THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(1) VERY SUBSTANTIAL DISPOSAL: SALE AND PURCHASE AGREEMENT REGARDING THE TARGET GROUP; AND (2) NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser to the Company

中國農信財務顧問有限公司
China AF Corporate Finance Ltd

A notice convening the special general meeting of the Company to be held at Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Monday, 11 December 2017 at 4:00 p.m. is set out on pages SGM-1 and SGM-2 of this circular. Whether or not you are able to attend, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time of the meeting. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjournment thereof (as the case may be) should you so wish.

21 November 2017

CONTENTS

In this circular, the following expressions have the following respective meanings unless the context requires otherwise:

"Announcements"	the announcement of the Company dated 16 October 2017 and the clarification announcement of the Company dated 17 November 2017 in relation to, among others, the Disposal and the SP Agreement
"Bank Loans"	the outstanding bank loans with an aggregate principal amount of approximately HK$700 million owing by the Target Group to a commercial bank as at the date of the SP Agreement which has to be repaid prior to or at Completion
"Best Joyful"	Best Joyful Limited, a company incorporated in Hong Kong, which is wholly-owned by Charming Era and is a Target Group Company
"Board"	the board of Directors
"Business Day(s)"	a day, not being a Saturday, Sunday or public holiday, on which banks are open for business (including for dealings in foreign currency deposits and exchange) in Hong Kong
"Buyer"	Mr. Chan Meng Kam (陳明金), an individual who is an Independent Third Party
"BVI"	British Virgin Islands
"Charming Era"	Charming Era Investment Limited, a company incorporated in BVI, which is an indirect wholly-owned subsidiary of the Company and is one of the Target Companies
"Charm Faith"	Charm Faith Holdings Limited, a company incorporated in BVI, which is owned as to 49% by Most Famous and 51% by Exceptional Gain, and is a Target Group Company
"Classic Management"	Classic Management & Services Company Limited, a company incorporated in Macau, which is owned as to 99% by Hotel LKF and 1% by Charm Faith, and is a Target Group Company
"Combined Site"	the combined site at Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior, Macau
"Combined Site Development"	the planned development of the Combined Site into a luxury residential and commercial complex of two towers with spacious apartment units, of which the construction works already started in June 2017

"Company"	China Star Entertainment Limited (stock code: 326), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"Completion"	completion of the Disposal
"Completion Accounts"	the unaudited combined financial statements of the Target Group for the period from 1 January 2017 to the Completion Date
"Completion Date"	the third Business Day after the date (such date not being after the Long Stop Date) on which the last of the Conditions Precedent is fulfilled or waived in accordance with the SP Agreement
"Condition(s) Precedent"	condition(s) precedent to Completion as provided under the SP Agreement
"connected person(s)"	has the meaning ascribed to such term under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the entire issued share capital of each of the Target Companies and the related Shareholder Loans, by the Seller to the Buyer pursuant to the terms of the SP Agreement
"Exceptional Gain"	Exceptional Gain Profits Limited, a company incorporated in BVI, which is an indirect wholly-owned subsidiary of the Company and is one of the Target Companies
"Group"	the Company and its subsidiaries (including the Target Group)
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hotel LKF"	Hotel Lan Kwai Fong (Macau) Limited, a company incorporated in Macau, which is owned as to 49% by Most Famous and 51% by Exceptional Gain, and is a Target Group Company
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) the Company or its connected persons
"Latest Practicable Date"	17 November 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	a loan for principal sum of HK$500 million, subject to adjustment, granted by the Group to Ms. Chen on 6 April 2017 pursuant to the Loan Agreement
"Loan Agreement"	the loan agreement dated 29 November 2016 and entered into between Ms. Chen and Best Combo Limited, a wholly owned subsidiary of the Company and as supplemented by a deed of variation dated 5 December 2016 between the same parties regarding the granting of a loan in the principal sum of HK$500 million
"Long Stop Date"	30 April 2018, or such other date as the parties may agree
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"Merit Noble"	Merit Noble Company Limited, a company incorporated in Macau, which is owned as to 51% by Best Joyful and 49% by Noble Million and is a Target Group Company
"Most Famous"	Most Famous Enterprises Limited, a company incorporated in BVI, which is an indirect wholly-owned subsidiary of the Company and is one of the Target Companies
"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, a substantial Shareholder and an executive Director
"Noble Million"	Noble Million Limited, a company incorporated in Hong Kong, which is wholly-owned by Charming Era and is a Target Group Company
"Promissory Note"	the 2-year term 5% coupon promissory note issued by the Company on 6 April 2017 to Ms. Chen at an initial principal amount of HK$600 million with outstanding principal amount of HK$280 million as at the Latest Practicable Date
"Properties"	collectively, Hotel Lan Kwai Fong Macau and 18 residential units in Macau which are owned by the Target Group
"Remaining Group"	the Group, excluding the Target Group
"Sale Price"	HK$2,000 million payable by the Buyer to the Seller, which is subject to adjustment in accordance with the terms of the SP Agreement

"Sale Shares"	the entire issued shares in each of the Target Companies
"Seller"	China Star Entertainment (BVI) Limited, a company incorporated in BVI, which is a direct wholly-owned subsidiary of the Company
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held at Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Monday, 11 December 2017 at 4:00 p.m. to consider and, if thought fit, to approve, among other things, the Disposal, the SP Agreement and the transactions contemplated thereunder
"Share"	the ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Shareholder Loans"	the loans outstanding and owing to the Seller as at Completion by each of the Target Companies, with an aggregate amount of approximately HK$340.2 million as at the date of the SP Agreement
"SP Agreement"	the conditional sale and purchase agreement dated 10 October 2017 and entered into between the Seller, the Company (as guarantor of the Seller) and the Buyer in relation to the Disposal
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Companies"	collectively Charming Era, Exceptional Gain and Most Famous
"Target Group"	the Target Companies and their respective subsidiaries (i.e. Best Joyful, Charm Faith, Classic Management, Hotel LKF, Merit Noble and Noble Million)
"Target Group Company(ies)"	any company(ies) in the Target Group
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"%"	per cent.

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. Tang Chak Lam, Gilbert

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business:
Unit 3409
Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

21 November 2017

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL DISPOSAL: SALE AND PURCHASE AGREEMENT REGARDING THE TARGET GROUP; AND (2) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Announcements.

On 10 October 2017 (after trading hours), the Seller and the Buyer entered into the SP Agreement pursuant to which the Seller agreed on a conditional basis to sell to the Buyer the Sale Shares and the Shareholder Loans at Sale Price of HK$2,000 million (subject to adjustment).

The purpose of this circular is to provide you with, among other things, (i) details of the Disposal; (ii) a valuation report on the Properties; (iii) a notice of the SGM; (iv) and other information as required under the Listing Rules.

DISPOSAL OF THE TARGET GROUP

The SP Agreement

The principal terms of the SP Agreement are set out below.

Date: 10 October 2017

Parties: (1) the Seller, which is a wholly-owned subsidiary of the Company; and

(2) the Buyer.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Buyer is an Independent Third Party as at the Latest Practicable Date.

Assets to be disposed of

Subject to the fulfillment or waiver (as the case may be) of the Conditions Precedent, the Seller agreed to sell, and the Buyer agreed to buy the following free from all encumbrances:

(a) the Sale Shares (i.e. the entire issued share capital in each of Charming Era, Exceptional Gain and Most Famous), together with all associated rights and benefits attaching or accruing to such shares on or after the Completion Date, and

(b) the Shareholder Loans, i.e. the loans outstanding and owing to the Seller as at Completion by each of the Target Companies, with an aggregate amount of approximately HK$340.2 million as at the date of the SP Agreement.

The Target Companies are shareholders of the other Target Group Companies. The Target Group is the owner and operator of Hotel Lan Kwai Fong Macau and is also the owner of 18 residential units in Macau, which are currently being used as staff quarters.

Upon Completion, the Group will cease to have any interests in the Target Group and their financial results will no longer be consolidated into the Company's consolidated financial statements. The Buyer (or its nominee) will become the registered holder(s) of the Sale Shares.

Sale Price

The Sale Price is payable by the Buyer to the Seller in respect of the Disposal and is amounted to HK$2,000 million (subject to adjustment as further disclosed below). The Sale Price is payable in the following manner:

(a) HK$200 million was paid in cash as non-refundable deposit ("**Deposit**") upon signing of the SP Agreement by the Buyer; and

(b) the remaining HK$1,800 million shall be paid at Completion.

Under the SP Agreement, the parties to the SP Agreement agree to procure preparation of the Completion Accounts concerning the Target Group following Completion. If the actual working capital (as explained further below) as shown in the Completion Accounts represents (i) a net assets amount equal to or more than HK$0.5 million, the Buyer shall pay to the Seller such net assets amount; or (ii) a net liabilities amount equal to or more than HK$0.5 million, the Seller shall pay to the Buyer such net liabilities amount. Any such additional amount shall be paid within 10 Business Days after the date of finalisation of the Completion Accounts.

For the purpose of the Completion Accounts, "actual working capital" means (A) the total current assets of the Target Group Companies minus (B) all borrowings, accruals and actual liabilities and indebtedness owed by the Target Group to any bank, lending institution or other third party of any nature at Completion, but (for the purpose of (B)) excluding (1) accrued unpaid staff bonuses or commissions, accrued unpaid leaves, contribution to retirement benefit schemes, long service or severance payments calculated under rules and regulations of relevant governing jurisdictions for employees of any member of the Target Group, (2) the Shareholder Loans, (3) any liabilities owing among the members of the Target Group at Completion, and (4) deferred tax assets or liabilities, as ascertained after Completion in accordance with the SP Agreement and as set out in the Completion Accounts.

Based on the unaudited combined financial information of the Target Group as at 30 June 2017 as disclosed in Appendix II to this circular, the actual working capital is expected to be a net assets amount of approximately HK$343.3 million (assuming the outstanding bank loans owing by the Target Group as at 30 June 2017 has been repaid prior to Completion). This amount mainly represents (A) total current assets of approximately HK$391.9 million minus (B) all borrowings, accruals and accrued and actual liabilities of approximately HK$48.6 million. Such amount of actual working capital is an illustrative figure only and the exact amount has to be determined in the Completion Accounts. The Company will publish an announcement disclosing the adjusted Sale Price (if any) and the amount of the actual working capital when it is determined.

Basis of determination of the Sale Price

The Sale Price is determined by the parties after arm's length negotiation, after taking into account the property valuation for the properties held by Hotel LKF amounted to HK$2,000 million conducted by Savills (Macau) Limited as at 31 December 2016 for accounting purpose. According to the Valuation Report of the Properties as set out in Appendix V to this circular, the market value of the Properties as at 30 September 2017 was approximately HK$2,000 million.

Conditions Precedent

Completion is conditional upon the following Conditions Precedent being satisfied:

(a) the making of such enquiries, investigations and due diligence reviews of the business, affairs, operations, commercial, legal, financial, tax and accounting position of the Target Group by the Buyer and any of its officers, employees, agents, professional advisers or other persons authorised by the Buyer which the Buyer reasonably considers necessary, desirable or appropriate, and the results of such enquiries, investigations and due diligence reviews being reasonably satisfactory to the Buyer;

(b) the obtaining of the Shareholders' approval to the Disposal;

(c) the obtaining of the following consents, approvals, clearances and permission by the Buyer, the Company and any Target Group Company in relation to the Disposal, including the approval of the Disposal by the Gaming Inspection and Coordination Bureau of Macau and related Macau or Hong Kong governmental and other relevant authorities (if necessary);

(d) all requisite in-principle consent to the Disposal having been obtained from the existing lenders of the Target Group Companies;

(e) the warranties stated in the SP Agreement remaining true and accurate and not misleading in any material respect at Completion as if repeated at Completion and at all times between the date of the SP Agreement and Completion;

(f) no material adverse event (as defined in the SP Agreement) occurred at any time after the date of the SP Agreement; and

(g) the warranties given by the Buyer in favour of the Seller under certain clauses remaining true and accurate in all material respects and not misleading in any material respect at Completion as if repeated at Completion and at all times between the date of the SP Agreement and Completion.

As at the Latest Practicable Date, Condition Precedent (d) above had been satisfied, while all the other Conditions Precedent remained not yet satisfied.

If any Conditions Precedent are not satisfied or waived (as the case may be) on or before the Long Stop Date, the SP Agreement shall terminate (except for several surviving provisions which shall remain in full force and effect) and the rights and obligations of the Seller and the Buyer under the SP Agreement shall cease with immediate effect, provided that nothing shall limit any rights, obligations or liabilities of either party under the SP Agreement which will have accrued before termination.

Completion

Completion shall take place at the offices of the Seller's legal advisers or such other place as the parties may agree on the Completion Date (i.e. the third Business Day after the date (such date not being after the Long Stop Date) on which the last of the Conditions Precedent is fulfilled or waived (as the case may be) in accordance with the SP Agreement.

Upon Completion, a deed of guarantee will be given by the Company in favour of the Buyer in connection with the performance by the Seller of its obligations and the warranties under the SP Agreement.

Termination

If any termination event stipulated under the SP Agreement or any event which results in one or more of the Conditions Precedent (c) or (g) above not being able to be fulfilled occurs, the Buyer may, by written notice to the Seller, terminate the SP Agreement. If the SP Agreement is so terminated and is not caused by the default of the Seller or if the Buyer fails to complete the SP Agreement (otherwise than as a sole result of the default of the Seller), the Deposit in its entirety shall be forfeited as liquidated damages and neither parties shall have any further liability to the other under the SP Agreement.

If the SP Agreement does not proceed to Completion as a sole result of the default of the Seller, by no later than the ten Business Days after the Long Stop Date (or, where applicable, the date of notice of termination given by the Buyer to the Seller), the Seller shall refund to the Buyer a sum equivalent to the Deposit paid to the Seller by the Buyer, without any interest accrued thereon.

INFORMATION ON THE GROUP

The Company is an investment holding company and the Group is principally engaged in investment, production and distribution of films and television drama series, provision of artist management services, property and hotel investment, food and beverage operations and property development.

INFORMATION OF THE TARGET GROUP

The Target Group comprises the Target Companies and their respective subsidiaries (i.e. Hotel LKF, Charm Faith, Classic Management, Best Joyful, Noble Million and Merit Noble). The Target Companies are investment holding companies. The Target Group is the owner and operator of Hotel Lan Kwai Fong Macau and is also the owner of 18 residential units in Macau which are currently being used as staff quarters.

Hotel Lan Kwai Fong Macau presents a total of 209 guest rooms, casino situated in the ground, first and 18th floor, restaurants, flower shop, retail shop and spa centre. The segment results of the Target Group and the operations in Hotel Lan Kwai Fong Macau are classified as the hotel and gaming service operations in the Group, which included the hotel operation in Hotel LKF, services provided to the casino situated in Hotel Lan Kwai Fong Macau by Classic Management and other ancillary services provided in Hotel Lan Kwai Fong Macau.

