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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your 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.

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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

MAJOR AND CONNECTED TRANSACTION FURTHER EXTENSION OF THE FINAL REPAYMENT DATE OF THE LOAN AND NOTICE OF SPECIAL GENERAL MEETING

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A notice convening the special general meeting of the Company to be held at Golden Restaurant, 1/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Wednesday, 14 September 2022 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 proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company 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 appointed for holding the meeting or any adjournment thereof. 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.

PRECAUTIONARY MEASURES FOR THE SGM

To safeguard the health and safety of the Shareholders and minimise the risk of the spread of the novel coronavirus (COVID-19), the following preventive and control measures will be implemented at the SGM:

- (1) Limiting the number of attendees to avoid over-crowding
- (2) Compulsory temperature checks and health declaration
- (3) Mandatory wearing of surgical face mask
- (4) No provision of corporate gift, refreshments or beverages

Attendees who do not comply with the precautionary measures referred to in (1) to (3) above or is subject to any Hong Kong Government prescribed quarantine measures may be denied entry to the SGM venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the SGM by appointing the chairman of the SGM as their proxy and to return their proxy forms by the time specified above, instead of attending the SGM in person.

26 August 2022

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DEFINITIONS

In this circular, unless the context otherwise requires, the following words and expressions shall have the following meanings:

“2017 Circular”	the Company’s circular dated 10 March 2017 in relation to, among others, the Loan Agreement
“Announcements”	collectively, the Company’s announcements dated 5 December 2016 and 24 June 2022, the January 2022 Announcement, the February 2022 Announcement and the April 2022 Announcement
“Approved Figures”	the gross construction floor areas of the Property approved by DSSOPT
“April 2022 Announcement”	the Company’s announcement dated 14 April 2022 in relation to, among others, the delay in despatch of the circular relating to the extension of the Final Repayment Date pursuant to the Second Deed of Variation and the Side Letter
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Best Combo”	Best Combo Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Call Option”	the option granted by Ms. Chen to Best Combo to acquire the Call Option Shares at the Call Option Price
“Call Option Price”	principal amount of the Loan minus the Loan Amount Adjustment, if any
“Call Option Shares”	the entire issued share capital of Reform Base held by Ms. Chen
“close associate”	has the meaning ascribed thereto under the Listing Rules
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of Stock Exchange (Stock Code: 326)
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Development Plan”	has the meaning ascribed thereto in the section headed “Letter from the Board – Third Deed of Variation – Information on the Property” in this circular

DEFINITIONS

“Development Period”	has the meaning ascribed thereto in the section headed “Letter from the Board – Third Deed of Variation – Information on the Property” in this circular
“Director(s)”	the director(s) of the Company
“Drawdown Date”	the date of drawdown of the Loan by Ms. Chen, being 6 April 2017
“DSSOPT”	the Land, Public Works and Transport Bureau of Macau
“Exercisable Period”	the exercisable period of the Call Option
“Extension of the Final Repayment Date” or “Transaction”	the extension of the Final Repayment Date pursuant to the Third Deed of Variation
“February 2022 Announcement”	the Company’s announcement dated 11 February 2022 in relation to the Second Deed of Variation and the Side Letter
“Final Repayment Date”	the final repayment date of the Loan
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HWKFE”	Heung Wah Keung Family Endowment Limited, a company incorporated in the British Virgin Islands and a controlling shareholder of the Company
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert, all of whom are independent non-executive Directors, established for the purpose of advising the Independent Shareholders in respect of the Transaction
“Independent Financial Adviser”	Astrum Capital Management Limited, a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Transaction

DEFINITIONS

“Independent Shareholders”	Shareholders other than Ms. Chen and her associates
“January 2022 Announcement”	the Company’s announcement dated 28 January 2022 in relation to the Second Deed of Variation
“Land Grant”	has the meaning ascribed thereto in the section headed “Letter from the Board – Third Deed of Variation – Information on the Property” in this circular
“Latest Practicable Date”	23 August 2022, being the latest practicable date for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	a term loan in the principal amount of HK\$500 million, subject to the Loan Amount Adjustment, granted by Best Combo to Ms. Chen under the Loan Agreement
“Loan Agreement”	the loan agreement dated 29 November 2016 entered into between Best Combo (as lender) and Ms. Chen (as borrower), as supplemented by a deed of variation dated 5 December 2016 between the same parties regarding the granting of the Loan in the principal amount of HK\$500 million, subject to the Loan Amount Adjustment
“Loan Amount Adjustment”	has the meaning ascribed thereto in the section headed “Letter from the Board – Third Deed of Variation – Material terms of the Loan Agreement” in this circular
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Macau Co”	Splendid Construction and Investment Company Limited and in Portuguese “Splendid-Construção E Investimento Imobiliário, Limitada”, a company incorporated in Macau with limited liability and an indirect wholly-owned subsidiary of Over Profit
“Mr. Heung”	Mr. Heung Wah Keung, an executive Director and a controlling shareholder of the Company, and the spouse of Ms. Chen
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, an executive Director and a controlling shareholder of the Company, and the spouse of Mr. Heung
“Over Profit”	Over Profit International Limited, a company incorporated in the British Virgin Islands with limited liability and a non wholly-owned subsidiary of the Company
“percentage ratios”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Prelim Figures”	the gross construction floor area of the Property in the Development Plan to be submitted and subject to approval and revision of the Land Grant issued by the Macau Government which contemplates construction purposes and gross floor areas as follows: (in square meters): (a) residential 26,047 and (b) parking 5,200
“Property”	a lot of land granted by the land lease concession under the Dispatch No. 69/2001 of Secretary for Transport and Public Works of Macau which is published in the Macau Government Gazette No. 34, dated 22 August 2001, with the area of 4,669 square meters, named “Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande”, located at Avenida Doutor Stanley Ho S/N, registered with the Macau Land and Real Estate Registry under No. 23070
“Reform Base”	Reform Base Holdings Limited, a company incorporated in the British Virgin Islands and wholly-owned by Ms. Chen
“Second Deed of Variation”	the second deed of variation dated 28 January 2022 entered into between Best Combo and Ms. Chen in relation to the Loan Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SGM”	the special general meeting of the Company to be held at Golden Restaurant, 1/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Wednesday, 14 September 2022 at 4:00 p.m. for the purpose of considering, and if thought fit, approving the Third Deed of Variation and the transactions contemplated thereunder
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Side Letter”	the side letter dated 11 February 2022 entered into between Best Combo and Ms. Chen in relation to the Loan Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Third Deed of Variation”	the third deed of variation dated 24 June 2022 entered into between Best Combo and Ms. Chen in relation to the Loan Agreement
“UCP”	the Urbanistic Conditions Plan of the Property

LETTER FROM THE BOARD



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:

Victoria Place
5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

*Head office and principal
place of business:*

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

26 August 2022

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
FURTHER EXTENSION OF THE FINAL REPAYMENT DATE OF THE LOAN
AND
NOTICE OF SPECIAL GENERAL MEETING**

References are made to the Announcements and the 2017 Circular.

As disclosed in the January 2022 Announcement and the February 2022 Announcement, Best Combo and Ms. Chen entered into the Second Deed of Variation and the Side Letter, pursuant to which Best Combo and Ms. Chen have, among others, conditionally agreed to extend the Final Repayment Date to the date falling on the expiry of 69 months from the Drawdown Date, i.e., 5 January 2023.

As disclosed in the April 2022 Announcement, the circular containing, amongst other things, details of the extension of the Final Repayment Date pursuant to the Second Deed of Variation and the Side Letter, the recommendation of the Independent Board Committee, the advice of the independent financial adviser, together with a notice of the special general meeting and a proxy form, was expected to be despatched to the Shareholders on or before 24 June 2022. Due to the recent outbreak of COVID-19 in Macau, the Board had yet to conclude its discussions with DSSOPT concerning the future development of the Property, and further time would be required for the Company to finalise the relevant information for inclusion in the circular. The relevant information refers to the outcome of the discussions with DSSOPT, which remains outstanding as at the Latest Practicable Date.

LETTER FROM THE BOARD

At the time when the April 2022 Announcement was published, the Company expected that the discussions with DSSOPT would be concluded shortly. However, due to the recent outbreak of COVID-19 in Macau and that the Company is still awaiting response or further instructions from DSSOPT as at the Latest Practicable Date, the Company expects that more time would be required before the discussions can be concluded. As the original Final Repayment Date expired on 5 April 2022, the Company considers that the original Final Repayment Date should be extended pending response or further instructions from DSSOPT.

In light of the above, on 24 June 2022 (after trading hours), Best Combo and Ms. Chen entered into the Third Deed of Variation, pursuant to which Best Combo and Ms. Chen have, among others, conditionally agreed to further extend the Final Repayment Date to the date falling on the expiry of 81 months from the Drawdown Date, i.e., 5 January 2024. The Third Deed of Variation shall supersede and replace the Second Deed of Variation and the Side Letter.

The transactions contemplated under the Loan Agreement were approved by the Independent Shareholders at the special general meeting of the Company held on 31 March 2017. As the Transaction constitutes a major change to the terms of the Loan Agreement, re-compliance with the Listing Rules is necessary.

The Transaction constitutes a major and connected transaction for the Company under the Listing Rules and is subject to announcement, circular and Independent Shareholders' approval requirements under the Listing Rules. The SGM will be held to seek Independent Shareholders' approval for the Third Deed of Variation and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among others, (i) information in relation to the Third Deed of Variation; (ii) the letter of recommendation from the Independent Board Committee in relation to the Third Deed of Variation and the transactions contemplated thereunder; (iii) letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Third Deed of Variation and the transactions contemplated thereunder; and (iv) a notice of the SGM to consider and, if thought fit, to approve the resolution in relation to the Third Deed of Variation and the transactions contemplated thereunder.

