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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

RIGHTS ISSUE OF NOT LESS THAN 1,444,643,184 RIGHTS SHARES AND NOT MORE THAN 1,925,410,126 RIGHTS SHARES ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE

Financial adviser to China Star Entertainment Limited



KINGSTON CORPORATE FINANCE LIMITED



Underwriter to the Rights Issue

KINGSTON SECURITIES LIMITED

THE RIGHTS ISSUE

The Company proposes to raise approximately HK\$144.46 million (assuming no subscription rights attaching to the Options and the Warrants are exercised on or before the Record Date) to approximately HK\$192.54 million (assuming full exercise of the subscription rights attaching to the Options and the Warrants on or before the Record Date) before expenses by way of the Rights Issue of not less than 1,444,643,184 Rights Shares (assuming no subscription rights attaching to the Options and the Warrants are exercised on or before the Record Date) and not more than 1,925,410,126 Rights Shares (assuming full exercise of the subscription rights attaching to the Options and the Warrants on or before the Record Date) at the Subscription Price of HK\$0.10 per Rights Share on the basis of one Rights Share for every two Shares held on the Record Date.

Pursuant to the Rights Issue, the Qualifying Shareholders will be provisionally allotted one Rights Share (in nil-paid form) for every two Shares held on the Record Date. Qualifying Shareholders may apply for any Rights Shares not taken up by the other Qualifying Shareholders under the Rights Issue through excess applications.

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and not be a Prohibited Shareholder. In order to be registered as members of the Company on the Record Date, all transfers of Shares must be lodged for registration with the Registrar by 4:30 p.m. on Thursday, 15 July 2010. The register of members of the Company will be closed from Friday, 16 July 2010 to Tuesday, 20 July 2010, both dates inclusive, to determine the eligibility of the Rights Issue.

As at the date of this announcement, Porterstone is interested in 141,270,000 Shares, representing approximately 4.889% of the existing issued share capital of the Company, and an amount of HK\$5,453,022 Warrants which entitles it to subscribe for 28,254,000 new Shares. Pursuant to the Underwriting Agreement, Porterstone has given an irrevocable undertaking in favour of the Company and the Underwriter (a) to accept or procure the acceptance for the Rights Shares, being not less than 70,635,000 Rights Shares and not more than 84,762,000 Rights Shares (if the Warrants held by Porterstone being exercised in full on or before the Record Date) to which Porterstone is entitled to under the Rights Issue; and (b) to lodge the provisional allotment letter(s) in respect of the Rights Shares accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.

The Underwriter has conditionally agreed to underwrite the Rights Shares which have not been taken up, other than those Rights Shares undertaken to be accepted by Porterstone by way of its rights entitlement. Accordingly, the Rights Issue is fully underwritten.

The estimated net proceeds from the Rights Issue will be not less than approximately HK\$141.46 million and not more than HK\$189.54 million pursuant to the Rights Issue. The Board intends to apply the proceeds from the Rights Issue for reducing the Group's bank borrowing and financing hotel operation of the Group or general working capital of the Group. Accordingly, the net price per Rights Share would be approximately HK\$0.098.

The Company will send the Prospectus Documents to the Qualifying Shareholders and the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders on Wednesday, 21 July 2010.

WARNING OF THE RISK OF DEALINGS IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed “Termination of the Underwriting Agreement” below). Accordingly, the Rights Issue may or may not proceed.

The last day of dealings in the Shares on a cum-rights basis is Tuesday, 13 July 2010. The Shares will be dealt with on an ex-rights basis from Wednesday, 14 July 2010. The Rights Shares are expected to be dealt in their nil-paid form from Friday, 23 July 2010 to Friday, 30 July 2010, both days inclusive. Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Wednesday, 14 July 2010 and that dealing in Shares and nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled.

Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be 4:00 p.m. on Monday, 9 August 2010) and dealing in nil-paid Rights Shares between Friday, 23 July 2010 to Friday, 30 July 2010 (both days inclusive), will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares and/or nil-paid Rights Shares should exercise extreme caution when dealing in the Shares and/or nil-paid Rights Shares, and if they are in any doubt about their position, they are recommended to consult his/her/its own professional adviser.

THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	One (1) Rights Share for every two (2) Shares held on the Record Date
Subscription Price:	HK\$0.10 per Rights Share
Number of Shares in issue as at the date of this announcement:	2,889,286,368 Shares
Number of enlarged Shares in issue assuming all the outstanding Options and the Warrants are exercised in full from the date of this announcement to the Record Date:	3,850,820,252 Shares

Number of Rights Shares:	Not less than 1,444,643,184 Rights Shares and not more than 1,925,410,126 Rights Shares
Number of Rights Shares underwritten by the Underwriter:	Not less than 1,374,008,184 Rights Shares and not more than 1,840,648,126 Rights Shares
Number of enlarged Shares in issue upon completion of the Rights Issue:	Not less than 4,333,929,552 Shares and not more than 5,776,230,378 Shares
Number of Rights Shares undertaken to be taken up by Porterstone:	Not less than 70,635,000 Rights Shares and not more than 84,762,000 Rights Shares (if the Warrants held by Porterstone being exercised in full on or before the Record Date)

As at the date of this announcement, the Company has (a) 383,676,611 outstanding Options entitling the holders thereof to subscribe for 383,676,611 Shares; and (b) an amount of HK\$111,526,453.69 outstanding Warrants entitling the holders thereof to subscribe for 577,857,273 Shares (subject to adjustments). Save for the Options and the Warrants, the Company has no other outstanding warrants, options or convertible securities as at the date of this announcement.

Under the Rights Issue, based on the existing share capital of the Company and assuming no further Shares will be issued and repurchased by the Company on or before the Record Date, the nil-paid Rights Shares to be provisionally allotted and issued pursuant to the terms of the Rights Issue represent 50% of the existing issued share capital of the Company as at the date of the Underwriting Agreement and approximately 33.33% of the issued share capital of the Company as enlarged by the Rights Shares immediately after the completion of the Rights Issue.

The aggregate nominal value of the Rights Shares will be not less than HK\$14,446,431.84 and not more than HK\$19,254,101.26.

The Rights Issue is not subject to Shareholders' approval under the Listing Rules. The Underwriter has conditionally agreed to underwrite the Rights Shares which have not been taken up, other than those Rights Shares undertaken to be accepted by Porterstone by way of its rights entitlement. Accordingly, the Rights Issue is fully underwritten.

Undertaking given by Porterstone

As at the date of this announcement, Porterstone is interested in 141,270,000 Shares, representing approximately 4.889% of the existing issued share capital of the Company, and an amount of HK\$5,453,022 Warrants which entitles it to subscribe for 28,254,000 new Shares. Pursuant to the Underwriting Agreement, Porterstone has given an irrevocable undertaking in favour of the Company and the Underwriter (a) to accept or procure the acceptance for the Rights Shares, being not less than 70,635,000 Rights Shares and not more than 84,762,000 Rights Shares (if the Warrants held by Porterstone being exercised in full on or before the Record Date) to which Porterstone is entitled to under the Rights Issue; and (b) to lodge the provisional allotment letter(s) in respect of the Rights Shares accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. The Company will send (a) the Prospectus Documents to the Qualifying Shareholders; and (b) the Prospectus, for information only, to the Prohibited Shareholders.

To qualify for the Rights Issue, the Shareholders must at the close of business on the Record Date (a) be registered on the register of members of the Company; and (b) not be the Prohibited Shareholders.

In order to be registered as members of the Company on the Record Date, the Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on or before Thursday, 15 July 2010.

Holders of the Options who wish to participate in the Rights Issue should exercise the subscription rights attaching to their Options in accordance with the terms of the share option schemes of the Company or holders of the Warrants who wish to participate in the Rights Issue should exercise the subscription rights attaching to their Warrants in accordance with the terms of the Warrant Instrument on or before 4:30 p.m. on Thursday, 15 July 2010 so as to enable them to be registered as members of the Company on or before the Record Date.

The Company will ascertain whether there are any Overseas Shareholders on the Record Date. In determining whether there will be Prohibited 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 Shares to the Overseas Shareholders in compliance with the Listing Rules.

Closure of register of members

The register of members of the Company, in relation to the Rights Issue, will be closed from Friday, 16 July 2010 to Tuesday, 20 July 2010, both dates inclusive, to determine the eligibility of the Rights Issue. No transfer of Shares will be registered during this period.

