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## **CHINA STAR ENTERTAINMENT LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

**(Warrant Code: 972/1056)**

### **CONNECTED TRANSACTION – EXEMPT FROM INDEPENDENT SHAREHOLDERS’ APPROVAL REQUIREMENT – ACQUISITION OF 1% EQUITY INTEREST IN LAN KWAI FONG (MACAU) AND CHARM FAITH**

#### **THE ACQUISITION**

The Board is pleased to announce that on 11 January 2012 (after trading hours of the Stock Exchange), the Purchaser and the Vendor entered into the Agreements pursuant to which the Vendor has conditionally agreed to sell or procure the sale of, and the Purchaser has conditionally agreed to purchase, the Sale Shares, at a total consideration of HK\$13,000,007.80, upon the terms and subject to the conditions of the Agreements. The principal terms and conditions of the Agreements are set out below in this announcement.

#### **LISTING RULES IMPLICATIONS**

As disclosed in the announcement of the Company dated 16 November 2011, the Company is in preliminary negotiation with the Vendor and a connected person for the purpose of the Acquisition and acquiring the remaining 49% equity interest in Lan Kwai Fong (Macau) (the “**Possible Acquisition**”) respectively. Given that the negotiation of the Possible Acquisition is still in progress, the Acquisition is considered as connected transaction for the Company according to Rule 14A.13(1)(b) (i) of the Listing Rules. As one or more of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) of the Acquisition is more than 0.1% and all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) are less than 5%, the Acquisition is only subject to the reporting and announcement requirements but is exempted from the independent Shareholders’ approval requirement under Rule 14A.32(1) of the Listing Rules.

## **APPROVAL BY THE BOARD**

Although none of the Directors has a material interest in the Acquisition, Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung have voluntarily abstained from voting on the relevant resolutions to approve the Agreements and the transactions contemplated thereunder at the meeting of the Board held on 10 January 2012.

## **WARNING STATEMENT**

**Shareholders and potential investors should note that the Acquisition is conditional upon fulfillment of various conditions precedent of the Agreements, details of which have been set out under the paragraph headed “Conditions precedent” of this announcement. Accordingly, the Acquisition may or may not proceed.**

**Shareholders and potential investors should also note that the Possible Acquisition may or may not proceed, no formally binding documentation have been executed and negotiation is still in progress. A further announcement will be made as and when applicable.**

**Any Shareholder and potential investor contemplating selling or purchasing Shares should exercise extreme caution when dealing in Shares, and if they are in any doubt about their position, they should consult his/her/its own professional adviser.**

## **THE ACQUISITION**

Reference is made to the announcement of the Company dated 16 November 2011 relating to the negotiation on the possible acquisition of 50% equity interest in Lan Kwai Fong (Macau). The Board is pleased to announce that on 11 January 2012 (after trading hours of the Stock Exchange), the Purchaser and the Vendor entered into the Agreements pursuant to which the Vendor has conditionally agreed to sell or procure the sale of, and the Purchaser has conditionally agreed to purchase, the Sale Shares, at a total consideration of HK\$13,000,007.80, upon the terms and subject to the conditions of the Agreements. The principal terms and conditions of the Agreements are set out below.

## **PRINCIPAL TERMS OF THE AGREEMENTS**

### **The Lan Kwai Fong Share Purchase Agreement**

#### ***Date***

11 January 2012 (after trading hours of the Stock Exchange)

#### ***Parties***

Exceptional Gain Profits Limited, as purchaser

SJM – Investimentos Limitada, as vendor

The Vendor is an investment holding company and a subsidiary of SJM Holdings Limited which is a company listed on the Main Board of the Stock Exchange.

***Asset to be acquired***

The Sale Quota, representing 1% equity interest of the entire issued quotas of Lan Kwai Fong (Macau). As advised by the Vendor, the original purchase cost of the Sale Quota is HK\$6,300,000.

The Purchaser is currently holding 50% equity interest in Lan Kwai Fong (Macau) as at the date of the Lan Kwai Fong Share Purchase Agreement.

***Consideration***

The consideration of HK\$13,000,000 for the acquisition of the Sale Quota shall pay by the Purchaser to the Vendor in cash within 3 business days upon the completion of transfer of the legal title of the Sale Quota from the Vendor to the Purchaser in accordance with the laws of Macau. The consideration will be financed from internal resources of the Group.

The consideration of HK\$13,000,000 was arrived at arm's length negotiations between the Vendor and the Purchaser with reference to property valuation of Lan Kwai Fong (Macau) of HK\$1,220 million as at 31 March 2011 conducted by an independent professional valuer and the future prospect and expected revenue to be generated from Lan Kwai Fong (Macau) and its subsidiary, Classic Management.

