ng does not pay the shortfall between the Ocho Profit guaranteed and the Ocho Profits actually received and/or receivable by Best Mind during the relevant periods.

The Vendor has undertaken and covenanted to the Company that if Ocho's junket licence is cancelled, revoked, terminated or is not renewed or amended in a material and adverse manner to Ocho by the relevant authorities in Macau at any time before the maturity date of Convertible Note II, the Vendor shall return the outstanding Convertible Note II (without interest) to the Company and the Company shall not be obliged to pay any outstanding sums under Convertible Note II.

Application for listing and miscellaneous

No application will be made by the Company for the listing of Convertible Note II. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, Conversion Shares II.

The Company will undertake to the Stock Exchange that it will notify the Stock Exchange as soon as possible upon becoming aware of any dealings in Convertible Note II by connected persons of the Company.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

Effect on the shareholding assuming Consideration Shares I have been allotted and issued, Convertible Note I has been converted in full into Shares:

	As at the date of this announcement		Immediately after the allotment and issue of Consideration Shares I		Assuming full conversion of CN I and the Vendor is restricted to be interested in less than 30% of the issued share capital of the Company	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Porterstone	243,150,000	14.41	243,150,000	13.31	243,150,000	10.09
Dorest	18,510,000	1.10	18,510,000	1.01	18,510,000	0.77
Mr. Heung Wah Keung	36,395,000	2.16	36,395,000	1.99	36,395,000	1.51
Ms. Chen Ming Yin, Tiffany	21,144,410	1.25	21,144,410	1.16	21,144,410	0.87
Sub-total	319,199,410	18.92	319,199,410	17.47	319,199,410	13.24
Ms. Li Yuk Sheung, a Director	16	0.00	16	0.00	16	0.00
The Vendor	0	0.00	140,000,000	7.66	722,886,246	29.99
Public Shareholders	1,368,338,623	81.08	1,368,338,623	74.87	1,368,338,623	56.77
Total	<u>1,687,538,049</u>	<u>100.00</u>	<u>1,827,538,049</u>	<u>100.00</u>	<u>2,410,424,295</u>	<u>100.00</u>

Effect on the shareholding assuming Consideration Shares I and Consideration Shares II have been allotted and issued, Convertible Note I and Convertible Note II have been converted in full into Shares:

	As at the date of this announcement		Immediately after the allotment and issue of Consideration Shares I and Consideration Shares II		Assuming full conversion of CN I and CN II and the Vendor is restricted to be interested in less than 30% of the issued share capital of the Company	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Porterstone	243,150,000	14.41	243,150,000	12.64	243,150,000	10.09
Dorest	18,510,000	1.10	18,510,000	0.96	18,510,000	0.77
Mr. Heung Wah Keung	36,395,000	2.16	36,395,000	1.89	36,395,000	1.51
Ms. Chen Ming Yin, Tiffany	21,144,410	1.25	21,144,410	1.10	21,144,410	0.87
Sub-total	319,199,410	18.92	319,199,410	16.59	319,199,410	13.24
Ms. Li Yuk Sheung, a Director	16	0.00	16	0.00	16	0.00
The Vendor	0	0.00	236,333,333	12.28	722,886,246	29.99
Public Shareholders	1,368,338,623	81.08	1,368,338,623	71.13	1,368,338,623	56.77
Total	<u>1,687,538,049</u>	<u>100.00</u>	<u>1,923,871,382</u>	<u>100.00</u>	<u>2,410,424,295</u>	<u>100.00</u>

SERVICE AGREEMENT

Upon completion of the Call Option, Mr. Ng will enter into a service agreement with the Company to act as a general manager of the Company for managing the Group's investments in Best Mind. The scope of his work includes overseeing the business volume and progress of Best Mind and monitoring the development of Macau gaming industry which are relevant to the business of Best Mind. The Directors consider employing him as the general manager is beneficial to the Group based on, inter alia, the following factors:

- (i) Mr. Ng is well versed in the Macau gaming market and can provide updated market information as to the trend, the move as well as the performance of various market practitioners in Macau. This will be beneficial to the Company if the Company decides to make further investments in Macau gaming business;
- (ii) Mr. Ng is experienced in the market and can assist the Company in investor relations; and
- (iii) By "recruiting" Mr. Ng as employee, the Company has the legal right in having Mr. Ng worked on an active basis via asking him the performance of Ocho when deem appropriate (rather than passively waiting till month end for the figures). Correspondingly, the Company can monitor the development of Ocho at a more timely manner.

DIRECTORS' VIEWS

The Directors had (i) reviewed the gaming experience of Mr. Ng and his network of agents; (ii) reviewed the Macanese legal opinion on the legality and validity of the Profit Agreement; and (iii) conducted extensive research on junket business in Macau, including reviewing reports prepared by well-known investment banks in relation to Macau gaming business and making enquiries with the practitioners in the gaming industry. The Directors understand that generally, the term of the agreement between the junket operator and the casino operator is tied with the term of the junket licence. Such kind of agreement will be revoked once the renewal of the junket licence fails. Having reviewed the Macanese lawyers' opinion on the Profit Agreement, the Directors have exercised their fiduciary duty to ensure that the business carried out or to be carried out by Ocho is legal and valid.

Despite this, the Directors consider that the consideration is fair and reasonable given that:

Benefits of the Acquisition

- (a) The right to the Ocho Profit under the Profit Agreement is for an unlimited period of time, instead of a fixed period of time. It enables the Company to continually enjoy the potential strong growth in Macau gaming business.
- (b) There is no share of loss under the Profit Agreement as the Ocho Profit is essentially based on 0.4% of the Rolling Turnover and does not include expenses incurred by Ocho (which will be borne by Ocho).

Ocho will then pay the Ocho Profit, being 0.4% of the Rolling Turnover, to Best Mind.

After balancing the risks as stated in the section headed "Risk Factors of the Junket Business" below with the benefits of the Acquisition, including the Group's perpetual rights to the Ocho Profit, no share of loss by Best Mind and the source of the Ocho Profit under the Profit Agreement, the Directors consider that the consideration is fair and reasonable and the Acquisition is in the interest of the Company and the Shareholders as a whole.