Subscription Price

The Subscription Price is HK\$0.10 per Rights Share, payable in full on acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a transferee or nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

- (i) a discount of approximately 12.28% to the closing price of HK\$0.114 per Share as quoted on Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 11.50% to the average closing prices of HK\$0.113 per Share for the last five consecutive trading days including and up to the Last Trading Day;
- (iii) a discount of approximately 8.26% to the theoretical ex-rights price of approximately HK\$0.109 per Share based on the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (iv) a discount of approximately 88.94% to the audited net asset value per Share as at 31 December 2009 of approximately HK\$0.904 per Share.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the prevailing market price of the Shares. Taking into consideration of the theoretical ex-rights price per Share, the Directors (including the independent non-executive Directors) consider that the Subscription Price is appropriate in order to increase the attractiveness of the Rights Issue to the Qualifying Shareholders.

Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors consider the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The net price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Share (calculated as aggregate net proceeds from the Rights Issue divided by the total number of Rights Shares) will be approximately HK\$0.098.

Basis of provisional allotment

The basis of the provisional allotment shall be one (1) Rights Share for every two (2) Shares held by the Qualifying Shareholders on the Record Date. Acceptance for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the provisional allotment letter and lodging the same with a remittance for the Rights Shares being accepted for.

Fractions of entitlements to Rights Shares

The Company will not provisionally allot fractions of Rights Shares. All fractions of Rights Shares will be aggregated (rounded down to the nearest whole number) and allotted to a nominee appointed by the Company and all nil-paid Rights Shares arising from such aggregation will be sold in the market, if a premium (net of expenses) can be obtained, and the Company will retain the proceeds from such sale(s) for its benefit.

Any unsold fractions of the Rights Shares will be made available for excess applications by the Qualifying Shareholders.

Status of the Rights Shares

The Rights Shares, when allotted, issued and fully paid, will rank pari passu in all respects with the Shares then in issue. 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 in their fully-paid form.

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for, by way of excess application, any unsold entitlements of the Prohibited Shareholders and for any Rights Shares provisionally allotted but not accepted by other Qualifying Shareholders.

Applications for excess Rights Shares may be made by completing the excess application forms for application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (i) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism; and
- (2) subject to availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for a smaller number of

Rights Shares are allocated with a higher percentage of successful application but will receive a lesser number of Rights Shares; whereas Qualifying Shareholders applying for a larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive a higher number of Rights Shares).

Shareholders or potential investors should note that the number of excess Rights Shares which may be allocated to them may be different where they make applications for excess Rights Shares by different means, such as making applications in their own names as against through nominees who also hold Shares for other Shareholders/ investors. The investors whose Shares are held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, investors whose Shares are registered in the name of nominee companies (including Shares held through CCASS) should note that the aforesaid arrangement in relation to the allocation of excess Rights Shares will not be extended to beneficial owners individually. Shareholders and investors should consult their professional advisers if they are in any doubt as to whether they should register their shareholding in their own names and apply for excess Rights Shares themselves.

Investors whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company must lodge all necessary documents with the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for completion of the relevant registration by 4:30p.m. on or before Thursday, 15 July 2010, being the business day immediately before the close of the register of members of the Company.

Certificates of the Rights Shares and refund cheques

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be posted on or before Wednesday, 11 August 2010 to those entitled thereto by ordinary post to their registered addresses at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before Wednesday, 11 August 2010 by ordinary post to the applicants' registered addresses at their own risk. Dealings in the fully-paid Rights Shares are expected to commence on Friday, 13 August 2010.

Rights of the Prohibited Shareholders

If, at the close of business on the Record Date, a Shareholder's address on the register of member of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Rights Issue as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. The Board will make enquiries to its lawyers as to whether the issue of Rights Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange pursuant to Rule 13.36(2) of the

Listing Rules. If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient not to offer the Rights Shares to the Overseas Shareholders, no provisional allotment of Rights Shares will be made to the Overseas Shareholders. Accordingly, the Rights Issue will not be extended to the Prohibited Shareholders.

For those Overseas Shareholders who are to be excluded from the Rights Issue, the Company will, subject to compliance with the relevant local laws, regulations and requirements, send copies of the Prospectus for information only to these Prohibited Shareholders, but the Company will not send the provisional allotment letter and excess application form to such Prohibited Shareholders.

