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## **CHINA STAR ENTERTAINMENT LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 326)

### **VERY SUBSTANTIAL ACQUISITION AND RESUMPTION OF TRADING**

#### **THE SALE AND PURCHASE AGREEMENT**

The Company, the Vendor and Mr. Ng have entered into the Sale and Purchase Agreement on 5th October, 2007 (after trading hours). Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Shares, representing 49% 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\$516,900,000 to be satisfied as to HK\$300,000,000 in cash, HK\$188,000,000 by the issue of the Convertible Note and the balance of HK\$28,900,000 by the allotment and issue of the Consideration Shares credited as fully paid.

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

#### **DEED OF VARIATION**

Pursuant to the Deed of Variation, the parties to the Acquisition Agreement have agreed to vary the Acquisition Agreement by cancelling the Call Option.

#### **RISK FACTORS OF GAMING PROMOTION 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.

## **GENERAL**

As some of the applicable percentage ratios as referred to in Chapter 14 of the Listing Rules are more than 100%, the Acquisition 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 together with the notice of SGM will be despatched to the Shareholders as soon as practicable.

**Shareholders should refer to the Company's announcement dated 30th August, 2007 for details of the Initial Acquisition. As at the date of this announcement, the Initial Acquisition has not yet been completed.**

## **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 8th October, 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 11th October, 2007.

## **THE SALE AND PURCHASE AGREEMENT**

<b>Date</b>	:	5th October, 2007 (after trading hours)
<b>Parties</b>	:	
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 Vendor 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 Sale and Purchase Agreement (the terms of which are essentially the same as those in the Initial Acquisition including the pricing), the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Shares, representing 49% 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\$516,900,000. 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 to be paid within 45 days from the date of signing of the Sale and Purchase Agreement;
- (ii) a refundable amount of HK\$50,000,000 to be paid upon the despatch of the circular to Shareholders relating to the Sale and Purchase Agreement and the transactions contemplated therein;
- (iii) HK\$50,000,000 in cash upon Completion;
- (iv) HK\$188,000,000 by the issue of the Convertible Note by the Company on Completion; and
- (v) the balance of HK\$28,900,000 by the allotment and issue of the Consideration Shares 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. It is not yet determined whether financing will be equity or debt or a combination of both.

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 Sale and Purchase Agreement for whatever reason. No collateral is taken from the Vendor with respect to the placing of the deposit by 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, the Initial Acquisition 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 Dore Holdings Limited). 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 Sale and Purchase 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 Sale and Purchase Agreement remaining true and accurate and not misleading at Completion as if repeated at Completion and at all times between the date of the Sale and Purchase Agreement and Completion;
- (E) the passing by the Shareholders at the SGM approving the Sale and Purchase Agreement, the issue of the Convertible Note, the allotment and issue of Shares upon conversion of the CN and the allotment and issue of the Consideration Shares;
- (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 and the Consideration Shares; and
- (H) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of the Conversion Shares and the Consideration Shares.

#### **Certificates 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 on and subject to such terms and conditions of an escrow letter as may be agreed between the parties to the Sale and Purchase Agreement and such escrow agent, and in particular a term to the effect that the Certificates (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**

	<b>Ocho Profit</b> <i>(in HK\$)</i>	<b>Amount of Convertible Note to be released</b> <i>(in HK\$)</i>
– period from 17.08.2007 to 31.12.2007	72,000,000	35,250,000
– quarter ending 31.03.2008	48,000,000	23,500,000
– quarter ending 30.06.2008	48,000,000	23,500,000
– quarter ending 30.09.2008	48,000,000	23,500,000
– quarter ending 31.12.2008	48,000,000	23,500,000
	<hr/>	<hr/>
Total	<u>264,000,000</u>	<u>129,250,000</u>

## Second Relevant Period

	<b>Ocho Profit</b> <i>(in HK\$)</i>	<b>Amount of Convertible Note to be released</b> <i>(in HK\$)</i>
– quarter ending 31.03.2009	48,000,000	23,500,000
– quarter ending 30.06.2009	48,000,000	23,500,000
– period from 01.07.2009 to 16.08.2009	24,000,000	11,750,000
	<hr/>	<hr/>
Total	<u>120,000,000</u>	<u>58,750,000</u>

To the extent that the Ocho Profit for the relevant period is not met/attained by Ocho, the relevant Certificates 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 fully received by Best Mind (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 the Convertible Note, the Vendor shall return the outstanding Convertible Note to the Company and the Company shall not be obliged to pay any outstanding sums under the Convertible Note.