The consideration is determined after arm's length commercial negotiation between the Company, the Vendor and Mr. Ng after considering that the Acquisition will (1) broaden the Group's revenue source; and (2) provide a substantial and stable income source to the Group in view of the acquisition of the Ocho Profit by Best Mind pursuant to the Profit Agreement, the loosening of travel restrictions of Mainland Chinese visitors and the prospects of Macau's gaming business.

The Company considers acquiring a profit stream which has no share of loss under the Profit Agreement will not prejudicially affect the Company.

As such, the Directors (including the independent non-executive Directors) consider the consideration for the Acquisition to be fair and reasonable. Please refer to the paragraph headed "Reasons for the Acquisition" for further details of the reasons for the Acquisition.

There will be no change in the Board following Completion.

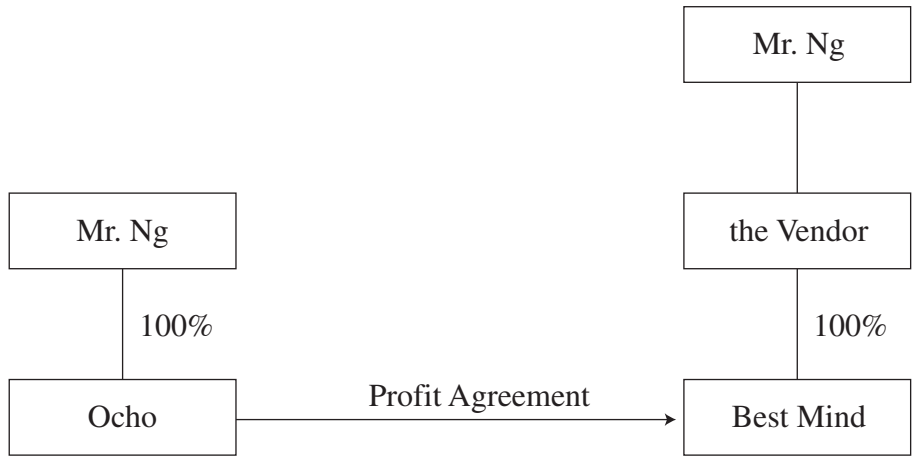
RISK FACTORS OF GAMING PROMOTION BUSINESS

There are the following risk factors in relation to the gaming promotion business (commonly referred to as the junket business) operated by Ocho:

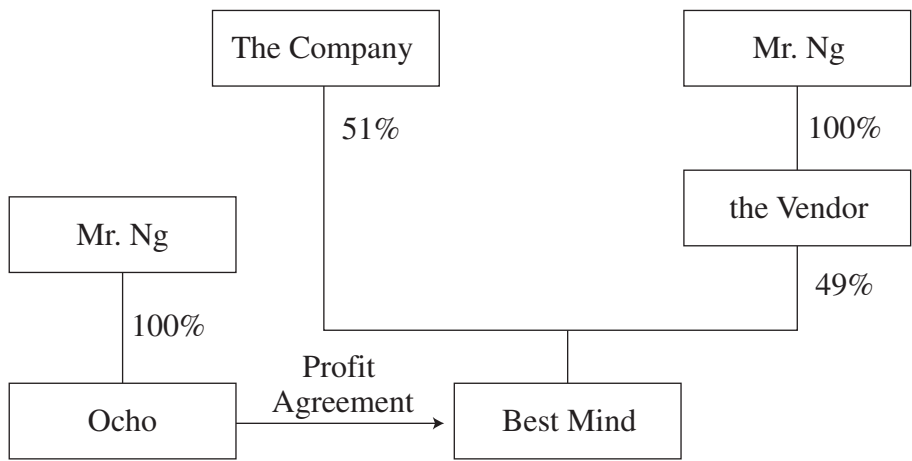
- (1) The provision of junket business is competitive in general. There is no guarantee that the targeted customers of Ocho will not be lured away by other junket operators.
- (2) The Rolling Turnover generated by Ocho operating as a junket representative in the Grand Lisboa Casino relies on, among other factors, the attractiveness of the Grand Lisboa Casino to the prospective customers, Ocho's ability to procure customers to the Grand Lisboa Casino, annual renewal of the junket licence of Ocho by the Macau Government, tenure of Ocho acting as junket representative for the Grand Lisboa Casino under the Junket Representative Agreement. There is no assurance that the Grand Lisboa Casino is always attractive. In the event that Ocho ceases to be committed to the junket business or ceases to be appointed as a junket representative by the Grand Lisboa Casino, the junket business, and thereby the Ocho Profit to be paid to Best Mind, may be adversely affected. Moreover, if Ocho fails to obtain the renewal of its junket licence from the Macau Government, it can no longer operate its junket business and no Ocho Profit can be paid to Best Mind as a result.
- (3) In the event that the Grand Lisboa Casino in Macau becomes the target for carrying out money laundering, the Rolling Turnover generated by Ocho may be affected and/or interrupted.
- (4) As the Ocho Profit is sourced from Rolling Turnover generated or to be generated by Ocho and/or its customers, there is a risk that the source of the Ocho Profit will cease if the junket licence of Ocho cannot be renewed.
- (5) The appointment of Ocho may be terminated at any time by the Grand Lisboa Casino.
- (6) The junket licence of Ocho granted or to be granted by the Macau Government is subject to renewal annually.
- (7) The Grand Lisboa Casino's casino licence may be revoked by the Macau Government.
- (8) There is a possibility that another junket representative could be appointed at Ocho VIP Club and if this is the case, the Ocho Profit would be affected.