Casinos in Hotel Lan Kwai Fong Macau ("**Casino LKF**") are operated by license holder Sociedade de Jogos de Macau, S.A. ("**SJM**"). Classic Management has entered into service and site license agreements with SJM. Under the agreements, Classic Management has granted to SJM a right to occupy and use spaces in Hotel Lan Kwai Fong Macau to operate Casino LKF and Classic Management is responsible for the provision of marketing, promotion, publicity, customer development and introduction, co-ordination of activities and other services as agreed between Classic Management and SJM from time to time in Casino LKF. In return, Classic Management will share a fixed percentage of service income from SJM based on the monthly gross gaming wins of the mass market and VIP table gaming and slot machines in Casino LKF. As at the Latest Practicable Date, Casino LKF operated a total of 84 gaming tables, targeting both for the VIP rooms table gaming and the mass market table gaming. It also operates a total of 65 slot machines.

Hotel Lan Kwai Fong Macau was awarded with several international accolades, which included the "5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China" and the "2012 TripAdvisor Travelers' Choice – Top 25 Trendiest Hotels in China". In respect of promoting the notion of environmental protection, Lan Kwai Fong has won the "AHF Asia Awards 2010 – Leading Green Hotel of Asia" and the "Macao Green Hotel Award – Bronze Award" for the year 2010 to 2016, "Macao Energy Saving Contest, Hotels Group B - Champion 2013 to 2014 and Bronze award 2016".

The following information is a summary of the net loss before and after tax of the Target Group which combined the unaudited consolidated financial statements of Exceptional Gain and Most Famous and unaudited consolidated financial statements of Charming Era for the financial years ended 31 December 2015 and 2016:

	For the year ended 31 December	
	2015	**2016**
	(unaudited)	(unaudited)
	(HK$'000)	(HK$'000)
Net loss before tax	26,693	63,305
Net loss after tax	26,866	63,305

As at 31 December 2016 and 30 June 2017, the unaudited combined total assets of the Target Group amounted to approximately HK$1,340 million and HK$1,045 million, respectively, while the unaudited combined net liabilities of the Target Group amounted to approximately HK$146 million and HK$159 million, respectively.

INFORMATION ON THE BUYER

The Buyer is an individual who is an Independent Third Party. He has more than 10 years of experience in the operation of hotels and casinos in Macau. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Buyer has no relationship with Paradise Entertainment Limited (the previous possible buyer of the Target Group as disclosed in the Company's announcement dated 29 June 2017) and its controlling shareholders (and their respective associates).

REASONS FOR AND BENEFITS OF THE DISPOSAL AND BUSINESS PLANS

The recent overall performance of the hotel and gaming operations in Hotel Lan Kwai Fong Macau is susceptible to the surrounding region, government regulatory policies, and the level of visitation to Macau, as well as to the competitive situation among hotels in Macau. As disclosed in the Group's annual report for year ended 31 December 2016, the Group had shared revenue and segment loss of approximately HK$686.4 million (31 December 2015: approximately HK$877.9 million) and HK$45.0 million (31 December 2015: segment profit of approximately HK$62.3 million) from the hotel and gaming service operations respectively, representing a decrease of 22% and 172% as compared to those for the year ended 31 December 2015 respectively. As disclosed in the Group's interim report for the six months ended 30 June 2017, the Group had shared revenue and segment profit of approximately HK$334.3 million (30 June 2016: approximately HK$362.2 million) and HK$0.7 million (30 June 2016: segment loss of approximately HK$21.7 million) from the hotel and gaming service operations respectively, representing a decrease of 8% and an increase of 103% as compared to those for the corresponding period ended 30 June 2016 respectively. Although the decrease in revenue had narrowed, only a marginal segment profit was recorded from the hotel and gaming service operations. There is no sign that the performance in such segment will have substantial improvement in the short term.

Following new resort hotels being opened in Cotai in recent years, there is keen competition among hotels in Macau. The Macau government wants to attract more families and mass-market visitors interested in non-gaming entertainment as part of its program of economic diversification which favours those resort hotels in Cotai. Thus, our performance is diversified by these resort hotels. Since Hotel Lan Kwai Fong Macau is a casino oriented hotel and its hotel rooms are designed to serve and satisfy demands from casino patrons, the Board believes that the performance in Hotel Lan Kwai Fong Macau will encounter uphill challenges in the near future.

Following the Completion, the Group's hotel and gaming service operations will discontinue with two business segments left, namely the film related business operations and the property development operations.

Film related business operations mainly include investment, production and distribution of films and television drama series. The Group has been engaging in the film business for more than 20 years. Film production normally involves three stages including pre-production, production or shooting and post-production. From the pre-production stage to theatrical release of Chinese film in Hong Kong, it normally takes more than one year and sometimes several years to complete. The majority of revenue in film will record within the following two years after the film is released. As such, it is the characteristic of film production and distribution that revenue is not recognised evenly with time. The Group is planning to produce a few new films. The Group has entered into contracts with certain directors and crews recently. Shooting for a new film which tentatively named "追夢男女" has just started in mid-October 2017. The plot of this film is about love story. The producers, directors, script writer and main casts have all been identified and hired (or, as the case may be, appointed). The pre-production of this film started in around June 2016 and the shooting of this film just commenced in mid-October 2017 and is expected to be completed in around March 2018. The post production period will take around 5 months and the film is expected to be released on or before end of 2018 around the world. More films production will commence in coming years so long as the feasibility study for new films is satisfactory. Recently, there is increasing demand for television drama series contents in China and investors have approached the Group for its interest in television drama series. Following the establishment of the production line in the television drama series in the beginning of 2017, the Group is in the preliminary stage of preparing the story board for its first production in television drama series for more than 10 years from its last production in television drama series. As disclosed in the section headed "Biographical details of Directors and senior management" in the Company's annual report for the year ended 31 December 2016, Ms. Shaw Lai King, Sandy has joined the Group in the beginning of 2017 as the controller (network and television). She is now leading a team of approximately 10 persons in the Company's Hong Kong office which comprises mainly scriptwriters and creators for the production of television drama series. They are preparing a television drama series of around 36 episodes which is expected to be released in internet platform. The producer will be Ms. Shaw Lai King, Sandy. Shooting for this first television drama series is expected to start in the first half of 2018. From 2010 onwards, the film industry are in a staggering speed to take off, the box office in China has maintained a more than 40% growth rate for 5 consecutive years. The Chinese film market is expected to be the world's largest market by 2020 as reported in the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT). Given our experience in production and distribution network in the film and television drama series industry, the Board is confident in capturing this golden opportunity in the film and television drama series industry to strengthen its business.

Property development operations mainly include investment and development of properties located in Hong Kong and Macau. As indicated in the Company's interim report for the six months ended 30 June 2017, the Group has been planning to develop the Combined Site into a luxury residential and commercial complex of two towers with spacious apartment units. Construction works of the Combined Site Development already started in June 2017 and is expected to complete in 2019. As at the Latest Practicable Date, the Combined Site is undergoing foundation and basement structure works which are expected to complete by no later than April 2018. Based on a draft report (including expected construction timetable) for the Combined Site Development provided by the quantity surveyor of the project in July 2017, the completion milestones based on the main contractor's master programme of the project are as follows: the foundation and basement structure works are expected to complete by around April 2018; reinforced concrete framed structure works are expected to complete by around October 2018; architectural works, mechanical, electrical and plumbing (MEP) services installation and fitting-out works are expected to complete by around August 2019; the whole Combined Site Development is expected to complete by around September 2019; and occupation permit from DSSOPT is expected to be obtained by around October 2019. The gross floor area of the Combined Site is divided into different uses: (a) 28,422 square meters for residential use, (b) 1,927 square meters for clubhouse, (c) 4,132 square meters for commercial use and (d) 11,508 square meters for parking (approximately 276 car parking spaces and 78 motorcycle parking spaces). Sale plan of the properties on the Combined Site will start in the second half of 2019 and its revenue is expected to be recognised in 2020 and onwards. As at the Latest Practical Date, the Board has not decided whether there will be any pre-sale of the properties on the Combined Site and thus, estimated pre-sale revenue (if any) cannot be ascertained yet. Besides, the Group has completed the acquisition of 50% equity interest in a lot land with site area of 4,669 square meters, named "Lote 7 da Zona C do Plano de Urbanizaçäo da Zona da Baía da Praia Grande", located at Avenida Doutor Stanley Ho (the "**Property C7**") in April 2017. It is planned to be developed into a building under strata title, for residential and parking purpose. The Group is now in the process of compiling the development plan of the Property C7 and substantial cash resources is also required in the next few years and its development is expected to start after the Combined Site Development is completed. The Group will continue to source and invest in properties if proper opportunity arises. The Group plans to use the proceeds of the Disposal (if realised) to fund part of the development costs of the Combined Site.

The Board considers that, after due assessment of the Group's remaining businesses after Completion including their latest development status, business plans, prospects and expected timetable of development, the Group's remaining businesses are viable and sustainable.

The Company considers that the Disposal represents an opportunity for the Group to realize its investments in the Target Group, the Company considers that it is in the interests of the Group to focus its resources on the remaining operations particularly, on property development and investment. The Disposal will also bring a strong inflow of cash to the Group.

Taking into account, among other matters, the basis of determining the Sale Price and the reasons for and benefits of the Disposal as explained above, the Directors (including the independent non-executive Directors) believe that the terms of the SP Agreement are on normal commercial terms and are fair and reasonable and, in light of the marginal segment profit generated from the hotel and gaming service operations in the first half 2017, in the interests of the Company and the Shareholders as a whole.

INTENDED USE OF THE SALE PRICE

Part of the Sale Price will be used to repay the Bank Loans owing by the Target Group to a commercial bank, the outstanding aggregate principal amount of which is approximately HK$700 million as at the date of the SP Agreement. After deducting expenses of approximately HK$2 million, there will be net proceeds of approximately HK$1,298 million from the Disposal and the Company intends to apply the entire amount of such net Sale Price as construction costs of the Combined Site Development.

FINANCIAL EFFECT OF THE DISPOSAL ON THE REMAINING GROUP

Upon Completion, the Target Group will cease to be the subsidiaries of the Group and their financial results will cease to be consolidated into the consolidated financial statements of the Group.

Net assets

As set out in the unaudited pro forma consolidated statement of financial position of the Remaining Group in Appendix IV to this circular, assuming Completion had taken place on 30 June 2017, as at 30 June 2017, the total assets of the Remaining Group would have increased from approximately HK$4,808 million to approximately HK$5,374 million, the total liabilities of the Remaining Group would have decreased from approximately HK$1,727 million to approximately HK$851 million and the net assets of the Remaining Group would have increased from approximately HK$3,081 million to approximately HK$4,523 million as a result of the Disposal.

Profit/loss attributable to equity shareholders of the Company

As set out in the unaudited pro forma consolidated income statement of the Remaining Group in Appendix IV to this circular, assuming the Disposal had taken place on 1 January 2016 and inclusive of the possible gain on the Disposal, for the financial year ended 31 December 2016, the loss attributable for the year attributable to the owners of the Company of approximately HK$336 million would have changed to a profit of approximately HK$968 million as a result of the Disposal. The change in result is mainly attributable to the estimated net gain on the Disposal.

Based on the unaudited pro forma financial information of the Remaining Group as set out in note 4 to Appendix IV to this circular, assuming the Disposal had taken place on 30 June 2017, the Company would have recorded an estimated net gain on Disposal of approximately HK$1,441.9 million (i.e. gain on the Disposal of approximately HK$1,443.9 million as stated in Appendix IV, after deduction of estimated transaction costs for the Disposal of approximately HK$2 million). Such gain on the Disposal of approximately HK$1,443.9 million represents:

(1) the net Sale Price to be received by the Company from the Disposal of approximately HK$1,613.3 million (i.e. the Sale Price of HK$2,000 million, after the deduction of the bank loans with an aggregate principal amount of HK$730 million owing by the Target Group to a commercial bank as at 30 June 2017 and adding the adjustment on Sale Price of cash received from the net assets of the Target Group as at 30 June 2017 in the amount of approximately HK$343.3 million, representing an estimated adjustment in "actual working capital" of the Target Group as detailed in the paragraph headed "Disposal of the Target Group – The SP Agreement – Sale price" above), minus

(2) the loans owing to the Seller by each of the Target Companies in an aggregate amount of approximately HK$327.9 million as at 30 June 2017, and add

(3) the net liabilities of the Target Group as at 30 June 2017 of approximately HK$158.5 million.

The estimated net gain on the Disposal set out above is for illustrative purpose only. The actual gain in connection with the Disposal will be different from the above, and will be assessed after Completion, which is subject to the review by auditors.

IMPLICATIONS UNDER THE LISTING RULES

The highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal under the SP Agreement exceeds 75% for the Company. Accordingly, the Disposal constitutes a very substantial disposal on the part of the Company, and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. The SGM will be convened and held for the Shareholders to consider, and thought fit, to approve the SP Agreement and the transactions contemplated thereunder. As no Shareholders have any material interest in the Disposal, no Shareholders are required to abstain from voting at the SGM on the resolution to approve the SP Agreement and the transactions contemplated thereunder.

SGM

The Company will convene the SGM for the Shareholders to consider and, if thought fit, approve the SP Agreement and the transactions contemplated thereunder. A notice convening the SGM to be held at Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Monday, 11 December 2017 at 4:00 p.m. is set out on pages SGM-1 and SGM-2 of this circular.

The votes of the Shareholders on the resolutions for approving the SP Agreement and transactions contemplated thereunder will be taken by way of poll at the SGM. Whether or not you are able to attend, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time of the SGM. Completion and return of the proxy form will not preclude you from attending and voting at the SGM or any adjournment thereof (as the case may be) should you so wish.

After the conclusion of the SGM, the results of the poll will be published on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.chinastar.com.hk) respectively.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole and therefore, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolutions approving the SP Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

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

1. FINANCIAL INFORMATION

Financial information (including the notes thereto) and management discussion and analysis of the Group for each of the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 are respectively disclosed in (i) pages 59 to 270 and pages 7 to 25 of the annual report of the Company for the year ended 31 December 2014 respectively; (ii) pages 60 to 246 and pages 8 to 22 of the annual report of the Company for the year ended 31 December 2015 respectively; (iii) pages 70 to 233 and pages 7 to 22 of the annual report of the Company for the year ended 31 December 2016 respectively; and (iv) pages 1 to 42 and pages 45 to 54 of the interim report of the Company for the six months ended 30 June 2017 respectively, which were published on both the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://www.chinastar.com.hk). Please refer to the relevant hyperlinks as stated below:

Annual report for the year ended 31 December 2014:

http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0429/LTN20150429624.pdf

Annual report for the year ended 31 December 2015:

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0429/LTN20160429553.pdf

Annual report for the year ended 31 December 2016:

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0428/LTN20170428702.pdf

Interim report for the six months ended 30 June 2017:

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0928/LTN20170928365.pdf

2. INDEBTEDNESS STATEMENT

Indebtedness

As at the close of business on 30 September 2017, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$980,411,000 which comprised (i) bank borrowings of HK$700,000,000 which was secured by the Group's buildings and interests in leasehold land and quota capital of subsidiaries in Macau; (ii) obligations under finance leases of approximately HK$411,000; and (iii) a unsecured promissory note with outstanding principal amount of HK$280,000,000 issued to Ms. Chen, interest bearing at 5% per annum calculated on the basis of 365-day year and payable semi-annually in arrears and mature 24 months from the date of issue of the promissory note.

