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# THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you have sold or transferred all your shares in China Star Entertainment Limited (the "Company"), you should at once hand the Prospectus, together with the accompanying Provisional Allotment Letter (as defined herein) and Excess Application Form (as defined herein), to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

If you are in any doubt about any aspect of the Prospectus (as defined herein) or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

A copy of each of the Prospectus Documents (as defined herein), together with the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix III to this Prospectus has been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). A copy of the Prospectus has been or will as soon as practicable be filed with the Registrar of Companies in Bermuda pursuant to the Companies Act 1981 of Bermuda (as amended). The Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda and the Bermuda Monetary Authority take no responsibility for the contents of any of these documents. Dealings in the securities of the Company may be settled through CCASS (as defined herein) and you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares (as defined herein) in both their nil-paid and fully-paid form on the Stock Exchange (as defined herein) as well as compliance with the stock admission requirements of HKSCC (as defined herein), the Rights Shares in both their nil-paid and fully-paid form will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in each of their nil-paid and fully-paid form on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Hong Kong Exchanges and Clearing Limited, the Stock Exchange and HKSCC take no responsibility for the contents of the Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Prospectus.

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## CHINA STAR ENTERTAINMENT LIMITED

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

### RIGHTS ISSUE OF 1,444,643,184 RIGHTS SHARES ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE

Financial adviser to China Star Entertainment Limited



**KINGSTON CORPORATE FINANCE LIMITED**

Underwriter to the Rights Issue



**KINGSTON SECURITIES LIMITED**

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Terms used in this cover page have the same meanings as defined in the Prospectus.

The Latest Time for Acceptance of and payment for the Rights Shares is 4:00 p.m. (Hong Kong time) on Wednesday, 4 August 2010.

If, prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day); (a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by: (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or (b) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or (c) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or (d) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or (e) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or (f) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or (g) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the announcement in respect of the Rights Issue or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue, the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement. The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination: (a) any material breach of any material representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or (b) any Specified Event comes to the knowledge of the Underwriter. Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

The last day of dealings in the Shares on a cum-rights basis commenced on Tuesday, 13 July 2010. The Shares were dealt with on an ex-rights basis from Wednesday, 14 July 2010. The Rights Shares are expected to be dealt in their nil-paid form from Friday, 23 July 2010 to Friday, 30 July 2010, both days inclusive. Shareholders should note that the Shares were dealt in on an ex-rights basis commencing from Wednesday, 14 July 2010 and that dealing in Shares and nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be 4:00 p.m. on Monday, 9 August 2010) and dealing in nil-paid Rights Shares between Friday, 23 July 2010 to Friday, 30 July 2010 (both days inclusive), will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares and/or nil-paid Rights Shares should exercise extreme caution when dealing in the Shares and/or nil-paid Rights Shares, and if they are in any doubt about their position, they are recommended to consult his/hers/its own professional adviser.

21 July 2010

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## DEFINITIONS

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*In the Prospectus, unless the context requires otherwise, the following expressions have the following meanings:*

“Announcement”	the announcements of the Company dated 8 July 2010 and 9 July 2010 relating to the Rights Issue
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, a Sunday and public holiday) on which banks are generally open for business in Hong Kong
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	China Star Entertainment Limited, an exempted company incorporated in Bermuda with limited liability whose Shares are listed on the Main Board of the Stock Exchange
“Directors”	directors of the Company
“Excess Application Form(s)”	the form(s) of application for excess Rights Shares
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	the parties or persons who are third parties independent of and not connected with the director, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates
“Last Trading Day”	Thursday, 8 July 2010, being the date of the Underwriting Agreement, which is a Stock Exchange trading day
“Latest Lodging Date”	4:30 p.m. on Thursday, 15 July 2010 as the latest time for lodging transfer of Shares in order to qualify for the Rights Issue as described in the Prospectus Documents

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## DEFINITIONS

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“Latest Practicable Date”	Monday, 19 July 2010, being the latest practicable date prior to the printing of the Prospectus for inclusion of certain information in the Prospectus
“Latest Time for Acceptance”	4:00 p.m. on Wednesday, 4 August 2010 or such later time or date as may be agreed between the Company and the Underwriter, being the latest time for acceptance of, and payment for, the Rights Shares
“Latest Time for Termination”	4:00 p.m. on the third Business Day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and the Underwriter, being the latest time to terminate the Underwriting Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Heung”	Mr. Heung Wah Keung, the Chairman of the Company and an executive Director
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, the Vice-chairman of the Company and an executive Director
“Options”	the share options granted under the share option schemes adopted by the Company
“Overseas Letter”	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Rights Issue
“Overseas Shareholders”	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date
“Porterstone”	Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability and its entire issued share capital is owned by Ms. Chen and beneficially holding 141,270,000 Shares as at the Latest Practicable Date
“Prohibited Shareholder(s)”	those Overseas Shareholder(s) to whom the Board, after making enquires, considers it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Rights Shares to them

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## DEFINITIONS

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“Prospectus”	this prospectus despatched by the Company to the Shareholders in relation to the Rights Issue
“Prospectus Documents”	the Prospectus, the Provisional Allotment Letter(s) and the Excess Application Form(s)
“Prospectus Posting Date”	Wednesday, 21 July 2010 or such later date as may be agreed between the Underwriter and the Company for the despatch of the Prospectus Documents
“Provisional Allotment Letter(s)”	provisional allotment letter(s) for the Rights Shares
“Qualifying Shareholders”	those Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	Tuesday, 20 July 2010, being the date by reference to which entitlements to the Rights Issue will be determined
“Registrar”	Computershare Hong Kong Investor Services Limited located at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, the branch share register and transfer office of the Company in Hong Kong
“Rights Issue”	the proposed offer for subscription by the Qualifying Shareholders for the Rights Shares at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
“Rights Share(s)”	not less than 1,444,643,184 new Shares and not more than 1,925,410,126 new Shares proposed to be offered to the Qualifying Shareholders under the Rights Issue for subscription on the terms and subject to the conditions set out in the Underwriting Agreement and in the Prospectus Documents
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in share capital of the Company
“Shareholder(s)”	the holder(s) of the issued Shares