SHAREHOLDING STRUCTURE OF THE RELEVANT ENTITIES AND THE COMPANY:

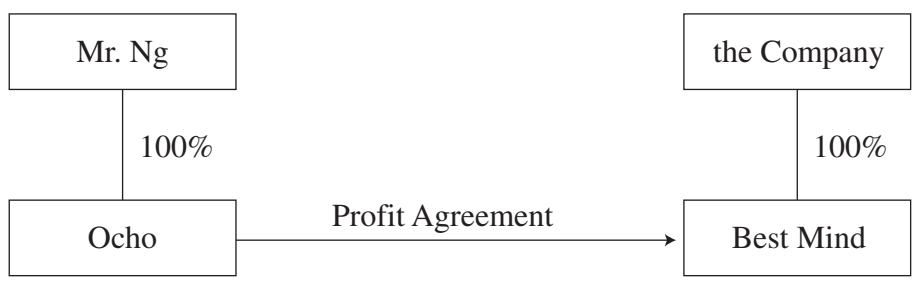
The diagram below shows the shareholding structure of the relevant entities immediately before Completion:



The diagram below shows the shareholding structure of the relevant entities immediately after Completion:



The diagram below shows the shareholding structure of the relevant entities immediately after Completion and completion of the Call Option:



INFORMATION OF BEST MIND AND OCHO

Information on Best Mind

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Best Mind is an investment holding company incorporated in the British Virgin Islands on 6th July, 2007. The total assets value of Best Mind as at 16th August, 2007 was HK\$780.00, which equaled to its issued share capital at that date. To the best of the Directors' knowledge, other than the Profit Agreement, Best Mind does not have any assets or liabilities nor does it has any profit or loss recorded as at the date of this announcement.

On Completion, Best Mind will be accounted for as a subsidiary in the books of the Company and its results consolidated into that of the Company.

Under the Profit Agreement, Mr. Ng has undertaken to Best Mind that he will not at any time:

- (1) carry on the business of directing gaming patrons to casinos in Macau without the prior written approval from all of the shareholders of Best Mind;
- (2) he will not at any time either on his own account or in conjunction with or on behalf of any other person or body corporate or unincorporate in competition with Ocho directly or indirectly solicit or entice away from Ocho any person or body corporate or unincorporate who now is or at any time a customer of Ocho; and
- (3) he will not at any time either on his own account or in conjunction with or on behalf of any other person or body corporate or unincorporate directly or indirectly solicit or entice away from Ocho or employ or otherwise engage any person who now is or at any time an employee of Ocho.

Information on Ocho

Ocho was incorporated in Macau on 23rd May, 2007. Ocho has been appointed as a junket representative of the Grand Lisboa Casino since 15th August, 2007. Other than being a junket representative, Ocho does not engage in any other business. Ocho has been granted the license for acting as a gaming promoter by the Macau Government on 23rd July, 2007. The license is valid until 31st December, 2007 and is renewable.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Best Mind and its ultimate beneficial owner, Mr. Ng, are Independent Third Parties and all of them are independent of and not connected with the Directors and their respective associates.

REASONS FOR THE ACQUISITION

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, property and hotel investment. The Group will cease to invest in property and hotels following the disposal of Kingsway Hotel Limited to Rich Multi-Media Holdings Limited as announced on 8th August, 2007.

In view of the recent booming economy of Macau and the prospects of Macau’s gaming business, the Directors believe that the Acquisition will further broaden the Group’s revenue sources and provide a stable income stream to the Group. Accordingly, the Directors consider that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LAWS OF HONG KONG AND THE LISTING RULES

Shareholders should be aware that under the guidelines issued by the Stock Exchange in relation to “Gambling activities undertaken by listing applicants and/or listed issuers” dated 11st March, 2003, should the Group directly or indirectly be engaged in gambling activities and operation of such gambling activities (i) fail to comply with the applicable laws in the areas where such activities operate and/or (ii) contravene the Gambling Ordinance, the Company or its business may be considered unsuitable for listing under Rule 8.04 of the Listing Rules, the Stock Exchange may direct the Company to take remedial action, and/or may suspend dealings in, or may cancel the listing of, the Shares.

In relation to the prevention of the money laundering activities, as Ocho will be licensed to operate junket business and gaming business by the relevant authorities in Macau and the amount of bet/Rolling Turnover is properly registered by Ocho, its gaming activities and businesses are subject to stringent control and regulation of the Macau Government. As its activities are under the regulation of the Macau Government and covered by a local legal opinion (as to Hong Kong law) that the gaming promotion businesses to be carried out by Ocho does not contravene any applicable laws of Hong Kong, the Directors, based on the legal opinions issued by Macanese lawyer and Hong Kong lawyer, confirms that the activities they participate are legal and lawful and thereby the income derived from these activities is also be lawful and proper.

THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	One Rights Share for every two existing Shares held on the Record Date
Number of existing Shares in issue:	1,687,538,049 Shares as at the date of this announcement
Number of Rights Shares:	Not less than 843,769,024 Rights Shares and not more than 940,393,799 Rights Shares
Underwriter:	Kingston and its ultimate beneficial owners, which, to the best of the Directors’ knowledge and information and having made all reasonable enquiries, are third parties independent of the Group and its connected persons (as defined in the Listing Rules). The Underwriter does not have any relationships with the Substantial Shareholders and are not acting in concert with them

Number of Underwritten Shares: not less than 684,289,319 (assuming no outstanding Share Options are exercised) Underwritten Shares and not more than 780,914,094 (assuming all outstanding Share Options other than 2,018,075 Share Options held by Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are fully exercised) Underwritten Shares. The maximum and minimum number of Rights Shares to be underwritten by Kingston (taking into account the 159,479,705 Rights Shares agreed to be taken up by the Substantial Shareholders) are 780,914,094 and 684,289,319 respectively representing 27.68% and 27.03% of the enlarged issued share capital of the Company respectively)

Under the Rights Issue, not less than 843,769,024 nil-paid Rights Shares (assuming no Exercisable Share Options are exercised on or before the Record Date) would be provisionally allotted, representing 50.0% of the existing issued share capital of the Company and 33.33% of the issued share capital of the Company as enlarged by the issue of 843,769,024 Rights Shares.