THIRD DEED OF VARIATION

Introduction

As disclosed in the 2017 Circular, Best Combo (a wholly-owned subsidiary of the Company) as lender entered into the Loan Agreement with Ms. Chen as borrower, pursuant to which Best Combo has agreed to grant to Ms. Chen a fixed term loan in the principal amount of HK\$500 million, subject to the Loan Amount Adjustment, with the Final Repayment Date falling on the expiry of 60 months from the Drawdown Date, being 5 April 2022. Further, pursuant to the Loan Agreement, Ms. Chen has agreed to grant the Call Option to Best Combo which allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at the Call Option Price at any time within the date falling on the expiry of 60 months from the Drawdown Date, being 5 April 2022. The transactions contemplated under the Loan Agreement were approved by the Independent Shareholders at the special general meeting of the Company held on 31 March 2017.

LETTER FROM THE BOARD

As disclosed in the January 2022 Announcement and the February 2022 Announcement, Best Combo and Ms. Chen entered into the Second Deed of Variation and the Side Letter, pursuant to which Best Combo (as lender) and Ms. Chen (as borrower) have agreed to (i) conditional upon the Company having obtained approval from the Independent Shareholders, extend the Final Repayment Date to the date falling on the expiry of 69 months from the Drawdown Date, i.e., 5 January 2023; and (ii) extend the Exercisable Period to any time within the date falling on the expiry of 69 months from the Drawdown Date, i.e., 5 January 2023.

On 24 June 2022 (after trading hours), Best Combo and Ms. Chen entered into the Third Deed of Variation, pursuant to which Best Combo and Ms. Chen have agreed to (i) conditional upon the Company having obtained approval from the Independent Shareholders, further extend the Final Repayment Date to the date falling on the expiry of 81 months from the Drawdown Date, i.e., 5 January 2024; and (ii) extend the Exercisable Period to any time within the date falling on the expiry of 81 months from the Drawdown Date, i.e., 5 January 2024. As the extension of the Exercisable Period is unconditional, the Exercisable Period has been extended accordingly. The Third Deed of Variation shall supersede and replace the Second Deed of Variation and the Side Letter. The terms of the Third Deed of Variation were arrived at between the parties after arm's length negotiation.

Save as disclosed in this circular, all other terms and conditions of the Loan Agreement remain unchanged.

Material terms of the Loan Agreement

Material terms of the Loan Agreement (as further supplemented by the Third Deed of Variation) are set out below:

Date:	29 November 2016 (as supplemented by a deed of variation dated 5 December 2016 and the Third Deed of Variation dated 24 June 2022)
Lender:	Best Combo Limited, a wholly-owned subsidiary of the Company
Borrower:	Ms. Chen Ming Yin, Tiffany
Principal amount of the Loan:	HK\$500 million, subject to the Loan Amount Adjustment
Adjustment to the principal amount of the Loan:	In the event that the Approved Figures are less than the Prelim Figures, then the principal amount of the Loan shall be reduced by an adjustment (the “ Loan Amount Adjustment ”). For the avoidance of doubt, there will be no Loan Amount Adjustment if the Approved Figures are greater than the Prelim Figures. The Loan Amount Adjustment is calculated as follows:

$$\text{Loan Amount Adjustment} = \frac{\text{HK\$500 million}}{\text{Prelim Figures}} \times (\text{Prelim Figures} - \text{Approved Figures})$$

LETTER FROM THE BOARD

Note: For calculation purpose only, the Prelim Figures used in the above formula will be the aggregate of the gross floor areas for residential and parking purpose, i.e., 31,247 square meters, and the Approved Figures will be constructed in the same way by aggregating the gross floor areas for residential and parking purpose.

On the basis that the Loan has already been drawn down, Ms. Chen shall repay an amount equal to the Loan Amount Adjustment within 30 days of the date of the formal notice issued by DSSOPT notifying Macau Co the Approved Figures.

For the avoidance of doubt, the principal amount of the Loan shall in no event be adjusted upwards.

Availability period:	The period of 90 days (or such other number of days as Best Combo and Ms. Chen may agree in writing) commencing on the date on which the Loan Agreement becoming unconditional.
Final Repayment Date:	The date falling on the expiry of 81 months from the Drawdown Date.
Interest rate:	5.00% per annum, calculated on the basis of 365-day year and payable semi-annually in arrears.
Security:	A share charge over the entire issued share capital of Reform Base.
Repayment:	Subject to the provisions of the Loan Agreement, Ms. Chen shall repay the outstanding principal amount of Loan together with outstanding interest in full on the Final Repayment Date.
Voluntary repayment:	Ms. Chen may prepay the Loan (together with accrued interest) in full after the Drawdown Date without penalty provided not less than ten business days' prior written notice has been given to Best Combo.
Call Option:	The Call Option allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at the Call Option Price, subject to (i) the Macau Government's authorisation (if required) according to the requirements under the laws of Macau, and (ii) the prior approval of the Independent Shareholders in general meeting (if required) pursuant to the requirements of the Listing Rules.
Call Option Price:	The principal amount of the Loan minus the Loan Amount Adjustment, if any.
Exercisable period of the Call Option:	Any time within the date falling on the expiry of 81 months from the Drawdown Date.

LETTER FROM THE BOARD

Settlement of the Call Option Price:	On completion of the purchase of the Call Option Shares, on the basis that the Loan has been drawn down, Best Combo shall net-off the Call Option Price payable to Ms. Chen from the outstanding principal amount of the Loan.
Condition precedent for the Transaction:	The Extension of the Final Repayment Date is conditional upon the Company having obtained approval from the Independent Shareholders.

As at the Latest Practicable Date, no Loan Amount Adjustment has been made.

Basis of the Call Option Price or the principal amount of the Loan

The Call Option Price or the principal amount of the Loan, being HK\$500 million (subject to the Loan Amount Adjustment), was determined between Best Combo and Ms. Chen on a “willing buyer – willing seller” basis having regards to (i) the UCP issued by DSSOPT; (ii) the Prelim Figures of (a) residential of 26,047 square meters and (b) parking of 5,200 square meters, which were compiled in accordance with the parameters of the UCP; (iii) Reform Base’s 25% indirect interest in the Property (Ms. Chen had acquired 25% interest in the Property in July 2007 at a consideration of HK\$250 million); and (iv) the valuation of the Property of HK\$2 billion previously conducted by an independent property valuer.

Information on Reform Base

The principal activity of Reform Base is investment holding and its major asset is its indirect 25% interest in the Property. Based on the latest unaudited management accounts of Reform Base, for the six months ended 30 June 2022, it recorded a loss of approximately HK\$6,000, and as at 30 June 2022, its total assets and total liabilities were HK\$278.6 million and HK\$278.7 million, respectively.

Information on the Property

The Property is a lot of land granted by the land lease concession (“**Land Grant**”) to Macau Co under the Dispatch No. 69/2001 of Secretary for Transport and Public Works of Macau published in the Macau Government Gazette No. 34 dated 22 August 2001, with the area of 4,669 square meters, named “Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande”, located at Avenida Doutor Stanley Ho S/N and is registered with the Macau Land and Real Estate Registry under No. 23070.

According to the Land Grant, the Property is leased to Macau Co for a term of 25 years commencing on 22 August 2001, i.e., until 21 August 2026, and subject to the completion of the development, shall be automatically renewable for periods of 10 years until 19 December 2049 in accordance with the legislation in force in Macau. Macau Co has the legal rights to develop the site in accordance with the provisions of the Land Grant, and to dispose of the individual units upon completion of the development. Under the Land Grant, the Property shall be developed into a building under strata title, for residential, commerce and parking, with the following gross floor areas (in square meters): (i) residential 25,832; (ii) commerce 215; and (iii) parking 3,930. The development of the Property should have been completed within a term of 60 months commencing on 22 August 2001, i.e., until 21 August

LETTER FROM THE BOARD

2006 (“**Development Period**”). As such, the Development Period had expired and an application for obtaining a new development period of the Property was submitted to DSSOPT for approval. DSSOPT has approved the new development period of the Property for a term of 60 months commencing on 14 February 2019, i.e., until 13 February 2024, and the approval is subject to completion of some administrative work.

Based on the UCP issued by the Macau Government on 15 September 2016, the Macau Co has submitted a development plan of the Property (“**Development Plan**”) to the DSSOPT, pursuant to which the Property shall be developed into two residential buildings, comprising an eight-storey building and a nine-storey building, with two basement levels of parking area underneath both buildings.

As at the Latest Practicable Date, (i) Macau Co is the registered and beneficial owner of the Property; (ii) Over Profit indirectly owns the entire issued quota capital of Macau Co; and (iii) Over Profit is owned as to 50% by Modern Vision (Asia) Limited (a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company), 25% by Reform Base (a company wholly-owned by Ms. Chen) and 25% by AGrade Holdings Limited (“**AGrade**”, a company incorporated in the British Virgin Islands and wholly-owned by Ms. Wong Hoi Ping (“**Ms. Wong**”)). Accordingly, as at the Latest Practicable Date, the Property is indirectly owned as to 50% by the Company, 25% by Ms. Chen and 25% by Ms. Wong. Ms. Wong is a director of Over Profit and its wholly-owned subsidiaries, including Macau Co. Save as disclosed above, Ms. Wong has no other relationship with the Group and is independent of Ms. Chen and her associates.