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## DEFINITIONS

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“Specified Event”	an event occurring or matter arising on or after the date hereof and prior to the Latest Time for Termination which if it had occurred or arisen before the date hereof would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.10 per Rights Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter”	Kingston Securities Limited, a licensed corporation to carry on type 1 (dealing in securities) regulated activity for the purposes of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Underwriting Agreement”	the underwriting agreement dated 8 July 2010 entered into between the Company, the Underwriter and Porterstone in relation to the Rights Issue
“Untaken Shares”	those (if any) of the Rights Shares for which duly completed the Provisional Allotment Letter(s) or Excess Application Form(s) (accompanied by cheques or banker’s cashier order for the full amount payable on application which are honoured on first or, at the option of the Company, subsequent presentation) have not been lodged for acceptance, or received, as the case may be, on or before Latest Time for Acceptance
“Warrant(s)”	an amount of HK\$111,526,453.69 warrant(s) outstanding entitling the holders thereof to subscribe for Shares at an initial subscription price of HK\$0.193 per Share (subject to adjustments) pursuant to the Warrant Instrument
“Warrant Instrument”	the instrument by way of the deed poll executed by the Company dated 15 June 2010 to create the Warrants
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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## SUMMARY OF THE RIGHTS ISSUE

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*The following information is derived from, and should be read in conjunction with and, subject to, the full text of the Prospectus.*

Basis of the Rights Issue:	One (1) Rights Share for every two (2) Shares held on the Record Date and payable in full on acceptance
Subscription Price:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	2,889,286,368 Shares
Number of Rights Shares:	1,444,643,184 Rights Shares
Number of Rights Shares undertaken to be taken up by Porterstone:	Pursuant to the Underwriting Agreement, Porterstone has given an irrevocable undertaking in favour of the Company and the Underwriter (a) to accept or procure the acceptance for the Rights Shares, being not less than 70,635,000 Rights Shares and not more than 84,762,000 Rights Shares (if the Warrants held by Porterstone being exercised in full on or before the Record Date) to which Porterstone is entitled to under the Rights Issue; and (b) to lodge the Provisional Allotment Letter(s) in respect of the Rights Shares accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance
Number of Rights Shares underwritten by the Underwriter:	Up to 1,840,648,126 Rights Shares, being the maximum number of the Rights Shares less the maximum number of the Rights Shares agreed to be taken up by Porterstone pursuant to its irrevocable undertaking
Status of the Rights Shares:	The Rights Shares, when allotted, issued and fully-paid, will rank pari passu in all respects with the then existing Shares in issue. Holders of Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the respective dates of issue and allotment
Right of excess applications:	Qualifying Shareholders will have the right to apply for excess Rights Shares

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## EXPECTED TIMETABLE

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2010

First day of dealings in nil-paid Rights Shares . . . . .	Friday, 23 July
Latest time for splitting of nil-paid Rights Shares . . . . .	4:30 p.m. on Tuesday, 27 July
Last day of dealings in nil-paid Rights Shares . . . . .	Friday, 30 July
Latest time for acceptance of and payment for Rights Shares and for application and payment for excess Rights Shares . . . . .	4:00 p.m. on Wednesday, 4 August
Latest time for the Rights Issue to become unconditional . . . . .	4:00 p.m. on Monday, 9 August
Announcement of the results of acceptance and excess application of the Rights Issue . . . . .	Tuesday, 10 August
Despatch of refund cheques in respect of wholly or partly unsuccessful excess applications . . . . .	Wednesday, 11 August
Share certificates for fully-paid Rights Shares to be posted . . . . .	Wednesday, 11 August
Dealing in the fully-paid Rights Shares commences . . . . .	Friday, 13 August

All times stated in the Prospectus refer to Hong Kong times. Dates stated in the Prospectus for events in the timetable are indicative only and may be extended or varied. Any changes to the expected timetable for the Rights Issue will be announced as appropriate.

*Notes:*

1. All times and dates refer to Hong Kong local times and dates.
2. EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE AND PAYMENT FOR RIGHTS SHARES  
The Latest Time for Acceptance and the latest time for any payment for the Rights Shares will not take place if there is:
  - a tropical cyclone warning signal number 8 or above; or
  - a “black” rainstorm warning
  - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Wednesday, 4 August 2010. Instead, the Latest Time for Acceptance and payment for the Rights Shares will be extended to 5:00 p.m. on the same day;
  - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Wednesday, 4 August 2010. Instead, the Latest Time for Acceptance and the latest time for payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance and payment for the Rights Shares do not take place on Wednesday, 4 August 2010, the dates mentioned in this section headed “Expected timetable” may be affected. An announcement will be made by the Company in such event.

**It should be noted that the Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. These events are set out in the paragraph headed “Termination of the Underwriting Agreement” on pages 18 and 19 of the Prospectus. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.**

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## LETTER FROM THE BOARD

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### CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 326)

*Executive Directors:*

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

*Independent non-executive Directors:*

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

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Principal place of business*

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

21 July 2010

*To the Qualifying Shareholders and, for information only,  
the Prohibited Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE OF 1,444,643,184 RIGHTS SHARES  
ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO SHARES  
HELD ON THE RECORD DATE**

#### INTRODUCTION

The Board announced on 8 July 2010 that the Company proposed to raise approximately HK\$144.46 million (assuming no subscription rights attaching to the Options and the Warrants are exercised on or before the Record Date) to approximately HK\$192.54 million (assuming full exercise of the subscription rights attaching to the Options and the Warrants on or before the Record Date) before expenses by way of the Rights Issue of not less than 1,444,643,184 Rights Shares (assuming no subscription rights attaching to the Options and the Warrants are exercised on or before the Record Date) and not more than 1,925,410,126 Rights Shares (assuming full exercise of the subscription rights attaching to the Options and the Warrants on or before the Record Date) at the Subscription Price of HK\$0.10 per Rights Share on the basis of one (1) Rights Share for every two (2) Shares held on the Record Date.

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## LETTER FROM THE BOARD

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The purpose of the Prospectus is to give you further information on, regarding the Rights Issue, including information on procedures for application and payment and certain financial information and other information in respect of the Group.

### THE RIGHTS ISSUE

#### Issue statistics

Basis of the Rights Issue:	One (1) Rights Share for every two (2) Shares held on the Record Date
Subscription Price:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	2,889,286,368 Shares
Number of Rights Shares:	1,444,643,184 Rights Shares
Number of Rights Shares underwritten by the Underwriter:	Up to 1,840,648,126 Rights Shares
Number of enlarged Shares in issue upon completion of the Rights Issue:	4,333,929,552 Shares
Number of Rights Shares undertaken to be taken up by Porterstone:	70,635,000 Rights Shares (no Warrants held by Porterstone being exercised on or before the Record Date)

As at the Latest Practicable Date, the Company has (a) 383,676,611 outstanding Options entitling the holders thereof to subscribe for 383,676,611 Shares; and (b) an amount of HK\$111,526,453.69 outstanding Warrants entitling the holders thereof to subscribe for 577,857,273 Shares (subject to adjustments). Save for the Options and the Warrants, the Company has no other outstanding warrants, options or convertible securities as at the Latest Practicable Date.