Contingent liabilities

As at 30 September 2017, save for a corporate guarantee provided by the Company for securing general banking facilities granted by a bank to Hotel LKF to the extent of HK$1,051 million, the Group had no other material contingent liabilities.

Disclaimer

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease, hire purchases commitments, which were either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 30 September 2017. To the best knowledge of the Directors, having made all reasonable enquiries, there has been no material change in indebtedness or contingent liabilities of the Group since 30 September 2017 and up to the Latest Practicable Date.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save and except for the followings, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up):

- As disclosed in the interim report of the Company for the six months ended 30 June 2017, the Group recorded significant increase in its loss attributable to owners of the Company for the six months ended 30 June 2017 (i.e. approximately HK$127.2 million) as compared to a loss of approximately HK$39.1 million for the six months ended 30 June 2016. Such significant increase in loss is mainly attributable to, including but not limited to (i) loss on early redemption on promissory note issued by the Company of approximately HK$52.3 million; (ii) the recognition of unrealized loss of approximately HK$57.2 million arising on change in fair value of financial assets at fair value through profit or loss as compared to unrealised loss of HK$12.7 million recognised in the last corresponding period which mainly represented the decrease in market values of the Group's equity securities listed in Hong Kong as at 30 June 2017; and (iii) increase in finance costs by the amount of approximately HK$16.3 million from the last corresponding period. The effect of such increase is partially offset by the recognition of gain on fair value change of investment properties of approximately HK$0.9 million during this period as compared to loss of HK$25.4 million in the last corresponding period.

4. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources available to the Group including the estimated net proceeds from the Disposal to be received, internally generated funds and the available banking facilities, the Group will have sufficient working capital for its present operating requirements and for at least twelve months from the date of this circular in the absence of unforeseen circumstances.

5. BUSINESS DISPOSED OF OR TO BE DISPOSED OF BY THE GROUP AFTER 31 DECEMBER 2016

On 29 March 2017, the Seller entered into a sale and purchase agreement with an independent third party in relation to the disposal of the entire issued share capital of Ace Season Holdings Limited ("**Ace Season**") and the sale loan owed by Ace Season to the Seller on completion at consideration of HK$85,000,000 (the "**Ace Season Disposal**"). Ace Season and its subsidiaries are principally engaged in sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailers as well as Chinese clinical services which represented the business segment of Nam Pei Hong operations of the Group. Ace Season Disposal was completed on 30 June 2017. Upon completion of the Ace Season Disposal, the Company ceased to have any interests in Ace Season and its subsidiaries and their financial results were no longer be consolidated into the Company's consolidated financial statements and Nam Pei Hong operations ceased to be the Group's operation segment.

On 18 July 2017, the Group had completed the disposal of the entire issued share capital of Rainbow Profit Limited and the sale loan due by Rainbow Profit Limited at consideration of approximately HK$6,800,000. Rainbow Profit Limited's major asset is an investment property.

Save for the above and the proposed Disposal, no other material business or interest in the share capital of a subsidiary of the Company has been disposed of, agreed to be disposed of or proposed to be disposed of by the Group after 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group was made up.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In recent years, the performance of some of our business segment is not satisfactory, the Group intends to restructure and repositioning its business and this is consistent with the Group's long-term policy to focus its activities on the Group's business with better prospects.

The development of the Combined Site and the Property C7 is our group's major future investment in Macau. After obtaining the approval from DSSOPT, the construction work of the Combined Site has started in June 2017 and is expected to complete in year 2019. Property C7 is in the process of preparing the development plan and will submit to DSSOPT for approval once ready. In recent period, the residential property market of Macau shows a general growth trend. Given that land is a scarce resource in Macau and the land supply of Macau is limited, the Company is positive on the Macau property market and believes that there is strong demand for housing in Macau. The Company considers that property development and investment are more stable investment for maintaining stable future revenue.

The Group will continue its furtherance and development of its already well established film production business. Other than that, there is increasing demand for television drama series contents in China and investors have approach the Group for its interest in this production. In respond to this demand, the Group has formed its television drama series department in the beginning of year 2017 and has invited experienced staffs to join for the production and distribution of television drama series. Given our experience in film/television drama series production and distribution network in the film/television drama series industry, the Company is confident in capture this golden opportunities in the film/television drama series industry and maximizing the Group's value and return.

The Company considers that the Disposal represents an opportunity for the Group to realise its investments in the Target Group, and that it is in the interests of the Group to focus its resources in the operation in property development and investment, and film and television drama series production and distribution. The Disposal will also provide additional funding for new investments and acquisitions in future and will substantially increase general working capital of the Group. Hence, the Directors are of the opinion that, save as disclosed elsewhere in this circular and in the absence of unforeseeable events, the trading and financial prospects of the Group will be positively affected by the Disposal.

UNAUDITED COMBINED FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below are the unaudited combined statements of financial position of Exceptional Gain, Most Famous and Charming Era (collectively referred to as the "**Target Companies**") and their respective subsidiaries (the "**Target Group**") at 31 December 2014, 2015 and 2016 and 30 June 2017, and the unaudited combined statements of comprehensive income, unaudited combined statements of changes in equity and unaudited combined statements of cash flows of the Target Group for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017 (the "**Relevant Periods**") and explanatory notes (collectively the "**Unaudited Combined Financial Information**"), which have been prepared by the Directors.

The Unaudited Combined Financial Information has been presented on the basis set out in Note 2 of the notes to the Unaudited Combined Financial Information and are prepared in accordance with the significant accounting policies adopted by the Company as shown in its annual report for the year ended 31 December 2016, and paragraph 14.68(2)(a)(i) of the Listing Rules. The Unaudited Combined Financial Information is prepared by the Directors solely for the purpose of inclusion in this circular in connection with the possible disposal of the entire interests in the Target Companies and sale loans due by the Target Companies. The reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, were engaged to review the Unaudited Combined Financial Information of the Target Group in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* and with reference to Practice Note 750 *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal* issued by the Hong Kong Institute of Certified Public Accountants.

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the reporting accountants to obtain assurance that the reporting accountants would become aware of all significant matters that might be identified in an audit. Accordingly, the reporting accountants do not express an audit opinion.

Based on the review, nothing has come to the reporting accountants' attention that causes them to believe that the Unaudited Combined Financial Information is not prepared, in all material respects, in accordance with the basis of preparation as set out in Note 2 to the Unaudited Combined Financial Information.

UNAUDITED COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	1,169,474	877,909	686,431	362,166	334,274
Cost of sales	(800,191)	(540,778)	(399,547)	(207,607)	(179,935)
Gross profit	369,283	337,131	286,884	154,559	154,339
Other revenue and other income	14,359	17,920	32,786	15,385	15,868
Administrative expenses	(333,850)	(312,582)	(309,762)	(155,906)	(149,882)
Marketing, selling and distribution expenses	(43,456)	(40,262)	(42,958)	(20,237)	(19,208)
Profit/(loss) from operations	6,336	2,207	(33,050)	(6,199)	1,117
Finance costs	(11,524)	(28,900)	(30,255)	(15,571)	(13,401)
Loss before tax	(5,188)	(26,693)	(63,305)	(21,770)	(12,284)
Income tax expenses	–	(173)	–	–	(12)
Loss and total comprehensive loss for the year/period attributable to owner of the Target Companies	(5,188)	(26,866)	(63,305)	(21,770)	(12,296)

UNAUDITED COMBINED STATEMENTS OF FINANCIAL POSITION

	At 31 December			At 30 June
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	421,629	400,833	347,498	325,087
Interests in leasehold land	380,709	359,425	338,142	328,186
	802,338	760,258	685,640	653,273
Current assets				
Inventories	5,050	9,147	7,002	7,129
Trade receivables	110,960	112,410	99,078	164,789
Loan receivables	–	400,000	400,000	–
Deposits, prepayment and other receivables	26,652	37,567	26,387	15,850
Amount due from ultimate holding company	–	203,700	–	–
Amounts due from fellow subsidiaries	–	4	14,238	9
Cash and cash equivalents	152,046	119,555	107,932	204,095
	294,708	882,383	654,637	391,872
Total assets	1,097,046	1,642,641	1,340,277	1,045,145
Capital and reserves				
Combined share capital	–	–	–	–
Reserves	(56,039)	(82,905)	(146,210)	(158,506)
Total equity	(56,039)	(82,905)	(146,210)	(158,506)

UNAUDITED COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

	At 31 December			At 30 June
	2014	**2015**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank borrowings	–	790,000	670,000	610,000
Obligations under finance leases	815	584	353	237
Deferred tax liabilities	80,888	80,888	80,888	80,888
	81,703	871,472	751,241	691,125
Current liabilities				
Bank borrowings	300,000	120,000	120,000	120,000
Obligations under finance leases	231	231	231	231
Trade payables	28,265	26,400	25,097	20,755
Deposits received, accruals and other payables	58,899	62,595	44,263	43,488
Amount due to ultimate holding company	406,377	–	268,041	–
Amount due to immediate holding company	277,421	277,421	277,421	327,910
Amounts due to fellow subsidiaries	189	367,427	193	130
Tax payables	–	–	–	12
	1,071,382	854,074	735,246	512,526
Total liabilities	1,153,085	1,725,546	1,486,487	1,203,651
Total equity and liabilities	1,097,046	1,642,641	1,340,277	1,045,145
Net current (liabilities)/assets	(776,674)	28,309	(80,609)	(120,654)
Total assets less current liabilities	25,664	788,567	605,031	532,619

UNAUDITED COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$'000*	Statutory reserve *HK$'000* *(note)*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2014	–	291	(51,142)	(50,851)
Loss and total comprehensive loss for the year	–	–	(5,188)	(5,188)
At 31 December 2014 and at 1 January 2015	–	291	(56,330)	(56,039)
Loss and total comprehensive loss for the year	–	–	(26,866)	(26,866)
At 31 December 2015 and at 1 January 2016	–	291	(83,196)	(82,905)
Loss and total comprehensive loss for the year	–	–	(63,305)	(63,305)
At 31 December 2016 and at 1 January 2017	–	291	(146,501)	(146,210)
Loss and total comprehensive loss for the period	–	–	(12,296)	(12,296)
At 30 June 2017	–	291	(158,797)	(158,506)
At 1 January 2016	–	291	(83,196)	(82,905)
Loss and total comprehensive loss for the period	–	–	(21,770)	(21,770)
At 30 June 2016	–	291	(104,966)	(104,675)

Note:

In accordance with the article 377 of the Macau Commercial Code, the Target Companies' subsidiaries incorporated in Macau are required to transfer a minimum of 25% of the annual net profits to a statutory reserve until that reserve equals 50% of the nominal value of their capital. The statutory reserve may not be distributed in the form of cash dividends or otherwise, during the life of the companies.

UNAUDITED COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2014	2015	2016	2016	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before tax	(5,188)	(26,693)	(63,305)	(21,770)	(12,284)
Adjustments for:					
Finance costs	11,524	28,900	30,255	15,571	13,401
Interest income	(875)	(5,791)	(12,493)	(6,162)	(6,133)
Amortisation of interests in leasehold land	21,055	21,284	21,283	10,642	9,956
Depreciation of property, plant and equipment	68,114	62,806	65,074	33,904	28,441
Loss/(gain) on disposal of property, plant and equipment	699	(388)	(973)	(980)	(466)
Write-down of obsolete inventories	–	–	44	35	18
Operating cash flows before movements in working capital	95,329	80,118	39,885	31,240	32,933
Decrease/(increase) in inventories	1,152	(4,097)	2,101	2,316	(145)
Decrease/(increase) in trade receivables	161,205	(1,450)	13,332	(30,903)	(65,711)
(Increase)/decrease in deposits, prepayment and other receivables	(393)	(5,575)	16,535	2,161	15,892
(Increase)/decrease in amount due from ultimate holding company	–	(203,700)	203,700	203,700	–
Decrease/(increase) in amounts due from fellow subsidiaries	257	(4)	(14,234)	(9)	14,229
Decrease in trade payables	(54,273)	(1,865)	(1,303)	(4,066)	(4,342)
Increase/(decrease) in deposits received, accruals and other payables	5,037	3,167	(18,194)	(14,518)	(637)
Increase/(decrease) in amount due to ultimate holding company	20,556	(406,377)	268,041	315,960	(268,041)
(Decrease)/increase in amounts due to fellow subsidiaries	(230,549)	367,238	(367,234)	(367,172)	(63)
Increase in amount due to immediate holding company	–	–	–	–	50,489
Cash (used in)/generated from operations	(1,679)	(172,545)	142,629	138,709	(225,396)
Tax paid	–	(173)	–	–	–
Net cash (used in)/generated from operating activities	(1,679)	(172,718)	142,629	138,709	(225,396)

UNAUDITED COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	875	451	7,138	6,223	778
Additions to interests in leasehold land	(2,916)	–	–	–	–
Loan advanced to third parties	–	(400,000)	–	–	–
Repayment of loan advanced to third parties	–	–	–	–	400,000
Proceeds from disposal of property, plant and equipment	60	468	997	996	528
Purchase of property, plant and equipment	(13,807)	(42,090)	(11,763)	(8,236)	(6,092)
Net cash (used in)/generated from investing activities	(15,788)	(441,171)	(3,628)	(1,017)	395,214
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid	(11,622)	(28,371)	(30,393)	(15,219)	(13,539)
New bank borrowings raised	–	910,000	–	–	–
Repayment of bank borrowings	(50,000)	(300,000)	(120,000)	(60,000)	(60,000)
Repayment of obligations under finance leases	–	(231)	(231)	(116)	(116)
Net cash (used in)/generated from financing activities	(61,622)	581,398	(150,624)	(75,335)	(73,655)
(Decrease)/increase in cash and cash equivalents	(79,089)	(32,491)	(11,623)	62,357	96,163
Cash and cash equivalents at the beginning of the reporting period	231,135	152,046	119,555	119,555	107,932
Cash and cash equivalents at the end of the reporting period	152,046	119,555	107,932	181,912	204,095

NOTES TO THE UNAUDITED COMBINED FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Group is principally engaged in provision of hotel services, food and beverage operation services, provision of right to occupy site and marketing services for gaming operation in Hotel Lan Kwai Fong Macau.