The Company shall provisionally allot the Rights Shares which represent the entitlements of the Prohibited Shareholders to a nominee of the Company in nil-paid form and the Company shall procure that such nominee shall endeavour to sell the rights as soon as practicable after dealings in Rights Shares in nil-paid forms commence and in any event before the Latest Time for Acceptance at a net premium. If and to the extent that such Rights Shares in nil-paid forms can be so sold, the nominee shall account to the Company for the net proceeds of sale (after deducting the expenses of sale, if any), on the basis that the net proceeds after deducting the expenses of sale (if any) attributable to the sale of the Rights Shares that would otherwise have been allotted to the Prohibited Shareholders shall be distributed pro rata (but rounded down to the nearest cent) to the Prohibited Shareholders provided that individual amounts of \$100 or less shall be retained by the Company for its own benefit. Any of such Rights Shares in nil-paid forms which are not sold as aforesaid will be dealt with as Rights Shares not accepted.

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 their nil-paid and fully-paid forms, to be allotted and issued pursuant to the Rights Issue.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms in the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in each of their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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

Underwriting arrangements

Date:	8 July 2010
Underwriter:	Kingston Securities Limited. As at the date of this announcement, the Underwriter is interested in 7 Shares.
Number of Rights Shares to be underwritten:	Not less than 1,374,008,184 Rights Shares and not more than 1,840,648,126 Rights Shares, which is the total number of Right Shares less such number of Right Shares agreed to be taken up by Porterstone.
Commission:	1.0% of the aggregate Subscription Price in respect of the maximum number of Rights Shares to be underwritten.

To the best of the Directors' knowledge, information and belief, save for the fact that the Underwriter is interested in 7 Shares, the Underwriter and its ultimate beneficial owners are Independent Third Parties.

Pursuant to the Underwriting Agreement, in the event of the Underwriter being called upon to subscribe for or procure subscribers for the Untaken Shares, (a) the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (having the meaning of the Takeovers Code) with it in the Company to exceed 10% of the voting rights of the Company upon the completion of the Rights Issue; and (b) the Underwriter shall use all reasonable endeavours to ensure that each of the subscribers of the Untaken Shares procured by it (i) shall be Independent Third Party; and (ii), save for the Underwriter itself and its associates, shall not, together with any party acting in concert (having the meaning of the Takeovers Code) with it, hold 10% or more of the voting rights of the Company upon completion of the Rights Issue.

Conditions of the Rights Issue

The Rights Issue is conditional upon:

- (a) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;
- (b) the registration with the Registrar of Companies in Bermuda one copy of each of the Prospectus Documents duly signed by one Director (for and on behalf of all Directors) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Companies Act 1981 of Bermuda not later than the Prospectus Posting Date;
- (c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Prohibited Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Prospectus Posting Date;
- (d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares (in both nil-paid and fully-paid forms) by no later than the first day of their dealings;
- (e) if necessary, the Bermuda Monetary Authority granting consent to the issue of the Rights Shares by the Latest Time for Termination or such other time as the Underwriter may agree with the Company in writing;
- (f) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;
- (g) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement; and
- (h) compliance with and performance of all undertakings and obligations of Porterstone under the Underwriting Agreement.

The conditions precedent are incapable of being waived. If the conditions precedent are not satisfied in whole by the Company by the Latest Time for Termination or such later date or dates as the Underwriter may agree with the Company in writing, the Underwriting Agreement shall terminate and (save in respect of any provisions and any

rights or obligations which may accrue under the Underwriting Agreement prior to such termination) no party will have any claim against any other party for costs, damages, compensation or otherwise.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9.00 a.m. and 4.00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

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

- (c) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (d) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (e) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (f) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (g) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the announcement in respect of the Rights Issue or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

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 Latest Time for Termination:

- (a) any material breach of any material representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (b) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The gross proceeds from the Rights Issue will be not less than approximately HK\$144.46 million and not more than approximately HK\$192.54 million. The estimated net proceeds from the Rights Issue of not less than HK\$141.46 million and not more than HK\$189.54 million are intended to be used for reducing the Group's bank borrowing and financing hotel operation of the Group or general working capital of the Group.

The Board considers that the Rights Issue is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the asset base as well as the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company to participate in the future development of the Company should they wish to do so. **However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted.**

The Directors consider that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole having taken into account the terms of the Rights Issue.

