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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

PLACING OF EXISTING SHARES AND TOP-UP SUBSCRIPTION OF NEW SHARES AND RESUMPTION OF TRADING

Placing Agent



KINGSTON SECURITIES LIMITED

On 17 May 2006, the Vendors entered into the Placing Agreement and the Top-Up Subscription Agreement with the Placing Agent and the Company respectively. Pursuant to the Placing Agreement, the Vendors agreed to place, through the Placing Agent, an aggregate of 104,105,000 existing Shares, on a fully underwritten basis, to not less than six independent individual, corporate and/or institutional investors at a price of HK\$0.33 per Share. Pursuant to the Top-Up Subscription Agreement, the Vendors conditionally agreed to subscribe for an aggregate of 104,105,000 new Shares, which is equivalent to the number of the Placing Shares, at a price of HK\$0.33 per Share, being the same as the Placing Price.

Each of the number of the Placing Shares and the Subscription Shares represents (i) about 20.00% of the existing issued share capital of the Company of 520,541,608 Shares; and (ii) about 16.67% of the issued share capital of the Company of 624,646,608 Shares as enlarged by the Top-Up Subscription.

The Placing Price and the Subscription Price of HK\$0.33 represent (i) a discount of about 7.04% to the closing price of HK\$0.355 per Share as quoted on the Stock Exchange on 16 May 2006, being the date when the principal terms of the Placing Agreement and the Top-Up Subscription Agreement were fixed and last trading day before this announcement; (ii) a discount of about 5.71% to the average of the closing price per Share of HK\$0.35 as quoted on the Stock Exchange for the last five trading days up to and including 16 May 2006, being the date when the principal terms of the Placing Agreement and the Top-Up Subscription Agreement were fixed and last trading day before this announcement; and (iii) a discount of about 9.34% to the average of the closing price per Share of HK\$0.364 as quoted on the Stock Exchange for the last ten trading days up to and including 16 May 2006, being the date when the principal terms of the Placing Agreement and the Top-Up Subscription Agreement were fixed and last trading day before this announcement. The Top-Up Subscription is conditional upon, amongst other things, the Stock Exchange granting listing of, and permission to deal in, the Subscription Shares.

The gross proceeds from the Top-Up Subscription will be about HK\$34.35 million. The net proceeds from the Top-Up Subscription of about HK\$33.30 million will be used as to HK\$20 million for future investment and as to the balance for general working capital of the Group.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:33 a.m. on 17 May 2006 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 18 May 2006.

THE PLACING AGREEMENT

On 17 May 2006, the Vendors entered into the Placing Agreement with the Placing Agent. Pursuant to the Placing Agreement, the Vendors have agreed to place, through the Placing Agent, an aggregate of 104,105,000 existing Shares, on a fully underwritten basis, to not less than six independent individual, corporate and/or institutional investors at a price of HK\$0.33 per Share.

Date

17 May 2006

Parties involved

The Placing Agent and the Vendors

Placing Agent

Kingston Securities Limited is the Placing Agent and will receive a placing commission of 2.5% on the gross proceeds of the Placing paid by the Company, which was arrived at after arm's length negotiations between the Company and the Placing Agent. The Placing Agent is independent of and not connected with the Company and its connected persons (as defined in Listing Rules).

Placees

Not less than six independent placees (which are/will be independent individual, corporate and/or institutional investors) (the "Placee(s)"), who and whose ultimate beneficial owners are independent of and not connected with the Company and its connected persons (as defined in Listing Rules). The Company will in compliance with the Listing Rules and will make further announcement in the event that any placees become the substantial shareholder of the Company as a result of the Placing.

Placing Price

The Placing Price and the Subscription Price of HK\$0.33 represent

- (i) a discount of about 7.04% to the closing price of HK\$0.355 per Share as quoted on the Stock Exchange on 16 May 2006, being the date when the principal terms of the Placing Agreement and the Top-Up Subscription Agreement were fixed and last trading day before this announcement;
- (ii) a discount of about 5.71% to the average of the closing price per Share of HK\$0.35 as quoted on the Stock Exchange for the last five trading days up to and including 16 May 2006, being the date when the principal terms of the Placing Agreement and the Top-Up Subscription Agreement were fixed and last trading day before this announcement; and
- (iii) a discount of about 9.34% to the average of the closing price per Share of HK\$0.364 as quoted on the Stock Exchange for the last ten trading days up to and including 16 May 2006, being the date when the principal terms of the Placing Agreement and the Top-Up Subscription Agreement were fixed and last trading day before this announcement.