On 10 October 2017, the Company entered into a conditional sale and purchase agreement to dispose the entire equity interest in the Target Companies and sale loans due by the Target Companies at a total consideration of HK$2,000,000,000 (subject to adjustment) (the "**Disposal**"). Upon completion of the Disposal, the Target Group will cease to be subsidiaries of the Company.

2. BASIS OF PREPARATION OF THE UNAUDITED COMBINED FINANCIAL INFORMATION

The Unaudited Combined Financial Information of the Target Group has been prepared solely for the purpose of inclusion in the circular to be issued by the Company in connection with the Disposal in accordance with paragraph 14.68(2)(a)(i) of the Listing Rules and in accordance with the significant accounting policies adopted by the Company as set out in its annual report for the year ended 31 December 2016, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The Unaudited Combined Financial Information of the Target Group has been prepared under the historical cost basis. The Unaudited Combined Financial Information of the Target Group is presented in Hong Kong dollar (HK$) and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

The Unaudited Combined Financial Information of the Target Group does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) *Presentation of Financial Statements* nor a complete set of condensed interim financial report as described in Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the HKICPA, and that it should be read in connection with the relevant published annual financial statements of the Company.

In preparing the Unaudited Combined Financial Information of the Target Group, the Directors have given careful consideration to the future liquidity and going concern of the Target Group in light of the fact that the Target Group incurred a net loss of approximately HK$12,296,000 during the six months ended 30 June 2017, and as of that date, the Target Group's total liabilities exceeded its total assets by approximately HK$158,506,000. The Directors are satisfied that the Target Group will have sufficient funds to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration that the Company has agreed to provide financial support to the Target Group to meet in full its financial obligations up to the date of the completion of the Disposal. Moreover, upon completion of the Disposal, the purchaser will provide financial support to the Target Group to meet in full its financial obligations as they fall due in the foreseeable future.

Following the Completion, the Remaining Group will have two continuing reportable segments, namely, (i) film related business operations; and (ii) the property development operations.

For the avoidance of doubt, the Remaining Group shall comprise the Company and its subsidiaries but shall exclude the Target Group from time to time. Set out below is the management discussion and analysis of the Remaining Group for the three years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2017 (the "**Reporting Periods**"). The financial data in respect of the Remaining Group, for the purpose of this circular, is derived from the consolidated financial statements of the Group for the Reporting Periods.

(I) FOR THE YEAR ENDED 31 DECEMBER 2014

1. Business Review

For the year ended 31 December 2014, the Remaining Group had four continuing reportable segments, namely, film related business operations, property development operations, gaming promotion operations and Nam Pei Hong operations.

Film Related Business Operations

Film related business operations included production and distribution of films and television drama series and provision of other film related services including artists management services.

For the year ended 31 December 2014, revenue from film related business operations amounted to approximately HK$2.3 million and its segment loss amounted to approximately HK$3.7 million. The segment loss was mainly attributable to impairment loss recognised in respect of film related business operations of approximately HK$4.6 million.

During the year, the Remaining Group did not distribute any new film, but had been planning a film which was known as "League of Gods 封神傳奇". The film had commenced shooting in January 2015 and would tentatively plan to be on screen in the beginning of year 2016.

Property Development Operations

Property development operations included investing and development of properties in Macau and Hong Kong. Development of properties in Macau represented sales of properties located in Macau after the completion of the acquisition of the property leasehold right over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "**Sites**").

In year 2014, the Remaining Group had disposed of properties located at the Ground Floor and its Cockloft of Nos. 1 and 3 Mercer Street, Hong Kong. The Company considered that the disposal represented an opportunity for realisation of the Remaining Group's investment in the property market having considered the prevailing market sentiments towards property investment in Hong Kong. 4th Floor of Nos. 1 and 3 Mercer Street, Hong Kong was rent out for investment purpose.

For the year ended 31 December 2014, revenue from property development operations amounted to approximately HK$0.2 million which represented rental income received and its segment loss amounted to approximately HK$2.7 million.

Gaming Promotion Operations

For the year ended 31 December 2014, the Remaining Group had shared revenue and segment loss of approximately HK$4.7 million and HK$9.6 million from the gaming promotion operations, representing a decrease of approximately 31% and 74% as compared to the corresponding figures for the year ended 31 December 2013, respectively. The decrease in segment loss was due to the decrease in impairment loss recognised in respect of the intangible assets of approximately HK$13.2 million for the year ended 31 December 2014 (2013: HK$42.7 million).

Nam Pei Hong Operations

On 11 June 2014, due to the difference in business perspectives among the Remaining Group and the other investors, the operational efficiency and performance of Nam Pei Hong operations fell short of the expectation of the Remaining Group, and the Remaining Group decided to dispose of all its 50% equity interest in the subsidiaries engaged in Nam Pei Hong operations.

On 20 November 2014, the Remaining Group acquired 100% equity interest in the subsidiaries engaged in Nam Pei Hong operations as the former purchaser had informed the Remaining Group that it was unable to pay balance of the consideration and it was willing to dispose of its entire equity interests to the Remaining Group for the same consideration. The directors considered that the acquisition would enable the Remaining Group to re-enter into the sales of Chinese health products business, so as to diversify the business portfolio of the Remaining Group and to broaden the Remaining Group's source of income, and to enhance potential positive contribution to the Remaining Group.

In year 2014 (excluding period from 11 June 2014 to 20 November 2014), the Remaining Group had shared revenue of approximately HK$106.9 million and segment profit of approximately HK$0.4 million.

2. Financial Review

Liquidity and Financing Resources

As at 31 December 2014, the Remaining Group had total assets of approximately HK$3,045.7 million and a net current assets of approximately HK$2,795.2 million, representing a current ratio of approximately 43.6. The Remaining Group had cash and bank balances of approximately HK$171.9 million. As at 31 December 2014, the Remaining Group had total borrowings of approximately HK$15.8 million which comprised unsecured bank loans in aggregate amount of approximately HK$15.8 million and obligations under finance leases of HK$20,000. The unsecured bank loans comprised import trade loans (the "**Import Loan**") of approximately HK$14.5 million and a unsecured bank loan of approximately HK$1.3 million (the "**Government Loan**") granted under the Special Loan Guarantee Scheme of the Government of HKSAR. The Import loan was interest bearing at 2% per annum over one month HIBOR, repayable on demand and guaranteed by an ex-shareholder of a subsidiary of the Company. The Government Loan was interest bearing at 2.5% per annum over one month Hong Kong Inter-bank Offered Rate ("**HIBOR**") and repayable by remaining of 11 equal consecutive monthly installments of approximately HK$105,000 per month and a final repayment for the remaining balance. Government Loan was 80% guaranteed by the Government of HKSAR and 100% guaranteed by the Company.

As at 31 December 2014, the Remaining Group had banking facilities amounting to approximately HK$21 million which were utilised to the extent of approximately HK$20.5 million. The Remaining Group's gearing was acceptable during the year with total debts of approximately HK$15.8 million against owners' equity of approximately HK$2,978.1 million. This represents a gearing ratio, calculated in the basis of the Remaining Group's total borrowings over owners' equity of approximately 0.5%.

Charges on the Remaining Group Assets

As at 31 December 2014, the Remaining Group did not have any charges on assets except for the Remaining Group's obligations under finance leases which were secured by the lessors' title to the leased assets, which had carrying amounts of approximately HK$20,000.

Commitments

As at 31 December 2014, outstanding commitments by the Remaining Group amounted to approximately HK$37.8 million, which comprised approximately HK$28.6 million as professional fees for the preparation of the development plan of the Sites and approximately HK$9.2 million as purchase of property, plant and equipment.

Contingent Liabilities

As at 31 December 2014, save for a corporate guarantee provided by the Company for securing general banking facilities granted by a bank to Hotel LKF to the extent of approximately HK$531 million, the Remaining Group had no other material contingent liability.

Exchange Risk and Hedging

As the majority of the Remaining Group's transactions, assets and liabilities were denominated in Hong Kong Dollar, Macau Pataca, United States Dollar and Renminbi, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary.

Material Acquisitions and Disposals

Save as disclosed below, during the year ended 31 December 2014, the Remaining Group did not have other material acquisitions and disposals:

(i) Acquisition of Protective Capital Group Limited

On 25 February 2014, Classic Champion Holdings Limited ("**Classic Champion**") entered into a conditional sale and purchase agreement with Mr. Kam Lap Sing, Kelvin to acquire the entire issued share capital of Protective Capital Group Limited and a sale loan (amounted to HK$20 million at the date of the agreement) owned by Eight Elements Entertainment Limited upon completion for aggregate consideration of HK$800 million which shall be settled by Classic Champion: (a) as to HK$300 million in cash as initial deposit upon the signing of the agreement; (b) as to HK$300 million in cash on 24 April 2014 or upon completion of the agreement, whichever was earlier; and (c) the balance of HK$200 million by procuring the Company to issue a promissory note to Mr. Kam Lap Sing, Kelvin on completion.

(ii) Disposal and acquisition of China Star Movie Limited

On 14 April 2014, China Star Entertainment Holding Limited ("**CS Holding**") (as a vendor), an indirect wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Dance Star Group Limited ("**Dance Star**") (as a purchaser), a wholly owned subsidiary of China Star Cultural Media Group Limited to sell the entire interest in China Star Movie Limited ("**CS Movie**") and a sale loan amounted to approximately HK$9,002,000 at an aggregate cash consideration of HK$4,340,000.

On 7 October 2014, CS Holding (as a purchaser) entered into a sale and purchase agreement with Dance Star (as a vendor) to acquire the entire interest in CS Movie and a sale loan amounted to approximately HK$13,501,000 at an aggregate cash consideration of HK$8,673,253.

(iii) Disposal of Star Hope Investments Limited

On 6 June 2014, Empowered Century Limited (as a vendor), an indirect wholly owned subsidiary of the Company entered into an unconditional sale and purchase agreement with Wing Shan Int'l Limited (as a purchaser), to sell the entire equity interest in Star Hope Investments Limited and a sale loan amounted to HK$81,999,878.40 at a total consideration of HK$82,282,048.

(iv) Disposal and acquisition of Ace Season Holdings Limited

On 11 June 2014, China Star Entertainment (BVI) Limited ("**CSBVI**") (as a vendor), a wholly owned subsidiary of the Company entered into an unconditional sale and purchase agreement with Attentive Wealth Investments Limited ("**Attentive**") (as a purchaser) to sell 50% of the equity interest and a sale loan amounted to approximately HK$46,361,858 in Ace Season Holdings Limited ("**Ace Season**") at a total consideration of HK$45,000,000 which shall be settled in cash by Attentive: (a) as to HK$9 million within two months from date of the unconditional sale and purchase agreement and (b) as to HK$36 million within six months from date of the unconditional sale and purchase agreement.

On 20 November 2014, CSBVI (as a purchaser) and Attentive (as a vendor) entered into an agreement to acquire the entire equity interest and a sale loan amounted to approximately HK$92,723,716 in Ace Season at a total consideration of HK$90,000,000.

(v) Disposal of Triumph Top Limited

On 21 November 2014, CSBVI entered a legally binding letter of intent with Bestmix Holdings Limited (as a purchaser) for the proposed disposal (the "**Proposed Disposal**") of the entire equity interest of Triumph Top Limited and a sale loan amounted to approximately HK$573,876,000 at an initial consideration of HK$2,230,000,000 less accruals and other liabilities at completion and a bonus consideration based on the total permissible construction floor area on the Sites. China Star Creative Development Limited, an indirect wholly-owned subsidiary of the Triumph Top Limited, owned the property leasehold right granted by the Macau Government over the Sites. On 12 December 2014, the parties had entered into formal conditional agreement (the "**Disposal Agreement**"). Please refer to the Company's announcement dated 21 November 2014 and 12 December 2014 for details of the Proposed Disposal. The Proposed Disposal constituted a very substantial disposal transaction of the Company under the Listing Rules. As at 31 December 2014, the Proposed Disposal had not yet completed.

Material Investments

As at 31 December 2014, the Remaining Group was holding financial assets classified as held for trading with fair value of approximately HK$36.3 million. The gain arising on change in fair value of financial assets classified as held for trading investments of approximately HK$8.11 million was recorded for the year.

Future Plans for Material Investments and Acquisition of Capital Assets

The Remaining Group did not have any future plans for material investments nor addition of capital assets during the year ended 31 December 2014.

Employees and Remuneration Policy

As at 31 December 2014, the Remaining Group employed 149 staff with employee benefit expenses of approximately HK$45.6 million. The Directors believe that the quality of its employees is the single most important factor in sustaining the Remaining Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staff according to the assessment of individual performance.

(II) FOR THE YEAR ENDED 31 DECEMBER 2015

1. Business Review

For the year ended 31 December 2015, the Remaining Group had four continuing reportable segments, namely, film related business operations, property development operations, gaming promotion operations and Nam Pei Hong operations.

Film Related Business Operations

For the year ended 31 December 2015, revenue from film related business operations amounted to approximately HK$1.2 million and its segment loss amounted to approximately HK$5.0 million. The segment loss was mainly attributable to impairment loss recognised in respect of film related business operations of approximately HK$2.4 million.

The new production of the Remaining Group, "League of Gods封神傳奇" had completed shooting in June 2015 and was in it post production period and would plan to be on screen within the year 2016. In this year, the Remaining Group also had investment in production of film which was co-financing with other production companies and would share revenue from the invested film according to the investment percentage in the relevant agreement.

Property Development Operations

Property development operations included investing and development of properties in Macau and Hong Kong. Development of properties in Macau represented properties located in Lot 6B, Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior (ZAPE) (the "**Sites**"). In order to enhance the commercial value of the Sites, the Remaining Group had decided to build a luxury residential and commercial complex with spacious apartment units, which would have higher selling prices than the existing development plan of the individual Lot 6B, Lot 6C, Lot 6D and Lot 6E. The Remaining Group submitted the architectural design and drawings of the Sites to the Land, Public Works and Transport Bureau of Macau for approval. Therefore, the Sites had remained undeveloped.

For the year ended 31 December 2015, revenue from property development operations amounted to approximately HK$0.2 million and its segment loss amounted to approximately HK$6.4 million.

Gaming Promotion Operations

For the year ended 31 December 2015, the Remaining Group had shared revenue and segment profit of approximately HK$4.7 million and HK$2.9 million from the gaming promotion operations, representing an increase of approximately 0% and 131%, as compared to the corresponding figures for the year ended 31 December 2014 respectively. The increase in segment profit was due to the decrease in impairment loss recognised in respect of the intangible assets of approximately HK$0.6 million in this year.

