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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

PROPOSED CAPITAL REORGANISATION

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The Company intends to put forward to Shareholders for their approval a proposal involving the following changes to the capital of the Company:

- (a) Share Consolidation: that every ten (10) issued and unissued Existing Shares be consolidated into one (1) Consolidated Share;
- (b) Capital Reduction: that the issued Consolidated Shares be reduced by cancelling from the paid-up capital thereof to the extent of HK\$0.45 of each issued Consolidated Share and reducing the nominal value of all the Consolidated Shares comprising the authorised share capital of the Company from HK\$0.5 each to HK\$0.05 each; and
- (c) Share Premium Cancellation: that the entire amount of HK\$1,356,449,856.32 standing to the credit of the share premium account of the Company as at 31 December 2007 be cancelled and such credit amount arising from the Share Premium Cancellation be applied to the contributed surplus account of the Company where it will be utilised by the Board in accordance with the bye-laws of the Company and all applicable laws, including to eliminate the accumulated losses of the Company of HK\$864,665,000 as at 31 December 2006 entirely.

The board lot size for trading in the Shares will remain unchanged upon the Capital Reorganisation becoming effective.

GENERAL

A SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. A circular containing, among other things, the details of the Capital Reorganisation together with a notice convening the SGM will be despatched to the Shareholders as soon as possible.

PROPOSED CAPITAL REORGANISATION

The Directors have duly resolved to put forward to Shareholders for their approval of the Capital Reorganisation comprising the Share Consolidation, the Capital Reduction and the Share Premium Cancellation with details as follows:

1. Share Consolidation

That the Share Consolidation be implemented whereby every ten (10) Existing Shares be consolidated into one (1) Consolidated Share.

As at the date of this announcement, the authorised share capital of the Company is HK\$1,000,000,000 divided into 20,000,000,000 Existing Shares, and the issued share capital of the Company is HK\$222,121,520.30 divided into 4,442,430,406 Existing Shares. As at the date of this announcement, save for the Share Options eligible for exercise to subscribe for up to 324,689,433 Existing Shares and the Convertible Notes convertible into 1,279,999,999 Existing Shares at the initial conversion price of HK\$0.30 each, there are no other outstanding options, warrants or securities convertible or exchangeable into Shares.

Immediately after completion of the Share Consolidation, the authorised share capital of the Company will remain at HK\$1,000,000,000, but divided into 2,000,000,000 Consolidated Shares and the issued share capital of the Company will remain at HK\$222,121,520.30, divided into 444,243,040 Consolidated Shares.

2. Capital Reduction

That the issued Consolidated Shares be reduced by cancelling from the paid-up capital thereof to the extent of HK\$0.45 of each issued Consolidated Share and reducing the nominal value of all the Consolidated Shares comprising the authorised share capital of the Company from HK\$0.50 each to HK\$0.05 each.

Immediately after completion of the Share Consolidation and the Capital Reduction, the authorised share capital of the Company will be reduced from HK\$1,000,000,000 to HK\$100,000,000, divided into 2,000,000,000 New Shares and the issued share capital of the Company will be reduced from HK\$222,121,520.30 to HK\$22,212,152, divided into 444,243,040 New Shares. The Capital Reduction, if duly sanctioned and thereafter implemented, will result in reducing the paid up capital of the Company by HK\$199,909,368.30. Such amount will be credited to the contributed surplus account of the Company.

3. Share Premium Cancellation

That the entire amount of HK\$1,356,449,856.32 standing to the credit of the share premium account of the Company as at 31 December 2007 be cancelled and such credit amount arising from the Share Premium Cancellation be applied to the contributed surplus account of the Company where it will be utilised by the Board in accordance with the bye-laws of the Company and all applicable laws, including to eliminate the accumulated losses of the Company of HK\$864,665,000 as at 31 December 2006 entirely.

According to the management accounts of the Company as at 31 December 2007, the amounts of the share premium account and the contributed surplus account are HK\$1,356,449,856.32 and HK\$207,548,000 respectively. Immediately after completion of the Capital Reorganisation and the elimination of the Company's entire accumulated losses as at 31 December 2006, an additional amount of HK\$691,694,224.62 will be credited to the contributed surplus account. As a result, the total outstanding amount standing to the credit of the contributed surplus account of the Company will increase to HK\$899,242,224.62.