The number of Rights Shares which may be issued pursuant to the Rights Issue will be increased in proportion to any additional Shares which may be allotted and issued upon the exercise of the Exercisable Share Options on or before the Record Date. As at the date of this announcement, there are outstanding Share Options entitling holders thereof to subscribe for 195,267,625 Shares of which an aggregate 2,018,075 Share Options are held by Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany who undertake not to exercise on or before the Record Date in the Underwriting Agreement. If all of the subscription rights attaching to the outstanding Exercisable Share Options are exercised in full and the Shares are allotted and issued pursuant to such exercise on or before the Record Date, the number of issued Shares will be increased to 1,880,787,599 Shares, and the number of Rights Shares which may be issued pursuant to the Rights Issue will be increased to 940,393,799 Rights Shares.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date. In order to be registered as members of the Company on the Record Date, all transfers of the Shares must be lodged (together with the relevant share certificate(s)) with the Company's branch share registrars in Hong Kong by 4:00 p.m. (Hong Kong time) on Wednesday, 12th September, 2007. The branch share registrar of the Company in Hong Kong is:

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

The Company will send the Rights Issue Documents, including the Prospectus, the PALs and the EAFs, to the Qualifying Shareholders. The Company will send the Prospectus only to the Excluded Shareholders for information purposes.

As at the date of this announcement, the Company has certain Shareholders whose addresses as shown on the register of members of the Company were located outside Hong Kong. In determining whether there will be Excluded Shareholders, the Company will make enquiry regarding the legal restrictions (if any) under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges in relation to the Company's offering of the Rights Issue to the Excluded Shareholders in compliance with Rule 13.36(2)(a) of the Listing Rules. The Company will make further announcement regarding the Excluded Shareholders on or before the Posting Date.

Closure of register of members

The register of members of the Company will be closed from Thursday, 13th September, 2007 to Tuesday, 18th September, 2007, both dates inclusive. No transfers of Shares will be registered during this period.

Subscription Price

HK\$0.20 per Rights Share, payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a renouncee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 17.36% to the closing price of HK\$0.242 per Share as quoted on the Stock Exchange on 16th August, 2007, being the last trading day of the Shares on the Stock Exchange prior to the publishing of this announcement;
- (ii) a discount of approximately 27.54% to the average closing price of HK\$0.276 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including 16th August, 2007, being the last trading day of the Shares on the Stock Exchange prior to the publishing of this announcement;
- (iii) a discount of approximately 37.30% to the average closing price of HK\$0.319 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including 16th August, 2007, being the last trading day of the Shares on the Stock Exchange prior to the publishing of this announcement;
- (iv) a discount of approximately 42.20% to the average closing price of HK\$0.346 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including 16th August, 2007, being the last trading day of the Shares on the Stock Exchange prior to the publishing of this announcement;
- (v) a discount of approximately 12.28% to the theoretical ex-right price of HK\$0.228 based on the closing price of HK\$0.242 per Share as quoted on the Stock Exchange on 16th August, 2007, being the last trading day of the Shares on the Stock Exchange prior to the publishing of this announcement; and
- (vi) a discount of approximately 79.72% to the audited consolidated net assets value per Share of approximately HK\$0.986 as at 31st December, 2006.

The Subscription Price was arrived at after arm's length basis between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions. The Directors (including the independent non-executive Directors) consider the terms of the Rights Issue (including the rate of commission) to be fair and reasonable and in the best interests of the Group and the Shareholders as a whole.

Basis of Provisional Allotments

One Rights Share (in nil-paid form) for every two existing Shares held by Qualifying Shareholders as at the close of business on the Record Date.

Status of the Rights Shares

The Rights Shares (when allotted, issued and fully paid) will rank pari passu with the then existing Shares in issue in all respects. Holders of fully paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the Rights Shares.

Certificates for the Rights Shares

Subject to the fulfillment or the waiver in whole or in part by the Underwriter of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted by Wednesday, 17th October, 2007 to those Qualifying Shareholders who have paid for and have accepted the Rights Shares, at their own risk.

Fractions of the Rights Shares

The Company will not provisionally allot fractions of Rights Shares in nil-paid form. All fractions of Rights Shares will be aggregated and all nil-paid Rights Shares arising from such aggregation will be sold in the market and, if a premium (net of expenses) can be achieved, the Company will keep the net proceeds for its own benefit. Any unsold fractions of Rights Shares will be made available for excess application.

Application for excess Rights Shares

Qualifying Shareholders shall be entitled to apply for, any unsold Rights Shares created by adding together fractions of the Rights Shares and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders. Application may be made by completing the EAFs and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Board will allocate the excess Rights Shares at their discretion, but on a fair and reasonable basis and will give preference to topping-up odd lots to whole board lots.

Application for listing

The Company will apply 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. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Nil-paid Rights Shares are expected to be traded in board lots of 5,000 (as the Shares are currently traded on the Stock Exchange in board lots of 5,000). Dealings in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

Undertaking

As at the date of this announcement, the Substantial Shareholders are interested in an aggregate 319,199,410 Shares, representing approximately 18.92% of the issued share capital of the Company. Each has severally and irrevocably undertaken to the Company that, subject to the Rights Issue not being terminated, (i) it/he/she will subscribe and lodge acceptance for the Rights Shares which will constitute the provisional allotment of Rights Shares in respect of the Shares held by it/him/her pursuant to the terms of the Rights Issue (excluding the Excepted Shares); and (ii) it/he/she will not dispose of the Shares held by it/him/her from the date of the Underwriting Agreement to the close of business on the Record Date. The Substantial Shareholders currently have no intention to make excess applications under the Rights Issue.