Nam Pei Hong Operations

For the year ended 31 December 2015, the Remaining Group had shared revenue of approximately HK$160.5 million and segment loss of approximately HK$8.5 million. The segment loss this year was mainly attributable to impairment loss recognised in respect of the intangible assets on trademarks and exclusive distribution rights of approximately HK$4.9 million and approximately HK$1.4 million respectively. During the year, the retail shops of Nam Pei Hong increased from 10 to 12.

2. Financial Review

Liquidity and Financing Resources

As at 31 December 2015, the Remaining Group had total assets of approximately HK$3,997.4 million and a net current assets of approximately HK$3,331.7 million, representing a current ratio of approximately 8.5. The Remaining Group had cash and bank balances of approximately HK$932.1 million. As at 31 December 2015, the Remaining Group had total borrowings of approximately HK$14.9 million which comprised import trade loans of approximately HK$14.9 million, interest bearing at 2% per annum over one month HIBOR, repayable on demand and guaranteed by an ex-shareholder of a subsidiary of the Company, and obligations under finance leases of HK$4,000.

As at 31 December 2015, the Remaining Group had banking facilities amounting to approximately HK$15.0 million which were utilised to the extent of approximately HK$14.9 million. The Remaining Group's gearing was acceptable during the year with total debts of approximately HK$14.9 million against owners' equity of approximately HK$3,549.1 million. This represents a gearing ratio, calculated in the basis of the Remaining Group's total borrowings over owners' equity of 0.4%.

Charges on the Remaining Group Assets

As at 31 December 2015, the Remaining Group did not have any charges on assets except for the Remaining Group's obligations under finance leases which were secured by the lessors' title to the leased assets, which had carrying amount of HK$4,000.

Commitments

As at 31 December 2015, outstanding commitments by the Remaining Group amounted to approximately HK$86.2 million, of which approximately HK$29.7 million was professional fees for the preparation of the development plan of the Sites and approximately HK$56.5 million for film rights, films in progress and film deposits.

Contingent Liabilities

As at 31 December 2015, save for a corporate guarantee provided by the Company for securing general banking facilities granted by a bank to Hotel LKF to the extent of approximately HK$1,051 million, the Remaining Group had no other material contingent liability.

Exchange Risks and Hedging

As the majority of the Remaining Group's transactions, assets and liabilities were denominated in Hong Kong Dollar, Macau Pataca, United States Dollar and Renminbi, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary.

Material Acquisitions and Disposals

Save as disclosed below, during the year ended 31 December 2015, the Remaining Group did not have other material acquisitions and disposals:

(i) Termination of the proposed acquisition of Protective Capital Group Limited

On 22 May 2015, the parties to the conditional sale and purchase agreement regarding the acquisition of the entire issued share capital of Protective Capital Group Limited dated 25 February 2014, Classic Champion and Mr. Kam Lap Sing, Kelvin entered into a deed of termination, pursuant to which, the parties mutually irrevocably and unconditionally agreed that, on and with effect from 22 May 2015, the agreement shall terminate and cease to have any effect. Mr. Kam Lap Sing, Kelvin had refunded the deposits paid to Classic Champion without interest in accordance with the terms of the conditional sale and purchase agreement.

(ii) Termination of the Proposed Disposal of Triumph Top Limited

On 25 March 2015, the parties to the Disposal Agreement dated 12 December 2014, CSBVI and Bestmix Holdings Limited, entered into a deed of termination, pursuant to which, the parties to the Disposal Agreement mutually irrevocably and unconditionally agreed that the Proposed Disposal be terminated and cease to have any effect. The reason for the termination of the Disposal Agreement was the anticipated inability to fulfill one of the conditions precedent of the Disposal Agreement.

Material Investments

As at 31 December 2015, the Remaining Group was holding financial assets classified as held for trading with fair value of approximately HK$305.8 million. The gain arising on change in fair value of financial assets classified as held for trading investments of approximately HK$99.6 million was recorded for the year.

Future Plans for Material Investments and Acquisition of Capital Assets

The Remaining Group did not have any future plans for material investments nor addition of capital assets during the year ended 31 December 2015.

Employees and Remuneration Policy

As at 31 December 2015, the Remaining Group employed 136 staff with employee benefit expenses of approximately HK$91.8 million which included approximately HK$36.9 million share-based payment expenses related to share options granted to employees of the Remaining Group. The directors believe that the quality of its employees is the single most important factor in sustaining the Remaining Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staff according to the assessment of individual performance.

(III) FOR THE YEAR ENDED 31 DECEMBER 2016

1. Business Review

For the year ended 31 December 2016, the Remaining Group had three continuing reportable segments, namely, film related business operations, property development operations, and Nam Pei Hong operations. Gaming promotion operations had been discontinued in this year.

Film Related Business Operations

For the year ended 31 December 2016, revenue from film related business operations amounted to approximately HK$266.2 million and its segment loss amounted to approximately HK$257.3 million. The revenue was mainly come from the film released by the Remaining Group during the year. The segment loss was mainly attributable to the gross loss incurred by the new film of approximately HK$222.9 million and impairment loss recognised of approximately HK$4.9 million for the film library held by the Remaining Group.

The Remaining Group had released its new production, "League of Gods 封神傳奇" in July 2016 which received positive feedback and sound recognition from the film industry. However, the box office revenue in China was below expectation. As majority revenue of Chinese film contributed by the China market, the Remaining Group incurred significant loss from this film. The Remaining Group also had investment in production of film which was co-financing with other production companies and would share revenue from the invested film according to the investment percentage in the relevant agreement. The Remaining Group took a passive role in this kind of co-production arrangement and thus may need longer time for ascertain its investment return.

Property Development Operations

For the year ended 31 December 2016, revenue from property development operations amounted to approximately HK$0.2 million and its segment loss amounted to approximately HK$35.8 million. The segment loss mainly contributed by the recognition of loss on fair value change of investment properties of approximately HK$33.4 million during this year.

Property development operations included investing and development of properties in Macau and Hong Kong. Development of properties in Macau represented properties located in Lot 6B, Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior (ZAPE) (the "**Sites**"). Lot 6B was in trapezium shape with a site area of 1,420 square meters next to Lan Kwai Fong and Lot 6C, Lot 6D and Lot 6E were in rectangular shape with each site area of 1,292 square meters next to Lot 6B and adjacent of each other with three six-meter width roads dividing them separately. In order to enhance the commercial value of the Sites, the Remaining Group had decided to build a luxury residential and commercial complex of two towers with spacious apartment units in Lot 6C, Lot 6D and Lot 6E (the "**Combined Site**") and Lot 6B would be developed into recreational area between the Combined Site and Lan Kwai Fong, which was expected to have higher selling prices than the existing development plan of the individual Lot 6B, Lot 6C, Lot 6D and Lot 6E. This new development plan also respond strongly to the local planning authorities requirements for connectivity with the existing city and thus considerable portions of the area of the Sites had been dedicated to public use. The Land, Public Works and Transport Bureau of Macau ("**DSSOPT**") had approved the combination of development of the Combined Site of Lot 6C, Lot 6D and Lot 6E in July 2016. The total gross floor area of the Combined Site were expected to be (a) residential – 28,422 square meters, (b) clubhouse – 1,927 square meters, (c) commercial –

4,132 square meters and (d) parking – 11,508 square meters. The expiry date of land concession of Lot 6C, Lot 6D and Lot 6E was 20 December 2019 and the development period of the Combined Site had also granted an extension until 20 December 2019 and construction works would start once the permit was obtained and most likely in April 2017. Based on a property valuation performed by an independent property valuer for accounting purpose as at 31 December 2016, the market value of the Combined Site was approximately HK$1,974 million.

Immediately after the acquisition of the property leasehold rights of the Sites, the Remaining Group held meetings with various departments of Macau Government to seek their views on the proposed development of the Sites as the Combined Site. In May 2012, the Remaining Group submitted the architectural design and drawings of the Combined Site to the DSSOPT for approval. Following the submission, meetings had been held with various departments of Macau Government for following up the proposed development plan. Given that the location of the Sites was adjacent to Macao Polytechnic Institute and several tourist spots, Forum de Macao, Grand Prix Museum, Wine Museum and Golden Lotus Square, and was a couple of blocks away from Macau Fisherman's Wharf and Sands Casino, it is believed that the Macau Government required longer time to study the impacts of the proposed development of the Combined Site on traffic, environment and cultural heritage in the surrounding area, before the grant of an approval. Besides, Lot 6B, Lot 6C, Lot 6D and Lot 6E were properties classified as those of 65 properties which non-development were not the responsibility of the land concessioner announced in year 2011. Owing to the delay by the Macau Government in granting the proposed development of the Combined Site, the land concession of Lot 6B had expired on 25 December 2014. DSSOPT had started the administration work to reclaim it on dispatch 50/2016 published in the Official Gazette no. 47, II, of 23 November 2016 according to Macau new Land Law effective in March 2014 for the reason that Lot 6B was undeveloped land on the expiry of the land concession on 25 December 2014. The Remaining Group had filed an appeal to the President of the Macau Second Instance Court on 30 December 2016 and the Second Instance Court had not ruled on this matter as at the date of the annual report of the Company for the year ended 31 December 2016. According to the legal opinion obtained by the Company, the Remaining Group had strong legal ground to seek for a legal compensation for legal damages to the Macau Government and the Court would necessary have consider and rule taking into account all the essential points regarding the delays caused by the Macau Government.

As stated above, Lot 6B was planned to develop into recreational area between the Combined Site and Lan Kwai Fong. The action by the Macau Government was considered to have minimal effect on the development value of the Combined Site and it was now uncertain that what ruling would be obtained from the Macau Government on Lot 6B. The Remaining Group would closely monitor the development on the Combined Site and consider that the development of the Combined Site with higher development value could secure the recovery of its investment cost on the project and would contribute higher investment return to the Remaining Group.

Nam Pei Hong Operations

For the year ended 31 December 2016, the Remaining Group had shared revenue of approximately HK$149.6 million and segment loss of approximately HK$1.3 million, representing a decrease of approximately 7% and 85% as compared to the corresponding figures for the year ended 31 December 2015, respectively. The segment loss in the previous year was mainly attributable to impairment loss recognised in respect of the intangible assets on trademarks and exclusive distribution rights of HK$4.9 million and HK$1.4 million respectively. During the year, the retail shops of Nam Pei Hong decreased from 12 to 11.

Discontinued Operation – Gaming Promotion Operations

Gaming promotion operations had been discontinued since the Remaining Group entered into a termination agreement pursuant to which the Remaining Group agreed to terminate the profit acquisition agreement dated 16 August 2007 at the consideration of HK$10,000,000 on 25 October 2016. The termination was completed on 30 October 2016. During the period from 1 January 2016 to 30 October 2016, the Remaining Group had shared revenue and profit of approximately HK$3.9 million and HK$2.5 million respectively from the gaming promotion operations.

2. Financial Review

Liquidity and Financing Resources

As at 31 December 2016, the Remaining Group had total assets of approximately HK$3,496.8 million and a net current assets of approximately HK$2,794.3 million, representing a current ratio of approximately 20.9. The Remaining Group had cash and bank balances of approximately HK$662.0 million. As at 31 December 2016, the Remaining Group had total borrowings of HK$13.5 million which represented import trade loans of approximately HK$13.5 million, interest bearing at 2% per annum over one month HIBOR, repayable on demand and guaranteed by an ex-shareholder of a subsidiary of the Company.

As at 31 December 2016, the Remaining Group had banking facilities amounting to approximately HK$15 million which were utilised to the extent of approximately HK$13.5 million. The Remaining Group's gearing was acceptable during the year with total debts of approximately HK$13.5 million against owners' equity of approximately HK$3,354.6 million. This represents a gearing ratio, calculated in the basis of the Remaining Group's total borrowings over owners' equity of 0.4%.

Charges on the Remaining Group Assets

As at 31 December 2016, the Remaining Group did not have any charges on assets.

Commitments

As at 31 December 2016, outstanding commitments by the Remaining Group amounted to approximately HK$44.8 million, of which approximately HK$38.7 million as professional fees for the preparation of the development plan of the Combined Site and approximately HK$6.1 million for film rights, films in progress and film deposits.

Contingent Liabilities

As at 31 December 2016, save for a corporate guarantee provided by the Company for securing general banking facilities granted by a bank to Hotel LKF to the extent of approximately HK$1,051 million, the Remaining Group had no other material contingent liability.

Exchange Risks and Hedging

The majority of the Remaining Group's transactions, assets and liabilities were denominated in Hong Kong Dollar, Macau Pataca, United States Dollar and Renminbi. The exposure to fluctuation in exchange rates in Renminbi mainly arises from receipts and expenditure incurred in film investment, production and distribution. The Remaining Group had closely monitored its exposure to this fluctuation and considered appropriate hedging activities if necessary. The exposure to fluctuation in other currencies was considered to be minimal and no hedge activity was considered necessary.

Material Acquisitions and Disposals

On 29 November 2016, Best Combo Limited ("**Best Combo**"), a wholly owned subsidiary of the Company and Ms. Chen, a substantial shareholder and an executive director of the Company, entered into a conditional sale and purchase agreement (the "**Agreement**") pursuant to which Best Combo has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited ("**Modern Vision**") and the sale loan due by Modern Vision to Ms. Chen upon completion at a purchase price of HK$1,000 million (subject to adjustment). The major asset of Modern Vision is its 50% equity interests in Over Profit International Limited ("**Over Profit**"). Over Profit indirectly owns 100% beneficial interest in a lot of land with the area of 4,669 square meters, named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the "**Macau Land**"). The purchase price shall be satisfied by Best Combo by: (i) the payment of initial deposit of HK$400 million upon signing of the Agreement and (ii) the issue of a 2-year term 5% coupon promissory note in the principal sum of HK$600 million by the Company to Ms. Chen for the balance upon completion.

On 29 November 2016, Best Combo entered into a loan agreement (the "**Loan Agreement**") with Ms. Chen, pursuant to which (i) Best Combo had agreed to grant a loan in the principal amount of HK$500 million (subject to the adjustment) to Ms. Chen for a term of 60 months from the date of drawdown (the "**Loan**"); and (ii) Ms. Chen had agreed to grant an option to Best Combo to require Ms. Chen to sell the entire issued share capital of Reform Base Holdings Limited, which shall be exercisable by Best Combo at any time within 60 months after the date of drawdown of the Loan at a price of the principal amount of the Loan (subject to adjustment) (the "**Call Option**"). The Loan is interest bearing at 5% per annum and payable semi-annually in arrears. The major asset of Reform Base Holdings Limited is its 25% equity interests in Over Profit.

Details of the Agreement and the Loan Agreement were set out in the Company's circular dated 10 March 2017. The transactions in the Agreement and the Loan Agreement constituted very substantial acquisition and connected transaction of the Company under the Listing Rules and are subject to independent shareholders' approval in a special general meeting of the Company to be held on 31 March 2017. The Agreement and the Loan Agreement had not yet completed up to the date of annual report of the Company for the year ended 31 December 2016.