***Conditions precedent***

The completion of the Lan Kwai Fong Share Purchase Agreement shall be conditional upon the following having occurred on or before the Completion Date:

- (a) the Purchaser procuring that Lan Kwai Fong (Macau) and Classic Management execute, and the Vendor procuring that SJM execute the Service Exclusivity Agreement with such amendments as may be accepted by the parties thereto;
- (b) the Purchaser procuring that both the Company and Most Famous execute, and the Vendor executing the Shareholders Agreement Addendum with such amendments as may be accepted by the parties thereto;
- (c) the Charm Faith Share Purchase Agreement having been executed by the Purchaser and the Vendor; and

- (d) upon the Stock Exchange (if necessary), the Securities and Futures Commission's (if necessary) and 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 persons entitled to any pre-emption rights) and waivers for the purposes of the transactions contemplated under both the Lan Kwai Fong Share Purchase Agreement and the Charm Faith Share Purchase Agreement having been obtained without any conditions (or subject to such conditions reasonably acceptable to the parties).

None of the above conditions precedent is capable of wavier either by the Vendor or the Purchaser.

***Completion***

Completion of the Lan Kwai Fong Share Purchase Agreement shall take place within 3 business days following fulfilment of the above conditions precedent before 5:00 p.m. on the Completion Date.

**The Charm Faith Share Purchase Agreement**

***Date***

11 January 2012 (after the trading hours of the Stock Exchange)

***Parties***

Exceptional Gain Profits Limited, as purchaser

SJM – Investment Limited, as vendor

***Asset to be acquired***

The BVI Share, representing 1% equity interest of the entire issued share capital of Charm Faith. As advised by the Vendor, the original purchase cost of the BVI Share is US\$1 (or equivalent to HK\$7.80).

The Purchaser is currently holding 50% equity interest of the entire issued share capital of Charm Faith as at the date of the Charm Faith Share Purchase Agreement.

***Consideration***

The consideration of US\$1 (or equivalent to HK\$7.80) for the acquisition of the BVI Share shall pay by the Purchaser to the Vendor in cash upon completion of the Charm Faith Share Purchase Agreement.

***Conditions precedent***

Completion of the Charm Faith Share Purchase Agreement shall be conditional upon the completion of the Lan Kwai Fong Share Purchase Agreement.

### ***Completion***

Completion of the Charm Faith Share Purchase Agreement shall take place immediately following completion of the Lan Kwai Fong Share Purchase Agreement.

### **PRINCIPAL TERMS OF THE SHAREHOLDERS' AGREEMENT ADDENDUM**

The principal terms of the Shareholders' Agreement Addendum are summarised as follows:

- (a) Most Famous and the Company agree that the Vendor will be free of the shareholders' agreement dated 22 June 2007 (the "**Shareholders' Agreement**") and any obligation arising therefrom after completing the sale of the Sale Quota from the Vendor to the Purchaser and each of the parties confirms in favour of the other shareholders of Lan Kwai Fong (Macau) that there exists no claim by or between them under the Shareholders' Agreement.
- (b) Most Famous declares that it does not intend to exercise its pre-emption right regarding the sale of Sale Quota from the Vendor to the Purchaser.

### **INFORMATION ON THE HOTEL, LAN KWAI FONG (MACAU) AND CLASSIC MANAGEMENT**

The principal assets of Lan Kwai Fong (Macau) are the hotel property located at the hotel building (comprising the portions being operated as a hotel under the name of Hotel Lan Kwai Fong Macau and the commercial podium having a covered floor area of about 25,000 sq.m. (inclusive of area of basement)) situated 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 "**Hotel**") and a 99% equity interest in Classic Management, which provides casino management services in the Hotel.

The Hotel presents a total of 200 guestrooms, casino situated in the ground, 1st and 18th floors, restaurants, flower shop, retail shop and a spa. As at 30 June 2011, the casino in the Hotel operated a total of 78 gaming tables in both VIP and mass markets and also operated a total of 121 slot machines.

According to the management accounts of Lan Kwai Fong (Macau) for the years ended 31 December 2009 and 2010 which are prepared in accordance with Hong Kong Financial Reporting Standards, the net assets values of Lan Kwai Fong (Macau) as at 31 December 2009 and 2010 were HK\$618.17 million and HK\$623.79 million respectively. The loss before and after taxation for the year ended 31 December 2009 were both HK\$76.78 million. The profit before and after taxation for the year ended 31 December 2010 were both HK\$64.19 million.

