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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 Directors propose to reorganise the capital of the Company in the following manner:

- (a) Share Consolidation: that every twenty (20) Existing Shares of HK\$0.05 each be consolidated into one (1) Consolidated Share of HK\$1.00 each;
- (b) Capital Reduction: that (i) the issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.99 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduce from HK\$1.00 to HK\$0.01; and (ii) the credit arising from the reduction of issued share capital of the Company be credited to the contributed surplus account of the Company; and
- (c) Share Subdivision: that each of the authorised but unissued Consolidated Shares of HK\$1.00 each be subdivided into one hundred (100) New Shares of HK\$0.01 each.

The New Shares will continue to be traded in the board lot of 5,000 New Shares each on the business day immediately following the date of completion of the Capital Reorganisation.

Shareholders should be aware of and take note that the Capital Reorganisation is conditional upon satisfaction of the conditions precedent set out in the paragraph headed “Conditions of the Capital Reorganisation” below, and therefore may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. A circular containing, amongst other things, further information on the Capital Reorganisation and a notice to convene the SGM will be despatched to the Shareholders as soon as practicable.

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(b) Capital Reduction

That (i) the issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.99 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduce from HK\$1.00 to HK\$0.01; and (ii) the credit arising from the reduction of issued share capital of the Company be credited to the contributed surplus account of the Company; and

(c) Share Subdivision

That each of the authorised but unissued Consolidated Shares of HK\$1.00 each be subdivided into one hundred (100) New Shares of HK\$0.01 each.

As at the date of this announcement, the authorised share capital of the Company is HK\$500,000,000 divided into 10,000,000,000 Existing Shares, of which 4,790,187,360 Existing Shares have been in issue and are fully paid or credited as fully paid. Assuming there will be no change in the issued and unissued share capital of the Company from the date of this announcement up to the date on which the Capital Reorganisation becoming effective, the authorised share capital of the Company will become HK\$500,000,000 divided into 50,000,000,000 New Shares and the issued share capital of the Company will become HK\$2,395,093.68 divided into 239,509,368 New Shares.

Based on 4,790,187,360 Shares in issue as at the date of this announcement, an amount of credit of HK\$237,114,274.32 will arise as a result of the Capital Reduction. It is proposed that the total credit arising in the accounts of the Company from the Capital Reduction will be transferred to the contributed surplus account of the Company. The Board currently has no plan as to the use of such amount. The New Shares in issue immediately following the Capital Reorganisation becoming effective will rank pari passu in all respects with each other.

As at the date of this announcement, save for the Share Options entitling the holders thereof to subscribe for 365,489,629 Existing Shares and the Convertible Bonds, the Company has no other outstanding warrants, options or convertible securities.

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company before and immediately after the Capital Reorganisation as well as the amount of credit arising from the Capital Reduction assuming no further new Existing Shares are issued prior to the Capital Reorganisation becoming effective:

	Before the Capital Reorganisation	Immediately after the Capital Reorganisation	Amount of credit arising from the Capital Reduction
Nominal value per Share	HK\$0.05 per Existing Share	HK\$0.01 per New Share	–
Shares authorised but unissued	HK\$260,490,632 divided into 5,209,812,640 Existing Shares	HK\$497,604,906.32 divided into 49,760,490,632 New Shares	–
Shares in issued	HK\$239,509,368 divided into 4,790,187,360 Existing Shares	HK\$2,395,093.68 divided into 239,509,368 New Shares	HK\$237,114,274.32

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (a) the passing of the necessary special resolution by the Shareholders at the SGM to approve the Capital Reorganisation involving the Share Consolidation, the Capital Reduction and the Share Subdivision;
- (b) compliance with the relevant procedures and requirements under the Listing Rules and Bermuda law to effect the Capital Reorganisation; and

- (c) the Listing Committee of the Stock Exchange granting 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 exercise of the Share Options and may be issued upon conversion of the Convertible Bonds.

The Capital Reorganisation will become effective on the business day immediately following fulfilment of the above conditions.

The New Shares will continue to be traded in the board lot of 5,000 New Shares each on the business day immediately following the date of completion of the Capital Reorganisation

Reasons for the Capital Reorganisation and impact on the Company and the Shareholders

Taking into account the Capital Reorganisation 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 Capital Reorganisation is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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.

Other than the expenses to be incurred in relation to the Capital Reorganisation, the implementation thereof will not alter the underlying assets, liabilities, business operations, management or financial position of the Company or the interests or rights of the Shareholders.

Application for listing of the New Shares

Application will be made by the Company to the Listing Committee of the Stock Exchange for granting 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 exercise of the Share Options and may be issued upon conversion of the Convertible Bonds.