During the year ended 31 December 2016, other than those described above, the Remaining Group did not have any significant material acquisitions and disposals.

Material Investments

As at 31 December 2016, the Remaining Group was holding financial assets classified as held for trading with fair values of approximately HK$286.9 million. The net loss derived from investments held for trading of approximately HK$18.9 million was recorded for the year. During the year, the Remaining Group did not acquired or disposed any equity securities listed in Hong Kong. The loss arising on change in fair value of financial assets classified as held for trading investments of approximately HK$18.9 million was resulting from change in fair values of equity securities listed in Hong Kong between the year ended 31 December 2015 and 31 December 2016. As at 31 December 2016, the fair value of one of the equity securities, Kingston Financial Group Limited ("**Kingston**") accounted for approximately 5.06% of the total assets of the Remaining Group. Kingston is principally engaged in the provision of a wide range of financial services which includes securities underwriting and placements, margin and IPO financing, securities brokerage, corporate finance advisory services, futures brokerage and asset management services, and it also provides entertainment and hospitality services in Macau. Detailed information of Kingston held by the Remaining Group are as follows:

Stock name: Kingston Financial Group Limited
Stock code: 1031
Number of shares held as at 31 December 2016: 64,580,000
Fair value held by the Remaining Group as at 31 December 2016: HK$216,343,000
Gain arising on change in fair value recognised in the year: HK$3,875,000
Percentage of its shareholding held by the Remaining Group: 0.47%

Future Plans for Material Investments and Acquisition of Capital Assets

The Remaining Group did not have any future plans for material investments nor addition of capital assets for the year ended 31 December 2016.

Employees and Remuneration Policy

As at 31 December 2016, the Remaining Group employed 133 staff with employee benefit expenses of approximately HK$54.5 million which included approximately HK$36.9 million share-based payment expenses related to share options granted to employees of the Remaining Group. The directors believe that the quality of its employees is the single most important factor in sustaining the Remaining Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staff according to the assessment of individual performance.

(IV) FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. Business Review

For the six months ended 30 June 2017, the Remaining Group had two continuing reportable segments, namely, film related business operations and property development operations. Nam Pei Hong operations had been discontinued during the period.

Film Related Business Operations

For the six months ended 30 June 2017, revenue from film related business operations amounted to approximately HK$1.3 million and its segment loss amounted to approximately HK$3.1 million. During the six months ended 30 June 2017, the Remaining Group did not distributed any new film. The latest new production of the Remaining Group, "League of Gods" had been on screen in July 2016 and thus its revenue had been reflected in the second half of the year in 2016. It was now the Company's policy to exercise extra caution in the investment and production of film or television drama series. After the distribution of "League of Gods" in the year 2016, the Remaining Group was still in the preparation stage of another new film which was scheduled to start production in September 2017. Besides, following the establishment of the production line in the television drama series, the Remaining Group was in the preliminary stage of writing story board for television drama series. The Remaining Group also had investment in production of film which is co-financing with other production companies and shared revenue of approximately HK$0.3 million from this invested film in the period.

Property Development Operations

For the six months ended 30 June 2017, revenue for property development operations amounted to approximately HK$8,000 and its segment profit amounted to approximately HK$0.4 million. The change in segment result mainly caused by the recognition of gain on fair value change of investment properties in Hong Kong of approximately HK$0.9 million as compared to loss of approximately HK$25.4 million in the last corresponding period. This fair value change was based on the valuation reports issued by a firm of independent qualified professional valuers.

The Remaining Group completed the acquisition of the Property C7 on 6 April 2017. Under the Urbanistic Conditions Plan, the Property C7 will be developed for residential and parking purpose, with the maximum allowed height of the building of 34.5 meters above sea level and maximum utilization rate of 5.58 (parking not included). An architect had been engaged and was still in the process to compile a development plan of the Property C7 in accordance with the parameters for submission to the Land, Public Works and Transport Bureau of Macau ("**DSSOPT**") for approval. The very preliminary development plan was to develop a building under strata title with gross floor areas (in square meters) for residential of 26,047 and parking of 5,200.

Discontinued Operation – Nam Pei Hong Operations

During the period from 1 January 2017 to 30 June 2017, the Remaining Group had shared revenue of approximately HK$74.8 million and segment profit of approximately HK$0.9 million from the Nam Pei Hong operations and shared a loss on disposal of approximately HK$0.6 million.

Nam Pei Hong operations had been discontinued as China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company ("**CSBVI**") entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") with an independent third party in relation to the disposal of the entire issued share capital of Ace Season and the sale loan owed by Ace Season to CSBVI on completion at consideration of approximately HK$85.0 million (the "**Ace Season Disposal**"). The Ace Season Disposal was completed on 30 June 2017. Upon completion of the Ace Season Disposal, the Company ceased to have any interests in Ace Season and its subsidiaries and their financial results were no longer be consolidated into the Company's consolidated financial statements and thus classified as discontinued operation in this period. The Remaining Group considered that the Ace Season Disposal could reallocate its resources to other business with better prospects.

2. Financial Review

Liquidity and Financing Resources

As at 30 June 2017, the Remaining Group had total assets of approximately HK$4,090.7 million and a net current assets of approximately HK$3,060.5 million, representing a current ratio of approximately 6.1. The Remaining Group had cash and bank balances of approximately HK$407.6 million. As at 30 June 2017, the Remaining Group had total borrowings of approximately HK$247.7 million which represented the carrying amount of the promissory note with outstanding principal amount of HK$300 million issued to Ms. Chen, a substantial shareholder and an executive director of the Company which carries interest at the rate of 5% per annum, unsecured and has maturity at a fixed term of 24 months from the date of issue of the promissory note.

As at 30 June 2017, the Remaining Group had no banking facilities available. The Remaining Group's gearing was low during the year with total debts of approximately HK$247.7 million against owners' equity of approximately HK$3,239.6 million. This represents a gearing ratio, calculated in the basis of the Remaining Group's total borrowings over owners' equity of approximately 7.6%.

Charges on the Remaining Group Assets

As at 30 June 2017, the Remaining Group did not have any charges on assets.

Commitments

As at 30 June 2017, outstanding commitments by the Remaining Group amounted to approximately HK$1,352.0 million, of which approximately HK$1,340.8 million as project costs for the Combined Site and Property C7 and approximately HK$11.2 million for film rights, films in progress and film deposits.

Contingent Liabilities

As at 30 June 2017, save for a corporate guarantee provided by the Company for securing general banking facilities granted by a bank to Hotel LKF to the extent of approximately HK$1,051 million, the Remaining Group had no other material contingent liability.

Exchange Risk and Hedging

The majority of the Remaining Group's transactions, assets and liabilities were denominated in Hong Kong Dollar, Macau Pataca, United States Dollar and Renminbi. The exposure to fluctuation in exchange rates in Renminbi mainly arised from receipts and expenditure incurred and receivables in film investment, production and distribution. The Remaining Group had closely monitored its exposure to this fluctuation and consider appropriate hedging activities if necessary. The exposure to fluctuation in other currencies was considered to be minimal and no hedge activity is considered necessary.

Material Acquisitions and Disposals

Save as disclosed below, during the six months ended 30 June 2017, the Remaining Group did not have other material acquisitions and disposals:

(i) *Acquisition of Modern Vision and the Property C7*

Please refer to the material acquisition and disposals for the year ended 31 December 2016 as discussed above for further details. The Agreement and the Loan Agreement were completed on 6 April 2017. After that, Modern Vision, Over Profit and its subsidiaries become subsidiaries of the Company and were consolidated into the result of the Remaining Group during the period under review.

(ii) *Disposal of Ace Season and the Nam Pei Hong operations*

On 29 March 2017, CSBVI entered into the Sale and Purchase Agreement with an independent third party in relation to the Ace Season Disposal. The Ace Season Disposal constituted a discloseable transaction of the Company under the Listing Rules and the completion of the Ace Season Disposal was subject to the satisfaction of the terms and conditions as set out in the Sale and Purchase Agreement. The Ace Season Disposal was completed on 30 June 2017.

Material Investments

As at 30 June 2017, the Remaining Group was holding financial assets classified as held for trading with fair values of approximately HK$234.0 million. During the period, the Remaining Group did not acquired or disposed any equity securities listed in Hong Kong. The loss arising on change in fair value of financial assets classified as held for trading investments of HK$5.92 million was resulting from change in fair values of equity securities listed in Hong Kong during the period. As at 30 June 2017, there was no single one equity securities that the fair value of the equity securities accounted for 5% or more of the total assets of the Remaining Group.

Future plans for material investments and acquisition of capital assets

The Remaining Group did not have any future plans for material investments nor addition of capital assets during the six months ended 30 June 2017.

Employees and Remuneration Policy

As at 30 June 2017, the Remaining Group employed 55 staff with employee benefit expenses of HK$19.1 million from the continuing operations. The directors believe that the quality of its employees is the single most important factor in sustaining the Remaining Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staff according to the assessment of individual performance

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Introduction

The following is a summary of an illustrative and unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of China Star Entertainment Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") (the "**Unaudited Pro Forma Financial Information**"), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the possible disposal of the entire equity interests in Exceptional Gain Profits Limited, Most Famous Enterprises Limited and Charming Era Investment Limited (collectively referred to as the "**Target Companies**") and their respective subsidiaries (collectively referred to as the "**Target Group**") and sale loans due by the Target Companies to the Group (the "**Disposal**") on the financial position of the Group as if the Disposal had been completed on 30 June 2017, and the effects of the Disposal on the financial performance and cash flows of the Group as if the Disposal had taken place on 1 January 2016. The Group immediately after the completion of the Disposal is referred to as the "**Remaining Group**".

The Unaudited Pro Forma Financial Information of the Remaining Group has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position, the financial performance and cash flows of the Remaining Group had the Disposal had been completed as at 30 June 2017 or on 1 January 2016, where applicable, or any future dates.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017 which extracted from the published interim report for the six months ended 30 June 2017, the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2016 which extracted from the published annual report for the year ended 31 December 2016, after giving effect to the pro forma adjustments relating to the Disposal as described in the accompanying notes. Narrative description of the pro forma adjustments that are (i) directly attributable to the transactions and not relating to future events or decisions; and (ii) factually supported, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the published annual report of the Company for the year ended 31 December 2016, the published interim report of the Company for the six months ended 30 June 2017, the financial information of the Target Group as set out in Appendix II to this circular, the Company's announcement dated 16 October 2017 and other financial information included elsewhere in this circular. The Unaudited Pro Forma Financial Information does not take into account any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Remaining Group.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017	Unaudited pro forma adjustments		Unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2017
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
	(Note 1)			
Non-current assets				
Property, plant and equipment	338,606	(325,087)	2	13,519
Interests in leasehold land	384,404	(328,186)	2	56,218
Investment properties	77,900			77,900
Available-for-sale financial assets	173			173
Loan to a director	278,654			278,654
Interests in joint ventures	244			244
	1,079,981			426,708
Current assets				
Inventories	7,129	(7,129)	2	–
Stock of properties	1,978,970			1,978,970
Film rights	21,446			21,446
Films in progress	93,632			93,632
Trade receivables	209,218	(164,789)	2	44,429
Deposits, prepayment and other receivables	141,871	(15,850)	2	
		121	3	126,142
Financial assets at fair value through profit or loss	457,838			457,838
Loan receivables	200,000			200,000
Amounts due from fellow subsidiaries	–	(9)	2	
		9	3	–
Amount due from a joint venture	250			250
Cash and cash equivalents	611,717	(204,095)	2	
		1,613,294	4	
		(2,000)	5	2,018,916
	3,722,071			4,941,623
Assets classified as held for sale	5,696			5,696
	3,727,767			4,947,319
Total assets	4,807,748			5,374,027

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP (Continued)

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017	Unaudited pro forma adjustments		Unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2017
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
	(Note 1)			
Capital and reserves				
Share capital	9,037			9,037
Reserves	3,072,026	1,443,890	4	
		(2,000)	5	4,513,916
Equity attributable to owners of the Company	3,081,063			4,522,953
Non-controlling interests	(96)			(96)
Total equity	3,080,967			4,522,857
Non-current liabilities				
Bank borrowings	610,000	(610,000)	2	–
Promissory note	247,695			247,695
Obligations under finance leases	237	(237)	2	–
Deferred tax liabilities	80,888	(80,888)	2	–
	938,820			247,695
Current liabilities				
Bank borrowings	120,000	(120,000)	2	–
Obligations under finance leases	231	(231)	2	–
Trade payables	24,587	(20,755)	2	3,832
Deposits received, accruals and other payables	140,005	(43,488)	2	96,517
Amounts due to non-controlling interests	503,116			503,116
Amounts due to immediate holding company	–	(327,910)	2	
		327,910	4	–
Amounts due to fellow subsidiaries	–	(130)	2	
		130	3	–
Tax payable	12	(12)	2	–
	787,951			603,465
Liability classified as held for sale	10			10
	787,961			603,475

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP (Continued)

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017	Unaudited pro forma adjustments		Unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2017
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
	(Note 1)			
Total liabilities	1,726,781			851,170
Total equity and liabilities	4,807,748			5,374,027
Net current assets	2,939,806			4,343,844
Total assets less current liabilities	4,019,787			4,770,552

UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE REMAINING GROUP

	Audited consolidated income statement of the Group for the year ended 31 December 2016	Unaudited pro forma adjustments		Unaudited pro forma consolidated income statement of the Remaining Group for the year ended 31 December 2016
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
	(Note 6)			
Continuing operations				
Revenue	1,102,464	(686,431)	7	
		135	8	416,168
Cost of sales	(986,542)	399,547	7	(586,995)
Gross profit/(loss)	115,922			(170,827)
Other revenue and other income	123,729	(32,786)	7	90,943
Administrative expenses	(394,358)	309,762	7	
		(2,000)	10	(86,596)
Marketing, selling and distribution expenses	(90,128)	42,958	7	(47,170)
Loss arising on change in fair value of financial assets at fair value through profit or loss	(18,879)			(18,879)
Gain on disposal of the Target Group	–	1,242,190	9	1,242,190
Other operating expenses	(43,794)			(43,794)
(Loss)/profit from operations	(307,508)			965,867
Finance costs	(30,543)	30,255	7	(288)
Share of results of joint ventures	(90)			(90)
(Loss)/profit before tax	(338,141)			965,489
Income tax expense	–			–
(Loss)/profit for the year from continuing operations	(338,141)			965,489
Discontinued operation				
Profit for the year from discontinued operation	2,530			2,530
(Loss)/profit for the year	(335,611)			968,019
(Loss)/profit for the year attributable to:				
Owners of the Company	(335,609)			968,021
Non-controlling interests	(2)			(2)
	(335,611)			968,019