EXPECTED TIMETABLE FOR THE RIGHTS ISSUE

2010

Last day of dealing in Shares on a cum-rights basis	Tuesday, 13 July
First day of dealing in Shares on an ex-rights basis	Wednesday, 14 July
Latest time for lodging transfer of Shares in order to be qualified for the Rights Issue	4:30 p.m. on Thursday, 15 July
Register of members of the Company closes (both dates inclusive)	Friday, 16 July to Tuesday, 20 July
Record Date	Tuesday, 20 July
Register of members of the Company reopens	Wednesday, 21 July
Despatch of Prospectus Documents.	Wednesday, 21 July
First day of dealings in nil-paid Rights Shares	Friday, 23 July
Latest time for splitting of nil-paid Rights Shares.	4:30 p.m. on Tuesday, 27 July
Last day of dealings in nil-paid Rights Shares	Friday, 30 July

Latest time for acceptance of and payment for
Rights Shares and for application and payment for
excess Rights Shares 4:00 p.m. on
. Wednesday, 4 August

4:00 p.m. on
Latest time for the Rights Issue to become unconditional Monday, 9 August

Announcement of the results of acceptance and excess
application of the Rights Issue Tuesday, 10 August

Despatch of refund cheques in respect of wholly or partly
unsuccessful excess applications Wednesday, 11 August

Share certificates for fully-paid Rights Shares to be posted Wednesday, 11 August

Dealing in the fully-paid Rights Shares commences Friday, 13 August

All times stated in this announcement refer to Hong Kong times. Dates stated in this announcement for events in the timetable are indicative only and may be extended or varied. Any changes to the expected timetable for the Rights Issue will be announced as appropriate.

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

For illustration purposes only, the shareholding structures of the Company as at the date of this announcement and upon completion of the Right Issues is as follows:

(a) Assuming no Option and Warrant is exercised on or before the Record Date

	As at the date of this announcement		Upon completion of the Rights Issue (assuming all Rights Shares are subscribed by the Qualifying Shareholders)		Upon completion of the Rights Issue (assuming none of the Right Shares are subscribed by the Qualifying Shareholders other than Porterstone) (Note 5)	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
China Star Investment Holdings Limited	680,000,000	23.535	1,020,000,000	23.535	680,000,000	15.690
Porterstone (Notes 1 and 2)	141,270,000	4.889	211,905,000	4.889	211,905,000	4.889
Dorest Company Limited (Note 2)	137,025	0.005	205,537	0.005	137,025	0.003
Sub-total	141,407,025	4.894	212,110,537	4.894	212,042,025	4.892
Skylight Property Ltd. (Note 4)	237,970,000	8.236	356,955,000	8.236	237,970,000	5.491
Yo Chen Limited (Note 4)	27,039,700	0.936	40,559,550	0.936	27,039,700	0.624
Sub-total	265,009,700	9.172	397,514,550	9.172	265,009,700	6.115
Public						
Underwriter	7	0.000	10	0.000	1,374,008,191	31.704
Other public Shareholder	1,802,869,636	62.399	2,704,304,455	62.399	1,802,869,636	41.599
Total	<u>2,889,286,368</u>	<u>100.00</u>	<u>4,333,929,552</u>	<u>100.00</u>	<u>4,333,929,552</u>	<u>100.00</u>

(b) Assuming all the Options and Warrants are exercised on or before the Record Date

	As at the date of this announcement		Assuming all the Options and Warrants are exercised in full on or before the Record Date and before completion of the Rights Issue		Assuming all the Options and Warrants are exercised in full on or before the Record Date and completion of the Rights Issue (assuming all Rights Shares are subscribed by the Qualifying Shareholders)		Assuming all the Options and Warrants are exercised in full on or before the Record Date and completion of the Rights Issue (assuming none of the Right Shares are subscribed by the Qualifying Shareholders other than Porterstone) (Note 5)	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
China Star Investment Holdings Limited	680,000,000	23.535	816,000,000	21.190	1,224,000,000	21.190	816,000,000	14.127
Porterstone (Notes 1 and 2)	141,270,000	4.889	169,524,000	4.402	254,286,000	4.402	254,286,000	4.402
Dorest Company Limited (Note 2)	137,025	0.005	164,430	0.004	246,645	0.004	164,430	0.003
Mr. Heung Wah Keung (Note 2)	-	-	8,864	0.000	13,296	0.000	8,864	0.000
Ms. Chen Ming Yin, Tiffany (Note 2)	-	-	8,864	0.000	13,296	0.000	8,864	0.000
Sub-total	141,407,025	4.894	169,706,158	4.406	254,559,237	4.406	254,468,158	4.405
Ms. Li Yuk Sheung (Note 3)	-	-	28,978,702	0.753	43,468,053	0.753	28,978,702	0.502
Skylight Property Ltd. (Note 4)	237,970,000	8.236	237,970,000	6.180	356,955,000	6.180	237,970,000	4.120
Yo Chen Limited (Note 4)	27,039,700	0.936	27,039,700	0.702	40,559,550	0.702	27,039,700	0.468
Sub-total	265,009,700	9.172	265,009,700	6.882	397,514,550	6.882	265,009,700	4.588
Public								
Holders of the Options (other than Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung)	-	-	354,680,181	9.211	532,020,271	9.211	354,680,181	6.140
Underwriter	7	0.000	7	0.000	10	0.000	1,840,648,133	31.866
Other public Shareholder	1,802,869,636	62.399	2,216,445,504	57.558	3,324,668,257	57.558	2,216,445,504	38.372
Total	2,889,286,368	100.00	3,850,820,252	100.00	5,776,230,378	100.00	5,776,230,378	100.00