Under the Rights Issue, based on the existing share capital of the Company and assuming no further Shares will be issued and repurchased by the Company on or before the Record Date, the nil-paid Rights Shares to be provisionally allotted and issued pursuant to the terms of the Rights Issue represent 50% of the existing issued share capital of the Company as at the date of the Underwriting Agreement and approximately 33.33% of the issued share capital of the Company as enlarged by the Rights Shares immediately after the completion of the Rights Issue.

The aggregate nominal value of the Rights Shares will be HK\$14,446,431.84.

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## LETTER FROM THE BOARD

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The Rights Issue is not subject to Shareholders' approval under the Listing Rules. The Underwriter has conditionally agreed to underwrite the Rights Shares which have not been taken up, other than those Rights Shares undertaken to be accepted by Porterstone by way of its rights entitlement. Accordingly, the Rights Issue is fully underwritten.

### **Qualifying Shareholders**

The Company has provisionally allotted the Rights Shares and the Prospectus which contains details of the Rights Issue is being despatched to the Qualifying Shareholders and, for information only, to the Prohibited Shareholders. The Provisional Allotment Letters and the Excess Application Forms are being sent to the Qualifying Shareholders only.

### **Rights of the Prohibited Shareholders**

If, at the close of business on the Record Date, a Shareholder's address on the register of member of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Right Issue as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. Based on the register of members of the Company as at the Latest Lodging Date, the Overseas Shareholders are situated in the People's Republic of China (the "PRC"), Macau Special Administrative Region of the PRC ("Macau") and Singapore. Given that the register of members of the Company was closed from Friday, 16 July 2010 to Tuesday, 20 July 2010 and no Shares was transferred during the book closure period, the register of members of the Company on the Record Date was the same as that on the Latest Lodging Date. Pursuant to Rule 13.36(2) of the Listing Rules, the Board has made enquiries with its legal advisers in these jurisdictions as to whether there is any legal restriction under the applicable securities legislation of the relevant jurisdiction or requirement of any relevant regulatory body or stock exchange with respect to the issue of the Rights Shares to such Overseas Shareholders.

Based on the legal advice provided by the legal advisers of the PRC, Macau and Singapore, either (i) there is no legal restriction under the applicable legislation of the relevant jurisdictions or requirement of any relevant regulatory body or stock exchange with respect to the extension of the Rights Issue to the Overseas Shareholders in the relevant jurisdiction; or (ii) the Company would be exempt from obtaining approval from, and/or registration of the Prospectus Documents with, the relevant regulatory authorities under the applicable laws and regulations of the relevant jurisdictions since the Company would meet the relevant requirements for exemption under the registered addresses in the PRC, Macau and Singapore. The Prospectus Documents will be sent to each of such Overseas Shareholders.

It is the responsibility of any person (including but not limited to nominee, agent and trustee) outside Hong Kong wishing to make an application for the Rights Shares to satisfy himself or herself or itself as to the full observation of the laws and regulations of the relevant territory or jurisdiction, including the obtaining of any governmental or other consents and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection herewith. Any application for the Rights Shares by any person will be deemed to constitute a representation and warranty from such persons to the Company that these local laws and requirements have been complied with. Qualifying Shareholders should consult their professional advisers if in doubt.

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## LETTER FROM THE BOARD

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The Company shall provisionally allot the Rights Shares which represent the entitlements of the Prohibited Shareholders to a nominee of the Company in nil-paid form and the Company shall procure that such nominee shall endeavour to sell the rights as soon as practicable after dealings in Rights Shares in nil-paid forms commence and in any event before the Latest Time for Acceptance at a net premium. If and to the extent that such Rights Shares in nil-paid forms can be so sold, the nominee shall account to the Company for the net proceeds of sale (after deducting the expenses of sale, if any), on the basis that the net proceeds after deducting the expenses of sale (if any) attributable to the sale of the Rights Shares that would otherwise have been allotted to the Prohibited Shareholders shall be distributed pro rata (but rounded down to the nearest cent) to the Prohibited Shareholders provided that individual amounts of \$100 or less shall be retained by the Company for its own benefit. Any of such Rights Shares in nil-paid forms which are not sold as aforesaid will be dealt with as Rights Shares not accepted.

It is the responsibility of the Shareholders (including the Overseas Shareholders) to observe the local legal and regulatory requirements applicable to them for taking up and onward sale (if applicable) of the Rights Shares.

### **Closure of register of members**

The register of members of the Company, in relation to the Rights Issue, had been closed from Friday, 16 July 2010 to Tuesday, 20 July 2010, both dates inclusive, to determine the eligibility of the Rights Issue. No transfer of Shares had been registered during this period.

### **Subscription Price**

The Subscription Price is HK\$0.10 per Rights Share, payable in full on acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a transferee or nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

- (i) a discount of approximately 12.28% to the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 11.50% to the average closing prices of HK\$0.113 per Share as quoted on the Stock Exchange for the last five consecutive trading days including and up to the Last Trading Day;
- (iii) a discount of approximately 8.26% to the theoretical ex-rights price of approximately HK\$0.109 per Share based on the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 88.94% to the audited net asset value per Share as at 31 December 2009 of approximately HK\$0.904 per Share; and
- (v) a discount of approximately 11.50% to the closing price of HK\$0.113 per share as quoted on the Stock Exchange on the Latest Practicable Date.

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## LETTER FROM THE BOARD

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The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the prevailing market price of the Shares. Taking into consideration of the theoretical ex-rights price per Share, the Directors (including the independent non-executive Directors) consider that the Subscription Price is appropriate in order to increase the attractiveness of the Rights Issue to the Qualifying Shareholders.

Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors consider the Subscription Price and the terms of the Underwriting Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The net price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Share (calculated as aggregate net proceeds from the Rights Issue divided by the total number of Rights Shares) will be approximately HK\$0.098.

### **Basis of provisional allotment**

The basis of the provisional allotment shall be one (1) Rights Share (in nil-paid form) for every two (2) Shares held by the Qualifying Shareholders at the close of business on the Record Date. Acceptance for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the Provisional Allotment Letter and lodging the same with a remittance for the Rights Shares being accepted for.

