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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

PROPOSED ISSUE OF NEW SHARES

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On 4 January 2010 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber whereby the Company has conditionally agreed to allot and issue and the Subscriber has conditionally agreed to subscribe for 540,000,000 Subscription Shares at the Subscription Price of HK\$0.14 per Subscription Share.

The Subscription Price of HK\$0.14 represents (i) a discount of approximately 21.35% to the closing price of HK\$0.178 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 22.65% to the average closing price of approximately HK\$0.181 per Share as quoted on the Stock Exchange for the past five trading days up to and including the Last Trading Day; and (iii) a discount of approximately 20.90% to the average closing price of approximately HK\$0.177 per Share as quoted on the Stock Exchange for the past ten trading days up to and including the Last Trading Day.

The 540,000,000 Subscription Shares represent (i) approximately 23.51% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 19.04% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The gross proceeds and the net proceeds from the Proposed Issue will be approximately HK\$75.6 million and approximately HK\$75.4 million respectively. The net proceeds from the Proposed Issue are intended to be used for the Group's investment projects in Macau and general working capital of the Group.

The Proposed Issue is conditional upon the fulfillment of the conditions as set out in the section headed “Conditions Precedent” below. The Proposed Issue is subject to the Shareholders’ approval at the SGM.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, pass the relevant resolution(s) to approve the Subscription Agreement and the transactions contemplated thereunder.

GENERAL

A circular containing, among other things, details of (i) the Subscription Agreement and the transactions contemplated thereunder and (ii) a notice convening the SGM will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules.

Shareholders and potential investors should note that the Proposed Issue is subject to the conditions under the Subscription Agreement to be fulfilled. As the Proposed Issue may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

THE SUBSCRIPTION AGREEMENT

Date: 4 January 2010 (after trading hours)

Parties: The Company and the Subscriber

Subscriber

The Subscriber is principally engaged in investment holding. The Subscriber is a company beneficially owned as to 50% by Mr. Kwok Lung and as to 50% by Mr. Li Chi Lam. Each of Mr. Kwok Lung and Mr. Li Chi Lam has more than fifteen years of experience in securities and property investment in Mainland China and Hong Kong. Upon completion of the Proposed Issue, the Subscriber will become a strategic investor of the Company and a substantial Shareholder (as defined under the Listing Rules).

As at the date of this announcement, Yo Chen Limited, a company incorporated in Hong Kong with limited liability and beneficially owned as to 50% by Mr. Kwok Lung and as to 50% by Mr. Li Chi Lam, held 27,039,700 Shares. Save for the holding of 27,039,700 Shares by Yo Chen Limited, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Subscription Price

The Subscription Price of HK\$0.14 represents:

- (i) a discount of approximately 21.35% to the closing price of HK\$0.178 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 22.65% to the average closing price of approximately HK\$0.181 per Share as quoted on the Stock Exchange for the past five trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 20.90% to the average closing price of approximately HK\$0.177 per Share as quoted on the Stock Exchange for the past ten trading days up to and including the Last Trading Day.

Taking into account the reasons for the Proposed Issue as disclosed in the section headed “Reasons for the Proposed Issue” below and the attractiveness of the Shares to the Subscriber, the Board considers that a discount of the Subscription Price to the prevailing market price of the Shares offered to the Subscriber is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) consider that the terms of the Proposed Issue, which was negotiated on an arm’s length basis between the Company and the Subscriber with reference to the prevailing market price, are on normal commercial terms and are fair and reasonable.

Subscription Shares

As at the date of this announcement, there were 2,296,496,368 Shares in issue. Pursuant to the Subscription Agreement, 540,000,000 Subscription Shares will be allotted and issued by the Company to the Subscriber. The 540,000,000 Subscription Shares represent (i) approximately 23.51% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 19.04% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The allotment and issue of the Subscription Shares is subject to the Shareholders’ approval at the SGM.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Subscription Shares.

Ranking of the Subscription Shares

The Subscription Shares will rank, upon issue, *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Subscription Shares.