Notes:

1. Pursuant to the Underwriting Agreement, Porterstone has given an irrevocable undertaking in favour of the Company and the Underwriter (a) to accept or procure the acceptance for the Rights Shares, being not less than 70,635,000 Rights Shares and not more than 84,762,000 Rights Shares (if the Warrants held by Porterstone being exercised in full on or before the Record Date); and (b) to lodge the provisional allotment letter(s) in respect of the Rights Shares accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.
2. Dorest Company Limited is owned as to 60% by Porterstone and as to 40% by Mr. Heung Wah Keung, an executive Director. The Shares held by Dorest Company Limited are under a charging order.
3. Ms. Li Yuk Sheung is an executive Director.
4. Skylight Property Ltd. and Yo Chen Limited are beneficially owned as to 50% by Mr. Kwok Lung and as to 50% by Mr. Li Chi Lam.
5. This scenario is for illustrative purpose only and will not occur. Pursuant to the Underwriting Agreement, in the event of the Underwriter being called upon to subscribe for or procure subscribers for the Untaken Shares,
 - (a) the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (having the meaning of the Takeovers Code) with it in the Company to exceed 10% of the voting rights of the Company upon the completion of the Rights Issue; and
 - (b) the Underwriter shall use all reasonable endeavours to ensure that each of the subscribers of the Untaken Shares procured by it (i) shall be Independent Third Party; and (ii), save for the Underwriter itself and its associates, shall not, together with any party acting in concert (having the meaning of the Takeovers Code) with it, hold 10% or more of the voting rights of the Company upon completion of the Rights Issue.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS IMMEDIATELY PRECEDING THE DATE OF THIS ANNOUNCEMENT

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

Date of announcement	Events	Net amount raised	Intended use of proceeds	Actual use of proceeds
4 January 2010	Issue of 540,000,000 new Shares under Subscription	Approximately HK\$75.4 million	For investment projects in Macau and general working capital	The net proceeds has been deposited into banks and will be 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
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	The net proceeds has been fully utilised as intended

ADJUSTMENTS TO OPTIONS AND WARRANTS

As at the date of this announcement, there were (a) 383,676,611 outstanding Options granted under the share option schemes adopted by the Company entitling the holders thereof to subscribe for a total of 383,676,611 Shares; and (b) an amount of HK\$111,526,453.69 Warrants outstanding entitling the holders thereof to subscribe for a total of 577,857,273 Shares. Save for the Options and the Warrants, the Company had no other outstanding options, warrants or other securities convertible into Shares.

Adjustments to the exercise prices and numbers of the Options and the subscription prices of the Warrants may be required under the share option schemes of the Company and the relevant terms under the Warrant Instrument constituting the Warrants. An approved financial adviser or the auditors of the Company will be appointed to certify the necessary adjustments, if any, to the exercise prices and numbers of the Options and the subscription prices of the Warrants. Further announcement will be made by the Company in this regard.

GENERAL

The Company will send the Prospectus Documents to the Qualifying Shareholders and the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders on Wednesday, 21 July 2010.