Conditions of the Rights Issue

The Rights Issue is conditional upon the following:

- (a) the delivery to the Stock Exchange and registration by the Registrar of Companies in Hong Kong respectively on or prior to the Posting Date of the Rights Issue Documents in compliance with the Companies Ordinance (and all other documents required to be attached thereto) and the delivery and filing with the Registrar of Companies in Bermuda in accordance with the requirements of the Companies Act of the Rights Issue Documents and otherwise complying with the requirements of the Companies Ordinance, the Companies Act and the Listing Rules;
- (b) the posting on the Posting Date of copies of the Rights Issue Documents to the Qualifying Shareholders;
- (c) the provisional allotment of the Rights Shares to the Qualifying Shareholders by posting the Rights Issue Documents to such holders no later than the Posting Date as well as the provisional allotment of the Rights Shares, which would be provisionally allotted to the Excluded Shareholders had they been Qualifying Shareholders, to a person nominated by the Company in nil-paid form by no later than the close of business on the Posting Date;
- (d) the Listing Committee of the Stock Exchange granting approval for listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any and where relevant) by no later than the dates specified in such approval and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the Settlement Date;

- (e) the Shares remaining listed on the Stock Exchange at all times prior to the Settlement Date and the current listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than 5 trading days (other than any suspension pending clearance of this announcement) and no indication being received before 4:00 p.m. on the Settlement Date from the Stock Exchange to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of the Rights Issue or in connection with the terms of the Underwriting Agreement or for any other reason;
- (f) the obligations of the Underwriter under the Underwriting Agreement not being terminated by the Underwriter in accordance with the terms thereof; and
- (g) if required, the consent or permission from the Bermuda Monetary Authority in respect of the issue of the Rights Shares.

In the event that the above conditions (other than condition (d) which cannot be waived) have not been satisfied and/or waived in whole or in part by the Underwriter on or before the Posting Date or in the event that the conditions (d) and (f) have not been satisfied on or before 4.00 p.m. on the Settlement Date (or in each case, such later date as the Underwriter and the Company may agree), all liabilities of the parties to the Underwriting Agreement shall cease and determine and none of the parties shall have any claim against the other save that all such reasonable costs, fees and other out-of-pocket expenses (excluding sub-underwriting fees and related expenses) as have been properly incurred by the Underwriter in connection with the underwriting of the Underwritten Shares by the Underwriter shall to the extent agreed by the Company be borne by the Company.

The Rights Issue is not conditional upon the Acquisition.

The Underwriting Agreement

Date: 17th August, 2007

Underwriter: Kingston, which, to the best of the Directors' knowledge and information and having made all reasonable enquiries, is a third party independent of the Group and its connected persons (as defined in the Listing Rules)

Number of existing Shares in issue: 1,687,538,049 Shares as at the date of this announcement (authorised share capital of 20,000,000,000 Shares)

Number of the Rights Shares: not less than 843,769,024 Rights Shares and not more than 940,393,799 Rights Shares

The Rights Issue complies with Rule 14A.31(3)(c) of the Listing Rules

Number of Underwritten Shares: not less than 684,289,319 Underwritten Shares and not more than 780,914,094 Underwritten Shares. The maximum and minimum number of Rights Shares to be underwritten by Kingston (taking into account the 159,479,705 Rights Shares agreed to be taken up by the Substantial Shareholders) are 780,914,094 and 684,289,319 respectively representing 27.68% and 27.03% of the enlarged issued share capital of the Company respectively)

Commission: 2.5% of the aggregate Subscription Price in respect of the maximum number of Underwritten Shares

Termination of the Underwriting Agreement

If prior to 4:00 p.m. on the Settlement Date, in the reasonable opinion of the Underwriter:

- (a) the success of the Rights Issue would be 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 reasonable 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 hereof) 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 and international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may in the reasonable opinion of the Underwriter materially and adversely affect the business of 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 inexpedient or inadvisable to proceed with the Rights Issue; or
 - (iii) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (b) any material adverse change in market conditions (including without limitation, a change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially and adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or

- (c) the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it;

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 Settlement Date:

- (a) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (b) any event occurring or matter arising after the Underwriting Agreement but before the Settlement Date which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties in the Underwriting Agreement untrue or incorrect.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE RIGHTS ISSUE

The changes in the shareholding structure of the Company arising from the Rights Issue (but without taking into account the issue of CN I or CN II or the Consideration Shares I and II) are as follows:

Scenario 1

Assuming none of the outstanding Exercisable Share Options is exercised on or before the Record Date:

	As at the date of this announcement		Immediately after completion of the Rights Issue on the assumption as set out in Note 2		Immediately after completion of the Rights Issue on the assumption as set out in Note 3		Immediately after completion of the Rights Issue on the assumption as set out in Note 3 and Note 4	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Porterstone	243,150,000	14.41	364,725,000	14.41	364,725,000	14.41	364,725,000	10.09
Dorest (Note 3)	18,510,000	1.10	27,645,000	1.09	27,645,000	1.09	27,645,000	0.76
Mr. Heung Wah Keung	36,395,000	2.16	54,592,500	2.16	54,592,500	2.16	54,592,500	1.51
Ms. Chen Ming Yin, Tiffany	21,144,410	1.25	31,716,615	1.25	31,716,615	1.25	31,716,615	0.88
Sub-total	319,199,410	18.92	478,679,115	18.91	478,679,115	18.91	478,679,115	13.24
Ms. Li Yuk Sheung, a Director	16	0.00	24	0.00	16	0.00	16	0.00
Public Shareholders	1,368,338,623	81.08	2,052,507,934	81.09	1,368,338,623	54.06	1,368,338,623	37.86
The Underwriter (Note 3)	0	0.00	120,000	0.00	684,289,319	27.03	684,289,319	18.94
The Vendors (Note 4)							1,082,999,999	29.96
Total	<u>1,687,538,049</u>	<u>100.00</u>	<u>2,531,307,073</u>	<u>100.00</u>	<u>2,531,307,073</u>	<u>100.00</u>	<u>3,614,307,072</u>	<u>100.00</u>

Notes:

- Assuming all Shareholders take up their respective provisional allotments of the Rights Shares in full.
- Assuming (i) none of the Shareholders (save for the Substantial Shareholders takes up the Rights Shares provisionally allotted to it) takes up any provisional allotments of the Rights Shares; and (ii) the provisional allotments of the Rights Shares of all Shareholders (save for the Substantial Shareholders) are taken up by the Underwriters pursuant to the Underwriting Agreement.
- 240,000 Shares beneficially owned by Dorest had been deposited in C. A. Pacific Finance Limited which is in liquidation. The Excepted Shares are held in name of C. A. Pacific Finance Limited in CCASS. Accordingly, the 120,000 Rights Shares which will be provisionally allotted to Dorest in relation to the Excepted Shares cannot be taken up by Dorest and such 120,000 Rights Shares will be underwritten by the Underwriter.
- Assuming the Consideration Shares I and Consideration Shares II are allotted and issued and the Convertible Note I and Convertible Note II are fully converted into Shares by the Vendor and the Vendor is restricted to be interested in less than 30% of the issued share capital of the Company.