FINANCIAL EFFECTS OF THE EXTENSION OF THE FINAL REPAYMENT DATE

Assets and liabilities

It is expected that the Transaction will not cause any material change to the assets and liabilities of the Group. As at 31 December 2021, the carrying amount of the Loan was stated as current assets of the Group. The Loan will be re-classified as non-current assets after Extension of the Final Repayment Date.

Earnings

Under the terms of the Loan Agreement (as further supplemented by the Third Deed of Variation), the Group will continue to earn an interest income at 5.00% per annum on the outstanding principal amount of the Loan and the additional interest income to be generated from the Transaction is expected to be approximately HK\$43.8 million.

REASONS FOR AND BENEFITS OF ENTERING INTO THE THIRD DEED OF VARIATION

As at the Latest Practicable Date, the original Final Repayment Date has expired and as the extension of the Exercisable Period is unconditional, the Exercisable Period has been extended to end on 5 January 2024. The Company is still in discussions with DSSOPT regarding the future development of the Property and no approval has been obtained under the Land Grant up to the Latest Practicable Date, as such, the Board required more time to discuss the future development of the Property with DSSOPT.

LETTER FROM THE BOARD

In particular, in light of the recent outbreak of COVID-19 in Macau and the corresponding social distancing and preventative measures in the city, it is unclear when the negotiations with DSSOPT can conclude. As disclosed in the paragraph headed “Third Deed of Variation – Material terms of the Loan Agreement” in this section above, it is a term in the Loan Agreement that on completion of the purchase of the Call Option Shares, Best Combo shall net-off the Call Option Price payable to Ms. Chen from the outstanding principal amount of the Loan. Further, as disclosed in the 2017 Circular, it was the intention of the Company that Best Combo will exercise the Call Option after the Approved Figures are obtained and/or approved by DSSOPT. As at the Latest Practicable Date, (i) the Company’s intention regarding the timing of exercising of the Call Option remains the same; (ii) the Company is still negotiating with the DSSOPT in respect of the specifications, concept design and further variations of the Development Plan; (iii) the DSSOPT has approved the new development period of the Property and the approval is subject to completion of some administrative work; and (iv) the Company has been following up with the DSSOPT on the outstanding items of the Property, however, due to the recent outbreak of COVID-19 in Macau, the Company is still awaiting response or further instructions from DSSOPT.

In the event the Company exercises the Call Option, the Company will comply with the applicable requirements under Chapters 14 and 14A of the Listing Rules by computing the applicable percentage ratios (as defined under the Listing Rules) at the time of exercise and, depending on the classification thereof, may be subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements.

The Board therefore considers that it is in the interest of the Company to further extend the Exercisable Period so as to retain the right to exercise the Call Option to acquire an additional 25% interest in the Property through the acquisition of the Call Option Shares, and as such, Best Combo and Ms. Chen have agreed to further extend the Exercisable Period and correspondingly further extend the Final Repayment Date. In addition, the Company is currently holding a 50% indirect interest in the Property and if the Company can exercise the Call Option, the Company will hold 75% indirect interest in the Property and will have control over the development of the Property which is considered beneficial to and in the interest of the Company.

Further, given that (i) all interest payment due and payable under the Loan Agreement up to the Latest Practicable Date had been duly settled by Ms. Chen according to the interest payment schedule; and (ii) Ms. Chen as a controlling shareholder of the Company beneficially owns 50% of HWKFE, which in turn owns approximately 65.98% of the total number of Shares in issue, and based on 2,485,850,479 Shares in issue and the closing price of HK\$0.83 per Share as at the Latest Practicable Date, the market capitalisation of the Company is approximately HK\$2.06 billion, the estimated value of the Shares beneficially owned by Ms. Chen is approximately HK\$680.67 million and this alone already exceeded the aggregate of the principal amount of the Loan plus additional interest payment arising from the Transaction payable by Ms. Chen to Best Combo, the Company considers that the possibility of default of Ms. Chen under the Loan Agreement is low, and that the Extension of the Final Repayment Date will also generate more interest income to Best Combo. The interest income generated from 6 April 2022 to 23 June 2022 was approximately HK\$5.4 million. The total additional interest income to be generated from the Transaction is expected to be approximately HK\$43.8 million. The Company therefore believes that it is a good opportunity to obtain further return in terms of interest income for the Group by extending the term of the Loan while retaining the right to exercise the Call Option.

LETTER FROM THE BOARD

INFORMATION ON THE PARTIES

The principal activity of each of the Company and Best Combo is investment holding and the Group is principally engaged in investment, production, distribution and licensing of films and television drama series, provision of other film related services including artist management services, and investment and development of properties.

Ms. Chen is a merchant, as well as an executive Director and a controlling shareholder of the Company.

LISTING RULES IMPLICATIONS

The transactions contemplated under the Loan Agreement were approved by the Independent Shareholders at the special general meeting of the Company held on 31 March 2017. As the Transaction constitutes a major change to the terms of the Loan Agreement, re-compliance with the Listing Rules is necessary. Based on the applicable percentage ratios, the Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. As Ms. Chen is an executive Director and a controlling shareholder of the Company, the Transaction also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Transaction is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

As at the Latest Practicable Date, Ms. Chen and her associates (including Mr. Heung), are beneficially interested in an aggregate of 1,640,375,595 Shares, representing approximately 65.98% of the total number of Shares in issue as at the Latest Practicable Date, and will abstain from voting on the resolution to approve the Third Deed of Variation and the transactions contemplated thereunder at the SGM. Save for Ms. Chen and her associates, no other Shareholder is required to abstain from voting on the resolution to approve the Third Deed of Variation and the transactions contemplated thereunder at the SGM.

Ms. Chen and Mr. Heung have abstained from voting on the Board resolutions approving the Third Deed of Variation and the transactions contemplated thereunder. Save as stated above, none of the other Directors have a material interest in the Third Deed of Variation and the transactions contemplated thereunder, nor are they required to abstain from voting on such Board resolutions.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all of the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Transaction. The Company has appointed Astrum Capital Management Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders respectively in this regard.

LETTER FROM THE BOARD

SPECIAL GENERAL MEETING

The Company will convene the SGM to seek approval from the Independent Shareholders for the Transaction.

A notice convening the SGM at which ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Third Deed of Variation and the transactions contemplated thereunder, is contained on pages SGM-1 and SGM-2 of this circular.

A proxy form for use by the Shareholders at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the proxy form and return it to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting at the SGM or any adjourned meeting should you so wish. For the purpose of ascertaining and determining the entitlement of the Shareholders to attend and vote at the SGM, the register of members of the Company will be closed from Thursday, 8 September 2022 to Wednesday, 14 September 2022, both days inclusive, during which period no transfer of Shares will be effected. In order to ascertain Shareholders' rights for the purpose of attending and voting at the SGM, all Share transfers, accompanied by the relevant share certificates, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 7 September 2022.

Only Independent Shareholders will be entitled to vote at the SGM on the resolution to approve the Third Deed of Variation and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder apart from Ms. Chen and her associates shall abstain from voting on the resolution approving the Third Deed of Variation and the transactions contemplated thereunder.

In accordance with Rule 13.39(4) of the Listing Rules and the bye-laws of the Company, the voting of the Shareholders at the SGM will be taken by poll. The results of the poll will be published on the websites of the Company and the Stock Exchange.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on page 15 of this circular and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 16 to 33 of this circular in connection with the Third Deed of Variation and the transactions contemplated thereunder and the reasons considered in arriving at its advice.

The Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the Third Deed of Variation was entered into on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, notwithstanding that the Extension of the Final Repayment Date is not in the ordinary and usual course of business of the Group. In addition, the Independent Board Committee considers that the Third Deed of Variation and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution approving the Third Deed of Variation and the transactions contemplated thereunder at the SGM. The Board (including the independent non-executive Directors) also considers that the Third Deed of Variation was entered into on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, notwithstanding that the Extension of the Final Repayment Date is not in the ordinary and usual course of business of the Group. Accordingly, the Board (including the independent non-executive Directors) recommends the Independent Shareholders to vote in favour of the resolution approving the Third Deed of Variation and the transactions contemplated thereunder at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
China Star Entertainment Limited
Heung Wah Keung
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee setting out its recommendation to the Independent Shareholders regarding the Transaction.



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)

26 August 2022

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION FURTHER EXTENSION OF THE FINAL REPAYMENT DATE OF THE LOAN

We refer to the circular of the Company dated 26 August 2022 (the “**Circular**”) of which this letter forms part. Unless otherwise defined herein, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Third Deed of Variation and the transactions contemplated thereunder are fair and reasonable insofar as the Independent Shareholders are concerned and whether the Third Deed of Variation and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM. Astrum Capital Management Limited has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the advice and recommendation of the Independent Financial Adviser as set out in its letter of advice to you and us on pages 16 to 33 of the Circular, we consider that the terms of the Third Deed of Variation and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Furthermore, notwithstanding that the Extension of the Final Repayment Date is not in the ordinary and usual course of business of the Group, the terms of the Third Deed of Variation are on normal commercial terms and the Transaction is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Third Deed of Variation and the transactions contemplated thereunder.

Yours faithfully,

The Independent Board Committee

Mr. Hung Cho Sing
*Independent non-executive
Director*

Mr. Ho Wai Chi, Paul
*Independent non-executive
Director*

Mr. Tang Chak Lam, Gilbert
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Astrum Capital Management Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transaction, which has been prepared for the purpose of incorporation in this circular.



