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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China Star Entertainment Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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## CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

### DISCLOSEABLE TRANSACTION – DISPOSAL OF EQUIPMENTS

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A letter from the board of directors of China Star Entertainment Limited is set out on pages 3 to 6 of this circular.

15 December 2008

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## DEFINITIONS

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*In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:*

“Announcement”	the announcement dated 4 December 2008 in respect of the Disposal
“Board”	board of Directors
“CSP”	China Star Production Services Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Directors”	directors of the Company
“Disposal”	the disposal of the Equipments by CSP to the Purchaser pursuant to the Memorandum of Agreement
“Dorest”	Dorest Company Limited, a company incorporated in Hong Kong with limited liability which is beneficially owned as to 60% by Ms. Chen through Porterstone and as to 40% by Mr. Heung
“Equipments”	a numbers of system/unit to be used for post production process to the final cut of films
“Glenstone”	Glenstone Investments Limited, a company incorporated in the British Virgin Islands with limited liability, is a substantial shareholder and beneficially owned as to 60% by Ms. Chen through Porterstone and as to 40% by Mr. Heung
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

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## DEFINITIONS

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“Latest Practicable Date”	11 December 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum of Agreement”	the agreement dated 3 December 2008 entered into between CSP and the Purchaser relating to the Disposal
“Mr. Heung”	Mr. Heung Wah Keung, a Director
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, a Director
“Porterstone”	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Ms. Chen. Accordingly, Mr. Heung, the husband of Ms. Chen is deemed to be interested in the Shares held by Porterstone
“Purchaser”	Hong Kong Movie City Company Limited, a company incorporated in Hong Kong with limited liability
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company as at the Latest Practicable Date
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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## LETTER FROM THE BOARD

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# CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

*Executive Directors:*

Mr. Heung Wah Keung (*Chairman*)  
Ms. Chen Ming Yin, Tiffany (*Vice Chairman*)  
Ms. Li Yuk Sheung

*Independent non-executive Directors:*

Mr. Hung Cho Sing  
Mr. Ho Wai Chi, Paul  
Mr. Leung Hok Man

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Head office and principal place of  
business in Hong Kong:*

Unit 3409, Shun Tak Centre  
West Tower  
168-200 Connaught Road Central  
Hong Kong

15 December 2008

*To the Shareholders and, for information only,  
the holders of options and the holders of the convertible notes*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTION – DISPOSAL OF EQUIPMENTS**

#### **INTRODUCTION**

On 4 December 2008, the Company announced that CSP entered into the Memorandum of Agreement with the Purchaser on 3 December 2008 pursuant to which CSP has agreed to dispose and the Purchaser has agreed to acquire the Equipments for a total consideration of HK\$11,200,000.

The Disposal under the Memorandum of Agreement constitutes a discloseable transaction for the Company on the basis that the relevant ratios in relation to the Disposal is between 5% and 25% under Chapter 14.06(2) of the Listing Rules.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with further information in relation to the Disposal and other information as required under the Listing Rules.

### THE MEMORANDUM OF AGREEMENT

#### Date

3 December 2008

#### Parties

CSP, as vendor  
The Purchaser

The principal activities of the Purchaser are development of film studios and ancillary facilities. To the best of the Directors' knowledge, information and beliefs having made all reasonable enquiries, the Purchaser is a third party independent of the Company and connected persons of the Company.

#### Assets to be disposed

A numbers of film production system/unit consist of film editing system, graphic/pictures control system, subtitle system, video and audio control units, etc. which are used for post production process to the final cut of films.

Prior to the Disposal, the Equipments were hold by CSP as fixed assets with an aggregate carrying value of approximately HK\$1,211,000 as at 31 December 2007. The Equipments were acquired by CSP at a total cost of approximately HK\$35,220,000.

#### Consideration

The consideration for the Equipments is HK\$11,200,000 has been/shall be paid to CSP by the Purchaser in the following manner:

- (i) HK\$5,600,000 has been paid in cash on the date of the Memorandum of Agreement as deposit; and
- (ii) the balance shall be paid in cash upon delivery and installation of the Equipments.

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## LETTER FROM THE BOARD

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The consideration was determined after arm's length negotiations between the Company and the Purchaser after taking into the account of carrying value of the Equipments of HK\$1,211,000 as at 31 December 2007. The Directors are of the view that the terms of the Disposal is fair and reasonable and on normal commercial terms and the Disposal is in the interests of the Company and the Shareholders as a whole.

Based on the financial records of CSP, the net losses (both before and after taxation and extraordinary items) attributable to the Equipments derived from the post-production services for the year ended 31 December 2006 and 31 December 2007 were approximately HK\$2,327,000 and HK\$214,000 respectively.