According to the management accounts of Classic Management for the period/year ended 31 December 2009 and 2010 which are prepared in accordance with Hong Kong Financial Reporting Standards, the net assets values of Classic Management as at 31 December 2009 and 2010 were HK\$134,000 and HK\$274,000 respectively. The profit before and after taxation for the period from 28 July 2009 (date of incorporation) to 31 December 2009 were both HK\$38,000. The profit before and after taxation for the year ended 31 December 2010 were both HK\$140,000.

According to the combined management accounts of Lan Kwai Fong (Macau) and Classic Management for the six months ended 30 June 2011, the aggregated unaudited net assets of Lan Kwai Fong (Macau) and Classic Management as at 30 June 2011 was approximately HK\$674.74 million. The aggregated unaudited net profit before and after tax and extraordinary items attributable to Lan Kwai Fong (Macau) and Classic Management for the six months ended 30 June 2011 was approximately HK\$50.67 million.

### **INFORMATION ON CHARM FAITH**

The principal asset of Charm Faith is 1% equity interest in Classic Management.

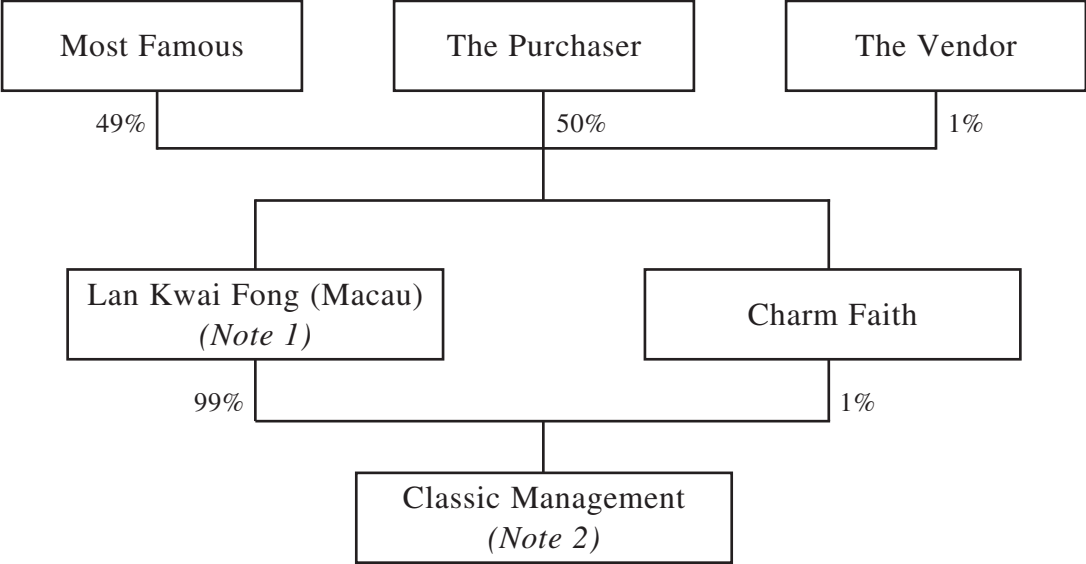
According to the management accounts of Charm Faith for the years ended 31 December 2009 and 2010 which are prepared in accordance with Hong Kong Financial Reporting Standards, the unaudited net liabilities values of Charm Faith as at 31 December 2009 and 2010 were HK\$6,000 and HK\$20,000 respectively. The unaudited loss before and after taxation for the period from 19 May 2009 (date of incorporation) to 31 December 2009 were both HK\$7,000. The unaudited net loss before and after taxation for the year ended 31 December 2010 were both HK\$14,000.

According to the management accounts of Charm Faith for the six months ended 30 June 2011, the unaudited net liabilities of Charm Faith as at 30 June 2011 was approximately HK\$25,000. The unaudited net loss before and after tax and extraordinary items attributable to Charm Faith for the six months ended 30 June 2011 was approximately HK\$5,000.