### **Fractions of the Rights Shares**

The Company will not provisionally allot fractions of Rights Shares. All fractions of Rights Shares will be aggregated (rounded down to the nearest whole number) and allotted to a nominee appointed by the Company and all nil-paid Rights Shares arising from such aggregation will be sold in the market, if a premium (net of expenses) can be obtained, and the Company will retain the proceeds from such sale(s) for its benefit.

Any unsold fractions of the Rights Shares will be made available for excess applications by the Qualifying Shareholders.

### **Status of the Rights Shares**

The Rights Shares, when allotted, issued and fully paid, will rank pari passu in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the Rights Shares in their fully-paid form.

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## LETTER FROM THE BOARD

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### **Allocation of excess Rights Shares**

Qualifying Shareholders are entitled to apply for, by way of excess application, any unsold entitlements of the Prohibited Shareholders, any unsold Rights Shares created by adding together fractions of the Rights Shares and for any nil-paid Rights Shares provisionally allotted but not accepted by other Qualifying Shareholders.

Applications for excess Rights Shares may be made by completing the Excess Application Forms for application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism; and
- (2) subject to availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for a smaller number of Rights Shares are allocated with a higher percentage of successful application but will receive a lesser number of Rights Shares; whereas Qualifying Shareholders applying for a larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive a higher number of Rights Shares).

Shareholders or potential investors should note that the number of excess Rights Shares which may be allocated to them may be different where they make applications in their own names as against through nominees who also hold Shares for other Shareholder/investors. The investors whose Shares are held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, investors whose Shares are registered in the name of nominees companies (including Shares held through CCASS) should note that the aforesaid arrangement in relation to be allocation of excess Rights Shares will not be extended to beneficial owners individually.

Shareholders and investors should consult their professional advisers if they are in any doubt as to whether they should register their shareholdings in their own names prior to the relevant book closure period and apply for excess Rights Shares themselves.

### **Application for listing**

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares, in both their nil-paid and fully-paid forms, to be allotted and issued pursuant to the Rights Issue.

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## LETTER FROM THE BOARD

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Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in each of their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Nil-paid Rights Shares are expected to be traded in board lots of 5,000 Shares (as the Shares are currently traded on the Stock Exchange in board lots of 5,000 Shares). Dealings in the Rights Shares in both their nil-paid and fully-paid forms (both in board lots of 5,000 Shares), which are registered in the Registrar, will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy or any other applicable fees and charges in Hong Kong.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted to CCASS.

### **Certificates of the Rights Shares and refund cheques**

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be posted on or before Wednesday, 11 August 2010 to those entitled thereto by ordinary post to their registered addresses at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before Wednesday, 11 August 2010 by ordinary post to the applicants' registered addresses at their own risk. Dealings in the fully-paid Rights Shares are expected to commence on Friday, 13 August 2010.

Each Qualifying Shareholder who has applied and paid for the Rights Shares will receive one share certificate for all the entitlements to the Rights Shares in fully paid form issued in its favour.

### **PROCEDURES FOR APPLICATION**

#### **Procedures for acceptance and payments or transfer**

Qualifying Shareholders will find enclosed with the Prospectus a Provisional Allotment Letter which entitles Qualifying Shareholders to subscribe for the number of Rights Shares shown therein. If Qualifying Shareholders wish to exercise their rights to subscribe for all the Rights Shares specified in the Provisional Allotment Letter, Qualifying Shareholders will need to lodge the Provisional Allotment Letter in accordance with the instructions printed thereon, together with a remittance in cheque or cashier's order for the full amount payable on acceptance, with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Wednesday, 4 August 2010. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "China Star Entertainment Limited – Rights Issue" and crossed "Account Payee Only". No receipt will be given for such remittances.

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## LETTER FROM THE BOARD

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It should be noted that unless the duly completed Provisional Allotment Letter, together with the appropriate remittance, has been lodged with Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong, by 4:00 p.m. on Wednesday, 4 August 2010, whether by the original allottee or any person in whose favour the rights have been validly transferred, the relevant provisional allotment and all rights and entitlement thereunder will be deemed to have been declined and will be cancelled and such Rights Shares will be available for application on Excess Application Forms by Qualifying Shareholders.

If Qualifying Shareholders wish to accept only part of their provisional allotment and/or to transfer part of their right to subscribe for the Rights Shares provisionally allotted to them or to transfer their rights to more than one person, the entire Provisional Allotment Letter must be surrendered by no later than 4:30 p.m. on Tuesday, 27 July 2010, to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong which will cancel the entire Provisional Allotment Letter and issue new Provisional Allotment Letters in the denominations required which will be available for collection at the Company's branch share registrar and transfer office in Hong Kong on the second Business Day after surrender of the original Provisional Allotment Letter.

The Provisional Allotment Letter contains further information regarding the procedures to be followed for acceptance and/or transfer of the whole or part of their provisional allotment.

All cheques and cashier's orders accompanying completed Provisional Allotment Letters will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of a Provisional Allotment Letter with a cheque and/or a cashier's order, whether by Qualifying Shareholders or by any nominated transferee, will constitute a warranty by the applicant that the cheque and/or the cashier's order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any Provisional Allotment Letter in respect of which the accompanying cheque and/or cashier's order is dishonoured on first presentation, and, in such event, the relevant provisional allotment and all rights and entitlement given pursuant to which will be deemed to have been declined and will be cancelled.

If the Underwriter terminates the Underwriting Agreement before the Latest Time for Termination, the monies received in respect of acceptance of Rights Shares will be returned to the Qualifying Shareholders or such other persons in whose favour the nil-paid Rights Shares shall have been validly transferred without interest by means of cheques despatched by ordinary post to the respective addresses on the register of members at their own risk as soon as practicable thereafter.

### **Application for excess Rights Shares**

Qualifying Shareholders may apply, by way of excess application, for any Rights Shares entitled by the Qualifying Shareholders but not validly applied for by them, any Rights Shares arising from the aggregation of fractional entitlements and any Rights Shares not offered to the Prohibited Shareholders (if any).

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## LETTER FROM THE BOARD

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Application for excess Rights Shares should be made by completing the Excess Application Form enclosed with the Prospectus and lodging the same with a separate remittance (in cheques or cashier's order) for the full amount payable in respect of the excess Rights Shares being applied for in accordance with the instructions printed thereon, with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 4 August 2010. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, or banker's cashier orders must be issued by, licensed banks in Hong Kong and made payable to "China Star Entertainment Limited – Excess Application" and crossed "Account Payee Only". The Registrar will notify the Qualifying Shareholders of any allotment of the excess Rights Shares made to them.