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE REMAINING GROUP

	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2016	Unaudited pro forma adjustments		Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group for the year ended 31 December 2016
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
	(Note 6)			
(Loss)/profit for the year	(335,611)	63,305	7	
		135	8	
		1,242,190	9	
		(2,000)	10	968,019
Other comprehensive income				
Items that may be reclassified subsequently to consolidated income statement:				
Exchange differences arising on translation of foreign operations:				
Exchange differences arising during the year	14			14
Other comprehensive income for the year	14			14
Total comprehensive (loss)/income for the year	(335,597)			968,033
Total comprehensive (loss)/income for the year attributable to:				
Owners of the Company	(335,595)			968,035
Non-controlling interests	(2)			(2)
	(335,597)			968,033

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE REMAINING GROUP

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2016	Unaudited pro forma adjustments		Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2016
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
	(Note 6)			
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss)/profit before tax from continuing operations	(338,141)	63,305	7	
		135	8	
		1,242,190	9	
		(2,000)	10	965,489
Profit before tax from discontinued operation	2,530			2,530
Adjustments for:				
Finance costs	30,543	(30,255)	7	288
Interest income	(99,725)	12,493	7	(87,232)
Dividend income	(1,679)			(1,679)
Amortisation of film rights	487,578			487,578
Amortisation of interests in leasehold land	23,158	(21,283)	7	1,875
Depreciation of property, plant and equipment	70,110	(65,074)	7	5,036
Impairment loss recognised in respect of film rights	4,877			4,877
Impairment loss recognised in respect of intangible assets	449			449
Impairment loss recognised in respect of films in progress	422			422
Impairment loss recognised in respect of amount due from a joint venture	12			12
Impairment loss recognised in respect of trade receivables	1,143			1,143
Impairment loss recognised in respect of deposits, prepayment and other receivables	3,900			3,900
Loss arising on change in fair value of financial assets at fair value through profit or loss	18,879			18,879
Loss on fair value change of investment properties	33,440			33,440
Loss on disposal of property, plant and equipment	886	973	7	1,859
Gain on derecognition of intangible assets	(120)			(120)
Gain on disposal of the Target Group	–	(1,242,190)	9	(1,242,190)
Share of results of joint ventures	90			90
Write-down of obsolete inventories	58	(44)	7	14

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE REMAINING GROUP (Continued)

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2016	Unaudited pro forma adjustments		Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2016
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
	(Note 6)			
Operating cash flows before movements in working capital	238,410			196,660
Decrease in inventories	4,145	(2,101)	7	2,044
Increase in stock of properties	(15,267)			(15,267)
Increase in films in progress	(202,633)			(202,633)
Increase in trade receivables	(113,493)	(13,332)	7	(126,825)
Increase in deposits, prepayment and other receivables	(97,597)	(16,535)	7	
		(90,273)	11	(204,405)
Decrease in amounts due from non-controlling interests	329			329
Decrease in amount due from ultimate holding company	–	(203,700)	7	
		203,700	11	–
Increase in amounts due from fellow subsidiaries	–	14,234	7	
		(14,234)	11	–
Increase in trade payables	4,172	1,303	7	5,475
Decrease in deposits received, accruals and other payables	(138,996)	18,194	7	(120,802)
Increase in amount due to ultimate holding company	–	(268,041)	7	
		268,041	11	–
Decrease in amounts due to fellow subsidiaries	–	367,234	7	
		(367,234)	11	–
Decrease in amounts due to joint ventures	(25)			(25)
Increase in amounts due to non-controlling interests	210			210
Cash used in operations	(320,745)			(465,239)
Tax refund	153			153
Net cash used in operating activities	(320,592)			(465,086)

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE REMAINING GROUP (Continued)

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2016	Unaudited pro forma adjustments		Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2016
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
	(Note 6)			
CASH FLOWS FROM INVESTING ACTIVITIES				
Dividend received	1,679			1,679
Interest received	107,930	(7,138)	7	100,792
Deposit paid for investment	(400,000)			(400,000)
Proceeds from disposal of property, plant and equipment	7,535	(997)	7	6,538
Proceeds from disposal of gaming promotion operations	10,000			10,000
Net proceeds from disposal of the Target Group	–	1,436,706	9	1,436,706
Purchases of property, plant and equipment	(13,755)	11,763	7	(1,992)
Repayment of loan advanced to third parties	400,000			400,000
Net cash generated from investing activities	113,389			1,553,723
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid	(30,681)	30,393	7	(288)
New bank borrowings raised	63,439			63,439
Proceeds from issue of new shares	79,818			79,818
Repayment of obligations under finance leases	(235)	231	7	(4)
Repayment of bank borrowings	(184,854)	120,000	7	(64,854)
Share issuing expenses	(2,051)			(2,051)
Net cash (used in)/generated from financing activities	(74,564)			76,060
(Decrease)/increase in cash and cash equivalents	(281,767)			1,164,697
Cash and cash equivalents at the beginning of the reporting period	1,051,692	(119,555)	7	932,137
Effect of foreign exchange rate changes	14			14
Cash and cash equivalents at the end of the reporting period	769,939			2,096,848

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

(1) The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017 as set out in the published interim report of the Company for the six months ended 30 June 2017.

(2) The adjustment represents the exclusion of assets and liabilities of the Target Group as at 30 June 2017 set out in Appendix II in this circular as if the Disposal had been completed on 30 June 2017.

(3) The adjustment represents the reclassification of inter-company balances owing by the Target Group to the Remaining Group as at 30 June 2017 as if the Disposal had been completed on 30 June 2017.

(4) On 10 October 2017, China Star Entertainment (BVI) Limited ("**CSBVI**"), a wholly-owned subsidiary of the Company, and Mr. Chan Meng Kam ("**Mr. Chan**"), an individual who is an independent third party, entered into a conditional sale and purchase agreement ("**S&P Agreement**") pursuant to which CSBVI has conditionally agreed to dispose and Mr. Chan has conditionally agreed to acquire the entire issued share capital of the Target Companies and sale loans due by the Target Companies to CSBVI (the "**Sale Loans**") at initial consideration of HK$2,000,000,000 (subject to adjustment as further disclosed below) (the "**Consideration**"). The Consideration shall be satisfied by (i) HK$200,000,000 was paid in cash as non-refundable deposit upon the signing of the S&P Agreement by Mr. Chan; and (ii) the remaining HK$1,800,000,000 shall be paid upon date of completion (the "**Completion Date**") of the Disposal.

As per the condition of completion of the Disposal, the outstanding bank borrowings owing by the Target Group should be repaid prior to or as at the date of completion. The Consideration received by the Company will be used to repay the outstanding bank borrowings as at the date of completion.

Under the S&P Agreement, if the actual working capital (the "**Actual Working Capital**") represents a net assets amount of the Target Group equal to or more than HK$500,000, Mr. Chan shall pay to CSBVI such net assets amount; or if the Actual Working Capital represents a net liabilities amount of the Target Group equal to or more than HK$500,000, CSBVI shall pay such net liabilities amount to Mr. Chan.

Actual Working Capital means (A) the total current assets of the Target Group Companies minus (B) all borrowings, accruals and actual liabilities and indebtedness owed by the Target Group to any bank, lending institution or other third party of any nature at completion, but (for the purpose of (B)) excluding (1) accrued unpaid staff bonuses or commissions, accrued unpaid leaves, contribution to retirement benefit schemes, long service or severance payments calculated under rules and regulations of relevant governing jurisdictions for employees of any member of the Target Group, (2) the Sale Loans, (3) any liabilities owing among the members of the Target Group at completion, and (4) deferred tax assets or liabilities, as ascertained after completion in accordance with the S&P Agreement and as set out in the completion accounts.

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP (Continued)

An analysis of the Consideration is set out as below as if the Disposal had been completed on 30 June 2017:

	HK$'000
Cash consideration	2,000,000
Add: Actual Working Capital	343,294
Less: Consideration used to settle bank borrowings	(730,000)
Consideration for the Disposal	1,613,294

The calculation of the estimated gain on the Disposal is as follows:

	HK$'000
Consideration for the Disposal	1,613,294
Less: Assignment of the Sale Loans to Mr. Chan	(327,910)
Add: Net liabilities of the Target Group as at 30 June 2017	158,506
Gain on the Disposal	1,443,890

The actual amount of gain on the Disposal may be different from the amount described above and would be subject to carrying amounts of net assets/liabilities of the Target Group on the date of completion of the Disposal.

(5) The adjustment represents professional expenses directly attributable to the Disposal which would be recognised in the Remaining Group's consolidated income statement upon completion of the Disposal. The adjustment is not expected to have a continuing effect on the Group.

(6) The amounts are extracted from the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2016 as set out in the published annual report of the Company for the year ended 31 December 2016.

(7) The adjustment represents the exclusion of the financial performance and the cash flows of the Target Group for the year ended 31 December 2016 set out in Appendix II in this circular as if the Disposal had taken place on 1 January 2016.

(8) The adjustment represents the recognition of inter-company transaction entered into between the Remaining Group and the Target Group as if the Disposal had taken place on 1 January 2016. The adjustment is not expected to have a continuing effect on the Group.

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP (Continued)

(9) On 10 October 2017, CSBVI, a wholly-owned subsidiary of the Company, and Mr. Chan, an individual who is an independent third party, entered into the S&P Agreement pursuant to which CSBVI has conditionally agreed to dispose and Mr. Chan has conditionally agreed to acquire the entire issued share capital of the Target Companies and the Sale Loans at the Consideration. The Consideration shall be satisfied by (i) HK$200,000,000 was paid in cash as non-refundable deposit upon the signing of the S&P Agreement by Mr. Chan; and (ii) the remaining HK$1,800,000,000 shall be paid upon the Completion Date of the Disposal.

As per the condition of completion of the Disposal, the outstanding bank borrowings owing by the Target Group should be repaid prior to or as at the date of completion. The Consideration received by the Company will be used to repay the outstanding bank borrowings as at the date of completion.

Under the S&P Agreement, if the Actual Working Capital represents a net assets amount of the Target Group equal to or more than HK$500,000, Mr. Chan shall pay to CSBVI such net assets amount; or if the Actual Working Capital represents a net liabilities amount of the Target Group equal to or more than HK$500,000, CSBVI shall pay such net liabilities amount to Mr. Chan.

Actual Working Capital means (A) the total current assets of the Target Group Companies minus (B) all borrowings, accruals and actual liabilities and indebtedness owed by the Target Group to any bank, lending institution or other third party of any nature at completion, but (for the purpose of (B)) excluding (1) accrued unpaid staff bonuses or commissions, accrued unpaid leaves, contribution to retirement benefit schemes, long service or severance payments calculated under rules and regulations of relevant governing jurisdictions for employees of any member of the Target Group, (2) the Sale Loans, (3) any liabilities owing among the members of the Target Group at completion, and (4) deferred tax assets or liabilities, as ascertained after completion in accordance with the S&P Agreement and as set out in the completion accounts.

An analysis of the Consideration is set out as below as if the Disposal had been completed on 1 January 2016:

	HK$'000
Cash consideration	2,000,000
Add: Actual Working Capital	346,706
Less: Consideration used to settle bank borrowings	(910,000)
Consideration for the Disposal	1,436,706

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP (Continued)

The calculation of the estimated gain on the Disposal is as follows:

	HK$'000
Consideration for the Disposal	1,436,706
Less: Assignment of the Sale Loans to Mr. Chan	(277,421)
Add: Net liabilities of the Target Group as at 1 January 2016	82,905
Gain on the Disposal	1,242,190

The actual amount of gain on the Disposal may be different from the amount described above and would be subject to carrying amounts of net assets/liabilities of the Target Group on the date of completion of the Disposal.

(10) The adjustment represents professional expenses directly attributable to the Disposal which would be recognised in the Remaining Group's consolidated income statement upon completion of the Disposal. The adjustment is not expected to have a continuing effect on the Group.

(11) The adjustment represents the reclassification of inter-company balances owing by the Target Group to the Remaining Group as at 31 December 2016 as if the Disposal had been completed on 1 January 2016.

(12) No other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2017 or 31 December 2016.

The following is the text of a report received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, in respect of the Remaining Group's unaudited pro forma financial information for the purpose of incorporation in this circular.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

21 November 2017

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

TO THE BOARD OF DIRECTORS OF CHINA STAR ENTERTAINMENT LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Star Entertainment Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma condensed consolidated statement of financial position as at 30 June 2017, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flow for the year ended 31 December 2016, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out in Appendix IV of the Circular issued by the Company in connection with the possible disposal of entire equity interests in Exceptional Gain Profits Limited, Most Famous Enterprises Limited and Charming Era Investment Limited (the "**Target Companies**") and their respective subsidiaries and sale loans due by the Target Group (the "**Disposal**"). The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described in Appendix IV of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the Disposal on the Group's financial position as at 30 June 2017 and the Group's financial performance and cash flows for the year ended 31 December 2016 as if the Disposal had taken place as at 30 June 2017 and 1 January 2016 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the directors of the Company from the Group's financial positions as at 30 June 2017 and the Group's financial performance and cash flows for the year ended 31 December 2016, on which interim report and annual report have been published, respectively.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in this circular is solely to illustrate the impact of the Disposal on unadjusted financial information of the Group as if the Disposal had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Disposal as at 30 June 2017 or on 1 January 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the Disposal in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Hon Koon Fai, Alex
Practising Certificate Number: P05029
Hong Kong

The following is the text of a letter and valuation certificates, prepared for the purpose of incorporation in this circular and received from Savills (Macau) Limited, are independent professional property valuer, in connection with the valuations as at 30 September 2017 of the Properties.

Savills (Macau) Limited
T: (853) 2878 0623
F: (853) 2878 1805

Suite 1309 - 1310
13/F Macau Landmark
555 Avenida da Amizade
Macau

savills.com.mo

21 November 2017

The Directors
China Star Entertainment Limited
Unit 3409
Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

Re: Valuations of

1) Hotel Lan Kwai Fong Macau situated at Rua de Luís Gonzaga Gomes Nos. 176-230, Nagasaki Nos. 64-A-82, Rua de Xiamen Nos. 37A-59, Macau; and

(2) Unit 6A of Block IV, Units 3D to E of Block V, Units 3A to H, 4A to D, F and H, and 17B of Block VII, Edifício Kin Wa, Rua do Canal Novo Nos. 63-81 and 87-101, Rua Nova da Areia Preta Nos. 162-190, Estrada Marginal da Areia Preta No. 74, Macau (the "Properties")

TERMS OF REFERENCE

In accordance with your instruction for us to prepare a report on the assessment of Market Values of the captioned Properties, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of the values of the property interests held by China Star Entertainment Limited and its subsidiaries (together referred to as the "Group") as at 30 September 2017 (the "Valuation Date").

