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# CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

## MAJOR TRANSACTION AND RESUMPTION OF TRADING

The Board is pleased to announce that on 13th September, 2006, the Company, the Vendors and Fortune Star entered into the Agreement pursuant to which Fortune Star has agreed to acquire from the Vendors the Film Library at a total consideration of US\$18,000,000 (approximately HK\$140,000,000) (subject to adjustment).

The Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and therefore is subject to approval by the Shareholders at the SGM under Rule 14.40 of the Listing Rules.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Wednesday, 13th September, 2006 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 15th September, 2006.

### THE AGREEMENT

**Date:** 13th September, 2006

**Parties:**

**Vendors:** One Hundred Years, China Star Pictures and S&W, all wholly-owned subsidiaries of the Company

**Purchaser:** Fortune Star, an affiliate of Star TV Filmed Entertainment (HK) Limited and Star TV Filmed Entertainment Limited and a subsidiary of STAR Group Limited

**Guarantor for the Vendors:** The Company has agreed to guarantee the due and punctual performance and observance by the Vendors of all their obligations, commitments, undertakings, warranties, indemnities and covenants under the Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Fortune Star and its ultimate beneficial owners are third parties independent of and not connected with the Company and its subsidiaries, the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules. Fortune Star is principally engaged in distribution and production of motion pictures. The Company has previously supplied films to the group companies of the STAR Group Limited for distribution.

**Asset to be disposed of:**

The asset to be disposed of by the Vendors is the Film Library.

**Consideration:**

The Consideration for the Film Library was determined on an arm's length commercial basis and is US\$18,000,000 (approximately HK\$140,000,000) payable in cash minus: (a) all proceeds actually received by the Vendors and their affiliates from all Exploitation Agreements for the period from the date of the Agreement up to and including the date of the last payment of the consideration; (b) the adjustment amount; (c) the Vendor's share of all costs and expenses incurred for the publication of the notice required under the Transfer of Business (Protection of Creditors) Ordinance; and (d) any such other amount as mutually agreed and determined between the parties.

The Consideration shall be paid as follows:

- (i) US\$4,500,000 (subject to adjustment) shall be payable upon execution of the Agreement;
- (ii) US\$4,500,000 (subject to adjustment) shall be payable upon Fortune Star's solicitors' receipt of all copy chain-of-title documents in relation to the Film Assets, all copy Exploitation Agreements, all copy production contracts in relation to the Film Library;
- (iii) US\$3,600,000 (subject to adjustment) less (a) any amount deductible under the Exploitation Agreement and the Agreement; (b) other proceeds received by the Vendors and their affiliates from all Exploitation Agreements; (c) the Vendor's share of all costs and expenses incurred for the publication of the notice required under the Transfer of Business (Protection of Creditors) Ordinance incurred; and (d) any such other amount as mutually agreed and determined between the parties from the date of the Agreement to the date of the payment of this tranche of the Consideration ("Third Payment"), within 5 days upon the satisfactory completion by Fortune Star of due diligence review over the chain-of-title to all Film Assets, all Exploitation Agreements and any other documents reasonably demanded by Fortune Star in relation to the Film Library, tentatively no later than 1st December, 2006;
- (iv) US\$3,600,000 (subject to adjustment) less (a) any amount deductible under the Exploitation Agreement and the Agreement; (b) other proceeds received by the Vendors and their affiliates from all Exploitation Agreement (c) the Vendor's share of all costs and expenses incurred for the publication of the notice required under the Transfer of Business (Protection of Creditors) Ordinance incurred; and (d) any such other amount as mutually agreed and determined between the parties as at the date of the Third Payment to the date of the payment of this tranche of the Consideration ("Fourth Payment"), within 5 days upon satisfactory completion by Fortune Star of due diligence review and technical acceptance to all Physical Properties and any other materials reasonably demanded by Fortune Star in relation to the Film Library, tentatively no later than 31st March, 2007;
- (v) US\$1,800,000 (subject to adjustment) less (a) any amount deductible under the Exploitation Agreement and the Agreement; (b) other proceeds received by the Vendors and their affiliates from all Exploitation Agreements; (c) the Vendor's share of all costs and expenses incurred for the publication of the notice required under the Transfer of Business (Protection of Creditors) Ordinance incurred; and (d) any such other amount as mutually agreed and determined between the parties from the date of Fourth Payment up to the date of the payment of this tranche of the Consideration, upon fulfilment by the Vendors of the terms and conditions set out in the Agreement, tentatively no later than 1st December, 2007.

#### **Adjustment**

Within 60 days from the date of the Agreement or at such other delivery time frame to be mutually agreed by the parties, the Vendors shall deliver to Fortune Star the Physical Properties. Fortune Star shall complete a review of the Physical Properties delivered within 90 days from Fortune Star's receipt of the Physical Properties.

