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## **CHINA STAR ENTERTAINMENT LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 326)

### **MAJOR TRANSACTION AND RESUMPTION OF TRADING OF SHARES**

On 1st August, 2007 (after trading hours), the Company entered into the S&P Agreement with Legend Rich and Riche whereby the Company has agreed to sell and/or procure the sale and Legend Rich has agreed to purchase 100% of the issued share capital of Exceptional Gain for an aggregate consideration of HK\$447,000,000.

The Disposal constitutes a major transaction for the Company under the Listing Rules and is therefore subject to the approval of the Shareholders at the SGM. As no Shareholder has a material interest in the Disposal which is different from the other Shareholders, no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Disposal at the SGM.

**Completion of the Disposal is subject to the satisfaction and/or waiver of the conditions precedent in the S&P Agreement. As the Disposal may or may not complete, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

A circular containing, among other things, the details of the Disposal, the relevant financial information on the Group, a valuation report on the Kingsway Hotel and a notice of the SGM will be despatched to the Shareholders as soon as practicable.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 2nd August, 2007 pending the release of this announcement. The Company has applied for a resumption of trading in its Shares with effect from 9:30 am on 9th August, 2007.

#### **THE S&P AGREEMENT**

**Date** : 1st August, 2007 (after trading hours)

#### **Parties to the S&P Agreement:**

- (1) Vendor : the Company
- (2) Purchaser : Legend Rich, a wholly-owned subsidiary of Riche
- (3) Guarantor of the Purchaser : Riche

The Purchaser carries on the business of investment holding and Riche is an indirect associate of the Company.

**Assets to be disposed:**

1 ordinary share in the issued share capital of Exceptional Gain, representing 100% of the issued share capital of Exceptional Gain, and the Sale Loan.

Exceptional Gain is an investment holding vehicle which indirectly holds a 50% interest in the Kingsway Hotel. The Kingsway Hotel was a three star hotel named Kingsway Hotel wholly owned by KHL and is located at Rua De Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64-A-82, Rua De Xiamen No. 37-A-59, Macau. It is currently under renovation to becoming a luxury boutique hotel.

**Consideration:**

The consideration for the Sale Share and the Sale Loan is HK\$447,000,000, which shall be paid to the Company by Riche issuing to the Company (or as it may direct) the Convertible Note on Completion.

The consideration was determined after arm's length negotiations and with reference to a property valuation conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer, on an open market value basis valuing the Kingsway Hotel at approximately HK\$894,000,000 as at 31st July, 2007.

The Group had acquired its 50% interest in the Kingsway Hotel at a consideration of approximately HK\$361,688,000 which is arrived at after taking into the acquisition cost of approximately HK\$231,875,000 for the 38.5% interest in the Kingsway Hotel and the acquisition cost of approximately HK\$491,500,000 for the 61.5% interest in the Kingsway Hotel less the attributable acquisition cost of approximately HK\$361,687,000 in relation to the disposal of 50% interest in the Kingsway Hotel in June 2007. The balance of 50% interest in the Kingsway Hotel is held by Independent Third Parties.

**Conditions Precedent:**

The Completion is conditional upon fulfilment of the following conditions:

- (a) the shares of Riche remaining listed and traded on the Stock Exchange at all times from the date of the S&P Agreement to and on the date of Completion, save for (i) suspension of less than 20 consecutive Business Days or (ii) the suspension on account of clearance of any announcement in respect of any of the transactions contemplated under the S&P Agreement;
- (b) the passing of the necessary resolution(s) by the Shareholders (other than those (if any) who are required to abstain from voting under the Listing Rules) at the SGM to approve the Company's entry into of the S&P Agreement and the performance of the transactions contemplated thereunder;
- (c) the passing of the necessary resolution(s) by the shareholders of Riche (other than those (if any) who are required to abstain from voting under the Listing Rules) at a general meeting of Riche to approve Riche's entry into of the S&P Agreement, the performance of the transactions contemplated thereunder and the issue of the Convertible Note and the shares of Riche upon conversion of the Convertible Note;

- (d) all necessary statutory governmental and regulatory obligations having been complied with and all necessary regulatory authority in Hong Kong or in Macau, governmental and third party consents and approvals (including those person entitled to any pre-emption rights) and waivers for the purposes of the transactions contemplated under the S&P Agreement having been obtained without any conditions (or subject to other conditions reasonably acceptable to the parties to the S&P Agreement); and
- (e) title checking by the Purchaser of all title deeds and documents relating to the Kingsway Hotel to the reasonable satisfaction of the Purchaser that there are no circumstances which might lead to the title of the Purchaser to the Kingsway Hotel (including the land on which the Kingsway Hotel situates) being defective or not good or marketable or restricted in any adverse way, and satisfactory review of the tenancy agreements affecting the Kingsway Hotel.