BASIS OF VALUATIONS

Our valuations are our opinion of Market Values of the Properties concerned which we would define as "*the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently an without compulsion*".

Our valuations are prepared in accordance with "The HKIS Valuation Standards (2012 Edition)" published by the Hong Kong Institute of Surveyors, and the relevant provisions of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and Chapter 5 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (Main Board).

VALUATION METHODOLOGY

We have valued the Properties by the comparison method on the assumptions that each property can be sold in its existing state and condition on an open market basis assuming sale with the benefit of immediate vacant possession. Comparison based on prices realised on actual sales and/or offerings of comparable properties is made. Comparable properties with similar sizes, characters, location, etc. are analysed and carefully compared against all of the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values.

TITLE INVESTIGATIONS

We have caused title searches to be made at the Real Estate Registry of Macau. However, we have not searched the original documents to verify ownerships or to verify any lease amendments which may not appear on the copies handed to us.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owner(s) sell(s) the Properties in the prevailing market without any deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the values of the Properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the Properties and no allowance is made for the Properties to be sold to a single party and/or as a portfolio or portfolios.

We have assumed that the owners of the property interests have free and uninterrupted rights to use and assign the properties during the whole unexpired terms granted. Upon the expiration of the terms, the government lease can be renewed upon application for another term of 10 years upon payment of fixed premiums equivalent to 10 times the prevailing Government rents provided that the grantee has (a) compiled with covenants of the governments leases and (b) settled the annual Government rents. The terms of the grant can be renewed until 19 December 2049.

VALUATION CONSIDERATION

We confirm that we have carried out external inspection of the Properties on 26 October 2017 and, where possible the interior of the Properties. In the course of our inspections, we did not note any serious defects. However, no structural surveys have been made nor were any tests carried out on any of the services. We are therefore unable to report whether the Properties are free from rot, infestation or any other defects. In arriving at our valuations, we have assumed that the Properties are finished and maintained in reasonable conditions commensurate with their uses and ages.

We have relied to a considerable extent on the information given by the client and have accepted advice given to us on such matters as statutory notices, easements, tenures, tenancy details, floor areas and other relevant matters. All documents have been used for reference only.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the document provided to us and are therefore approximate. We have not carried out detailed on-site measurements to verify the correctness of the site/ floor areas in respect of the Properties but have assumed that the floor areas shown on the documents handed to us are correct. We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised by the Group that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

While we have exercised our professional judgement in arriving at our valuations, you are urged to consider our valuation assumptions with caution.

REMARKS

Unless otherwise stated, all property values are denominated in Hong Kong Dollars. The exchange rate used in our valuation is HK$1 to MOP1.03 which is prevailing as at the Valuation Date.

Our Summary of Values and Valuation Certificates are enclosed herewith.

Yours faithfully,
For and on behalf of
Savills (Macau) Limited

Franco P L Liu
BSc (Hons), MRICS, MHKIS, RPS(GP)
Managing Director
Valuation and Professional Services

Note: Mr. Franco P L Liu is a Registered Professional Surveyor (General Practice), a member of both the Royal Institution of Chartered Surveyors, United Kingdom and The Hong Kong Institute of Surveyors. He has over 20 years' experience in the valuation of properties in Macau, Hong Kong and mainland China.

SUMMARY OF VALUES

No.	Property	Market Values as at 30 September 2017 (HK$)
1.	Hotel Lan Kwai Fong Macau situated at Rua de Luís Gonzaga Gomes Nos. 176-230, Nagasaki Nos. 64-A-82, Rua de Xiamen Nos. 37A – 59, Macau	$1,920,000,000
2.	Unit 6A of Block IV, Units 3D to E of Block V, Units 3A to H, 4A to D, F and H, and 17B of Block VII, Edifício Kin Wa, Rua do Canal Novo Nos. 63-81 and 87-101, Rua Nova da Areia Preta Nos. 162-190, Estrada Marginal da Areia Preta No. 74, Macau	$80,000,000
	Total:	$2,000,000,000

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Market value in existing state as at 30 September 2017
1	Hotel Lan Kwai Fong Macau situated at Rua de Luís Gonzaga Gomes Nos. 176-230, Nagasaki Nos. 64-A-82, Rua de Xiamen Nos. 37A-59, Macau	The property comprises an 18-storey 3-star hotel which was completed in about 1992. The G/F, 1/F and 18/F are mainly served as gaming areas together with various F&B outlets. A spa and fitness centre is situated on the 2/F, with the hotel reception and additional F&B outlets situated on the 3/F. The 4/F and 5/F are mainly designated for back-of-house facilities, whereas the 6/F to 17/F accommodate a total of 209 nos. of guestrooms. The property is held under Concessão por Arrendamento (政府租賃批地) for a term of 10 years commencing on 13 October 2014 and is renewable for further terms until 19 December 2049. According to the Ground Rent demand notes for 2017, the total ground rent payable is MOP293,776 (HK$285,219).	The property is currently held for owner occupation as a 3-star hotel known as Hotel Lan Kwai Fong Macau (澳門蘭桂坊酒店). As advised by the Group, part of the ground floor and the first floor are subject to various tenancies at a total monthly rent of HK$100,000 with the latest expiry date on 30 September 2017.	HK$1,920,000,000

Notes:

1. The property is registered under Conservatória do Registo Predial under property Nos. 21841 – "AR/C", "A1 to J1" and "A2 to I2". According to our recent sample title searches, the registered owner of the property is Hotel Lan Kwai Fong (Macau), Limitada (澳門蘭桂坊酒店有限公司).

2. Upon our recent sample title searches, the property is subject to a Hipoteca Voluntária (意定抵押) and a Consignação de Rendimentos (收益用途之指定) in favour of Banco Industrial e Comercial da China (Macau), S.A. (中國工商銀行(澳門)股份有限公司) vide a memorial no. 187578 C and 35172F respectively, and both dated 23 March 2015. (Ref: 21841 AR/C, A1 to J1, A2 to I2, 22464-V-D3 and E3, 22464-VII A3 to H3, A4 to D4, F4 and H4)

3. In the course of our valuation, we are instructed to assess the Market Value of the Property in its existing state and physical condition as at the Valuation Date assuming the casino business is operating in a profit sharing basis under a service agreement with Sociedade de Jogos de Macau, S.A. (SJM). Upon expiry of the SJM gaming concession, the casino portion will be let as a casino subject to a fixed monthly rent.

VALUATION CERTIFICATE

No.	Properties	Description and Tenure	Particulars of Occupancy	Market value in existing state as at 30 September 2017
2	Unit 6A of Block IV, Units 3D to E of Block V, Units 3A to H, 4A to D, F and H, and 17B of Block VII, Edifício Kin Wa, Rua do Canal Novo Nos. 63-81 and 87-101, Rua Nova da Areia Preta Nos. 162-190, Estrada Marginal da Areia Preta No. 74, Macau	The properties comprises a total of 18 residential units at various blocks and different floors of Edifício Kin Wa (建華新村), which is a housing estate comprising fourteen residential blocks erected upon a 2-storey commercial and carpark podium completed in about 1991. According to the title searches, the total saleable area is approximately 951.34 sq m (10,240 sq ft). The properties are held under Concessão por Arrendamento (政府租賃批地) for a term of 10 years commencing on 13 March 2011 and is renewable for further terms until 19 December 2049. According to the Ground Rent demand notes for 2017, the total ground rent payable is MOP3,819 (HK$3,708).	The properties are currently owner-occupied.	HK$80,000,000

Notes:

1. The properties are registered under Conservatória do Registo Predial under Property Nos. 22464-IV-A6, 22464-V-D3 to E3 and 22464-VII - A3 to H3, A4 to D4, F4, H4 and B17. According to our recent sample title searches, the registered owner of the properties are Hotel Lan Kwai Fong (Macau), Limitada (澳門蘭桂坊酒店有限公司).

2. Upon our recent sample title searches, the properties are subject to the followings encumbrances:-

   – Hipoteca Voluntária (意定抵押) in favour of Banco Industrial e Comercial da China (Macau), S.A. (中國工商銀行(澳門)股份有限公司) vide a Memorial No. 187579 C dated 23 March 2015 (Ref: 21841 AR/C, A1 to J1, A2 to I2, 22464-V - D3 and E3, 22464-VII - A3 to H3, A4 to D4, F4 and H4); and

   – Consignação de Rendimentos (收益用途之指定) in favour of Banco Industrial e Comercial da China (Macau), S.A. (中國工商銀行(澳門)股份有限公司) vide a Memorial No. 35171F dated 23 March 2015. (Ref: 21841 AR/C, A1 to J1, A2 to I2, 22464-V - D3 and E3, 22464-VII - A3 to H3, A4 to D4, F4 and H4).

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which, (a) were required to be notified to the Company and the Stock Exchange pursuant to provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or the chief executive of the Company have taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

Long positions in the Shares

Name of Director	Capacity	Number of shares held as at the Latest Practicable Date	Approximate percentage to the issued share capital of the Company as at the Latest Practicable Date
Mr. Heung Wah Keung ("**Mr. Heung**")	Interest of controlled corporation	186,448,146 *(Note)*	20.63%
Ms. Chen Ming Yin, Tiffany	Interest of controlled corporation	186,448,146 *(Note)*	20.63%

Note: These Shares are held as to 186,446,502 Shares by Heung Wah Keung Family Endowment Limited ("**HWKFE**") (a company owned as to 50% by Mr. Heung and as to 50% by Ms. Chen) and as to 1,644 shares by Dorest Company Limited (a company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung).

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors, there was no other person, other than the Directors or the chief executive of the Company and (in the case of the other members of the Group) other than the Company, who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Name	Capacity	Number of Shares held as at the Latest Practicable Date	Approximate percentage to the issued share capital of the Company as at the Latest Practicable Date
HWKFE *(Note)*	Beneficial owner	186,446,502	20.63%

Note: HWKFE is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.

4. DISCLOSURE OF OTHER INTERESTS

(i) Interests in competing business

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or their respective close associates had an interest in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules, as if the Directors were controlling Shareholders.

(ii) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up).

(iii) Interests in contract or arrangement

As at the Latest Practicable Date, other than Promissory Note and the Loan Agreement, there was no contract or arrangement in which any Director was materially interested and which was significant in relation to the business of the Group.

5. DIRECTORS' SERVICE CONTRACTS

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

6. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular and are or may be material:

(a) the placing agreement dated 18 October 2016 and entered into between the Company as issuer and VMS Securities Limited as placing agent, in relation to the placing of 150,600,000 Shares to not fewer than six placees at a price of HK$0.53 per Share;

(b) the conditional sale and purchase agreement dated 29 November 2016 and entered into between Best Combo Limited ("**Best Combo**") as purchaser and Ms. Chen as vendor in relation to the disposal of the entire issued share capital of Modern Vision (Asia) Limited ("**Modern Vision**") and the total obligations, liabilities and debts owing or incurred by Modern Vision to Ms. Chen at completion of the disposal at an aggregate consideration of HK$1,000 million, as supplemented by a supplemental agreement dated 8 March 2017 entered into between the same parties in relation to the time frame in respect of the adjustment of consideration;

(c) the Loan Agreement;

(d) the conditional sale and purchase agreement dated 29 March 2017 and entered into between China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company as vendor and China Healthwise Holdings Limited as purchaser for the sale and purchase of the issued share capital of Ace Season Holdings Limited and its shareholder's loan; and

(e) the SP Agreement.

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or claims of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advices which are contained in this circular:

Name	Qualification
China AF Corporate Finance Ltd.	A corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activity under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants, Hong Kong
Savills (Macau) Limited	Independent property valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and/or the reference to its name or opinion in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the experts above were beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up).

9. MISCELLANEOUS

(a) The secretary of the Company is Ms. Wong Shuk Han, Dorothy, who is a member of the Hong Kong Institute of Certified Public Accountants.

(b) In case of any inconsistency between the English and Chinese versions of this circular, the English version shall prevail.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and the bye-laws of the Company;

(b) the annual reports of the Company for the three financial years ended 31 December 2014, 2015 and 2016 and the interim report of the Company for the six months ended 30 June 2017;

(c) the unaudited combined financial information of the Target Group, the text of which is set out in Appendix II to this circular;

(d) the report from HLB Hodgson Impey Cheng Limited in respect of the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix IV to this circular;

(e) the valuation report and valuation certificate relating to the Properties from Savills (Macau) Limited, the text of which are set out in Appendix V to this circular;

(f) the written consents referred to in the paragraph headed "8. Experts and consents" in this appendix;

(g) the material contracts referred to in the paragraph headed "6. Material contracts" in this appendix; and

(h) this circular.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of China Star Entertainment Limited (the "**Company**") will held at Macau Jockey Club, 3/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong, on Monday, 11 December 2017 at 4:00 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. **"THAT**

(a) the conditional sale and purchase agreement dated 10 October 2017 (the "**SP Agreement**") (a copy of which has been produced to the SGM and marked "A" and initialled by the Chairman of the meeting for the purpose of identification) entered into between China Star Entertainment (BVI) Limited (the "**Seller**", a direct wholly-owned subsidiary of the Company) and Mr. Chan Meng Kam (the "**Buyer**") in relation to the disposal (the "**Disposal**") of (i) the entire issued share capital in each of Charming Era Investment Limited, Exceptional Gain Profits Limited, Most Famous Enterprises Limited (collectively, the "**Target Companies**") and their respective subsidiaries, namely, Best Joyful Limited, Charm Faith Holdings Limited, Classic Management & Services Company Limited, Hotel Lan Kwai Fong (Macau) Limited, Merit Noble Company Limited and Noble Million Limited and (ii) the loans outstanding and owing to the Seller as at completion of the Disposal by each of the Target Companies with an aggregate amount of approximately HK$340.2 million as at the date of the SP Agreement at a sale price of HK$2,000 million (subject to adjustment) be and are hereby approved, confirmed and ratified in all respects and that the all transactions contemplated under the SP Agreement be and are hereby approved; and

(b) any director of the Company be and is hereby authorised for and on behalf of the Company to sign and execute all such other documents, instruments and agreements and to do all such acts or things and to take all such steps as the director in his/her sole opinion and absolute discretion may consider necessary, appropriate, desirable or expedient to give effect to the Disposal, SP Agreement and the transactions contemplated thereunder."

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

Hong Kong, 21 November 2017

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business:
Unit 3409 Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

Notes:

1. A form of proxy for use at the SGM is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney duly authorised.

3. All registered shareholders of the Company recorded at 4:30 p.m. on Tuesday, 5 December 2017 shall be entitled to attend and vote in person at the SGM or any adjournment thereof. In order to qualify for attending and voting at the SGM or any adjournment thereof, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 5 December 2017.

4. Any shareholder of the Company entitled to attend and vote at the SGM convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at the above address not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof.

5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the SGM convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.

6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the SGM, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.