WARNING OF THE RISK OF DEALINGS IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Rights Shares are expected to be dealt in their nil-paid form from Friday, 23 July 2010 to Friday, 30 July 2010, both days inclusive. Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Wednesday, 14 July 2010 and that dealing in Shares and nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Shareholders and potential investors should note that the Rights Issue is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereunder. Accordingly, the Rights Issue may or may not proceed.

Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be 4:00 p.m. on Monday, 9 August 2010) and dealing in nil-paid Rights Shares between Friday, 23 July 2010 to Friday, 30 July 2010(both dates inclusive), will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares and/or nil-paid Rights Shares should exercise extreme caution when dealing in the Shares and/or nil-paid Rights Shares, and if they are in any doubt about their position, they are recommended to consult his/her/its own professional adviser.

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.

“associate(s)”	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 and public holiday) on which banks are generally open for business in Hong Kong
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability whose 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”	directors of the Company
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	the parties or persons who are third parties independent of and not connected with the director, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates
“Last Trading Day”	Thursday, 8 July 2010, being the date of the Underwriting Agreement, which is a Stock Exchange trading day
“Latest Lodging Time”	4:30 p.m. on Thursday, 15 July 2010 as the latest time for lodging transfer of Shares in order to qualify for the Rights Issue as described in the Prospectus Documents

“Latest Time for Acceptance”	4:00 p.m. on Wednesday, 4 August 2010 or such later time or date as may be agreed between the Company and the Underwriter, being the latest time for acceptance of, and payment for, the Rights Shares
“Latest Time for Termination”	4:00 p.m. on the third Business Day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and the Underwriter, being the latest time to terminate the Underwriting Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Options”	the share options granted under the share option schemes adopted by the Company
“Overseas Letter”	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Rights Issue
“Overseas Shareholders”	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date
“Porterstone”	Porterstone Limited, a company wholly-owned by Ms. Chen Ming Yin, Tiffany, an executive Director
“Prohibited Shareholder(s)”	those Overseas Shareholder(s) to whom the Board, after making enquires, considers it necessary or expedient 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 not to offer the Rights Shares to them
“Prospectus”	the prospectus to be despatched by the Company in relation to the Rights Issue in such form as may be agreed between the Company and the Underwriter
“Prospectus Documents”	the Prospectus, the application form in respect of the provisional allotment letter(s) for Rights Shares and the form(s) of application for excess Rights Shares

“Prospectus Posting Date”	Wednesday, 21 July 2010 or such later date as may be agreed between the Underwriter and the Company for the despatch of the Prospectus Documents
“Qualifying Shareholders”	those Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	Tuesday, 20 July 2010, being the date by reference to which entitlements to the Rights Issue will be determined
“Registrar”	Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, the branch share register and transfer office of the Company in Hong Kong
“Rights Issue”	the proposed offer for subscription by the Qualifying Shareholders for the Rights Shares at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
“Rights Share(s)”	not less than 1,444,643,184 new Shares and not more than 1,925,410,126 new Shares proposed to be offered to the Qualifying Shareholders under the Rights Issue for subscription on the terms and subject to the conditions set out in the Underwriting Agreement and in the Prospectus Documents
“Share(s)”	ordinary share(s) of HK\$0.01 each in share capital of the Company
“Shareholder(s)”	the holder(s) of the issued Shares
“Specified Event”	an event occurring or matter arising on or after the date hereof and prior to the Latest Time for Termination which if it had occurred or arisen before the date hereof would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subscription Price”	HK\$0.10 per Rights Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter”	Kingston Securities Limited, a licensed corporation to carry on type 1 (dealing in securities) regulated activity for the purposes of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Underwriting Agreement”	the underwriting agreement dated 8 July 2010 entered into between the Company, the Underwriter and Porterstone in relation to the Rights Issue
“Untaken Shares”	those (if any) of the Rights Shares for which duly completed the provisional allotment letter(s) or excess application form(s) (accompanied by cheques or banker’s cashier order for the full amount payable on application which are honoured on first or, at the option of the Company, subsequent presentation) have not been lodged for acceptance, or received, as the case may be, on or before Latest Time for Acceptance
“Warrant(s)”	an amount of HK\$111,526,453.69 warrant(s) outstanding entitling the holders thereof to subscribe for Shares at an initial subscription price of HK\$0.193 per Share (subject to adjustment) pursuant to the Warrant Instrument
“Warrant Instrument”	the instrument by way of the deed poll executed by the Company dated 15 June 2010 to create the Warrants
“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, 8 July 2010

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.