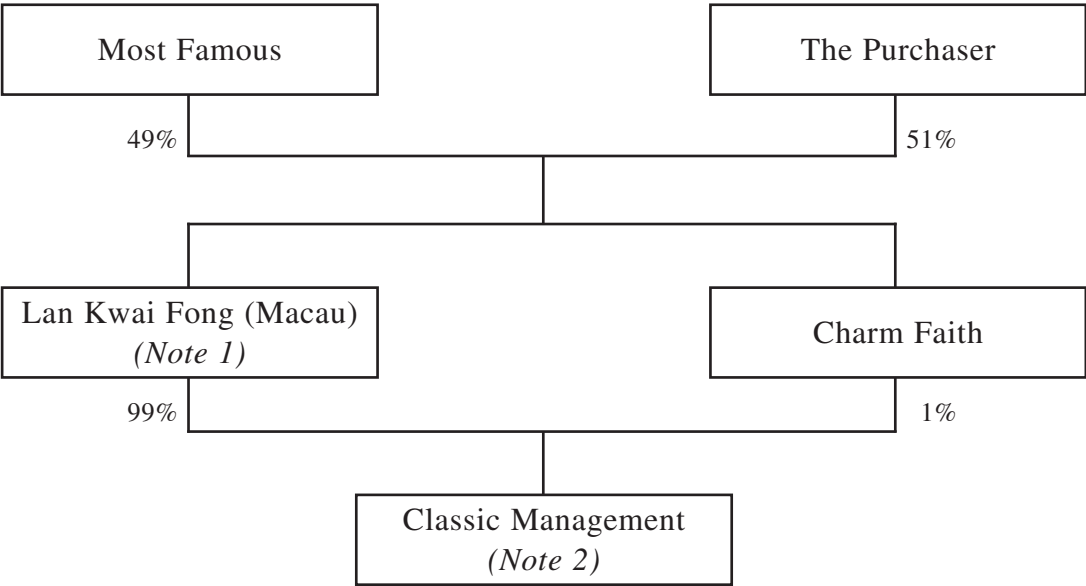
Upon Completion, the Company will effectively own 51% equity interest in Lan Kwai Fong (Macau), Charm Faith and Classic Management which will continue to be accounted for as subsidiaries of the Company.

**SHAREHOLDING STRUCTURE BEFORE AND AFTER COMPLETION**

Before Completion:



After Completion:



Notes:

1. A company that solely and beneficially owns the Hotel.
2. A company that provides casino management services in the Hotel.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Company is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, investing in operations which receive the profit stream from gaming promotion business and property and hotel investment.

The Board is optimistic about the prospect and future development of Macau and thus continues to pursue its strategy of growing its business in Macau and the Board also expects the performance of the hotel and gaming service operations of the Hotel to be stable growth.

According to the annual report of the Company for the year ended 31 December 2010, the total turnover of the Group was HK\$864.26 million, of which hotel and gaming service operations in the Hotel recorded HK\$725.13 million, representing approximately 84% of the total turnover of the Group. The Group's segment results recorded loss of HK\$24.83 million, of which hotel and service operations contributed segment profit of HK\$64.33 million for the year ended 31 December 2010.

As shown in the interim report of the Company for the six months ended 30 June 2011, the total turnover of the Group was HK\$470.93 million, of which hotel and gaming service operations recorded HK\$420.59 million, representing approximately 89% of the total turnover of the Group. The Group's segment results recorded profit of HK\$25.34 million, of which hotel and service operations contributed segment profit of HK\$50.67 million for the six months ended 30 June 2011.

With the business performance of the Hotel, the Board believes that the Hotel will not only generate steady source of income and bringing promising returns to the Group in the near future but also can strengthen the Group's financial performance as well as optimize Shareholders' interests in the long run.

Taking into account the above reasons, the Board considers that it is the right time to increase its stake in the Hotel, to capture potential opportunities in the Macau and to achieve business growth for the Group and is of the view that the Agreements are entered into on normal commercial terms after arm's length negotiation and the terms of the Agreements are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

As disclosed in the announcement of the Company dated 16 November 2011, the Company is in preliminary negotiation with the Vendor and a connected person for the purpose of the Acquisition and acquiring the remaining 49% equity interest in Lan Kwai Fong (Macau) (the "**Possible Acquisition**") respectively. Given that the negotiation of the Possible Acquisition is still in progress, the Acquisition is considered as connected transaction for the Company according to Rule 14A.13(1)(b)(i) of the Listing Rules. As



one or more of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) of the Acquisition is more than 0.1% and all of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) are less than 5%, the Acquisition is only subject to the reporting and announcement requirements but is exempted from the independent Shareholders' approval requirement under Rule 14A.32(1) of the Listing Rules.

### **APPROVAL BY THE BOARD**

Although none of the Directors has a material interest in the Acquisition, Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung have voluntarily abstained from voting on the relevant resolutions to approve the Agreements and the transactions contemplated thereunder at the meeting of the Board held on 10 January 2012.