Room 2704, 27/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

26 August 2022

To the Independent Board Committee and
the Independent Shareholders of
China Star Entertainment Limited

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE FURTHER EXTENSION OF
THE FINAL REPAYMENT DATE OF THE LOAN**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the independent board committee (the “**Independent Board Committee**”) and the independent shareholders (the “**Independent Shareholders**”) of China Star Entertainment Limited (the “**Company**”) in relation to the extension of the final repayment date (the “**Final Repayment Date**”) of a term loan in the principal amount of HK\$500 million (the “**Loan**”) granted by Best Combo Limited (“**Best Combo**”) to Ms. Chen Ming Yin, Tiffany (“**Ms. Chen**”) under the loan agreement dated 29 November 2016 (the “**Loan Agreement**”) pursuant to the third deed of variation dated 24 June 2022 entered into between Best Combo and Ms. Chen (the “**Third Deed of Variation**”) (the “**Transaction**”). The details of the Transaction are disclosed in the announcement of the Company dated 24 June 2022 (the “**Announcement**”) and in the letter from the Board (the “**Letter from the Board**”) set out on pages 5 to 14 of the circular of the Company dated 26 August 2022 (the “**Circular**”) to its shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 29 November 2016, Best Combo (a wholly-owned subsidiary of the Company) as lender entered into the Loan Agreement (as supplemented by a deed of variation dated 5 December 2016 (the “**Deed of Variation**”)) with Ms. Chen as borrower, pursuant to which Best Combo has agreed to grant to Ms. Chen a term loan in the principal amount of HK\$500 million, subject to the Loan Amount Adjustment (as defined below), with the Final Repayment Date falling on the expiry of 60 months from the Drawdown Date, being 5 April 2022. Furthermore, pursuant to the Loan Agreement, Ms. Chen has agreed to grant the Call Option to Best Combo which allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at the Call Option Price at any time within the date falling on the expiry of 60 months from the Drawdown Date, being 5 April 2022. The transactions contemplated under the Loan Agreement were approved by the Independent Shareholders at the special general meeting of the Company held on 31 March 2017.

As disclosed in the January 2022 Announcement and the February 2022 Announcement, Best Combo and Ms. Chen entered into the Second Deed of Variation and the Side Letter, pursuant to which Best Combo (as lender) and Ms. Chen (as borrower) have agreed to (i) conditional upon the Company having obtained approval from the Independent Shareholders, extend the Final Repayment Date to the date falling on the expiry of 69 months from the Drawdown Date, i.e. 5 January 2023; and (ii) extend the Exercisable Period to any time within the date falling on the expiry of 69 months from the Drawdown Date, i.e. 5 January 2023.

As disclosed in April 2022 Announcement, the circular containing, amongst other things, details of the extension of the Final Repayment Date pursuant to the Second Deed of Variation and the Side Letter, the recommendation of the Independent Board Committee, the advice of the independent financial adviser, together with a notice of the SGM and a form of proxy, was expected to be despatched to the Shareholders on or before 24 June 2022. Due to the recent outbreak of COVID-19 in Macau, the Board had yet to conclude its discussions with DSSOPT concerning the future development of the Property, and further time would be required for the Company to finalise the relevant information for inclusion in the circular.

At the time when the April 2022 Announcement was published, the Company expected that the discussions with DSSOPT would be concluded shortly. However, due to the recent outbreak of COVID-19 in Macau and that the Company is still awaiting response or further instructions from DSSOPT as at the Latest Practicable Date, the Company expects that more time would be required before the discussions can be concluded. As the original Final Repayment Date expired on 5 April 2022, the Company considers that the original Final Repayment Date should be extended pending response or further instructions from DSSOPT.

In light of the above, on 24 June 2022 (after trading hours), Best Combo and Ms. Chen entered into the Third Deed of Variation, pursuant to which Best Combo and Ms. Chen have agreed to (i) conditional upon the Company having obtained approval from the Independent Shareholders, further extend the Final Repayment Date to the date falling on the expiry of 81 months from the Drawdown Date, i.e. 5 January 2024; and (ii) extend the Exercisable Period to any time within the date falling on the expiry of 81 months from the Drawdown Date, i.e. 5 January 2024. As the extension of the Exercisable Period is unconditional, the Exercisable Period has been extended accordingly. The Third Deed of Variation shall supersede and replace the Second Deed of Variation and the Side Letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The transactions contemplated under the Loan Agreement were approved by the Independent Shareholders at the special general meeting of the Company held on 31 March 2017. As the Transaction constitutes a major change to the terms of the Loan Agreement, re-compliance with the Listing Rules is necessary. Based on the applicable percentage ratios, the Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. As Ms. Chen is an executive Director and a controlling shareholder of the Company, the Transaction also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Transaction is subject to announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

The SGM will be held for the Independent Shareholders to consider and, if thought fit, to approve the Transactions. As at the Latest Practicable Date, Ms. Chen and her associates (including Mr. Heung) were beneficially interested in an aggregate of 1,640,375,595 Shares, representing approximately 65.98% of the total number of Shares in issue as at the Latest Practicable Date, and will abstain from voting on the resolution to approve the Third Deed of Variation and the transactions contemplated thereunder at the SGM. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholders are materially interested in the Transaction who are required to abstain from voting at the SGM on the resolution approving the Transaction.

Ms. Chen and Mr. Heung have abstained from voting on the Board resolutions considering the Third Deed of Variation and the transactions contemplated thereunder. Save as stated above, none of the other Directors have a material interest in the Third Deed of Variation and the transactions contemplated thereunder, nor are they required to abstain from voting on such Board resolutions.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert, has been established to advise the Independent Shareholders as to whether the terms of the Third Deed of Variation are fair and reasonable and the Transaction is in the interests of the Company and the Shareholders as a whole, and as to voting in respect thereof at the SGM. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Ms. Chen, Reform Base and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, we were not aware of any relationships between Astrum Capital Management Limited and the Company, and there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Transaction, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Transaction.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, inter alia, the 2017 Circular, the Announcements, the Circular, the Loan Agreement, the Deed of Variation, the Second Deed of Variation, the Side Letter, the Third Deed of Variation and the annual reports of the Company for the two years ended 31 December 2020 and 31 December 2021 (the “**2020 Annual Report**” and the “**2021 Annual Report**”, respectively). We have also reviewed certain information provided by the management of the Company (the “**Management**”) relating to the operations and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussion with the Management regarding the Transaction, the businesses and future prospects of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Announcement and the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Announcement and the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Announcement and the Circular, the omission of which would make any statement herein or in the Announcement and the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the terms of, and the reasons for entering into, the Third Deed of Variation and to justify our reliance on the information provided so as to provide a reasonable basis of opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. This letter is issued to provide the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Transaction. Except for the inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the entering into of the Third Deed of Variation, we have taken into account the following principal factors and reasons:

I. Information of the Group

A. Principal business of the Group

According to the Letter from the Board, the Company is an investment holding company and the Group is principally engaged in (i) investment, production, distribution and licensing of films and television drama series, provision of other film related services including artist management services (the “**Film Business**”); and (ii) investment and development of properties (the “**Property Business**”).

B. Financial information of the Group

Set forth below are the audited consolidated financial information of the Group for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 (“**FY2019**”, “**FY2020**” and “**FY2021**”, respectively) as extracted from the 2020 Annual Report and the 2021 Annual Report:

Table 1: Financial information of the Group

	FY2019 <i>HK\$'000</i> <i>(audited)</i>	FY2020 <i>HK\$'000</i> <i>(audited)</i> <i>(restated)</i>	FY2021 <i>HK\$'000</i> <i>(audited)</i>
Revenue from continuing operations	7,053	3,647	3,717
– Film Business	6,466	3,647	3,717
– Property Business	–	–	–
– Restaurant operations (<i>Note</i>)	587	–	–
 (Loss) before tax from continuing operations	 (335,696)	 (107,359)	 (148,649)
 (Loss) for the year			
– from continuing operations	(335,731)	(107,327)	(148,649)
– from discontinued operation	–	(3,116)	(7,866)
	(335,731)	(110,443)	(156,515)
	(335,731)	(110,443)	(156,515)
 (Loss) attributable to owners of the Company for the year			
– from continuing operations	(335,226)	(107,314)	(148,630)
– from discontinued operation	–	(3,116)	(7,866)
	(335,226)	(110,430)	(156,496)
	(335,226)	(110,430)	(156,496)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December		
	2019	2020	2021
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)
Non-current assets	537,118	583,130	214,382
Current assets	4,861,088	4,760,441	5,071,527
Current (liabilities)	(1,704,197)	(613,439)	(2,221,933)
Net current assets	3,156,891	4,147,002	2,849,594
Non-current (liabilities)	(7,100)	(1,294,861)	–
Equity attributable to owners of the Company	3,687,539	3,435,914	3,064,638

Sources: the 2020 Annual Report and the 2021 Annual Report

Note: According to the 2021 Annual Report, the Group ceased its restaurant operations in September 2021 due to unsatisfactory performance. Accordingly, the results of restaurant operations have been restated/presented as discontinued operations in the consolidated financial statements for FY2020 and FY2021, respectively.

(i) *For the year ended 31 December 2020 (i.e. FY2020)*

In FY2020, the Film Business, which was classified as a continuing operation, represented the major source of revenue of the Group. Revenue derived from the Film Business amounted to approximately HK\$3.6 million in FY2020, representing a year-on-year decrease of approximately 43.6% as compared to approximately HK\$6.5 million in FY2019. Such decrease was mainly attributable to the facts that (i) the Group did not distribute any new film during FY2020, and revenue derived from the Film Business in FY2020 was mainly attributable from the film called “Chasing Dream” which was released by the Group in FY2019; and (ii) all film productions have temporarily suspended or slowed down in FY2020 due to the outbreak of Coronavirus Disease 2019 (“**COVID-19**”) in early 2020.