If any of the conditions has not been fulfilled on or before 31st December, 2007, the Company or the Purchaser shall be entitled to rescind the S&P Agreement by giving written notice to the other whereupon the provisions of the S&P Agreement shall from such date have no further force and effect and no party shall have any liability under them (without prejudice to the rights of the parties in respect of any antecedent breaches).

Completion shall take place on the third Business Day after the fulfillment and/or waiver of the last of the conditions precedent in the S&P Agreement or such later date as the Company and the Purchaser may agree.

#### **Terms of the Convertible Note**

The terms of the Convertible Note have been negotiated on an arm's length basis and the principal terms of which are summarised below:

#### **Issuer**

Riche

#### **Principal amount**

HK\$447,000,000

#### **Interest**

The Convertible Note will not carry any interest.

#### **Maturity**

A fixed term of 10 years from the date of issue of the Convertible Note. Unless previously redeemed, converted or cancelled in accordance with the instrument, Riche shall redeem the outstanding principal amount of the Convertible Note on the maturity date.

#### **Conversion**

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

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

Under the respective terms of the Convertible Note, the Company cannot convert the Convertible Note or part thereof if upon the exercise of the conversion rights under the Convertible Note, the Company and parties acting in concert with it, shall be interested in 30% of the voting rights (or such amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the then enlarged issued share capital of Riche at the date of the relevant exercise.

### **Conversion Price**

The Conversion Price is HK\$1.00 per Conversion Share subject to adjustments.

The adjustments for Conversion Price include the followings:

- (i) an alteration of the nominal amount of each share of Riche by reason of any consolidation or subdivision;
- (ii) an issue (other than in lieu of a cash dividend) by Riche of shares in Riche credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution being made by Riche, whether on a reduction of capital or otherwise, to shareholders of Riche (in their capacity as such) or a grant by Riche to shareholders of Riche (in their capacity as such) of rights to acquire for cash assets of Riche or any of its subsidiaries;
- (iv) an offer of new shares in Riche for subscription by way of rights, or a grant of options or warrants to subscribe new shares in Riche being made by Riche to shareholders of Riche (in their capacity as such);
- (v) an issue wholly for cash being made by Riche of securities convertible into or exchangeable for or carrying rights of subscription for new shares in Riche and the total effective consideration per share in Riche receivable for such securities is less than 80% of the market price on the date of announcement of the terms of the issue of such securities;
- (vi) an issue of shares in Riche wholly for cash at a price per share in Riche which is less than 80% of the market price on the date of announcement of the terms of such issue; and
- (vii) an issue of shares in Riche for the acquisition of assets at a total effective consideration per share in Riche which is less than 80% of the market price of the date of the announcement of the terms of such issue.

Riche will issue an announcement in respect of any adjustment made to the Conversion Price.

The Conversion Price represents (i) a premium of approximately 29.87% over the closing price of HK\$0.77 per share in Riche as quoted on the Stock Exchange on 1st August, 2007, being the date immediately prior to the date of the suspension of trading in the shares in Riche; (ii) a premium of approximately 21.95% over the average of the closing prices of approximately HK\$0.82 per share in Riche as quoted on the Stock Exchange for the last 5 Trading Days up to and including 1st August, 2007, being the date immediately prior to the date of the suspension of trading in the shares in Riche; (iii) a premium of approximately 27.39% over the average of the closing prices of HK\$0.785 per share in Riche as quoted on the Stock Exchange for the last 10 Trading Days up to and including 1st August, 2007, being the date immediately prior to the date of the suspension of trading in the shares in Riche; and (iv) a premium of approximately 2% over the net asset value per share in Riche of HK\$0.98 based on the audited consolidated accounts of Riche as at 31st December, 2006 adjusted for the placings of new shares of Riche as completed in March, May, July and August 2007.

The Conversion Price is arrived at after arm's length negotiation between the parties and is based on the average closing price of HK\$0.785 for the last 10 Trading Days prior to the suspension and by taking into account the future prospect of Riche's recent expansion into Macau property market and the adjusted net asset value per share in Riche as at 31st December, 2006.

### **Conversion Shares**

As at the date of this announcement, Classical Statue Limited, an indirect wholly-owned subsidiary of the Company and a substantial shareholder of Riche, is holding 276,351,000 shares in Riche, representing approximately 21.24% of the existing issued share capital of Riche. Assuming the Company exercises the conversion rights attaching to the Convertible Note, the maximum Conversion Shares that Riche can allot and issue pursuant to the instrument is 162,678,000 Conversion Shares, representing (i) 12.5% of the existing share capital of Riche; and (ii) 11.11% of the issued share capital of Riche as enlarged by the 162,678,000 Conversion Shares. Upon the allotment and issue of the 162,678,000 Conversion Shares, the Company and Classical Statue Limited will hold an aggregate of 439,029,000 shares in Riche, representing approximately 29.99% of the issued share capital of Riche as enlarged by the 162,678,000 Conversion Shares. The Conversion Shares will be issued pursuant to the specific mandate to be sought at Riche's special general meeting.