### **WARNING STATEMENT**

**Shareholders and potential investors should note that the Acquisition is conditional upon fulfillment of various conditions precedent of the Agreements, details of which have been set out under the paragraph headed "Conditions precedent" of this announcement. Accordingly, the Acquisition may or may not proceed.**

**Shareholders and potential investors should also note that the Possible Acquisition may or may not proceed, no formally binding documentation have been executed and negotiation is still in progress. A further announcement will be made as and when applicable.**

**Any Shareholder and potential investor contemplating selling or purchasing Shares should exercise extreme caution when dealing in Shares, and if they are in any doubt about their position, they should consult his/her/its own professional adviser.**

### **DEFINITIONS**

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the Sale Shares by the Purchaser from the Vendor pursuant to the Agreements
“Agreements”	the Lan Kwai Fong Share Purchase Agreement and the Charm Faith Share Purchase Agreement
“Board”	the board of the Directors
“BVI Share”	one share of US\$1 in Charm Faith, representing 1% interest in the entire issued share capital of Charm Faith, currently belonging to the Vendor

“Charm Faith”	Charm Faith Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned 1% of the issued quotas of Classic Management
“Charm Faith Share Purchase Agreement”	the conditional sale and purchase agreement dated 11 January 2012 and entered into between the Vendor and the Purchaser pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the BVI Share at a consideration of US\$1.00 (or equivalent to HK\$7.80)
“Classic Management”	Classic Management Service Company Limited, a company incorporated in Macau with limited liability and beneficially owned as to 99% by Lan Kwai Fong (Macau) and as to 1% by Charm Faith
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the issued Shares are listed on the Main Board of the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares pursuant to the Agreements
“Completion Date”	31 January 2012 or such other date as the parties may agree in writing provided that it shall not be later than 31 March 2012
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hotel”	has the same meaning ascribe to it under the section headed “INFORMATION ON THE HOTEL, LAN KWAI FONG (MACAU) AND CLASSIC MANAGEMENT” in this announcement

“Lan Kwai Fong (Macau)”	Hotel Lan Kwai Fong (Macau) Limited, a company incorporated in Macau under the laws of Macau with an authorised capital of MOP500,000, of which 500,000 quota have been issued and are fully paid up, a 50% owned subsidiary of the Company and is the sole and beneficial owner of the Hotel
“Lan Kwai Fong Share Purchase Agreement”	the conditional sale and purchase agreement dated 11 January 2012 and entered into between the Purchaser and the Vendor relating to the sale and purchase of the Sale Quota at a consideration of HK\$13,000,000
“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
“Most Famous”	Most Famous Enterprises Limited, a company currently holding 49% equity interest in Lan Kwan Fong (Macau) and Charm Faith
“Possible Acquisition”	has the same meaning ascribe to it under the section headed “LISTING RULES IMPLICATIONS” in this announcement
“Purchaser”	Exceptional Gain Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company, currently holding 50% of the entire issued quotas of Lan Kwai Fong (Macau) and 50% of the entire issued share capital of Charm Faith
“Sale Quota”	a MOP5,000 quota share of Lan Kwai Fong (Macau), representing 1% equity interest of the entire issued quotas of Lan Kwai Fong (Macau)
“Sale Shares”	the Sale Quota and the BVI Share

“Service Agreement”	the service agreement dated 12 August 2009 and the supplemental agreement dated 12 September 2009 entered into between SJM as licence holder and Classic Management as service provider in which Classic Management will share certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines of the casino in the Hotel during the period from the date of the service agreement to 31 March 2020 (expiry date of the gaming concession granted by the Macau government to SJM in March 2002)
“Service Exclusivity Agreement”	the service exclusivity agreement to be executed on Completion between SJM, Lan Kwai Fong (Macau) and Classic Management relating to the operation of the casino situated at the Hotel
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the issued share capital of the Company from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shareholders’ Agreement Addendum”	the shareholders’ agreement addendum to be executed on Completion between the Vendor, the Company and Most Famous
“SJM”	Sociedade de Jogos de Macau, S.A., a company incorporated in Macau with limited liability and a subsidiary of SJM Holdings Limited (stock code: 880) which is a company listed on the Main Board of the Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	SJM – Investment Limited (SJM – Investimentos Limitada in Portuguese), a company incorporated in Macau with limited liability and a subsidiary of SJM Holdings Limited (stock code: 880) which is a company listed on the Main Board of the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“MOP”	Macau Pataca, the lawful currency of Macau

“US\$” United States dollars, the lawful currency of United States of America

“%” per cent.

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

Hong Kong, 11 January 2012

*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; the independent non-executive Directors are Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert.*