The board lot size for trading in the Shares will remain unchanged upon the Capital Reorganisation becoming effective.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (a) the passing of the necessary resolutions for: (i) the Share Consolidation; (ii) the Capital Reduction; and (iii) the Share Premium Cancellation by Shareholders at the SGM;
- (b) the publication of a notice of the Capital Reduction and the Share Premium Cancellation in Bermuda in accordance with the Companies Act; and
- (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the New Shares to be allotted and issued forthwith upon the Capital Reorganisation becoming effective and any New Shares which may fall to be issued upon exercise of the Share Options and may be granted upon conversion of the Convertible Notes.

The Capital Reorganisation will become effective on the Business Day immediately following fulfillment of the above conditions.

Effect of the Capital Reorganisation

The New Shares will rank pari passu in all respects with the Existing Shares in issue prior to the Capital Reorganisation becoming effective and each other and there will be no change in the respective rights of the Shareholders. Any fractional entitlements to the New Shares will be aggregated, sold and retained for the benefit of the Company.

Full and complete implementation of the Capital Reorganisation would not, by itself, alter in whatsoever and howsoever way the underlying assets, liabilities, businesses, management or financial position of the Company and the Group or the rights of Shareholders except for incurring the liability for payment of the related costs and expenses.

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company, that is, before and immediately after the Capital Reorganisation:

	Before the Capital Reorganisation	Immediately after the Capital Reorganisation
Nominal value per Share	HK\$0.05 per Existing Share	HK\$0.05 per New Share
Authorised share capital of the Company	HK\$1,000,000,000 divided into 20,000,000,000 Existing Shares	HK\$100,000,000 divided into 2,000,000,000 New Shares
Issued and paid-up share capital of the Company	HK\$222,121,520.30 divided into 4,442,430,406 Existing Shares	HK\$22,212,152 divided into 444,243,040 New Shares

Reason for the Capital Reorganisation

Taking into account the Share Consolidation and the Capital Reduction will increase the trading price per board lot, and hence reduce the overall transaction and handling costs for dealing in the New Shares, the Directors are of the view that the Share Consolidation and the Capital Reduction are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Capital Reorganisation will facilitate any possibility that the Company is required to comply with Rule 13.64 of the Listing Rules in the future.

As stated in the latest published audited financial statements of the Company for the year ended 31 December 2006, the Company had accumulated losses of HK\$864,665,000 as at 31 December 2006. The Share Premium Cancellation will allow the Company to declare dividends to the Shareholders at an earlier opportunity than by generating profits to offset such losses. Hence, the Directors are of the view that the Share Premium Cancellation is beneficial to the Company and the Shareholders as a whole. The Company has not yet decided whether to declare dividends or not.

Application for listing of the New Shares

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the New Shares to be issued forthwith upon the Capital Reorganisation becoming effective and any New Shares which may fall to be issued upon the exercise of the Share Options and may be granted upon conversion of the Convertible Notes.

Free exchange of New Share certificates and trading arrangements

Subject always to the passing of the resolutions approving the Capital Reorganisation, Shareholders may, during business hours for the period from 7 May 2008 to 18 June 2008 submit their share certificates for Existing Shares held by them to the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong in exchange for new share certificates for New Shares at the expense of the Company. Thereafter, share certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) for each new share certificate issued for the New Shares or each share certificate for Existing Shares submitted for cancellation, whichever the number of certificates issued or cancelled is higher. Nevertheless, share certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for new share certificates for the New Shares at any time but are not acceptable for trading, settlement and registration purpose upon completion of the Capital Reorganisation.

The expected timetable for implementation of the Capital Reorganisation and the associated trading arrangement are set out below:

2008

- Despatch of circular and proxy form of SGM Monday, 14 April
- SGM Tuesday, 6 May
- Effective date of the Capital Reorganisation Wednesday, 7 May
- Dealing in New Shares commence Wednesday, 7 May
- Original counter for trading in Existing Shares in
board lot size of 5,000 Existing Shares
temporarily closes 9:30 a.m. on Wednesday, 7 May
- Temporary counter for trading in New Shares in
board lot size of 500 New Shares in the form of
existing share certificate(s) opens 9:30 a.m. on Wednesday, 7 May

First day for free exchange of existing share certificate(s)
of Existing Shares for new share certificate(s)
for New Shares Wednesday, 7 May