Conditions Precedent

Completion of the Subscription Agreement is conditional upon:

- (i) the Shareholders passing at the SGM to approve the Proposed Issue and the transactions contemplated under the Subscription Agreement including the allotment and issue of the Subscription Shares;
- (ii) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Subscription Shares;
- (iii) trading in the Shares on the Stock Exchange not being suspended for a period of more than seven consecutive trading days in the period of 21 days immediately preceding the completion of the Subscription Agreement excluding any suspension for the purposes of clearing any announcement and circular in relation to the Proposed Issue by the regulatory authorities;
- (iv) trading in the Shares on Stock Exchange not being revoked or withdrawn at any time prior to the completion of the Subscription Agreement;
- (v) there being no indication being received from the Stock Exchange or the Securities and Futures Commission of Hong Kong that the listing of the Shares on the Stock Exchange will be suspended, revoked or withdrawn at any time after the completion of the Subscription Agreement, whether in connection with any of the transactions contemplated under the Subscription Agreement or otherwise;
- (vi) completion of the due diligence review to be conducted and that the results of such due diligence review have not revealed or disclosed any matter, fact or circumstance which constitutes or is likely to constitute any material breach of any of the warranties or other provisions of the Subscription Agreement by the Company;
- (vii) the warranties remaining true, accurate in all material respects;
- (viii) all necessary consents and approvals as may be required to be obtained on the part of the Company in respect of the Proposed Issue and the transactions contemplated under the Subscription Agreement having been obtained by the Company; and
- (ix) the Bermuda Monetary Authority approving the allotment and issue of the Subscription Shares pursuant to the Subscription Agreement, if necessary.

Completion of the Proposed Issue

Completion of the Proposed Issue will take place within three Business Days after the fulfillment of the conditions as set out in the Subscription Agreement on or before 3 June 2010 or such other later date as the Company and the Subscriber may from time to time agree in writing.

APPOINTMENT OF ONE DIRECTOR NOMINATED BY THE SUBSCRIBER

The Board has agreed with the Subscriber that, upon completion of the Subscription Agreement, the Subscriber may nominate one Director to the Board subject to the Board's approval. Further announcement will be made by the Company when the appointment of the Director nominated by the Subscriber takes place.

REASONS FOR THE PROPOSED ISSUE

Given the Group has returned to profitability by investing in gaming and entertainment business and hotel operation in Macau, the Group is in the progress of expanding its business activities into property investment in Macau. The Board considers that the introducing of a substantial Shareholder (as defined under the Listing Rules) with extensive experience in property investment and a strong business connections in Mainland China and Hong Kong by way of the Proposed Issue to the Company will not only strengthen the financial position of the Group, but also bring in variable experience and/or advices in further developing the Group's existing businesses in Macau in the long run. In addition, the Board also considers that the appointment of a Director nominated by the Subscriber, if so approved by the Board, will have a positive impact on the Board and management of the Group.

Based on the above reasons, the Board is of the view the Proposed Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

Based on the estimated expenses of approximately HK\$200,000 for the Proposed Issue, the gross proceeds and net proceeds from the Proposed Issue will be approximately HK\$75.6 million and approximately HK\$75.4 million respectively. The net price per Subscription Share is approximately HK\$0.1396.

The net proceeds from the Proposed Issue of approximately HK\$75.4 million are intended to be used for the Group's investment projects in Macau and general working capital of the Group.

EFFECTS ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company as at the date of this announcement and the effects on the shareholding structure of the Company upon completion of the Proposed Issue is set out as below:

Name of Shareholders	As at the date of this announcement		Upon completion of the Proposed Issue	
	Shares	Approximate %	Shares	Approximate %
China Star Investment Holdings Limited	680,000,000	29.61	680,000,000	23.97
Dorest (Note 1)	137,025	0.01	137,025	0.01
Sub-total	680,137,025	29.62	680,137,025	23.98
The Subscriber	–	–	540,000,000	19.04
Yo Chen Limited (Note 2)	27,039,700	1.18	27,039,700	0.95
Sub-total	27,039,700	1.18	567,039,700	19.99
Public Shareholders	1,589,319,643	69.20	1,589,319,643	56.03
Total	<u>2,296,496,368</u>	<u>100.00</u>	<u>2,836,496,368</u>	<u>100.00</u>

Notes:

1. The Shares held by Dorest are under a charging order.
2. Yo Chen Limited is beneficially owned as to 50% by Mr. Kwok Lung and as to 50% by Mr. Li Chi Lam.