As at 31 December 2020, the Group held two property projects in Macau (i.e. the Property and a residential and commercial real estate project (namely, Tiffany House)). Both property projects were under development stage during FY2020, and therefore no revenue was recorded from the Property Business in FY2020 (FY2019: nil).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During FY2020, the Group operated a restaurant (the “**HK Restaurant**”) serving various high-end international cuisine in Hong Kong with its operation started from the third quarter in 2019. Following the implementation of social distancing measures on dine-in services at catering businesses by the Hong Kong Government as a result of the outbreak of COVID-19 during FY2020, in particular the restriction of dine-in service hours, the operations of the HK Restaurant was adversely affected. In FY2020, the Group recorded revenue of approximately HK\$1.4 million from its restaurant operations and segment loss of approximately HK\$3.1 million. As a result of cessation of restaurant operations in FY2021 (please refer to the sub-paragraph headed “(ii) For the year ended 31 December 2021 (i.e. FY2021)” below for further details of the cessation of restaurant operations), the results of restaurant operations have been restated as discontinued operations in the consolidated financial statements for FY2020 as mentioned in Table 1 above.

In FY2020, the Group recorded loss attributable to owners of the Company of approximately HK\$110.4 million, representing a significant decrease of approximately 67.1% as compared to approximately HK\$335.2 million in FY2019. Such decrease was mainly attributable to (i) the absence of impairment loss recognised in respect of film rights in FY2020 (FY2019: approximately HK\$125.2 million); (ii) the substantial decrease in loss arising on change in fair value of financial assets at fair value through profit or loss (“**FVTPL**”) of approximately HK\$86.4 million; and (iii) the decrease in marketing and distribution expenses of approximately HK\$26.7 million.

As at 31 December 2020, the Group’s total assets and total liabilities amounted to approximately HK\$5,343.6 million and approximately HK\$1,908.3 million, respectively. Equity attributable to owners of the Company decreased from approximately HK\$3,687.5 million as at 31 December 2019 to approximately HK\$3,435.9 million as at 31 December 2020. The decrease in equity attributable to owners of the Company was mainly due to (i) repurchase and cancellation of Shares of approximately HK\$141.1 million in FY2020; and (ii) loss attributable to owners of the Company of approximately HK\$110.4 million recorded in FY2020.

(ii) *For the year ended 31 December 2021 (i.e. FY2021)*

In FY2021, revenue from the continuing operations of the Group (which was solely derived from the Film Business) amounted to approximately HK\$3.7 million, representing a slight increase of approximately 1.9% as compared to approximately HK\$3.6 million in FY2020. As advised by the Management, majority part of the revenue derived from a film will usually be recorded within two years after the release of the film. As film productions have temporarily suspended or slowed down due to the outbreak of COVID-19 since early 2020, revenue derived from the Film Business in FY2021 was inevitably affected and remained at a relatively low level. Revenue recorded in FY2021 was derived from titles in the Group’s film library.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During FY2021, the development of the Property was still subject to the approval to be granted by the Macau Government while the construction of Tiffany House was completed and was ready for sale. However, the sale of Tiffany House was scheduled to launch in March 2022, no revenue was recorded from the Property Business during FY2021.

According to the 2021 Annual Report, the Group had worked on every effort to improve the performance of the operation of the HK Restaurant and its revenue showed slight improvement from approximately HK\$1.4 million in FY2020 to approximately HK\$1.6 million in FY2021. Other than the impact of COVID-19 pandemic, the Group considered that the location of the HK Restaurant was a fatal factor for its unsatisfactory performance, and therefore, the Board decided to cease the operations of the HK Restaurant in September 2021 and dispose of the property in Sheung Wan, Hong Kong (which was previously occupied for the operations of the HK Restaurant). The increase in segment loss of restaurant operations from approximately HK\$3.1 million in FY2020 to approximately HK\$7.9 million in FY2021 was mainly due to loss on disposal and written off of furniture, fixtures and equipment of approximately HK\$5.6 million for cessation of business of the HK Restaurant.

In FY2021, the Group recorded loss attributable to owners of the Company of approximately HK\$156.5 million, representing an increase of approximately 41.7% as compared to approximately HK\$110.4 million in FY2020. Such increase was mainly attributable to (i) the substantial increase in loss arising on change in fair value of financial assets at FVTPL of approximately HK\$55.2 million; and (ii) the increase in administrative expenses of approximately HK\$7.9 million, which was partially offset by the decrease in other operating expenses of approximately HK\$15.2 million.

As at 31 December 2021, the Group's total assets and total liabilities amounted to approximately HK\$5,285.9 million and approximately HK\$2,221.9 million, respectively. Equity attributable to owners of the Company decreased from approximately HK\$3,435.9 million as at 31 December 2020 to approximately HK\$3,064.6 million as at 31 December 2021. The decrease in equity attributable to owners of the Company was mainly due to (i) repurchase and cancellation of Shares of approximately HK\$215.0 million in FY2021; and (ii) loss attributable to owners of the Company of approximately HK\$156.5 million recorded in FY2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. Background of, reasons for and benefits of the entering into of the Third Deed of Variation

The Group is principally engaged in investment, production, distribution and licensing of films and television drama series, provision of other film related services including artist management services, and investment and development of properties.

As mentioned in the 2017 Circular, on 29 November 2016, Best Combo (a wholly-owned subsidiary of the Company) as lender entered into the Loan Agreement (as supplemented by a the Deed of Variation) with Ms. Chen as borrower, pursuant to which Best Combo has agreed to grant to Ms. Chen a term loan in the principal amount of HK\$500 million, subject to the Loan Amount Adjustment (as defined below), with the Final Repayment Date falling on the expiry of 60 months from the Drawdown Date, being 5 April 2022. Furthermore, pursuant to the Loan Agreement, Ms. Chen has agreed to grant the Call Option to Best Combo which allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at the Call Option Price at any time within the date falling on the expiry of 60 months from the Drawdown Date, being 5 April 2022. In the event that Best Combo exercises the Call Option to acquire the Call Option Shares, and on the basis that Loan has been drawn down by Ms. Chen, Best Combo shall net-off the Call Option Price payable to Ms. Chen from the outstanding principal amount of the Loan. The transactions contemplated under the Loan Agreement were approved by the independent Shareholders at the special general meeting of the Company held on 31 March 2017, and the Loan in an amount of HK\$500 million has been drawn down by Ms. Chen on 6 April 2017.

In view of the facts that (i) the original Final Repayment Date and the original Exercisable Period were due to expire; and (ii) the Company was still in discussions with the DSSOPT regarding the future development of the Property and no approval has been obtained under the Land Grant (as defined below), on 28 January 2022 and 11 February 2022 (after trading hours), Best Combo and Ms. Chen entered into the Second Deed of Variation and the Side Letter, pursuant to which Best Combo (as lender) and Ms. Chen (as borrower) have agreed to (i) conditional upon the Company having obtained approval from the Independent Shareholders, extend the Final Repayment Date to the date falling on the expiry of 69 months from the Drawdown Date, i.e. 5 January 2023; and (ii) extend the Exercisable Period to any time within the date falling on the expiry of 69 months from the Drawdown Date, i.e. 5 January 2023. Please refer to the January 2022 Announcement and the February 2022 Announcement for further details of the Second Deed of Variation and the Side Letter.

Nevertheless, due to the recent outbreak of COVID-19 in Macau and the corresponding social distancing and preventative measures in the city, it is unclear as to when the negotiation between the Company and the DSSOPT regarding the future development of the Property can be concluded. In light of the above, on 24 June 2022 (after trading hours), Best Combo and Ms. Chen entered into the Third Deed of Variation, pursuant to which Best Combo and Ms. Chen have agreed to (i) conditional upon the Company having obtained approval from the Independent Shareholders, further extend the Final Repayment Date to the date falling on the expiry of 81 months from the Drawdown Date, i.e. 5 January 2024; and (ii) extend the Exercisable Period to any time within the date falling on the expiry of 81 months from the Drawdown Date, i.e. 5 January 2024. As the extension of the Exercisable Period is unconditional, the Exercisable Period has been extended accordingly. The Third Deed of Variation shall supersede and replace the Second Deed of Variation and the Side Letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Company held a 50% indirect interest in the Property. If the Company exercises the Call Option, the Company will hold 75% indirect interest in the Property and will have control over the development of the Property which is considered to be beneficial to and in the interest of the Company. According to the Letter from the Board, the Property is a lot of land granted by the land lease concession (the “**Land Grant**”) to Macau Co under the Dispatch No. 69/2001 of Secretary for Transport and Public Works of Macau published in the Macau Government Gazette No. 34 dated 22 August 2001, with the area of 4,669 square meters, named “Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande”, located at Avenida Doutor Stanley Ho S/N and is registered with the Macau Land and Real Estate Registry under No. 23070. According to the Land Grant, the Property is leased to Macau Co for a term of 25 years commencing on 22 August 2001, i.e., until 21 August 2026, and subject to the completion of the development, shall be automatically renewable for periods of 10 years until 19 December 2049 in accordance with the legislation in force in Macau. Macau Co has the legal rights to develop the site in accordance with the provisions of the Land Grant, and to dispose of the individual units upon completion of the development. Under the Land Grant, the Property shall be developed into a building under strata title, for residential, commerce and parking, with the following gross floor areas (in square meters): (i) residential 25,832; (ii) commerce 215; and (iii) parking 3,930. The development of the Property should have been completed within a term of 60 months commencing on 22 August 2001, i.e., until 21 August 2006 (the “**Development Period**”). As such, the Development Period had expired and an application for obtaining a new development period of the Property was submitted to DSSOPT for approval. DSSOPT has approved the new development period of the Property for a term of 60 months commencing on 14 February 2019, i.e., until 13 February 2024, and the approval is subject to completion of some administrative work. Based on the UCP issued by the Macau Government on 15 September 2016, the Macau Co has submitted a development plan of the Property (the “**Development Plan**”) to DSSOPT, pursuant to which the Property shall be developed into two residential buildings, comprising an eight-storey building and a nine-storey building, with two basement levels of parking area underneath both buildings. As advised by the Management, the Company is still negotiating with DSSOPT in respect of the specifications, concept design and further variations of the Development Plan and has been following up with DSSOPT on the outstanding items of the Property. However, due to the recent outbreak of COVID-19 in Macau, the Company is still awaiting response or further instructions from DSSOPT.