If the Physical Properties do not match the description in the Agreement, Fortune Star shall have the right to request by notice in writing to the Vendors that the correct Physical Properties be delivered to Fortune Star within 7 days of Fortune Star's request. If the Vendors fail to deliver the correct Physical Properties by such date or the due diligence review by Fortune Star, over the chain-of-title to the Film Assets, Exploitation Agreements and any other documents reasonably demanded by Fortune Star in relation to ownership and titles of the Film Library, is not satisfactory to Fortune Star, Fortune Star shall have the right to elect by notice in writing to the Vendors that the appropriate Picture be excluded from the sale and purchase under the Agreement; in such event the parties shall discuss and negotiate in good faith the substitution of another picture of the Vendors and their affiliates, failing an agreement on the substituted picture being reached within 14 days, there shall be deducted from the Consideration an amount as set forth below:

Amount to be deducted for a Grade A Picture: US\$240,000

Amount to be deducted for a Grade B Picture: US\$160,000

Amount to be deducted for a Grade C Picture: US\$80,000

Of the Film Library, 48, 31 and 21 Pictures are Grade A, B and C respectively. The grading for the Pictures have been made by the Company on the basis of, inter alia, artists' popularity and directors' reputation with Grade A being the most popular Pictures.

The maximum amount of the Consideration deductible by Fortune Star under the Agreement shall not in any event exceed the total amount of the Consideration or the actual amount of monies received by the Vendors from Fortune Star under the Agreement, whichever is the lesser.

Based on the Company's accounting records for the period ended 31st August, 2006 and 31st December, 2005, the net asset value of the Film Library is approximately HK\$105,000,000 and HK\$108,000,000 respectively. No net profit of the Film Library before and after taxation and extraordinary items is disclosed as the Film Library only comprises certain pictures in the Group's entire film library. As such no separate accounts had been done in respect of these 100 Pictures.

## Conditions

Fortune Star's obligation to purchase the Film Library is subject to the satisfaction (or waiver) of, inter alia, the followings:

- (i) the obligation of the Vendors to satisfy within 30 days from the date of the Agreement each of the following conditions:
  - (a) the Vendors delivering to Fortune Star the complete photocopies of all Exploitation Agreements and any other documents reasonably demanded by Fortune Star in relation to the Film Library;
  - (b) the Vendors delivering to Fortune Star details of all Proceeds:
    - (1) already paid under each Exploitation Agreement;
    - (2) payable under each such Exploitation Agreement until expiry thereof, including details of the due dates of such receivables; and
    - (3) broken down as to each Picture;
  - (c) no claims having been notified by any party, except those set out in the Agreement; and
  - (d) the warranties of the Vendors and the Company contained in the Agreement remaining true and accurate and not misleading as given as of the date of the Agreement;
- (ii) the obligation of the Vendors to satisfy at the time specified below each of the following conditions:
  - (a) the Vendors delivering to Fortune Star within 5 days prior to the Completion Date details of all Proceeds or monies received by the Vendors and their affiliates as at the Completion Date showing those:
    - (1) already paid under each Exploitation Agreement;
    - (2) payable under each such Exploitation Agreement until expiry thereof, including details of the due dates of such receivables; and
    - (3) broken down as to each Picture;
  - (b) the warranties of the Vendors and the Company contained in the Agreement remaining true and accurate and not misleading as given as of the date of the Agreement and the Completion Date;
  - (c) the Vendors having delivered to Fortune Star within 60 days after the date of the Agreement or at such other delivery time frame to be mutually agreed by the parties all Physical Properties and other physical materials in relation to the Film Library; and Fortune Star having notified the Vendors in writing that the Physical Properties delivered to Fortune Star matches with the description in the Agreement;
  - (d) no claims having been notified by any party, except those set out in the Agreement;
  - (e) each of the Vendors and the Company and their respective affiliates having complied fully with the pre-completion obligations;
  - (f) the Vendors and the Company, and their respective affiliates, having taken all necessary corporate and other action to authorise the execution, delivery and performance of the Agreement and any agreement ancillary thereto;
  - (g) the parties having procured the publication of the notices required under the Transfer of Businesses (Protection of Creditors) Ordinance and 30 days having elapsed after the publication of such notices;
  - (h) no change having been made to any of the schedules to the Agreement;
  - (i) the Vendors having obtained from all counter-parties to each Exploitation Agreement within 5 months from the date of the Agreement their written consent to assign to Fortune Star all the rights, benefits and obligations of the Vendors and their affiliates or any other persons authorised by the Vendors and their affiliates (as the case may be) under such Exploitation Agreements, and delivered to Fortune Star the fully executed original of each assignment deed in respect of each Exploitation Agreement in favour of Fortune Star and to such counter-parties under each such Exploitation Agreement;
  - (j) the Vendors having delivered to Fortune Star within 60 days after the date of the Agreement the complete originals or certified true copies of all Exploitation Agreements.

- (iii) The Vendors' obligation to sell the Film Library is subject to the satisfaction on or prior to the Completion Date of each of the following conditions:
- (a) the warranties of Fortune Star contained in the Agreement remaining true and accurate and not misleading as given as of the date of the Agreement and at Completion Date;
  - (b) Fortune Star having taken all necessary corporate and other action to authorise the execution, delivery and performance of the Agreement and any agreement ancillary thereto; and
  - (c) Fortune Star having obtained the approval of its parent company and all other requisite corporate and regulatory approvals for the execution of the Agreement.