### **REASONS FOR THE DISPOSAL**

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, investing in operations which receive the profit streams from the gaming promotion business and property and hotel investment.

Upon completion of the Disposal, the Group will discontinue the operations in provision of post-production services.

The Directors consider that the disposal of the Equipments is a good opportunity to realise the gain and to apply the net proceeds for the working capital of the Group. It is not expected to be any material impact (except one-off estimated net gain) on the Company's results of operation upon completion of the Disposal.

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

Following the completion of the Disposal, the Group will receive the consideration of HK\$11,200,000. The estimated gain on disposal that is expected to accrue to the consolidated income statement of the Company in 2008 on the disposal of the Equipments is approximately HK\$9,989,000. The estimated gain on disposal was calculated by reference to HK\$1,211,000 carrying value of the Equipments in the financial records of CSP as at 31 December 2007.

It is expected that the earnings and the net assets of the Group will be increased by the gain on disposal of approximately HK\$9,989,000 subsequent to completion of the Disposal.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATIONS

Given that the relevant percentage ratios under Rule 14.06(2) of the Listing Rules for the Disposal under the Memorandum of Agreement are less than 25% but greater than 5%, the Disposal constitutes a discloseable transaction of the Company under the Listing Rules.

### ADDITIONAL INFORMATION

Your attention is drawn to the general information set out in the appendix to this circular.

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



## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the shares and the underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) were as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung Wah Keung	Beneficial owner/ interest of spouse/ interest of controlled corporation	1,195,458,019 (Note a)	219,088 (Note b)	1,195,677,107	29.90
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	1,195,458,019 (Note a)	219,088 (Note b)	1,195,677,107	29.90
Ms. Li Yuk Sheung	Beneficial owner	1	368,525 (Note c)	368,526	0.08

All interests stated above represent long positions.

- (a) These Shares are held as to 250,905,070 Shares by Mr. Heung, as to 28,544,949 Shares by Ms. Chen (the spouse of Mr. Heung), as to 913,243,500 Shares by Porterstone and as to 2,764,500 Shares by Dorest.
- (b) These underlying Shares comprised outstanding share options of the Company are held as to 109,544 options by Mr. Heung and as to 190,544 options by Ms. Chen (the spouse of Mr. Heung). Therefore, Mr. Heung and Ms. Chen are deemed to be interested in the share options of each other.
- (c) These underlying Shares comprised outstanding share options of the Company held by Ms. Li Yuk Sheung.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company as disclosed herein) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group:

Name	Capacity	Number of Shares/ underlying Shares held	Approximate % of interest held
Porterstone Limited	Beneficial owner	913,243,500	
	Interest of controlled corporation	2,764,500 <i>(Note a)</i>	
		<u>916,008,000</u>	<u>22.91</u>
Ng Cheuk Fai	Interest of controlled corporation	79,633,333	17.93
		<u>79,633,333</u>	<u>17.93</u>
Kingston Securities Limited	Beneficial owner	44	
	Other	3,026,545,212 <i>(Note b)</i>	
		<u>3,026,545,256</u>	63.18

Name	Capacity	Number of Shares/ underlying Shares held	Approximate % of interest held
Chu Yuet Wah	Interest of controlled corporation	3,026,545,256 <i>(Note c)</i>	63.18
Ma Siu Fong	Interest of controlled corporation	3,026,545,256 <i>(Note c)</i>	63.18
Au Tsui Yee Maggie	Beneficial owner	3,590,000	
	Other	478,000,000	10.05
		481,590,000	

All interests stated above represent long positions.

Notes:

- These Shares are held by Dorest, a wholly-owned subsidiary of Glenstone which is in turn beneficially owned as to 60% by Porterstone. Ms. Chen, a Director is also a director of Porterstone. Mr. Heung is a director of Dorest and Glenstone.
- These Shares are held by Kingston Securities Limited as an underwriter in the open offer with bonus issue of the Company and an placing of new shares of the Company as announced by the Company on 8 December 2008.
- These Shares are held by Kingston Securities Limited.

Other than disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or any persons (other than the Directors and chief executive of the Company) who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group.

#### 4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Group.

None of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Group were made up.

#### **5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business or interest that competes or may compete with the business of the Group or any other conflicts of interest with the Group.

#### **6. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

#### **7. SERVICES CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or was proposing to enter into any service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

#### **8. MISCELLANEOUS**

- (a) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.
- (b) The head office and principal place of business of the Company is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.
- (c) The Hong Kong branch share registrar and transfer office of the Company are Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The secretary and the qualified accountant of the Company is Ms. Wong Shuk Han, Dorothy. Ms. Wong is member of the Hong Kong Institute of Certified Public Accountants.
- (e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.