FUND RAISING ACTIVITIES CONDUCTED BY THE COMPANY IN THE PAST 12 MONTHS IMMEDIATELY PRECEDING THE DATE OF THIS ANNOUNCEMENT

Set out below are the fund raising activities conducted by the Company in the past 12 months immediately preceding the date of this announcement.

Date of announcement	Events	Amount raised	Intended usage	Actual usage
12 May 2009	Placing of 800,000,000 new Shares at HK\$0.20 per Share	Approximately HK\$158 million	To finance the hotel operation and for general working capital of the Group	The net proceeds will be used as intended
16 July 2009	Placing of 207,900,000 new Shares at HK\$0.22 per Share	Approximately HK\$45.238 million	For general working capital of the Group	The net proceeds has been fully utilised as intended
27 July 2009	Issue of convertible bond in the principal amount of HK\$200 million conferring rights to convert into 1,000,000,000 Shares at an initial conversion price of HK\$0.20	Approximately HK\$200 million	For repayment of outstanding loan advanced by China Star Investment Holdings Limited	The net proceeds has been fully utilised as intended

SGM

The SGM will be convened and held for the purpose of considering and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder. As Mr. Kwok Lung and Mr. Li Chi Lam have a material interest in the Subscription Agreement, Mr. Kwok Lung and Mr. Li Chi Lam and their respective associates (including Yo Chen Limited) shall abstain from voting in respect of the Subscription Agreement and the transactions contemplated thereunder at the SGM. Save for Mr. Kwok Lung and Mr. Li Chi Lam and their respective associates (including Yo Chen

Limited), to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no other Shareholder is required to abstain from voting at the SGM.

GENERAL

The Group is principally engaged in film production, distribution of film and television drama series, investing in operations which receive the profit streams from the gaming promotion business and property and hotel investment.

A circular containing, among other things, details of (i) the Subscription Agreement and the transactions contemplated thereunder and (ii) a notice convening the SGM will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules.

Shareholders and potential investors should note that the Proposed Issue is subject to the conditions under the Subscription Agreement to be fulfilled. As the Proposed Issue may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

TERMS USED IN THIS ANNOUNCEMENT

In this announcement, unless the context otherwise required, the following terms and expressions shall have the following meanings when used herein.

“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, a Sunday or days on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the issued Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors 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, an executive Director, through Porterstone Limited and as to 40% by Mr. Heung Wah Keung, an executive Director
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Last Trading Day”	4 January 2010, being the date of the Subscription Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Proposed Issue”	the proposed allotment and issue of the 540,000,000 Subscription Shares by the Company to the Subscriber pursuant to the Subscription Agreement
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the issued Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Skylight Property Ltd., a company incorporated in the British Virgin Islands with limited liability and beneficially owned as to 50% by Mr. Kwok Lung and as to 50% by Mr. Li Chi Lam
“Subscription Agreement”	a conditional agreement entered into between the Company and the Subscriber dated 4 January 2010 relating to the allotment and issue of 540,000,000 new Shares at a price of HK\$0.14 by the Company to the Subscriber
“Subscription Price”	HK\$0.14 per Subscription Share

“Subscription Share(s)”	540,000,000 new Shares to be subscribed by the Subscriber pursuant to the Subscription Agreement
“SGM”	the special general meeting of the Company to be convened to consider, if thought fit, and approve the Subscription Agreement and the transactions contemplated thereunder
“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, 4 January 2010

As at the date of this announcement, the Board comprises three executive Directors namely, Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Luk Sheung; and three independent non-executive Directors namely, Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man.