It is a term of the Convertible Note that upon release of the relevant Certificates, conversion of the Convertible Note shall be permitted provided that the percentage shareholding of the Company's issued share capital held by the relevant noteholders at such time 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 the Convertible Note 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 Sale and Purchase Agreement having been fulfilled or waived and at the same time as the completion of the Initial Acquisition.

### **TERMS OF THE CONVERTIBLE NOTE**

The terms of Convertible Note 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 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 . Unless previously redeemed (if applicable), converted or cancelled in accordance with the instrument, the Company shall redeem the outstanding principal amount of Convertible Note on the maturity date.

#### **Conversion**

The Noteholder may at any time during Conversion Period convert the whole or part (in multiples of HK\$1,000,000) of the principal amount of Convertible Note into new Shares at the Conversion Price.

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

Under the respective terms of Convertible Note, the Noteholder cannot convert Convertible Note or part thereof if upon the exercise of the conversion rights under Convertible Note, 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 conversion.

### **Conversion Price**

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

The adjustments for Conversion Price 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 on the date of the announcement of the terms of such issue.

Conversion Price represents (i) a premium of approximately 38.25% over the closing price of HK\$0.217 per Share as quoted on the Stock Exchange on 5th October, 2007, being the date immediately prior to the date of the suspension of trading in the Shares; (ii) a premium of approximately 42.18% over the average of the closing prices of approximately HK\$0.211 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 5th October, 2007, being the date immediately prior to the date of the suspension of trading in the Shares; (iii) a premium of approximately 37.61% to the average of the closing prices of HK\$0.218 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 5th October, 2007, being the date immediately prior to the date of the suspension of trading in the Shares.

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

### **Conversion Shares**

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Note in the aggregate principal amount of HK\$188,000,000 at the Conversion Price by the Noteholder, the Company will allot and issue an aggregate of 626,666,666 new Shares, representing approximately (i) 31.93% of the existing issued share capital of the Company, and (ii) 24.21% of the issued share capital of the Company as enlarged by the exercise in full of the conversion rights attaching to Convertible Note . The Conversion Shares 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 (in whole or in part) at par.

### **Ranking**

Conversion Shares, 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 .

### **Status of the Convertible Note**

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



### **Cancellation of the Convertible Note or deduction from the outstanding sum**

The Company has right to cancel the Convertible Note or deduct the shortfall from the outstanding sum under Convertible Note 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 the Convertible Note, the Vendor shall return the outstanding Convertible Note (without interest) to the Company and the Company shall not be obliged to pay any outstanding sums under Convertible Note.

### **Application for listing and miscellaneous**

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

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 the Convertible Note by connected persons of the Company.

### **DEED OF VARIATION**

Pursuant to the Deed of Variation, the parties to the Acquisition Agreement have agreed to vary the Acquisition Agreement by cancelling the Call Option.

## CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The effect on the shareholding upon completion of the Initial Acquisition, the Acquisition and assuming the full conversion of the Convertible Note and Convertible Note I is illustrated in different scenarios as below:

### Scenario I – Assuming no Shares are allotted and issued under the Placing and the Rights Issue

	As at the date of this announcement		Upon completion of the Initial Acquisition		Upon completion of the Initial Acquisition and the Acquisition		Upon completion of the Initial Acquisition and the Acquisition and assuming full conversion of the Convertible Note and the Convertible Note I (Note )		Upon completion of the Initial Acquisition and the Acquisition and assuming full conversion of the Convertible Note and the Convertible Note I and the Vendor is restricted to be interested in less than 30% of the issued share capital of the Company	
	Shares	%	Shares	%	Shares	%	Shares	%	Shares	%
Porterstone	243,150,000	12.39	243,150,000	11.56	243,150,000	11.06	243,150,000	6.99	243,150,000	8.67
Dorest	18,510,000	0.94	18,510,000	0.88	18,510,000	0.84	18,510,000	0.53	18,510,000	0.66
Mr. Heung Wah Keung	36,395,000	1.86	36,395,000	1.73	36,395,000	1.66	36,395,000	1.05	36,395,000	1.30
Ms. Chen Ming Yin, Tiffany	21,144,410	1.08	21,144,410	1.01	21,144,410	0.96	21,144,410	0.61	21,144,410	0.76
Sub-total	319,199,410	16.27	319,199,410	15.18	319,199,410	14.52	319,199,410	9.18	319,199,410	11.39
Ms. Li Yuk Sheung, a Director	16	0.00	16	0.00	16	0.00	16	0.00	16	0.00
Public Shareholders:										
The Vendor	0	0.00	140,000,000	6.66	236,333,333	10.75	1,516,333,332	43.59	840,597,400	29.99
Other public Shareholders	1,643,128,623	83.73	1,643,128,623	78.16	1,643,128,623	74.73	1,643,128,623	47.23	1,643,128,623	58.62
	<u>1,962,328,049</u>	<u>100.00</u>	<u>2,102,328,049</u>	<u>100.00</u>	<u>2,198,661,382</u>	<u>100.00</u>	<u>3,478,661,381</u>	<u>100.00</u>	<u>2,802,925,449</u>	<u>100.00</u>

**Scenario II – Assuming all Shares are allotted and issued under the Placing and the Rights Issue**

	<b>Upon completion of the Initial Acquisition and Acquisition, and assuming completion of the Rights Issue and the Placing</b>		<b>Upon completion of the Initial Acquisition and the Acquisition and assuming completion of the Rights Issue and the Placing, and assuming full conversion of the Convertible Note and the Convertible Note I</b>	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
Porterstone	364,725,000	4.54	364,725,000	3.91
Dorest	27,645,000	0.34	27,645,000	0.30
Mr. Heung Wah Keung	54,592,500	0.68	54,592,500	0.59
Ms. Chen Ming Yin, Tiffany	31,716,615	0.39	31,716,615	0.34
Sub-total	478,679,115	5.95	478,679,115	5.14
Ms. Li Yuk Sheung, a Director	16	0.00	16	0.00
Public Shareholders:				
The Vendor	236,333,333	2.94	1,516,333,332	16.27
Other public Shareholders	2,327,417,942	28.94	2,327,417,942	24.96
Places under Placing	5,000,000,000	62.17	5,000,000,000	53.63
	<u>8,042,430,406</u>	<u>100.00</u>	<u>9,322,430,405</u>	<u>100.00</u>

*Note: This is for illustration only. The Vendor is restricted to be interested in less than 30% of the issued share capital of the Company.*

**As at the date of this announcement, there are 195,267,625 outstanding share options of the Company entitling holders thereof to subscribe for 195,267,625 Shares granted under the share option schemes of the Company and there are no convertible notes outstanding.**

## **SERVICE AGREEMENT**

Upon Completion, 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 performance of Ocho for the period from 17th August, 2007 (being the opening date of Ocho VIP Club) to 16th September, 2007; (iii) reviewed the Macanese legal opinion on the legality and validity of the Profit Agreement; and (iv) 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 Gaming Promotion 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**