Scenario 2

Assuming all the outstanding Exercisable Share Options are exercised on or before the Record Date:

	As at the date of this announcement		Immediately after completion of the Rights Issue on the assumption as set out in Note 2		Immediately after completion of the Rights Issue on the assumption as set out in Note 3		Immediately after completion of the Rights Issue on the assumption as set out in Note 3 and Note 4	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Porterstone	243,150,000	14.41	364,725,000	12.93	364,725,000	12.93	364,725,000	9.05
Dorest (Note 3)	18,510,000	1.10	27,645,000	0.98	27,645,000	0.98	27,645,000	0.69
Mr. Heung Wah Keung	36,395,000	2.16	54,592,500	1.94	54,592,500	1.94	54,592,500	1.36
Ms. Chen Ming Yin, Tiffany	21,144,410	1.25	31,716,615	1.12	31,716,615	1.12	31,716,615	0.79
Sub-total	319,199,410	18.92	478,679,115	16.97	478,679,115	16.97	478,679,115	11.89
Ms. Li Yuk Sheung, a Director	16	0.00	24	0.00	16	0.00	16	0.00
Public Shareholders	1,368,338,623	81.08	2,342,382,259	83.03	1,561,588,173	55.35	1,561,588,173	38.77
The Underwriter	0	0.00	120,000	0.00	780,914,094	27.68	780,914,094	19.39
The Vendors (Note 4)							1,206,333,333	29.95
Total	<u>1,687,538,049</u>	<u>100.00</u>	<u>2,821,181,398</u>	<u>100.00</u>	<u>2,821,181,398</u>	<u>100.00</u>	<u>4,027,514,731</u>	<u>100.00</u>

Notes:

- Assuming all Shareholders take up their respective provisional allotments of the Rights Shares in full.
- Assuming (i) none of the Shareholders (save for the Substantial Shareholders takes up the Rights Shares provisionally allotted to it) takes up any provisional allotments of the Rights Shares; and (ii) the provisional allotments of the Rights Shares of all Shareholders (save for the Substantial Shareholders) are taken up by the Underwriters pursuant to the Underwriting Agreement.
- 240,000 Shares beneficially owned by Dorest had been deposited in C. A. Pacific Finance Limited which is in liquidation. The Excepted Shares are held in name of C. A. Pacific Finance Limited in CCASS. Accordingly, the 120,000 Rights Shares which will be provisionally allotted to Dorest in relation to the Excepted Shares cannot be taken up by Dorest and such 120,000 Rights Shares will be underwritten by the Underwriter.
- Assuming the Consideration Shares I and Consideration Shares II are allotted and issued and the Convertible Note I and Convertible Note II are fully converted into Shares by the Vendor and the Vendor is restricted to be interested in less than 30% of the issued share capital of the Company.

PREVIOUS FUND RAISING EXERCISE PRIOR TO 12-MONTH PERIOD

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

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
13th February, 2007	Issue of zero coupon unsecured convertible bonds due 2012 of an aggregate principal amount of HK\$168,500,000	HK\$159,000,000	For the acquisition of Kingsway Hotel Limited	For the acquisition of Kingsway Hotel Limited
30th March, 2007	Placing of 124,900,000 new Shares	HK\$44,800,000	For the general working capital	For the general working capital
30th March, 2007	Placing of 81,100,000 new Shares	HK\$29,200,000	For the general working capital	For the general working capital
4th June, 2007	Placing of 165,905,000 new Shares	HK\$64,600,000	For the general working capital	For the general working capital

There have been no change in the use of proceeds stated above.

EXPECTED TIMETABLE

2007

Last day of dealings in the Shares on a cum-rights basis	Monday, 10th September
Commencement of dealings in the Shares on an ex-rights basis	Tuesday, 11th September
Latest time for lodging transfer of the Shares in order to be qualified for the Rights Issue	4:00 p.m. on Wednesday, 12th September
Register of members closes	Thursday, 13th September to Tuesday, 18th September
Record Date	Tuesday, 18th September
Register of members re-opens	Wednesday, 19th September
Despatch of the Rights Issue Documents	Wednesday, 19th September
First day of dealings in nil-paid Rights Shares	Friday, 21st September
Latest time for splitting nil-paid Rights Shares	Tuesday, 25th September
Last day of dealings in nil-paid Rights Shares	Wednesday, 3rd October
Latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares	4:00 p.m. on Monday, 18th October
Latest time for termination of the Underwriting Agreement	4:00 p.m. on Monday, 15th October
Announcement of results of the Rights Issue on newspapers	Tuesday, 16th October
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be posted on or before	Wednesday, 17th October
Certificates for the Rights Shares expected to be despatched on or before	Wednesday, 17th October
Dealings in fully-paid Rights Shares commence on	Tuesday, 23rd October

Dates or deadlines specified in this announcement are indicative only and may be varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published or notified to Shareholders appropriately.

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

Existing Shares will be dealt with on an ex-rights basis from Tuesday, 11th September, 2007. The Rights Shares will be dealt with in their nil-paid form from Friday, 21st September, 2007 to Wednesday, 3rd October, 2007 (both dates inclusive). If prior to 4:00 p.m. Monday, 15th October, 2007 (or such later date as the Underwriter may agree with the Company), the Underwriter terminates the Underwriting Agreement (see sub-section headed “Termination of the Underwriting Agreement” above) or the conditions of the Rights Issue (see subsection headed “Conditions of the Rights Issue “ above) cannot be fulfilled (or, if appropriate, waived), the Rights Issue will not proceed.