Original counter for trading in New Shares in board
lot size of 5,000 New Shares in the form of
new share certificate(s) for New Shares re-opens 9:30 a.m. on Thursday, 22 May

Parallel trading in New Shares in the form of
new share certificate(s) and existing
share certificate(s) commences 9:30 a.m. on Thursday, 22 May

Designated broker starts to stand in the market
to purchase and sell odd lots of New Shares Thursday, 22 May

Parallel trading in New Shares in the form of
new share certificate(s) and existing
share certificate(s) ends 4:00 p.m. on Friday, 13 June

Temporary counter for trading in New Shares
in board lot size of 500 New Shares in the
form of existing certificate(s) closes 4:00 p.m. on Friday, 13 June

Designated broker ceases to stand in the
market to purchase and sell odd lots of New Shares 4:00 p.m. on Friday, 13 June

Last day for free exchange of existing
share certificate(s) of Existing Shares for
new share certificate(s) for New Shares. Wednesday, 18 June

Arrangement for matching service for odd lots

In order to alleviate the difficulties arising from the existence of odd lots of the New Shares, the Company has agreed to procure a designated broker to arrange for the matching of the sales and purchases of odd lots of the New Shares. Details of the colour of the new share certificates and odd lot arrangements will be provided in the circular to be despatched to Shareholders.

Adjustments in relation to the Share Options

As at the date of this announcement, there are outstanding Share Options entitling the holders thereof to subscribe for up to an aggregate of 324,689,433 Existing Shares . The Capital Reorganisation may cause adjustments to the exercise prices and/or the number of the Share Options. The Company will appoint the Company's auditors or an independent financial adviser to review and confirm that the basis of such adjustments to the Share Options comply with Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and in accordance with the rules of the share option scheme of the Company. The Company will inform the holders of the Share Options of the adjustments accordingly.

Adjustments in relation to the conversion price of the Convertible Notes

Under the terms and conditions of the Convertible Notes, adjustments to the conversion price of the Convertible Notes is required after the Capital Reorganisation. The Company will inform the holder of the Convertible Notes of the adjustment accordingly.

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, property and hotel investment.

A SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. A circular containing, among other things, the details of the Capital Reorganisation together a notice convening the SGM will be dispatched to the Shareholders as soon as possible.

DEFINITIONS

“Board”	board of directors of the Company;
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours;
“Capital Reduction”	the proposed reduction of the issued Consolidated Shares by cancelling from the paid-up capital thereof to the extent of HK\$0.45 of each issued Consolidated Share and reducing the nominal value of all Consolidated Shares comprising the authorised share capital of the Company from HK\$0.5 each to HK\$0.05 each;

“Capital Reorganisation”	the proposed capital reorganisation of the Company comprising the Share Consolidation, the Capital Reduction and the Share Premium Cancellation;
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange;
“Companies Act”	Companies Act 1981 of Bermuda (as amended);
“Consolidated Share(s)”	consolidated ordinary share(s) of HK\$0.5 each in the issued and unissued share capital of the Company immediately after the completion of the Share Consolidation;
“Convertible Notes”	the 5% coupon convertible notes due 2017 in an aggregate principal amount of HK\$384,000,000 issued by the Company convertible into Existing Shares at an initial conversion price of HK\$0.30 per Existing Share, subject to adjustment;
“Directors”	the directors of the Company;
“Existing Share(s)”	existing ordinary share(s) of HK\$0.05 each in the issued and unissued share capital of the Company, before the implementation of the Capital Reorganisation;
“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;
“New Share(s)”	ordinary share(s) of HK\$0.05 each in the issued and unissued share capital of the Company immediately after the completion of the Capital Reorganisation;

“SGM”	a special general meeting of the Company to be convened to approve the Capital Reorganisation;
“Share(s)”	Existing Share(s), Consolidated Share(s) and/or New Share(s), as the case may be;
“Share Premium Cancellation”	the proposed cancellation of the entire amount of HK\$1,356,449,856.32 standing to the credit of the share premium account of the Company as at 31 December 2007;
“Share Options”	share options granted by the Company under the share option scheme of the Company;
“Share Consolidation”	the proposed consolidation of every ten (10) Existing Shares into one (1) Consolidated Share;
“Shareholder(s)”	the holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong; and
“%”	per cent.

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

Hong Kong, 26 March 2008

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.