**It should be noted that unless the duly completed and signed Excess Application Form, together with the appropriate remittance, have been lodged with the Registrar by not later than 4:00 p.m. on Wednesday, 4 August 2010, the Excess Application Form is liable to be rejected.**

**All cheques or banker's cashier orders will be presented for payment immediately following receipt and all interest earned on such application monies will be retained for the benefit of the Company. Any Provisional Allotment Letter or Excess Application Form in respect of which the cheque or banker's cashier order is dishonoured on first presentation is liable to be rejected, and in that event the relevant entitlements of the Qualifying Shareholders under the Rights Issue will be deemed to have been declined and will be cancelled.**

In the event that applications are received for the Rights Shares in excess of assured entitlements, the Directors will allocate the Rights Shares in excess of assured entitlements at their discretion, but on a fair and reasonable basis based on the principles as stated under the paragraph headed "Allocation of excess Rights Shares" under the section headed "The Rights Issue" above.

**The Excess Application Form is not transferable and is only for the use of the Qualifying Shareholder(s) named therein only.**

**No receipt will be given in respect of any application monies received.**

Any Rights Shares not applied for by the Qualifying Shareholders will be taken up by Underwriter or subscribers procured by Underwriter.

The Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee as a single Shareholder according to the register of members of the Company.

If the Underwriter terminates the Underwriting Agreement before the Latest Time for Termination, the monies received in respect of acceptance of Rights Shares will be returned to the Qualifying Shareholders without interest by means of cheques despatched by ordinary post to the respective addresses on the register of members at their own risk as soon as practicable thereafter.

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## LETTER FROM THE BOARD

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### UNDERWRITING ARRANGEMENTS

Date:	8 July 2010
Underwriter:	Kingston Securities Limited. As at the Latest Practicable Date, the Underwriter is interested in 7 Shares and 154 Warrants.
Number of Rights Shares to be underwritten:	Up to 1,840,648,126 Rights Shares, which is the total number of Right Shares (assuming all the outstanding Options and Warrants are exercised in full before the Record Date) less such number of Right Shares agreed to be taken up by Porterstone.
Commission:	1.0% of the aggregate Subscription Price in respect of the maximum number of Rights Shares to be underwritten.

To the best of the Directors' knowledge, information and belief, save for the fact that the Underwriter is interested in 7 Shares and 154 Warrants, the Underwriter and its ultimate beneficial owners are Independent Third Parties.

Pursuant to the Underwriting Agreement, in the event of the Underwriter being called upon to subscribe for or procure subscribers for the Untaken Shares, (a) the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (having the meaning of the Takeovers Code) with it in the Company to exceed 10% of the voting rights of the Company upon the completion of the Rights Issue; and (b) the Underwriter shall use all reasonable endeavours to ensure that each of the subscribers of the Untaken Shares procured by it (i) shall be Independent Third Party; and (ii), save for the Underwriter itself and its associates, shall not, together with any party acting in concert (having the meaning of the Takeovers Code) with it, hold 10% or more of the voting rights of the Company upon completion of the Rights Issue. Accordingly, each of the Underwriter and any of the subscribers procured by the Underwriter will not hold 10% or more of the Company's voting rights upon completion of the Rights Issue.

#### **Undertaking given by Porterstone**

As at the Latest Practicable Date, Porterstone is interested in 141,270,000 Shares, representing approximately 4.889% of the existing issued share capital of the Company, and an amount of HK\$5,453,022 Warrants which entitles it to subscribe for 28,254,000 new Shares. Pursuant to the Underwriting Agreement, Porterstone has given an irrevocable undertaking in favour of the Company and the Underwriter (a) to accept or procure the acceptance for the Rights Shares, being not less than 70,635,000 Rights Shares and not more than 84,762,000 Rights Shares (if the Warrants held by Porterstone being exercised in full on or before the Record Date) to which Porterstone is entitled to under the Rights Issue; and (b) to lodge the Provisional Allotment Letter(s) accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.

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## LETTER FROM THE BOARD

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### Conditions Precedent of the Rights Issue

The Rights Issue is conditional upon:

- (a) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;
- (b) the registration with the Registrar of Companies in Bermuda one copy of each of the Prospectus Documents duly signed by one Director (for and on behalf of all Directors) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Companies Act 1981 of Bermuda as soon as reasonably practicable after the Prospectus Posting Date;
- (c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Prohibited Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Prospectus Posting Date;
- (d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares (in both nil-paid and fully-paid forms) by no later than the first day of their dealings;
- (e) if necessary, the Bermuda Monetary Authority granting consent to the issue of the Rights Shares by the Latest Time for Termination or such other time as the Underwriter may agree with the Company in writing;
- (f) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;
- (g) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement; and
- (h) compliance with and performance of all undertakings and obligations of Porterstone under the Underwriting Agreement.

The conditions precedent are incapable of being waived. If the conditions precedent are not satisfied in whole by the Company by the Latest Time for Termination or such later date or dates as the Underwriter may agree with the Company in writing, the Underwriting Agreement shall terminate and (save in respect of any provisions and any rights or obligations which may accrue under the Underwriting Agreement prior to such termination) no party will have any claim against any other party for costs, damages, compensation or otherwise.

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## LETTER FROM THE BOARD

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### Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9.00 a.m. and 4.00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
  - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
  - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (b) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (c) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (d) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

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## LETTER FROM THE BOARD

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- (e) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (f) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Rights Issue; or
- (g) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the announcement in respect of the Rights Issue or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (a) any material breach of any material representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (b) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

### REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The gross proceeds from the Rights Issue will be approximately HK\$144.46 million. The estimated net proceeds from the Rights Issue of HK\$141.46 million are intended to be used for reducing the Group's bank borrowings and financing hotel operation of the Group or general working capital of the Group.