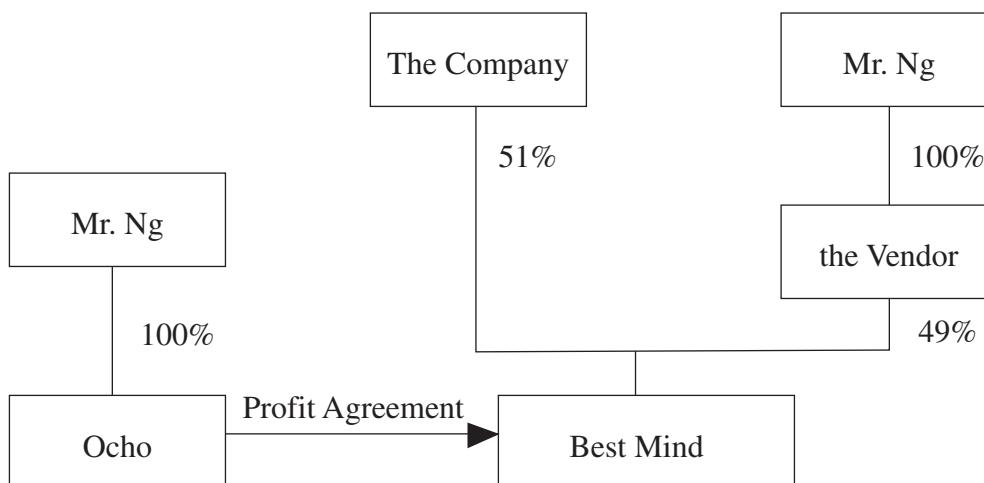
There are the following risk factors in relation to the gaming promotion business (commonly referred to as the junket business) operated by Ocho:

- (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 cease 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.

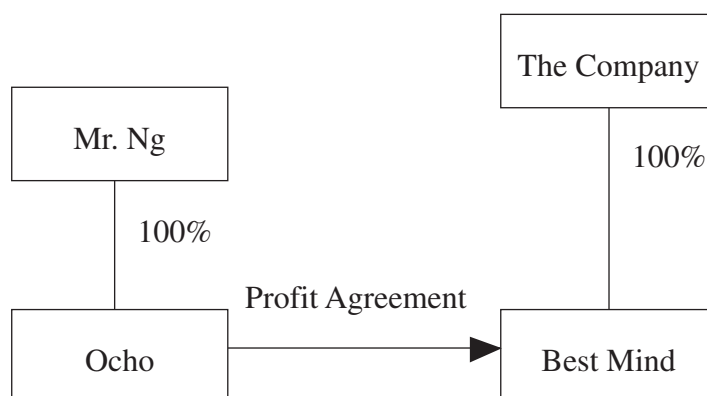
- (4) As the Ocho Profit is sourced from Rolling Turnover generated or to be generated by Ocho and/or its customers, there is a risk that the source of the Ocho Profit will cease if the junket licence of Ocho cannot be renewed.
- (5) The appointment of Ocho may be terminated at any time by the Grand 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 (assuming completion of the Initial Acquisition):



The diagram below shows the shareholding structure of the relevant entities immediately after Completion (assuming completion of the Initial Acquisition):



## **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 unaudited total assets value of Best Mind as at 30th September, 2007 was HK\$35,553,000. During 6th July, 2007 (date of incorporation) to 30th September, 2007, Best Mind recorded a net profit of HK\$35,552,000.

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 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 hotel following the disposal of Kingsway Hotel Limited to Riche Multi-Media Holdings Limited as per the Company's announcement dated 8th August, 2007 and the Company's circular dated 9th October, 2007.

**In view of the recent booming economy of Macau, the prospects of Macau's gaming business and the entering into of the Initial Acquisition, the Directors believe that the Acquisition will further broaden the Group's revenue sources and provide a stable income stream to the Group. Furthermore, Mr. Ng has provided to Best Mind and the Company the Junket Representative Settlement Forms and Purchase of Non-negotiable Chips Statements for the months of August and September 2007. It can be ascertained that the Rolling Turnover achieved by Ocho for the period from 17th August, 2007 (date of opening of the Ocho VIP Club) to 30th September, 2007 amounted to approximately HK\$8,888,000,000, or a monthly average Rolling Turnover of approximately HK\$5,925,000,000. Pursuant to the Profit Agreement, Best Mind recorded a net profit of HK\$35,552,000 (i.e. HK\$8,888,000,000 x 0.4%), or a monthly average net profit of approximately HK\$23,700,000.**