### **Early redemption**

Riche may at any time before the maturity date, by serving at least 7 days' prior written notice on the Noteholder with the total amount proposed to be redeemed from the Noteholder specified therein, redeem the Convertible Note (in whole or in part) at its face value.

### **Ranking**

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing shares in Riche in issue on the date of allotment and issue of such Conversion Shares.

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

The Convertible Note constitutes a direct, unconditional, unsubordinated and unsecured obligation of Riche and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of Riche.

## **Voting rights**

The Convertible Note does not confer any voting rights at any meetings of Riche.

## **Application for listing**

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

## **KINGSWAY HOTEL LIMITED AND THE KINGSWAY HOTEL**

The Kingsway Hotel was a three star hotel named Kingsway Hotel wholly owned by KHL and is located at Rua De Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No. 64-A-82, Rua De Xiamen No. 37-A-59, Macau. The Kingsway Hotel opened in 1992 and has a total of 383 guests rooms with ancillary facilities including, among others, a casino, a health spa, a night club and retails shops. The casino in the Kingsway Hotel is leased to and managed by a third party independent of KHL. For the year ended 31st December, 2006, the average occupancy rate of the Kingsway Hotel was about 79%. Following the Company's acquisition of the Kingsway Hotel and subsequent to the disposal of a 50% aggregate interest to Most Famous Enterprises Limited and SJM-Investimentos Limitada, the Kingsway Hotel has commenced renovation into a luxury boutique hotel with gaming and other facilities.

Based on the advice from the Company's Macau legal adviser, KHL is not required to obtain any licence under Macau law to lease the casino block to the operator of the casino business, and it is the operator who has to obtain authorisation before it can operate the casino business.

According to the financial statements of KHL (which are prepared in accordance with Hong Kong Generally Accepted Accounting Principles) as shown in the accountants' report of the Company's circular dated 10th March, 2007 for the two years ended 31st December, 2005 and 2006, KHL recorded a turnover of approximately HK\$62,765,000 and HK\$62,922,000 respectively, profit before taxation and extraordinary item of approximately HK\$17,748,000 and HK\$17,834,000 for 2005 and 2006 respectively and profit after taxation and extraordinary item of approximately HK\$17,719,000 and HK\$16,961,000 for 2005 and 2006 respectively. The net asset value of KHL amounted to approximately HK\$32,177,000 and HK\$49,138,000 respectively as at 31st December, 2005 and 31st December, 2006.

A property valuation on the Kingsway Hotel had been conducted by a firm of independent professional valuers valuing the Kingsway Hotel at HK\$894,000,000 as at 31st July, 2007.

## **REASONS FOR THE DISPOSAL**

The Group is currently in various preliminary negotiations with Independent Third Parties regarding the proposed acquisitions of certain entertainment and leisure businesses, including gaming, in Macau. The Directors consider that the Disposal provides an opportunity to restructure its business and to enable the Group to concentrate its resources for the proposed acquisitions.

In addition, the Directors believe that the Disposal will provide the following benefits to the Group:

i. Allocation of resources effectively

Following the acquisition of its Beijing property in 2006, Riche has recruited a property management team and entered into a joint venture with Steve Leung Hotel Design And Management Limited to develop its property investment business. The Beijing property is currently being transformed into a high-end serviced apartment which is expected to be commenced business in September 2007. As Riche has already possessed appropriate expertise and resources in hotel and property management, the Directors believe that the Disposal provides an opportunity to the Group and Riche to allocate their resources effectively and to avoid duplication of resources.

ii. Positive impact on the valuations of the Kingsway Hotel and Riche

In addition to enhance Riche's property investment portfolio, the Directors believe that the value of the Kingsway Hotel will be better realised and reflected in Riche as the Disposal will enable Riche to build up its own branding in hotel and hospitality industry and a chain of hotels in the Greater China region. It, in turn, will have a positive impact on the Group's return on investment in Riche.

The Directors (including the independent non-executive Directors) consider that the Disposal is in the interests of the Company and the Shareholders as a whole and that the terms are fair and reasonable and on normal commercial terms. Mr. Heung Wah Keung and Ms. Li Yuk Sheung, the executive Directors, represented the Company in the negotiations on the Disposal. As Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany have no proposal interest in Riche and the Disposal will not confer upon terms or benefits not available to other Shareholders, no Shareholder is required to abstain for voting at the SGM.