As at 30 June 2010, the Group had bank borrowings of approximately HK\$410,919,000 comprising (i) a secured bank overdraft of HK\$171,320,000; (ii) a secured bank term loan of HK\$225,000,000; (iii) a bank mortgage loan of HK\$4,599,000; and (iv) an unsecured bank term loan of HK\$10,000,000. The bank overdraft, the bank term loan and the bank mortgage loan are secured by the Group's leasehold land and buildings and investment properties. The bank overdraft facility is interest bearing at 1% per annum below the bank's best lending rate, repayable on demand and reviewed by the bank annually. The secured term loan is interest bearing at 2.0% per annum below the bank's best lending rate and repayable by 9 equal consecutive quarterly installments of HK\$25,000,000 each. The bank mortgage loan is interest bearing at 2.5% per annum below the Hong Kong Prime Lending Rate and repayable by 43 monthly instalments. The unsecured bank term loan is interest bearing at 3% per annum over 1-month HIBOR and has to be fully repaid at the end of July 2010. The Group's bank term loan and bank overdraft was mainly used to finance the renovation and operation of the hotel business. Among the net proceeds of approximately HK\$141.46

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## LETTER FROM THE BOARD

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million to be raised from the Rights Issue, 70% of it or approximately HK\$100 million will be set aside for the repayment of the bank borrowings and overdraft of the Group. Given the bank overdraft is charged at the highest interest rate among the Group's bank borrowing, the Board intends to apply the proceeds to reduce the bank overdraft subject to approvals of the minority shareholders and the bank. In the event that the approvals of the minority shareholders or the bank cannot be obtained by the Company, the amount of approximately HK\$100 million will apply to the secured bank term loan of HK\$225,000,000 for next four installments of HK\$25,000,000 each on its respective repayment dates as the secured bank term loan is repayable on maturity quarterly. The remaining 30% or approximately HK\$41 million will be applied to hotel operation and general working capital of the Group.

Notwithstanding that the Group has sufficient internal resource for financing the Group's operation, the Board is of the view that, unlike the borrowings, the Rights Shares will form part of the equity capital of the Company which will become a long-term capital source of the Company to finance the Group's expansion needs in the future. Furthermore, the Board considers that the Rights Issue is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the asset base as well as the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company to participate in the future development of the Company should they wish to do so. **However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted.**

The Directors consider that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole having taken into account the terms of the Rights Issue.

## LETTER FROM THE BOARD

### CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE RIGHTS ISSUE

For illustration purposes only, the shareholding structure of the Company as at the Latest Practicable Date and upon completion of the Right Issues is as follows:

	As at the Latest Practicable Date		Upon completion of the Rights Issue (assuming all Rights Shares are subscribed by the Qualifying Shareholders)		Upon completion of the Rights Issue (assuming none of the Right Shares are subscribed by the Qualifying Shareholders other than Porterstone) (Note 4)	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
China Star Investment Holdings Limited	680,000,000	23.535	1,020,000,000	23.535	680,000,000	15.690
Porterstone (Notes 1 and 2)	141,270,000	4.889	211,905,000	4.889	211,905,000	4.889
Dorest Company Limited (Note 2)	137,025	0.005	205,537	0.005	137,025	0.003
Sub-total	141,407,025	4.894	212,110,537	4.894	212,042,025	4.892
Skylight Property Ltd. (Note 3)	237,970,000	8.236	356,955,000	8.236	237,970,000	5.491
Yo Chen Limited (Note 3)	27,039,700	0.936	40,559,550	0.936	27,039,700	0.624
Sub-total	265,009,700	9.172	397,514,550	9.172	265,009,700	6.115
<b>Public</b>						
Underwriter	7	0.000	10	0.000	1,374,008,191	31.704
Other public Shareholder	1,802,869,636	62.399	2,704,304,455	62.399	1,802,869,636	41.599
Total	<u>2,889,286,368</u>	<u>100.00</u>	<u>4,333,929,552</u>	<u>100.00</u>	<u>4,333,929,552</u>	<u>100.00</u>

*Notes:*

- Pursuant to the Underwriting Agreement, Porterstone has given an irrevocable undertaking in favour of the Company and the Underwriter (a) to accept or procure the acceptance for the Rights Shares, being not less than 70,635,000 Rights Shares and not more than 84,762,000 Rights Shares (if the Warrants held by Porterstone being exercised in full on or before the Record Date); and (b) to lodge the provisional allotment letter(s) in respect of the Rights Shares accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.
- Dorest Company Limited is owned as to 60% by Porterstone and as to 40% by Mr. Heung, an executive Director. The Shares held by Dorest Company Limited are under a charging order.

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## LETTER FROM THE BOARD

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3. Skylight Property Ltd. and Yo Chen Limited are beneficially owned as to 50% by Mr. Kwok Lung and as to 50% by Mr. Li Chi Lam.
4. This scenario is for illustrative purpose only and will not occur. Pursuant to the Underwriting Agreement, in the event of the Underwriter being called upon to subscribe for or procure subscribers for the Untaken Shares,
  - (a) the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (having the meaning of the Takeovers Code) with it in the Company to exceed 10% of the voting rights of the Company upon the completion of the Rights Issue; and
  - (b) the Underwriter shall use all reasonable endeavours to ensure that each of the subscribers of the Untaken Shares procured by it (i) shall be Independent Third Party; and (ii), save for the Underwriter itself and its associates, shall not, together with any party acting in concert (having the meaning of the Takeovers Code) with it, hold 10% or more of the voting rights of the Company upon completion of the Rights Issue.

### FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS IMMEDIATELY PRECEDING THE DATE OF THE ANNOUNCEMENT

Set out below are the fund raising activities conducted by the Company in the past twelve months immediately preceding the date of the Announcement.

Date of announcement	Events	Net amount raised	Intended use of proceeds	Actual use of proceeds
4 January 2010	Issue of 540,000,000 new Shares under Subscription	Approximately HK\$75.4 million	For investment projects in Macau and general working capital	The net proceeds has been deposited into banks and will be utilised as intended
27 July 2009	Issue of convertible bond in the principal amount of HK\$200 million conferring rights to convert into 1,000,000,000 Shares at an initial conversion price of HK\$0.20	Approximately HK\$200 million	For repayment of outstanding loan advanced by China Star Investment Holdings Limited	The net proceeds has been fully utilised as intended
16 July 2009	Placing of 207,900,000 new Shares at HK\$0.22 per Share	Approximately HK\$45.238 million	For general working capital	The net proceeds has been fully utilised as intended

### ADJUSTMENTS TO OPTIONS AND WARRANTS

As at the Latest Practicable Date, there were (a) 383,676,611 outstanding Options granted under the share option schemes adopted by the Company entitling the holders thereof to subscribe for a total of 383,676,611 Shares; and (b) an amount of HK\$111,526,453.69 Warrants outstanding entitling the holders thereof to subscribe for a total of 577,857,273 Shares. Save for the Options and the Warrants, the Company had no other outstanding options, warrants or other securities convertible into Shares.

Adjustments to the exercise prices and numbers of the Options and the subscription prices of the Warrants may be required under the share option schemes of the Company and the relevant terms under the Warrant Instrument constituting the Warrants. An approved financial adviser or the auditors of the Company will be appointed to certify the necessary adjustments, if any, to the exercise prices and numbers of the Options and the subscription prices of the Warrants. Further announcement will be made by the Company in this regard.