Any dealings in the Shares from the date of this announcement up to the date on which all the conditions of the Rights Issue are fulfilled (or, if appropriate, waived), and any dealings in the Rights Shares in their nil-paid form between Friday, 21st September, 2007 to Wednesday, 3rd October, 2007, both days inclusive, are accordingly subject to the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or the Rights Shares in their nil-paid forms are recommended to consult their own professional advisers.

The Company will send the Rights Issue Documents to all Qualifying Shareholders by 19th September, 2007.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Rights Issue enables the Company to raise funds for the Acquisition. In the event that the Acquisition does not proceed, the proceeds will be used as general working capital and possible investments which have not yet been identified.

The estimated net proceeds of the Rights Issue is approximately HK\$162.6 million (assuming none of the outstanding Exercisable Share Options is exercised on or before the Record Date), which is intended to be used for the Acquisition.

ADJUSTMENT TO THE SHARE OPTIONS

Under the terms of the Share Option Scheme, adjustments to the exercise price or number of the options granted is required upon the completion of the Rights Issue. Such adjustment(s) will be set out in the Company’s announcement of results of acceptance of the Rights Issue. The adjustment(s) will be reviewed and confirmed by an independent financial adviser or the auditors of the Company.

GENERAL

As some of the applicable percentage ratios as referred to in Chapter 14 of the Listing Rules are more than 100%, the Acquisition together with the exercise of the Call Option constitutes a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules.

A circular containing, among other things, the details of the Acquisition, the Call Option, measures for addressing money laundering in relation to Ocho's junket business and a notice of SGM will be despatched to the Shareholders as soon as practicable. As no Shareholder has an interest in the Acquisition, Call Option and Rights Issue different from other Shareholders, no Shareholder will be required to abstain from voting at the SGM.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Consideration Shares I and Consideration Shares II.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in Shares on the Stock Exchange has been suspended from 9:30 a.m. on 17th August, 2007 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in Shares on the Stock Exchange with effect from 9:30 a.m. on 31st August, 2007.

At the time of suspension at 9:30 a.m. on 17th August, 2007, the terms of the Rights Issue had not been agreed and as such was not part of the reason for request for suspension at the time.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“Acceptance Date”	4:00 p.m. on Monday, 8th October, 2007 (or such other time or date as the Underwriter may agree in writing with the Company as the date for acceptance of, and payment for, the Rights Shares);
“Acquisition”	acquisition of the Sale Shares by the Company from the Vendor subject to and upon the terms and conditions of the Acquisition Agreement;
“Acquisition Agreement”	the agreement dated 16th August, 2007 entered into among the Company, Mr. Ng and Lucky State in respect of the Acquisition;
“associates”	has the meaning ascribed thereto in the Listing Rules;
“Best Mind”	Best Mind International Inc., a company incorporated in the British Virgin Islands and wholly owned by Lucky State;
“Board”	board of Directors;
“Business Day”	any day (other than Saturday), on which banks in Hong Kong are open for business;

“Call Option”	the option to be granted by the Vendor to the Company whereby the Company can require the Vendor to sell all of the remaining issued share capital of Best Mind to the Company or its nominee at an aggregate exercise price of HK\$516,900,000;
“Certificates I”	the certificates issued in connection with CN I;
“Certificates II”	the certificates issued in connection with CN II;
“Company” or “Purchaser”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange;
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Completion”	completion of the Acquisition;
“connected persons”	has the meaning ascribed thereto in the Listing Rules;
“Consideration Shares I”	140,000,000 Shares;
“Consideration Shares II”	96,333,333 Shares;
“Convertible Note I” or “CN I”	the 5% per annum interest bearing unsecured convertible note in the principal amount of HK\$196,000,000 due 2017;
“Convertible Note II” or “CN II”	the 5% per annum interest bearing unsecured convertible note in the principal amount of HK\$188,000,000 due 2017;
“Conversion Period I”	the period commencing from the date when Mr. Ng makes payment in full of: <ul style="list-style-type: none"> (1) the Ocho Profit guaranteed under the First Profit Guarantee and, if there is any shortfall between the Ocho Profit guaranteed under the First Profit Guarantee and the Ocho Profit actually received and/or receivable by Best Mind during the Second Relevant Period, the said shortfall, (2) the Ocho Profit guaranteed under the Second Profit Guarantee and, if there is any shortfall between the Ocho Profit guaranteed under the Second Profit Guarantee and the Ocho Profit actually received and/or receivable by Best Mind during the Second Relevant Period, the said shortfall,

up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date of the Convertible Note I;

“Conversion Period II”	the period commencing from the date when the Call Option is exercised and completed and up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date of the Convertible Note II;
“Conversion Price I”	the initial conversion price of HK\$0.30 per Conversion Share I, subject to adjustments pursuant to the terms of Convertible Note I;
“Conversion Price II”	the initial conversion price of HK\$0.30 per Conversion Share II, subject to adjustments pursuant to the terms of Convertible Note II;
“Conversion Shares I”	the Shares to be issued upon the exercise of the conversion rights in respect of Convertible Note I;
“Conversion Shares II”	the Shares to be issued upon the exercise of the conversion rights in respect of Convertible Note II;
“Director(s)”	director(s) of the Company;
“Dorest”	Dorest Company Limited, a company incorporated in Hong Kong with limited liability which is beneficially owned as to 60% by Ms. Chen Ming Yin, Tiffany through Porterstone and as to 40% by Mr. Heung Wah Keung;
“EAF(s)”	the forms of application for excess Rights Shares;
“Excepted Shares”	240,000 Shares beneficially owned by Dorest but held in the name of C. A. Pacific Finance Limited, which is in liquidation;
“Excluded Shareholders”	Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date and whose addresses as shown on such register are outside Hong Kong where the Directors, based on legal opinions provided by 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;