As disclosed in the 2017 Circular, it was the intention of the Company to exercise the Call Option after the Approved Figures are obtained and/or approved by DSSOPT. We have enquired with the Management and were given to understand that Company’s intention regarding the timing of exercising of the Call Option remains the same. Notwithstanding that, the Directors will consider the following factors prior to the decision on exercising of the Call Option: (a) the overall market condition of Macau property market as at the time of exercising the Call Option; (b) any breach of the undertakings given, which are mainly related to protecting the assets and limiting the liabilities of Reform Base, by Ms. Chen in the Loan Agreement; (c) the business and financial status of Reform Base; and (d) the ability of the Group to finance the portion of the development and construction costs of the Property borne by Reform Base. Furthermore, as mentioned in the Letter from the Board, it is a term in the Loan Agreement that on completion of the purchase of the Call Option Shares, Best Combo shall net-off the Call Option Price (i.e. the principal amount of the Loan minus the Loan Amount Adjustment, if any) payable to Ms. Chen from the outstanding principal amount of the Loan. Having taken into account the facts that (i) the original Exercisable Period and Final Repayment Date has expired on 5 April 2022; (ii) it is the intention of the Company to exercise the Call Option after the Approved Figures are obtained and/or approved by

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DSSOPT; (iii) the Company is still in the negotiation with DSSOPT and awaiting response or further instructions from DSSOPT; and (iv) it is a term in the Loan Agreement that Best Combo shall net-off the Call Option Price (i.e. the principal amount of the Loan minus the Loan Amount Adjustment, if any) payable to Ms. Chen from the outstanding principal amount of the Loan on completion of the purchase of the Call Option Shares, we are of the view that it is in the interest of the Company to further extend the Exercisable Period, and accordingly the Final Repayment Date, for a further 21 months to 5 January 2024 so as to retain the right to exercise the Call Option to acquire an additional 25% interest in the Property through the acquisition of the Call Option Shares (being the entire issued share capital of Reform Base currently held by Ms. Chen).

Furthermore, the Extension of the Final Repayment Date will generate additional interest income to Best Combo. Based on the outstanding principal amount of the Loan of HK\$500 million and the annual interest rate of the Loan of 5%, it is expected that the total additional interest income to be generated from the Extension of the Final Repayment Date during the period commencing from the original Final Prepayment Date (i.e. 5 April 2022) to the extended Final Repayment Date (i.e. 5 January 2024) amounts to approximately HK\$43.8 million, which represents approximately 11.8 times of the Group's total revenue in FY2021. We concur with the Directors' view that the Transaction provides the Group a good opportunity to obtain further return in terms of interest income by extending the term of the Loan for a further 21 months while retaining its right to exercise the Call Option.

As advised by the Management, the Company has also considered the low possibility of default of Ms. Chen under the Loan Agreement before the entering into of the Third Deed of Variation. Under the Loan Agreement, the Loan is secured by way of a share charge over the entire issued share capital of Reform Base which indirectly held 25% interest in the Property as at the Latest Practicable Date. Furthermore, as part of our diligence, we have obtained from the Company the record of interest repayment by Ms. Chen to the Group pursuant to the Loan Agreement, and noted therefrom that Ms. Chen has duly complied with the interest repayment obligation under the Loan Agreement since the Drawdown Date (i.e. 6 April 2017). In view of the facts that (i) Ms. Chen was a controlling Shareholder and held, together with her associates (including Mr. Heung), an aggregate of 1,640,375,595 Shares, representing approximately 65.98% of the total number of Shares in issue as at the Latest Practicable Date; (ii) the Loan is secured by way of a share charge over the entire issued share capital of Reform Base; and (iii) Ms. Chen has duly complied with the interest repayment obligation under the Loan Agreement since the Drawdown Date, we concur with the Directors' view that the possibility of default of Ms. Chen under the Loan Agreement is remote.

In addition, we have studied the financial position of the Group, particularly the liquidity position of the Group. According to the 2021 Annual Report, the Group's current assets and current liabilities as at 31 December 2021 amounted to approximately HK\$5,071.5 million and approximately HK\$2,221.9 million, respectively, resulting in a net current assets of approximately HK\$2,849.6 million. However, we noted that the Group's cash and bank balances as at 31 December 2021 only amounted to approximately HK\$102.0 million, which was not sufficient for the settlement of a secured bank term loan provided by Industrial and Commercial Bank of China (Macau) Limited ("ICBC") to be due within one year of approximately HK\$1,478.9 million (the "Term Loan") as at 31 December 2021. In this regard, we have enquired with the Management regarding the sources of funding for the repayment of the Term Loan and the Group's working capital for the coming twelve months. As advised by the Management, the purpose of the Term Loan is to finance the construction costs and any other soft costs in relation to Tiffany

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House, a luxury residential and commercial complex developed by the Group in Macau. The Term Loan can be drawn in multiple tranches and secured by the leasehold land and properties erected on the land of Tiffany House with carrying amount as stock of properties of approximately HK\$2,159.3 million as at 31 December 2021. As advised by the Management, the Company has obtained all necessary approvals, consents and licenses from government and regulatory authorities of Macau for the sale of Tiffany House, and scheduled to launch the sale of Tiffany House in March 2022. However, due to the outbreak of COVID-19, social distancing and preventive measures in Hong Kong and subsequently in Macau, the Board decided to postpone the sale of Tiffany House to the second half of 2022. As a result of the postponement of sale, the Management advised us that the Company has started the negotiation with ICBC for the extension of maturity date of the Term Loan in the end of July 2022 and ICBC has indicated that, in view of the creditworthiness of the Company and the quality of the Tiffany House, they are willing to extend the maturity date of the Term Loan for another four years for the Group's consideration. Therefore, the Board does not foresee any problem for the extension of the Term Loan and is confident that the extension of the Term Loan could be completed before the original maturity date of the Term Loan (i.e. 15 September 2022). It is expected that the sale of Tiffany House will bring a total revenue of over HK\$4,000 million to the Group based on the latest sale proposal of Tiffany House prepared by the sale department of the Group, which is well sufficient to cover the principal amount of the Term Loan together with the interest accrued and to be accrued after taking into account the relevant sale expense (including but not limited to promotion and marketing expenses, legal fee and property agent commission). In view of the above, the Company anticipates that the Group will have sufficient fund for maintaining the Group's daily operation for the coming twelve months.

Having taken into account the facts that (i) the original Final Repayment Date has expired on 5 April 2022; (ii) it is the intention of the Company to exercise the Call Option after the Approved Figures are obtained and/or approved by DSSOPT; (iii) the Company is still in the negotiation with DSSOPT and is still awaiting response or further instructions from DSSOPT; (iv) the Exercisable Period of the Call Option has been extended from 5 April 2022 to 5 January 2024, and it is a term in the Loan Agreement that Best Combo shall net-off the Call Option Price payable to Ms. Chen from the outstanding principal amount of the Loan on completion of the purchase of the Call Option Shares; (v) the Transaction provides the Group a good opportunity to obtain further return in terms of interest income by extending the term of the Loan for a further 21 months while retaining its right to exercise the Call Option; (vi) the Loan is secured by way of a share charge over the entire issued share capital of Reform Base, and the possibility of default of Ms. Chen under the Loan Agreement is remote; (vii) it is expected that the Group will have sufficient fund for maintaining its daily operation for the coming twelve months; and (viii) the terms of the Loan Agreement (as further supplemented by the Third Deed of Variation) (including the interest rate) are fair and reasonable so far as the Independent Shareholders are concerned (please refer to our analysis as detailed in the section headed "*III. Principal terms of the Loan Agreement (as further supplemented by the Third Deed of Variation)*" below), we concur with the Directors' view that the entering into of the Third Deed of Variation is in the interests of the Company and the Shareholders as a whole.

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III. Principal terms of the Loan Agreement (as further supplemented by the Third Deed of Variation)

- Date** : 29 November 2016 (as supplemented by the Deed of Variation and the Third Deed of Variation dated 24 June 2022)
- Lender** : Best Combo Limited, a wholly-owned subsidiary of the Company
- Borrower** : Ms. Chen Ming Yin, Tiffany
- Principal amount of the Loan** : HK\$500 million, subject to the Loan Amount Adjustment (as defined below)
- Adjustment to the principal amount of the Loan** : In the event that the Approved Figures are less than the Prelim Figures, then the principal amount of the Loan shall be reduced by an adjustment (the “**Loan Amount Adjustment**”). For the avoidance of doubt, there will be no Loan Amount Adjustment if the Approved Figures are greater than the Prelim Figures. The Loan Amount Adjustment is calculated as follows:

$$\text{Loan Amount Adjustment} = \frac{\text{HK\$500 million}}{\text{Prelim Figures}} \times (\text{Prelim Figures} - \text{Approved Figures})$$

Note: For calculation purpose only, the Prelim Figures used in the above formula will be the aggregate of the gross floor areas for residential and parking purpose, i.e. 31,247 square meters, and the Approved Figures will be constructed in the same way by aggregating the gross floor areas for residential and parking purpose.