The Placing Price was negotiated on an arm's length basis between the Company and the Placing Agent with reference to, amongst others, the prevailing market price of the Shares.

The Placing Shares

The number of the Placing Shares represents (i) about 20.00% of the existing issued share capital of the Company of 520,541,608 Shares; and (ii) about 16.67% of the issued share capital of the Company of 624,646,608 Shares as enlarged by the Top-Up Subscription.

Condition of the Placing

The Placing is unconditional and is expected to be completed on 22 May 2006.

THE TOP-UP SUBSCRIPTION AGREEMENT

On 17 May 2006, the Vendors entered into the Top-Up Subscription Agreement with the Company. Pursuant to the Top-Up Subscription Agreement, the Vendors conditionally agreed to subscribe for an aggregate of 104,105,000 new Shares, which is equivalent to the number of the Placing Shares, at a price of HK\$0.33 per Share, being the same as the Placing Price.

Date

17 May 2006

Parties involved

The Company and the Vendors

The Subscription Price

The Subscription Price is HK\$0.33 per Share. The Subscription Price is equivalent to the Placing Price and was determined after arm's length negotiation between the Company and the Vendors with reference to the Placing Price. The Directors (including the independent non-executive Directors) consider that the terms of the Placing and the Top-Up Subscription (including the Placing Price and the Subscription Price) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The net proceeds raised per Subscription Share upon the completion of Top-Up Subscription will be HK\$0.32 per Share.

Number of Subscription Shares

The number of the Subscription Shares represents (i) about 20.00% of the existing issued share capital of the Company of 520,541,608 Shares; and (ii) about 16.67% of the issued share capital of the Company of 624,646,608 Shares as enlarged by the Top-Up Subscription.

The Subscription Shares, when issued and fully paid, will rank pari passu among themselves and with Shares in issue at the time of issue and allotment of the Subscription Shares.

Conditions

The Top-Up Subscription is conditional upon:

- (a) the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares;
- (b) completion of the Placing; and
- (c) if required, the Bermuda Monetary Authority granting or agreeing to grant permission to allot, issue and subsequent transfer of the Subscription Shares.

The Top-Up Subscription Agreement does not provide either party the rights to waive the above conditions. Application will be made by the Company to the Stock Exchange for the granting of the listing of, and permission to deal in, the Subscription Shares.

Completion

The Vendors are the connected persons (as defined in the Listing Rules) of the Company and the arrangement of the Top-Up Subscription constitutes connected transaction under the Listing Rules. Such connected transaction is exempted from the reporting, announcement and independent shareholders' approval requirement under Rule 14A.31(3)(d) of the Listing Rules provided that the Subscription Shares are to be allotted and issued within 14 days after the date of the Placing Agreement, that is on or before 30 May 2006.

In the event that the conditions to the Top-Up Subscription Agreement are not fulfilled by 30 May 2006, the Company and the Vendors may elect, subject to compliance with all requirements in relation to connected transactions under the Listing Rules, to postpone completion of the Top-Up Subscription to a later date to be agreed between the Company and the Vendors.

GENERAL MANDATE

The Subscription Shares will be issued under the general mandate ("General Mandate") to allot, issue and deal with Shares granted to the Directors by a resolution of the Shareholders passed at the annual general meeting of the Company (the "AGM") held on 29 June 2005 subject to the limit up to 20% of the issued share capital of the Company as at the date of passing the resolution at the AGM (i.e. 104,108,321 Shares). As at the date of this announcement, no new Shares have been issued under the General Mandate.