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## LETTER FROM THE BOARD

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### WARNING OF THE RISK OF DEALINGS IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed “Termination of the Underwriting Agreement” below). Accordingly, the Rights Issue may or may not proceed.

The last day of dealings in the Shares on a cum-rights basis commenced on Tuesday, 13 July 2010. The Shares were dealt with on an ex-rights basis from Wednesday, 14 July 2010. The Rights Shares are expected to be dealt in their nil-paid form from Friday, 23 July 2010 to Friday, 30 July 2010, both days inclusive. Shareholders should note that the Shares were dealt in on an ex-rights basis commencing from Wednesday, 14 July 2010 and that dealing in Shares and nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled.

Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be 4:00 p.m. on Monday, 9 August 2010) and dealing in nil-paid Rights Shares between Friday, 23 July 2010 to Friday, 30 July 2010 (both days inclusive), will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares and/or nil-paid Rights Shares should exercise extreme caution when dealing in the Shares and/or nil-paid Rights Shares, and if they are in any doubt about their position, they are recommended to consult his/her/its own professional adviser.

### BUSINESS REVIEW AND PROSPECTS

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

For the financial year ended 31 December 2009, the Group recorded an audited net profit of approximately HK\$164.40 million, The audited net assets value attributable to owners of the Company as at 31 December 2009 was approximately HK\$2,075.12 million.

Last year, the Group has successfully diversified its business into the hotel business in August 2009 and broadens the Group’s revenue sources and provides stable cash income to the Group. Of the total turnover of approximately HK\$543.43 million recorded for the financial year ended 31 December 2009, approximately HK\$222.04 million or 41% was generated from hotel and gaming service operations in Macau. The performance of the Group’s businesses in Macau encouraged and strengthened the Group’s confidence in the prospect and development in Macau.

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## LETTER FROM THE BOARD

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The Group believes that the hotel and gaming service operations can continue to provide stable revenue and cash income to the Group. The performance of businesses in Macau encouraged and strengthened the Group's confidence in the prospect and development in Macau. Meanwhile, the Group will continue to streamline its business operations which can enables the Group to operate in a much cost effective manner and concentrate its resources on investments opportunity with good potential of revenue growth and a positive impact on the Group's return in the long run.

### ADDITIONAL INFORMATION

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

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

**FINANCIAL INFORMATION INCORPORATED BY REFERENCE**

The audited financial statements of the Group for the year ended 31 December 2007, 31 December 2008 and 31 December 2009, including the notes thereto, have been published in the annual reports of the Company for the year ended 31 December 2007 (pages 42 to 171), 31 December 2008 (pages 44 to 175) and 31 December 2009 (pages 41 to 175) respectively, which are incorporated by reference into the Prospectus. The said annual reports of the Company are available on the Company's website at [www.chinastar.com.hk](http://www.chinastar.com.hk), [www.irasia.com/listco/hk/chinastar](http://www.irasia.com/listco/hk/chinastar) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

**INDEBTEDNESS****Borrowings**

As at the close of business on 30 June 2010, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$476,421,000 which comprised of (i) bank borrowings and overdrafts of approximately HK\$410,919,000 which are secured by the leasehold land and buildings and investment properties of the Group and amount of HK\$396,320,000 guaranteed as to 50% by the Company and as to 50% by other shareholders of a subsidiary indebted to these borrowings and overdrafts, amount of HK\$10,000,000 guaranteed by Mr. Heung and Mr. Li Chi Keung, a director of a subsidiary and amount of approximately HK\$4,599,000 guaranteed by Mr. Heung and Ms. Chen; and (ii) amounts due to minority shareholders of a subsidiary of approximately HK\$65,502,000 which are unsecured, interest-free and repayable on demand.

**Contingent liabilities**

As at 30 June 2010, the Company provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Company to the extent of HK\$325,000,000, the Group had no other material contingent liabilities.

**Disclaimer**

Save as referred to as above and apart from intra-group liabilities, the Group did not have, as at 30 June 2010, any debt securities issued and outstanding or authorised or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

**WORKING CAPITAL**

The Board, after due and careful enquiry, is of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's present available internal resources and the net proceeds from the Rights Issue, the Group has sufficient working capital for its normal business for at least the next 12 months from the date of publication of this circular.

**MATERIAL CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date of which the latest published audited financial statements of the Company were made up.

**1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the rights issue of 1,444,643,184 shares of the Company (the “Shares”) at HK\$0.10 each on the basis of one rights Share for every two Shares held (the “Rights Issue”) on the consolidated net tangible assets of the Group attributable to owners of the Company as if the Rights Issue had been completed on 31 December 2009.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Rights Issue been completed as at 31 December 2009 or any future date.

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company based on the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2009 and adjusted for the effect of the Rights Issue.

<b>Consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2009</b>	<b>Estimated net proceeds from the Rights Issue</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2009 immediately after completion of the Rights Issue</b>	<b>Consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2009 prior to completion of the Rights Issue</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2009 immediately after completion of the Rights Issue</b>
<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>(Note 4)</i>	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>	<i>HK\$</i>
1,034,790	141,464	1,176,254	0.451	0.314

*Notes:*

1. The amount represents the consolidated net assets of the Group attributable to owners of the Company as at 31 December 2009 of approximately HK\$2,075,122,000 less intangible assets, being goodwill of approximately HK\$8,975,000, intangible assets of approximately HK\$989,205,000, film rights of approximately HK\$22,914,000 and films in progress of approximately HK\$19,238,000. These figures were extracted from the consolidated statement of financial position of the Group as at 31 December 2009 as set out in the annual report of the Company for the year ended 31 December 2009.
2. The estimated net proceeds from the Rights Issue of approximately HK\$141,464,000 are based on 1,444,643,184 new Shares to be issued at HK\$0.10 each, after deduction of estimated underwriting commission, legal and professional fees and other related expenses of approximately HK\$3,000,000 to be incurred by the Group.
3. The consolidated net tangible assets of the Group attributable to owners of the Company per Share prior to completion of the Rights Issue is based on 2,296,496,368 Shares in issue as at 31 December 2009.
4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after completion of the Rights Issue is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue and on the basis of 3,741,139,552 Shares in issue or to be issued, comprising 2,296,496,368 Shares in issue as at 31 December 2009 and 1,444,643,184 Rights Shares to be issued.
5. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2009.
6. The above adjustment does not take into account the following transactions subsequent to 31 December 2009:
  - (i) approximately HK\$9,502,000 received upon conversion of 52,790,000 Options into 52,790,000 new Shares; and
  - (ii) approximately HK\$75,400,000 received from 540,000,000 Shares issued upon completion of placing.