On the basis that the Loan has already been drawn down, Ms. Chen shall repay an amount equal to the Loan Amount Adjustment within 30 days of the date of the formal notice issued by DSSOPT notifying Macau Co the Approved Figures.

For the avoidance of doubt, the principal amount of the Loan shall in no event be adjusted upwards.

- Availability period** : The period of 90 days (or such other number of days as Best Combo and Ms. Chen may agree in writing) commencing on the date on which the Loan Agreement becoming unconditional.

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- Final Repayment Date** : The date falling on the expiry of 81 months from the Drawdown Date, i.e. 5 January 2024
- Interest rate** : 5.00% per annum, calculated on the basis of 365-day year and payable semi-annually in arrears.
- Security** : A share charge over the entire issued share capital of Reform Base.
- Repayment** : Subject to the provisions of the Loan Agreement, Ms. Chen shall repay the outstanding principal amount of Loan together with outstanding interest in full on the Final Repayment Date.
- Voluntary repayment** : Ms. Chen may prepay the Loan (together with accrued interest) in full after the Drawdown Date without penalty provided not less than ten business days' prior written notice has been given to Best Combo.
- Call Option** : The Call Option allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at the Call Option Price, subject to (i) the Macau Government's authorisation (if required) according to the requirements under the laws of Macau, and (ii) the prior approval of the Independent Shareholders in general meeting (if required) pursuant to the requirements of the Listing Rules.
- Call Option Price** : The principal amount of the Loan minus the Loan Amount Adjustment, if any.
- Exercisable period of the Call Option** : Any time within the date falling on the expiry of 81 months from the Drawdown Date.
- Settlement of the Call Option Price** : On completion of the purchase of the Call Option Shares, on the basis that the Loan has been drawn down, Best Combo shall net-off the Call Option Price payable to Ms. Chen from the outstanding principal amount of the Loan.
- Condition precedent for the Transaction** : The Extension of the Final Repayment Date is conditional upon the Company having obtained approval from the Independent Shareholders.

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As advised by the Company, the terms of the Third Deed of Variation (including the extension of the Final Repayment Date from the date falling on the expiry of 60 months from the Drawdown Date, being 5 April 2022, to the date falling on the expiry of 81 months from the Drawdown Date, being 5 January 2024) were determined after arm's length negotiations between Best Combo and Ms. Chen and after taking into consideration, among other things, the recent outbreak of COVID-19 in Macau and the expected time required to conclude the discussions with DSSOPT concerning the future development of the Property. Please refer to the paragraph headed "*II. Background of, reasons for and benefits of the entering into of the Third Deed of Variation*" for the determination basis of the extended Final Repayment Date.

In assessing the fairness and reasonableness of the Extension of the Final Repayment Date, we have compared the terms of the Loan with that of the loans provided by the companies listed on the Stock Exchange (or through its subsidiaries) to connected person(s). In view of the extension of the Final Repayment Date for 21 months (i.e. from 5 April 2022 to 5 January 2024) and the principal amount of the Loan of HK\$500 million, we have attempted to identify loans provided by the companies listed on the Stock Exchange (or through its subsidiaries) to connected person(s) which (i) the principal amount of the loan is higher than HK\$100 million; and (ii) companies initially announced the loans during the three-month period immediately before the date of the Third Deed of Variation. To the best of our knowledge and as far as we are aware of, we have identified an exhaustive list of 4 comparable loans (the "**Comparable Loans**") which met the said criteria and had not lapsed as at the Latest Practicable Date. We consider that a review period of three months is appropriate to capture the recent market practice in respect of the provision of loans to connected persons under the current market condition and sentiment and on the other hand, provide sufficient sample size for analysis purpose.

Shareholders should note that (i) the businesses, operations and prospects of the Company are not the same as the relevant listed companies providing the Comparable Loans; and (ii) the credit risk of Ms. Chen might not be the same as that of the borrowers of the Comparable Loans, which were not fully disclosed in the relevant announcements of the listed companies, and thus the comparison of the principal terms of the Loan with that of the Comparable Loans may not represent a direct comparison. We, however, consider that such comparison could be treated as an indication as to the fairness and reasonableness of the terms of the Loan (with the extended Final Repayment Date). The relevant details of the Comparable Loans are set forth in Table 2 below:

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Table 2: Details of the Comparable Loans

Date of announcement	Name of Company	Stock code	Issue size (HK\$ million)	Interest rate per annum (%)	Term to maturity (in months)	Security/ collaterals (Y/N)
20/04/2022	China Resources Pharmaceutical Group Limited	3320	1,200	4.75 (Note 2)	36.0	N
28/04/2022	China Suntien Green Energy Corporation Limited	956	3,600 (Note 1)	3.60 (Note 3)	36.0	N
20/05/2022	Shenzhen Investment Limited	604	600 (Note 1)	3.50	12.0	N
24/05/2022	JNBY Design Limited ("JNBY Design")	3306	120 (Note 1)	4.90	20.5 (Note 4)	Y
			Maximum:	4.90	36.0	
			Minimum:	3.50	12.0	
			Median:	4.18	28.3	
			Average:	4.19	26.1	
	The Loan:		500	5.00	21.0	Y

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

- For the purpose of illustration, the amounts denominated in renminbi ("**RMB**") have been converted into HK\$ at an exchange rate of RMB1.00=HK\$1.20.
- According to the announcement of China Resources Pharmaceutical Group Limited (stock code: 3320) dated 20 April 2022, the annual interest rate is determined with reference to the market rate, and subject to floating interest rate based on the applicable rate offered by the People's Bank of China ("**PBOC**") as at the pricing date. According to the website of PBOC, the loan prime rate for three-year loan is 4.75% as at the Latest Practicable Date. For our analysis purpose, we assume the interest rate of the loan is 4.75% per annum.
- According to the announcement of China Suntien Green Energy Corporation Limited (stock code: 956) dated 28 April 2022, the interest rate of loan shall be determined based on the pricing basis and floating points. The pricing basis shall be the one-year loan prime rate as announced by the National Interbank Funding Center (全國銀行間同業拆借中心) ("**NIFC**") on the working day prior to the date of each drawdown and the floating points shall be minus five basis points. According to the website of NIFC, the loan prime rate for one-year loan is 3.65% as at the Latest Practicable Date. For our analysis purpose, we assume the interest rate of the loan is 3.60% per annum (i.e. 3.65% - 0.05%).
- According to the announcement of JNBY Design (stock code: 3306) dated 24 May 2022, the original maturity dates of two loans provided by a wholly-owned subsidiary of JNBY Design (i.e. 15 September 2022 and 15 November 2022, respectively) were extended by approximately 21.5 months and 19.5 months to 30 June 2024. For analysis purpose, the term of the loans of approximately 20.5 months is calculated based on the average of the extended periods of two loans (i.e. (21.5+19.5)/2).

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(i) Interest rate

As shown in Table 2 above, the annual interest rates of the Comparable Loans range from 3.50% to 4.90%, with a median of approximately 4.18% and an average of approximately 4.19%. The interest rate of the Loan of 5.00% per annum is higher than the maximum of the interest rates of the Comparable Loans.

In addition to the interest rates of the Comparable Loans, we have compared the interest rate of the Loan with the benchmark interest rate in Hong Kong. The best lending rate as quoted by the Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”) is commonly used as a reference for determining the interest rate of new loans. According to the website of HSBC, the best lending rate in Hong Kong dollar was 5.00% as at the Latest Practicable Date, which is the same as the interest rate of the Loan.

Furthermore, we have also compared the interest rate of the Loan with that of the Group’s bank borrowings. According to the 2021 Annual Report, the weighted average interest rate of the Group’s bank borrowings as at 31 December 2021 was approximately 3.89%, which is lower than the interest rate of the Loan.

Having considered that the interest rate of the Loan of 5.00% per annum (i) is higher than the maximum of the interest rates of the Comparable Loans; (ii) is equivalent to the best lending rate in Hong Kong dollar as quoted by HSBC; and (iii) is higher than the weighted average interest rate of the Group’s bank borrowings as at 31 December 2021, we consider that the interest rate of the Loan is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Term to maturity

According to Table 2 above, the term of the Comparable Loans ranged from 12.0 months to 36.0 months, with a median of approximately 28.3 months and an average of approximately 26.1 months. The extension of the Final Repayment Date for 21.0 months falls within the range of the term of the Comparable Loans. Therefore, we consider that the extension of the Final Repayment Date is justifiable.

(iii) Provision of security

As shown in Table 2 above, among all Comparable Loans, only the loan provided by JNBY Design is secured by personal guarantee provided by executive directors and controlling shareholders of the company while all other Comparable Loans are unsecured.

According to the Loan Agreement (as further supplemented by the Third Deed of Variation), the Loan is secured by way of a share charge over the entire issued share capital of Reform Base which directly held 25% interest in the Property. We are of the view that the provision of share charge over the entire issued share capital of Reform Base by Ms. Chen can further safeguard the interest of the Company.

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(iv) *Conclusion*

Having considered the above, we are of the view that the terms of the Loan Agreement (as further supplemented by the Third Deed of Variation) are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

IV. Financial effects of the Subscription

(i) *Effect on assets and liabilities*

According to the Letter from the Board, it is expected that the Transaction will not cause any material change to the assets and liabilities of the Group. As at 31 December 2021, the carrying amount of the Loan was stated as current liability of the Group.