All necessary arrangements will be made for the New Shares to be admitted into the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

Free exchange of new share certificates for the New Share and trading arrangements

Subject always to the passing of the resolution approving the Capital Reorganisation, Shareholders may, during business hours for a period as stated in the expected timetable hereunder to be announced later submit their share certificates for Existing Shares (in yellow colour) held by them to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., 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 New Shares at any time but are not acceptable for trading, settlement and registration purpose upon completion of the Capital Reorganisation. Details of the colour of the new share certificates will be published in the circular to be despatched to the Shareholders.

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

2009

Despatch of the circular and proxy form of the SGM	on or before Monday, 23 March
Latest time for lodging the form of proxy	4:30 p.m. on Tuesday, 28 April
SGM	4:30 p.m. on Thursday, 30 April
Announcement of the results of the Capital Reorganisation.	Monday, 4 May
Effective date of the Capital Reorganisation	Monday, 4 May
Dealing in New Shares commences.	9:30 a.m. on Monday, 4 May
Original counter for trading in Existing Shares in board lot size of 5,000 Existing Shares temporarily closes	9:30 a.m. on Monday, 4 May

Temporary counter for trading in New Shares
in board lot size of 250 New Shares in the
form of existing share certificates opens 9:30 a.m. on Monday, 4 May

First day for free exchange of share
certificates of Existing Shares for
new share certificates for New Shares Monday, 4 May

Original counter for trading in New Shares in board
lot size of 5,000 New Shares in the form of
new share certificates for New Shares re-opens 9:30 a.m. on Monday, 18 May

Parallel trading in New Shares in the form
of new share certificates and existing
share certificates commences. 9:30 a.m. on Monday, 18 May

Designated broker starts to stand in the market
to purchase and sell odd lots of New Shares Monday, 18 May

Parallel trading in New Shares in the form
of new share certificates and existing
share certificates ends 4:10 p.m. on Monday, 8 June

Temporary counter for trading in New Shares
in board lot size of 250 New Shares in the
form of existing share certificates closes 4:10 p.m. on Monday, 8 June

Designated broker ceases to stand in the market
to purchase and sell odd lots of New Shares 4:10 p.m. on Monday, 8 June

Last day for free exchange of share certificates
of Existing Shares for new share certificates
for New Shares Thursday, 11 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 odd lot arrangements will be provided in the circular to be despatched to the 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 365,489,629 Existing Shares. The Capital Reorganisation will cause adjustments to the exercise prices and/or the number of the Share Options. The Company will instruct its auditors or an independent financial adviser to review and certify the basis of such adjustments to the Share Options in compliance 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.

Adjustment in relation to the conversion price of the Convertible Bonds

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

WARNING

Shareholders should be aware of and take note that the Capital Reorganisation is conditional upon satisfaction of the conditions precedent set out in the paragraph headed “Conditions of the Capital Reorganisation” above, and therefore may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

The Group is principally engaged in film production, distribution of film and television drama series, the provision of post-production services, investing in operations which receive the profit streams from the gaming promotion business and property and hotel investment.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. A circular containing, amongst other things, the Capital Reorganisation and a notice to convene the SGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, the following words and expressions shall, unless the context otherwise requires, have the same meanings when used herein:

“Board”	the board of Directors
“Capital Reduction”	the proposed (i) reduction of the issued share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK\$0.99 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduce from HK\$1.00 to HK\$0.01; and (ii) crediting of credit amount arising from the reduction of the issued share capital of the Company to the contributed surplus account of the Company
“Capital Reorganisation”	the proposed capital reorganisation of the Company involving the Share Consolidation, the Capital Reduction and the Share Subdivision
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Consolidated Share(s)”	consolidated ordinary share(s) of HK\$1.00 each in the issued and unissued share capital of the Company immediately after the Share Consolidation becoming effective
“Convertible Bonds”	the outstanding unsecured convertible bonds in an aggregate principal amount of HK\$120,000,000 issued by the Company on 18 March 2008 conferring rights to convert the same Existing Shares at an adjusted conversion price of HK\$0.59 per Existing Share (subject to further adjustments)
“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

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Share(s)”	ordinary share(s) of HK\$0.01 each in the issued and unissued share capital of the Company immediately after the Capital Reorganisation becoming effective
“SGM”	the special general meeting of the Company to be convened and held to consider and, if thought fit, approve the Capital Reorganisation
“Share Consolidation”	the proposed consolidation of every twenty (20) Existing Shares of HK\$0.05 each into one (1) Consolidated Share of HK\$1.00 each
“Share Options”	the share options granted under the share option schemes adopted by the Company
“Share Subdivision”	the proposed subdivision of each of the authorised but unissued Consolidated Shares of HK\$1.00 each into one hundred (100) New Shares of HK\$0.01 each
“Share(s)”	Existing Share(s), Consolidated Share(s), and/or New Share(s), as the case may be
“Shareholders”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China

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

Hong Kong, 26 February 2009

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.