“Exercisable Share Options”	outstanding Share Options that are exercisable on or before the Record Date in accordance with the terms of the Share Option Scheme, excluding the outstanding Share Options entitled by Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany who undertake not to exercise on or before the Record Date);
“First Profit Guarantee”	the guarantee provided by Mr. Ng under the Profit Agreement that the Ocho Profit for the First Relevant Period will not be less than HK\$264,000,000;
“First Relevant Period”	the period from 17th August, 2007 to 31st December, 2008;
“Full Profit Guarantee”	means the aggregate HK\$384,000,000 guarantee of the Ocho Profit of Best Mind by Mr. Ng to Best Mind for the period from 17th August, 2007 to 16th August, 2009, pursuant to the Profit Agreement;
“Grand Lisboa Casino”	a luxury hotel and entertainment complex located at Avenida de Lisboa, Macau and owned by Sociedade de Jogos de Macau, Grand Lisboa features 650 guest rooms and suites; five floors of gaming with over 240 gaming tables and 480 slot machines; six gourmet restaurants and a rich array of entertainment facilities;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party”	to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, third parties who are independent of and not connected with the Company or connected persons of the Company;
“Junket Representative Agreement”	the junket representative agreement dated 15th August, 2007 entered into between Sociedade de Jogos de Macau S.A., an Independent Third Party, and Ocho;
“Kingston”	Kingston Securities Limited, a licensed corporation to carry on regulated activities 1, 3 and 4 for the purpose of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Lucky State” or “Vendor”	Lucky State Group Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Ng;

“Macau”	Macau Special Administrative Region of the PRC;
“Mr. Ng “	Mr. Ng Cheuk Fai, an Independent Third Party;
“Non-negotiable Chips”	also known as rolling chips or dead chips. These chips cannot be converted into cash or negotiable chips nor can they be redeemed for other goods and services. These chips can only be bet in destined area of the casino. If the customer loses, these chips go to the casino. If the customer wins, he or she is paid the winnings and the amount bet in negotiable chips. The design of these chips are different from the negotiable chips and hence, the dealers and the cashiers of the casino can readily recognize them from negotiable chips;
“Noteholder”	holder of the Convertible Notes I and/or II (as the case may be);
“Ocho”	Ocho Sociedade Unipessoal Limitada, a company incorporated in Macau and which is engaged in the gaming promotion business, an Independent Third Party and wholly owned by Mr. Ng;
“Ocho Profit”	0.4% of the Rolling Turnover generated by Ocho and/or its customers at the Ocho VIP Club pursuant to the Junket Representative Agreement and such other VIP gaming rooms whereby Ocho is a duly appointed junket representative or such other VIP gaming rooms whereby Ocho can procure the sale/assignment of a percentage of Rolling Turnover generated by the duly appointed junket representatives;
“Ocho VIP Club”	one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau and currently has 10 baccarat gaming tables;
“Option Shares”	the balance 49 shares of US\$1.00 each in the issued share capital of Best Mind held by the Vendor;
“PAL(s)”	the provisional allotment letters;
“Porterstone”	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Ms. Chen Ming Yin, Tiffany. Accordingly, Mr. Heung Wah Keung, the husband of Ms. Chen Ming Yin, Tiffany, is deemed to be interested in the Shares held by Porterstone;
“Posting Date”	Wednesday, 19th September, 2007 or such other date as the Underwriter may agree in writing with the Company for the despatch of the Rights Issue Documents;

“PRC”	The People’s Republic of China which for the purpose of this announcement excluding Hong Kong, Macau and Taiwan;
“Profit Agreement”	the agreement dated 16th August, 2007 entered into between Best Mind as purchaser, Mr. Ng as a vendor and Ocho in relation to acquisition of 100% interest of the Ocho Profit;
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue;
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company as at the close of business on the Record Date, other than those Excluded Shareholders;
“Record Date”	Tuesday, 18th September, 2007, the record date to determine entitlements to the Rights Issue;
“Rights Issue”	the issue of not less than 843,769,024 Rights Shares and not more than 940,393,799 Rights Shares at the Subscription Price on the basis of one Rights Share for every two existing Shares held on the Record Date;
“Rights Issue Documents”	the Prospectus, the PALs and the EAFs;
“Rights Share(s)”	new Share(s) to be allotted and issued in respect of the Rights Issue;
“Rolling Turnover”	the value of Non-negotiable Chips acquired by Ocho on behalf of its customers less the value of Non-negotiable Chips redeemed by Ocho on behalf of its customers;
“Sale Shares”	51 ordinary shares of US\$1.00 each in the issued share capital of Best Mind;
“Settlement Date”	Monday, 15th October, 2007, the date being the fifth business day following Monday, 8th October, 2007 being the latest time for acceptance of, and payment for, Rights Shares (or such other time or date as the Underwriter and the Company may agree in writing);
“Second Profit Guarantee”	the guarantee provided by Mr. Ng under the Profit Agreement that the Ocho Profit for the Second Relevant Period will not be less than HK\$120,000,000;
“Second Relevant Period”	the period from 1st January, 2009 to 16th August, 2009 in respect of the Second Profit Guarantee under the Profit Agreement;

“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisition, and the transactions contemplated thereunder;
“Share Options”	options granted by the Company under the Share Option Scheme;
“Share Option Scheme”	the new share option scheme adopted by the Company on 27th May, 2002 and the old share option scheme adopted by the Company on 23rd October, 1996 and terminated on 27th May, 2002;
“Shares”	ordinary share(s) of HK\$0.05 each in the issued and unissued share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Price”	the subscription price of HK\$0.20 per Rights Share;
“Substantial Shareholders”	Dorest Company Limited, Porterstone Limited, Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany, being the substantial shareholders of the Company;
“Underwriter”	Kingston Securities Limited;
“Underwriting Agreement”	the underwriting agreement dated 17th August, 2007 entered into between the Company and the Underwriter in relation to the Rights Issue;
“Underwritten Shares”	all the Rights Shares being not less than 684,289,319 Rights Shares and not more than 780,914,094 Rights Shares;
“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 30th August, 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. Leung Hok Man.