The Company had acquired its 38.5% and 61.5% interest in KHL on 30th March, 2007 and 30th May, 2007 respectively. On 23rd June, 2007, the Company disposed of a 50% interest in KHL to Most Famous Enterprises Limited and SJM-Investmentos Limitada.

## **FINANCIAL EFFECT OF THE DISPOSAL**

Following the completion of the Disposal, the Group will receive the consideration of HK\$447,000,000. The cost of the Disposal includes the unaudited net asset value as at 31st May, 2007 of approximately HK\$31,677,000 and the Sale Loan as at 31st May, 2007 of approximately HK\$409,222,000. Assuming the Disposal had been completed on 31st May, 2007, the Group is expected to recognise a gain on disposal of approximately HK\$6,101,000.

Prior to the Disposal, KHL was treated as a subsidiary of the Company and its results are consolidated into that of the Company.

## LISTING RULES IMPLICATIONS

The Disposal constitutes a major transaction for the Company under the Listing Rules (and not a very substantial disposal as indicated when suspension was requested due to the adjustments made in finalising the size tests) and is therefore subject to the approval of the Shareholders at the SGM. As no Shareholder has a material interest in the Disposal which is different from the other Shareholders, no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Disposal at the SGM. There will be no change in the board composition of the Company as a result of the Disposal.

## GENERAL

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.

**Completion of the Disposal is subject to the satisfaction and/or waiver of the conditions precedent in the S&P Agreement. As the Disposal may or may not complete, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

A circular containing, among other things, the details of the Disposal, the relevant financial information on the Group, a valuation report on the Kingsway Hotel and a notice of the SGM will be despatched to the Shareholders as soon as practicable. The Disposal is the transaction referred to in the Company's announcement dated 30th July, 2007.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 am on 2nd August, 2007 pending the release of this announcement. The Company has applied for a resumption of trading in its Shares with effect from 9:30 am on 9th August, 2007.

## TERMS USED IN THIS ANNOUNCEMENT

“Board”	the board of Directors;
“Business Day”	a day (other than a Saturday 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” or “Vendor”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange;
“Completion”	completion of the S&P Agreement;
“Convertible Note”	the convertible note to be issued by Riche in the aggregate amount of HK\$447,000,000 to the Company (or as it may direct);
“Conversion Period”	a period of 10 years from the date of issue of the Convertible Note;
“Conversion Price”	the initial conversion price of HK\$1.00 per Conversion Share, subject to adjustment pursuant to the terms of the Convertible Note;



“Conversion Shares”	shares of Riche to be allotted and issued upon conversion of the Convertible Note;
“Directors”	directors of the Company;
“Disposal”	the disposal by the Company of 100% of the issued share capital of Exceptional Gain and the Sale Loan;
“Exceptional Gain”	Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Third Party”	person who himself is, and (in the case of corporate entity) its ultimate beneficial owners are, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, third parties who are not connected persons of the Company and are independent of the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates (as that term is defined in the Listing Rules);
“KHL”	Kingsway Hotel Limited, a company incorporated in Macau whose principal asset is the Kingsway Hotel;
“Kingsway Hotel”	the hotel building (comprising the portions being operated as a hotel under the name of Kingsway Hotel and the commercial podium having a covered floor area of about 18,165.76 sq.m.) situate at Rua De Luis Gonzaga Gomes No.176-230, Rua De Nagasaki No.64-A-82, Rua De Xiamen No.37-A-59, Macau (including all appurtenances thereto, all furniture, fittings, equipment, furnishing, operating equipment and inventories and other tangible articles used in connection with Kingsway Hotel and the operation thereof);
“Legend Rich” or “Purchaser”	Legend Rich Limited, a wholly-owned subsidiary of Riche;
“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;
“Noteholder”	holder of the Convertible Note;

“Riche”	Riche Multi-Media Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange;
“Riche Group”	Riche and its subsidiaries;
“Sale Loan”	all obligations, liabilities and debt owed by Exceptional Gain to the Company amounted to approximately HK\$409,222,000 as at the date of the S&P Agreement;
“Sale Share”	1 ordinary share in the issued share capital of Exceptional Gain;
“SGM”	a special general meeting of the Company to be convened and held to consider and, if thought fit, to approve, among other things, the Disposal;
“Share(s)”	ordinary shares of HK\$0.05 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“S&P Agreement”	the agreement dated 1st August, 2007 entered into between the Company, Legend Rich and Riche relating to the sale and purchase of the Sale Share and the Sale Loan;
“Trading Day”	a day on which the Stock Exchange is open for business;
“%”	per cent.

By Order of the Board  
**China Star Entertainment Limited**  
**Heung Wah Keung**  
*Chairman*

Hong Kong, 8th August, 2007

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