Fortune Star may waive all or any of the above conditions at any time by notice in writing to the Vendors.

### **INFORMATION ON THE FILM LIBRARY**

The perpetual and worldwide right, title and interest in 100 feature and non-feature motion pictures which One Hundred Years, China Star Pictures and/or S&W has produced or co-produced or acquired or which they have acquired the right to, inter alia, exercise sequels and remakes, sell, exhibit, distribute, sub-distribute, lease, market, sublicense etc. and related rights including, inter alia, insurance, copyright, Physical Properties and Proceeds.

### **REASONS FOR THE DISPOSAL AND USE OF PROCEEDS**

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.

The Directors consider that the Film Library is the valuable assets of the Group. In light of the expected gain to be generated from the Disposal, the Directors are of the view that the Disposal will enhance the financial position and increase the working capital of the Group. The Disposal has proved the Group's excellent achievement in producing high quality films, which is recognised by the film industry. It is the intention of the Group to continue with its existing business following completion of the Agreement. The Directors (including the independent non-executive Directors) are also of the view that the terms of the Disposal under the Agreement was entered into upon normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Proceeds from the Disposal will be used for diversifying the investment portfolio of the Group and for general working capital of the Group. And, the exact allocation of these proceeds has not yet be determined.

### **FINANCIAL EFFECTS OF THE DISPOSAL**

The Disposal is expected to realise a gain of approximately HK\$35,000,000.

### **GENERAL**

The Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and therefore is subject to approval by the Shareholders at the SGM under Rule 14.40 of the Listing Rules.

The SGM will be held to consider and, if thought fit, pass the necessary resolution to approve the Agreement. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Agreement and the transaction contemplated therein and is required to abstain from voting for the approval of the Disposal at the SGM.

A circular containing, amongst other things, further details of (i) the terms of Agreement; (ii) other disclosures in connection with the Agreement required pursuant to the Listing Rules in respect of a major transaction; and (iii) a notice of SGM for the purpose of approving the Agreement will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

### **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Wednesday, 13th September, 2006 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 15th September, 2006.

### **DEFINITIONS**

"Agreement"	the agreement/deed dated 13th September, 2006 entered into between the Vendors, the Company and Fortune Star relating to the sale and purchase of the Film Library
"Board"	the board of Directors
"China Star Pictures"	China Star Pictures Limited, a wholly-owned subsidiary of the Company
"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

“Completion Date”	the date of completion of the Agreement
“Consideration”	US\$18,000,000 (approximately HK\$140,000,000) (subject to adjustment)
“Directors”	directors of the Company
“Disposal”	disposal of the Film Library by the Vendors under the Agreement
“Exploitation Agreement(s)”	agreement relating to the grant or licence by the Vendors or its affiliates or authorised persons of the right to exploit the Film Library including the right to exercise sequels and remakes
“Film Assets”	all tangible and intangible right, title and interest in and to the Pictures together with all Proceeds thereof
“Film Library”	the perpetual and worldwide right, title and interest in 100 feature and non-feature motion pictures which One Hundred Years, China Star Pictures and/or S&W has produced or co-produced or acquired or which they have acquired the right to, inter alia, exercise sequels and remakes, sell, exhibit, distribute, sub-distribute, lease, market, sublicense etc. and related rights including, inter alia, insurance, copyright, Physical Properties and Proceeds
“Fortune Star”	Fortune Star Limited, an affiliate of Star TV Filmed Entertainment (HK) Limited and Star TV Filmed Entertainment Limited and a subsidiary of STAR Group Limited
“Group”	the Company and its subsidiaries
“Hong Kong”	The 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
“One Hundred Years”	One Hundred Years of Film Company Limited, a wholly-owned subsidiary of the Company
“Physical Properties”	all tangible properties of every kind or nature of or relating to or embodying the Film Library and all versions and copies thereof owned by the Vendors or to which the Vendors have a right of access or use
“Picture”	any feature or non-feature motion picture included in the Film Library
“Proceeds”	all proceeds, products, income, receivables, rents and profits of or from any and all of the Film Library which may accrue as from the date of the Agreement
“SGM”	the special general meeting of the Company to be convened to approve, among other things, the Agreement
“Shareholders”	holder(s) of the Share(s)
“Shares”	ordinary shares of HK\$0.05 in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“S&W”	S&W Entertainment Limited, a wholly-owned subsidiary of the Company
“subsidiary(ies)”	as defined in the Listing Rules
“Vendors”	collectively One Hundred Years, China Star Pictures and S&W and each a “Vendor”
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States of America dollars

By Order Of The Board  
**China Star Entertainment Limited**  
**Heung Wah Keung**  
*Chairman*

Hong Kong, 14th September, 2006

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

*Please also refer to the published version of this announcement in  
The Standard and Hong Kong Economic Times.*