**It should be noted and as disclosed in the Company's announcement dated 30th August, 2007 that Mr. Ng had guaranteed to Best Mind that the Ocho Profit for the First Relevant Period shall not be less than HK\$264,000,000. As the First Relevant Period covers a period of approximately 16.5 months, this translates into a monthly Ocho Profit of HK\$16,000,000 (i.e. HK\$264,000,000 ÷ 16.5 = HK\$16,000,000). The average monthly net profit of Best Mind well exceeded the monthly guaranteed Ocho Profit by approximately 48%.**

**The Directors have considered the outstanding performance of Ocho during the Relevant Month as evidenced by the Rolling Turnover for such period and have decided that the entering into of the Sale and Purchase Agreement and the cancellation of the Call Option is in the interests of Shareholders and the Company as a whole as it would enable the Company to immediately capture the full Ocho Profit.**

**Accordingly, the Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.**

**The completion of the Initial Acquisition is still subject to approval by Shareholders in general meeting to be convened.**

#### **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 11th 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.

## **GENERAL**

As some of the applicable percentage ratios as referred to in Chapter 14 of the Listing Rules are more than 100%, the Acquisition 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, and a notice of SGM will be despatched to the Shareholders as soon as practicable. As no Shareholder has an interest in the Acquisition, 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.

## **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 8th October, 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 11th October, 2007.

## **DEFINITIONS**

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

“Acquisition Agreement”	the agreement dated 16th August, 2007 entered into among the Company, Mr. Ng and Lucky State in respect of the acquisition of 51 ordinary shares of US\$1.00 each in the issued share capital of Best Mind;
“Acquisition”	the proposed acquisition of the Sale Shares by the Company from the Vendor subject to and upon the terms and conditions of the Sale and Purchase Agreement;
“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 49% of the issued share capital of Best Mind to the Company or its nominee at an aggregate exercise price of HK\$516,900,000 pursuant to the Acquisition Agreement;
“Certificates”	the certificates issued in connection with CN;
“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;
“Completion”	completion of the Acquisition;
“connected persons”	has the meaning ascribed thereto in the Listing Rules;
“Consideration Shares”	96,333,333 Shares to be allotted and issued by the Company to the Vendor upon Completion;
“Convertible Note” or “CN”	the 5% per annum interest bearing unsecured convertible note in the principal amount of HK\$188,000,000 due 2017;
“Convertible Note I”	the convertible note in the principal amount of HK\$196,000,000 due 2017 to be issued pursuant to the Acquisition Agreement
“Conversion Period”	the period commencing from the date when Mr. Ng makes payment in full of: <ol style="list-style-type: none"> <li>(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 First Relevant Period, the said shortfall,</li> <li>(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,</li> </ol> <p>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;</p>

“Conversion Price”	the initial conversion price of HK\$0.30 per Conversion Share, subject to adjustments pursuant to the terms of the Convertible Note;
“Conversion Shares”	the Shares to be issued upon the exercise of the conversion rights in respect of the Convertible Note;
“Deed of Variation”	the deed of variation dated 5th October, 2007 relating to the Acquisition Agreement;
“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;
“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;
“Initial Acquisition”	the proposed acquisition of 51% interest in Best Mind by the Company from the Vendor subject to and upon the terms and conditions of the Acquisition Agreement;

“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;
“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 Note;
“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;
“Placing”	the placing for up to a maximum of 5,000,000,000 new Shares on a best effort basis as announced by the Company on 7th September, 2007, which has not been completed as at the date of this announcement;

“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;
“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;
“Rights Issue”	the rights issue proposed by the Company as announced, inter alia, on 30th August 2007, which has closed but has not been completed as at the date of this announcement because the latest time for termination of the underwriting agreement in relation thereto is 4:00 p.m. on 15th October, 2007;
“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 and Purchase Agreement”	the agreement dated 5th October, 2007 entered into among the Company, Mr. Ng and Lucky State in respect of the Acquisition;
“Sale Shares”	49 ordinary shares of US\$1.00 each in the issued share capital of Best Mind;
“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;
“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;

“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 , 10th October, 2007

*As at the date of this announcement, the executive Directors 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.*