EFFECTS ON SHAREHOLDING STRUCTURES

The shareholding structures of the Company i) as at the date of this announcement that is immediately before the Placing; ii) immediately after the Placing but before the Top-Up Subscription; and iii) immediately after the Placing and the Top-Up Subscription are set out as below (assuming no further Shares will be issued until completion of the Placing and the Top-Up Subscription):

	Existing		Immediately after the Placing but before the Top-Up Subscription		Immediately after the Placing and the Top-Up Subscription	
	Shares	%	Shares	%	Shares	%
Vendors						
Mr. Heung (Director)	18,395,000	3.53	521,352	0.10	18,395,000	2.94
Ms. Chen (Director)	9,429,410	1.81	2,680,217	0.51	9,429,410	1.51
Porterstone (Note 1)	61,905,000	11.89	11,895	0.00	61,905,000	9.91
Dorest (Note 2)	18,510,000	3.56	920,946	0.18	18,510,000	2.96
<i>Sub-total</i>	108,239,410	20.79	4,134,410	0.79	108,239,410	17.32
Ms. Li Yuk Sheung (Director)	16	0.00	16	0.00	16	0.00
Public Shareholders (Note 3)	412,302,182	79.21	516,407,182	99.21	516,407,182	82.68
Total	520,541,608	100.00	520,541,608	100.00	624,646,608	100.00

Notes:

1. The entire issued share capital of Porterstone is beneficially owned by Ms. Chen. Accordingly, Mr. Heung, the husband of Ms. Chen, is deemed to be interested in the Shares held by Porterstone.
2. The issued share capital of Dorest is beneficially owned as to 60% by Ms. Chen through Porterstone and as to 40% by Mr. Heung.
3. The Placing Agent will procure Placees who are independent of and not connected with the Company for the placing of 104,105,000 Shares. The Company will ensure that there will be a sufficient public float of Shares pursuant to the Listing Rules following completion of the Placing.

USE OF PROCEEDS

The gross proceeds from the Top-Up Subscription will be about HK\$34.35 million. The net proceeds from the Top-Up Subscription of about HK\$33.30 million will be used as to HK\$20 million for future investment and as to the balance for general working capital of the Group. The Company has not currently identified a suitable investment for which the proceeds of the Placing will be used. The net proceeds raised per Subscription Share upon completion of Top-Up Subscription will be approximately HK\$0.32 per Share.

REASONS FOR THE PLACING AND TOP-UP SUBSCRIPTION

The Directors consider that the Placing and the Top-Up Subscription represent an opportunity to raise capital for the Company under the current positive market condition while broadening the shareholder base and the capital base of the Company.

FUND RAISING IN THE 12 MONTHS IMMEDIATELY PRECEDING THE DATE OF THE PLACING AGREEMENT AND THE TOP-UP SUBSCRIPTION AGREEMENT

The Company has no fund raising activity in the past 12 months immediately preceding the date of this announcement.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:33 a.m. on 17 May 2006 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 18 May 2006.

GENERAL

The principal activities of the Group are engaged in film production, distribution of film and television drama series, and provision of post-production services.

As at the date of this announcement, Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung are executive Directors and Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Fung Ho Sum are the independent non-executive Directors.

TERMS AND DEFINITION

“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“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 through Porterstone and as to 40% by Mr. Heung
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Heung”	Mr. Heung Wah Keung, a Director
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, a Director
“Placing”	the placing of 104,105,000 existing Shares beneficially owned by the Vendors pursuant to the terms of Placing Agreement
“Placing Agent”	Kingston Securities Limited, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the placing agreement between the Vendors and the Placing Agent dated 17 May 2006 in relation to the Placing
“Placing Price”	HK\$0.33 per Share
“Placing Shares”	a total of 104,105,000 existing Shares beneficially owned by Mr. Heung as to 17,873,648 Shares, Ms. Chen as to 6,749,193 Shares, Porterstone as to 61,893,105 Shares and Dorest as to 17,589,054 Shares to be placed pursuant to the Placing Agreement
“Porterstone”	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Ms. Chen.
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.05 in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Top-Up Subscription”	the subscription for the 104,105,000 new Shares pursuant to the Top-Up Subscription Agreement
“Top-Up Subscription Agreement”	the conditional top-up subscription agreement between the Company and the Vendors dated 17 May 2006 in relation to the Top-Up Subscription
“Subscription Price”	HK\$0.33 per Share

“Subscription Shares” a total of 104,105,000 new Shares to be subscribed for by the Vendors pursuant to the Top-Up Subscription Agreement

“Vendors” Mr. Heung, Ms. Chen, Porterstone and Dorest

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 17 May 2006