(ii) *Effect on earnings*

Under the terms of the Loan Agreement (as further supplemented by the Third Deed of Variation), the Group will continue to earn an interest income at 5.00% per annum on the outstanding principal amount of the Loan and the additional interest income to be generated from the Transaction during the period commencing from the original Final Prepayment Date (i.e. 5 April 2022) to the extended Final Repayment Date (i.e. 5 January 2024) is expected to be approximately HK\$43.8 million.

OPINION

Having taken into account the above principal factors and reasons, we are of the view that notwithstanding that the Extension of the Final Repayment Date is not in the ordinary and usual course of business of the Group, the terms of the Third Deed of Variation are on normal commercial terms and are fair and reasonable and the Transaction is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolution at the SGM to approve the Third Deed of Variation and the transactions contemplated thereunder (including the Transaction).

Yours faithfully,

For and on behalf of

Astrum Capital Management Limited

Hidulf Kwan

Rebecca Mak

Managing Director

Director

Note: Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.

Ms. Rebecca Mak has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2011 and has participated in and completed various independent financial advisory transactions.

1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The consolidated financial information of the Group, together with the accompanying notes, for each of the three years ended 31 December 2019, 2020 and 2021 are disclosed in the annual reports of the Company for the financial years ended 31 December 2019, 2020 and 2021, respectively, and are incorporated by reference into this circular.

The said annual reports of the Company are available on the Company's website (www.chinastar.com.hk) and website of the Stock Exchange at (www.hkexnews.hk) through the links below:

Annual report for the year ended 31 December 2019 (pages 69 to 253):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042801928.pdf>

Annual report for the year ended 31 December 2020 (pages 67 to 221):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042901341.pdf>

Annual report for the year ended 31 December 2021 (pages 67 to 233):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0428/2022042803901.pdf>

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 June 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following indebtedness:

Bank borrowings

As at the close of business on 30 June 2022, the Group had outstanding bank borrowings of HK\$1,600,000,000 which are secured by the Group's stock of properties, quota capital of China Star Creative Development Limited, personal guarantee provided by Mr. Heung and Ms. Chen and corporate guarantee provided by the Company.

Financing note payables

As at the close of business on 30 June 2022, the Group had outstanding principal amount of financing note payables of HK\$90,254,000 which is guaranteed by a bank. The Group's investment property is pledged to the bank for obtaining its guarantee.

Lease liabilities

As at the close of business on 30 June 2022, the Group had outstanding lease liabilities of HK\$9,067,000 in respect of offices which are unsecured and unguaranteed.

Commitments

As at the close of business on 30 June 2022, the Group had commitments of HK\$153,120,000 in respect of the development expenditure for stock of properties in Macau and commitments of HK\$17,408,000 in respect of film rights, films in progress and film deposits.

Contingent liabilities

As at the close of business on 30 June 2022, the Group had no material contingent liabilities.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables and accruals in the ordinary course of business, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, finance lease, hire purchases commitments, which were either guaranteed, unguaranteed, secured or unsecured, or guarantees, mortgages, charges or other material contingent liabilities as at the close of business on 30 June 2022.

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 June 2022 and up to the Latest Practicable Date.

3. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

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 internally generated funds and the available banking facilities, the Group will have sufficient working capital for its present operating requirements and for at least 12 months from the date of this circular in the absence of unforeseen circumstances. The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in investment, production, distribution and licensing of films and television drama series, provision of other film related services including artist management services, and investment and development of properties.

For the property development and investment operations, the Group has postponed the launch of sales of its completed project “Tiffany House” to the second half of 2022 due to the outbreak of the COVID-19 pandemic and the social distancing and preventive measures in Macau currently. During this period, the Group will focus its effort to promote and market Tiffany House in Mainland China and Hong Kong. The Group is still optimistic towards the prospects of the property market in Macau for the remainder of this year notwithstanding Macau is facing a new outbreak of COVID-19 pandemic, as it is expected that the economy will gradually show signs of recovery following stabilisation of the COVID-19 pandemic situation. With the gradual lifting of anti-epidemic measures, the Group expects release of inbound control measures in Mainland China, Hong Kong and Macau to benefit the property market in Macau. The Group will seize this opportunity to launch sales of Tiffany House at the appropriate time.

For the film related business operation, the Group will continue its furtherance and development of production and distribution operations in its own established film and television drama series. With COVID-19 pandemic materially influencing the stability and economic environment of Hong Kong, Macau and Mainland China, the Group has temporarily slow down its productions and will wait for clear and positive signs of economic recovery prior to any further investment. Given the Group’s experience in the production and distribution network of film and television drama series industry, the Group is confident it can seize opportunities in the market once the economic situation becomes more stable.

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 the 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 the provisions of Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions in which such Director or the chief executive of the Company was 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 as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange:

Long position in the Shares

Name of Director	Capacity	Number of Shares held	Approximate percentage to the issued share capital of the Company as at the Latest Practicable Date
Mr. Heung	Interest of controlled corporation	1,640,375,595 (Note)	65.98%
Ms. Chen	Interest of controlled corporation	1,640,375,595 (Note)	65.98%

Note: These Shares are held by HWKFE, which is beneficially owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, so far as was known to the Directors, the following person (other than a person who is a Director or the chief executive of the Company) 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:

Long position in the Shares

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage to the issued share capital of the Company as at the Latest Practicable Date
HWKFE	Beneficial owner	1,640,375,595	65.98%

As at the Latest Practicable Date, each of Mr. Heung and Ms. Chen is a director of HWKFE.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or 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.

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 was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

(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 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

(iii) Interests in contract or arrangement

As at the Latest Practicable Date, no contract or arrangement was subsisting 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 CONTRACT

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

- (a) the Loan Agreement (as further supplemented by the Third Deed of Variation).

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, and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. EXPERT AND CONSENT

The name and qualification of the expert ("**Expert**") who has given its opinion or advice which is contained in this circular are set out below:

Name	Qualification
Astrum Capital Management Limited	a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities

The Expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter 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:

- (a) The Expert had no interest in the share capital of any member of the Group, nor did it 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; and
- (b) The Expert had no 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 2021, being the date to which the latest published audited consolidated financial statements of the Group 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) The registered office of the Company is at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda and its head office and principal place of business is at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) In case of any inconsistency between the English and Chinese versions of this circular, the English version shall prevail.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinastar.com.hk) for 14 days from the date of this circular:

- (a) the letter from the Independent Financial Adviser, the text of which is set out on pages 16 to 33 of this circular;
- (b) the written consent referred to in the paragraph headed "8. Expert and consent" in this appendix; and
- (c) the Loan Agreement (as further supplemented by the Third Deed of Variation).

NOTICE OF SGM



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

NOTICE IS HEREBY GIVEN that the special general meeting (the “**SGM**”) of China Star Entertainment Limited (the “**Company**”) will be held at Golden Restaurant, 1/F, East Wing, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Wednesday, 14 September 2022 at 4:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the third deed of variation dated 24 June 2022 (the “**Third Deed of Variation**”) entered into between Ms. Chen Ming Yin, Tiffany (“**Ms. Chen**”) and Best Combo Limited (“**Best Combo**”), a wholly-owned subsidiary of the Company (a copy of which has been produced at the Meeting and marked “A” and initialled by the chairman of the Meeting for the purpose of identification) in respect of the loan agreement dated 29 November 2016 entered into between Ms. Chen as borrower and Best Combo as lender and as supplemented by a deed of variation dated 5 December 2016, and the transactions contemplated under the Third Deed of Variation, be and are hereby approved, confirmed and ratified in all respects; and
- (b) any one director of the Company (“**Director**”) (or any two Directors or one Director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised to sign, execute and deliver all such other documents, instruments, agreements and deeds (including, if required, to affix the common seal of the Company in accordance with the bye-laws of the Company) for and on behalf of the Company and do all such other acts or things which the Director may deem necessary, desirable or expedient for the purpose of carrying out or giving effect to or otherwise in connection with or incidental to the Third Deed of Variation and/or the transactions contemplated thereunder.”

By order of the board of Directors
China Star Entertainment Limited
Heung Wah Keung
Chairman

Hong Kong, 26 August 2022

NOTICE OF SGM

Registered office:

Victoria Place
5th Floor
31 Victoria Street
Hamilton HM 10
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 proxy form for use at the meeting is enclosed with the circular to the shareholders of the Company dated 26 August 2022.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her 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. The register of members of the Company will be closed from Thursday, 8 September 2022 to Wednesday, 14 September 2022, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to ascertain shareholders' rights for the purpose of attending and voting at the SGM, all share transfers, accompanied by the relevant share certificates, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 7 September 2022.
4. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A proxy need not be a shareholder of the Company. For the health and safety of shareholders, the Company would like to encourage shareholders to exercise their right to vote at the SGM by appointing the chairman of the SGM as their proxy and to return their proxy forms by the time specified above, instead of attending the SGM in person. In order to be valid, the proxy form, 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 branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.
5. Completion and return of the proxy form will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the proxy form 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/it were solely entitled thereto, but if more than one of such joint holders are present at the meeting, 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.
7. If typhoon signal number 8 or above is hoisted or "extreme conditions" caused by super typhoons, or a "black" rainstorm warning is in effect at any time after 12:00 p.m. on the date of the meeting, the meeting will be postponed. The Company will publish an announcement on the website of the Company at www.chinastar.com.hk and on the website of the Stock Exchange at www.hkexnews.hk to notify shareholders of the Company of the date, time and place of the rescheduled meeting.