If the effects of these transactions were taken into account,

- \* the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue would have been increased to approximately HK\$1,261,156,000.
- \* the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue would have been approximately HK\$0.291, which is calculated based on 4,333,929,552 Shares in issue or to be issued.

**2. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The following is the text of the report, prepared for the sole purpose of inclusion in this Prospectus, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company set out in this appendix.



Chartered Accountants  
Certified Public Accountants

31/F., Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

21 July 2010

The Directors  
China Star Entertainment Limited  
Unit 3409, 34/F., Shun Tak Centre, West Tower  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of China Star Entertainment Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) attributable to owners of the Company, which has been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the proposed rights issue of 1,444,643,184 new shares of the Company at HK\$0.10 each on the basis of one share for every two shares held might have affected the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company presented for inclusion in Section 1 of Appendix II to the prospectus issued by the Company dated 21 July 2010 (the “Prospectus”). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company is set out on pages 26 to 27 of Appendix II to the Prospectus.

**Respective responsibilities of the Directors of the Company and reporting accountants**

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company is for illustrative purpose only, based on the judgments and assumptions made by the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2009 or any future date.

**Opinion**

In our opinion:

- the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been properly compiled by the Directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and

- the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully  
**HLB Hodgson Impey Cheng**  
Chartered Accountants  
Certified Public Accountants  
Hong Kong

## 1. RESPONSIBILITY STATEMENT

The Prospectus, 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 Group and the Rights Issue. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Prospectus is accurate and complete in all material respects and not misleading or deceptive, and therefore there are no other matters the omission of which would make any statement herein or the Prospectus misleading.

## 2. SHARE CAPITAL

### (a) Share capital

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date were, and (ii) immediately following completion of the Rights Issue will be, as follows:

#### (i) As at the Latest Practicable Date

HK\$

##### Authorised share capital:

<u>50,000,000,000</u>	Shares	<u>500,000,000.00</u>
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##### Issued and fully paid share capital or credited as filly paid:

<u>2,889,286,368</u>	Shares	<u>28,892,863.68</u>
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#### (ii) Upon completion of the Rights Issue

HK\$

##### Issued and fully paid share capital or credited as filly paid:

2,889,286,368	Shares in issue as at the Latest Practicable Date	28,892,863.68
1,444,643,184	Rights Shares to be issued pursuant to the Rights Issue	14,446,431.84
<u>4,333,929,552</u>	Shares in issue upon completion of the Rights Issue	<u>43,339,295.52</u>

All the issued Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. All the Rights Shares which will be in issue upon completion of the Rights Issue will rank pari passu in all respects with the existing Shares in issue including as regards to all rights as to dividends, voting and return of capital.

The issued Shares are listed on the Stock Exchange. None of the Shares is listed, or dealt in, on other stock exchange, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange. There is no arrangement under which future dividends are/will be waived or agreed to be waived.

As at the Latest Practicable Date, no share or loan capital of the Company or any members of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted, except for the Rights Shares, the Shares to be issued upon the exercise of the subscription right attached to the Warrants and the 383,676,611 outstanding Options exercisable into 383,676,611 Shares.

### 3. DISCLOSURE OF INTERESTS

#### (a) Directors' interests in the Company

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

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung	Beneficial owner/ interest of spouse/ interest of controlled corporation	226,169,025 (Note a)	728,299,133 (Note b)	954,468,158	33.03
Ms. Chen	Beneficial owner/ interest of spouse/ interest of controlled corporation	226,169,025 (Note a)	728,299,133 (Note b)	954,468,158	33.03
Ms. Li Yuk Sheung	Beneficial owner	–	28,978,702 (Note c)	28,978,702	1.00

All interests stated above represent long positions.

*Notes:*

- (a) These Shares are held as to 226,032,000 Shares by Porterstone and as to 137,025 Shares by Dorest Company Limited (a company owned as to 60% by Porterstone and as to 40% by Mr. Heung). The Shares held by Dorest Company Limited are under a charge order.

- (b) These underlying Shares comprised (i) 8,864 Options held by Mr. Heung and 8,864 Options held by Ms. Chen; (ii) HK\$5,453,022 Warrants held by Porterstone and convertible into 28,254,000 Shares at the subscription price of HK\$0.193 per Share and HK\$5,289 Warrants held by Dorest Company Limited and convertible into 27,405 Shares at the subscription price of HK\$0.193 per Share; and (iii) HK\$350,000,000 convertible bonds to be issued to Ms. Chen and convertible into 700,000,000 Shares at the initial conversion price of HK\$0.5 per Share.
- (c) These underlying Shares comprised outstanding Options held by Ms. Li Yuk Sheung.

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

**(b) Directors' interests in assets of the Company**

As disclosed in the Company's circular dated 17 August 2009, the Group entered into a sale and purchase agreement (the "Acquisition") on 29 April 2009 with Ms. Chen whereby Ms. Chen had agreed to sell and the Group had agreed to purchase companies which have beneficial interest in a property located in Macau. As at the Latest Practicable Date, the Acquisition has not yet been completed.

Save disclosed above, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of the Prospectus and which was significant in relation to the business of the Group.

Save for Ms. Chen, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 December 2009, being the date to which the latest published audited accounts of the Group were made up.

**(c) Directors' service agreements**

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

#### 4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company as disclosed herein) had interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group:

Name	Capacity	Number of Shares or underlying Shares held	Approximately % of interest held
Active Dynamic Limited	Interest of controlled corporation	1,840,648,287 ( <i>Note a</i> )	31.86
Chu Yuet Wah	Interest of controlled corporation	1,840,648,287 ( <i>Note a</i> )	31.86
Eagle Mission Limited	Interest of controlled corporation	1,840,648,287 ( <i>Note a</i> )	31.86
Galaxy Sky Investments Limited	Interest of controlled corporation	1,840,648,287 ( <i>Note a</i> )	31.86
Kingston Securities Limited	Beneficial owner/other	1,840,648,287	31.86
China Star Investment Holdings Limited	Interest of controlled corporation	816,000,000 ( <i>Note b</i> )	28.24
Riche (BVI) Limited	Interest of controlled corporation	816,000,000 ( <i>Note b</i> )	28.24
Simple View Investment Limited	Beneficial owner	816,000,000	28.24
Kwok Lung	Interest of controlled corporation	265,009,700 ( <i>Note c</i> )	9.17
Li Chi Lam	Interest of controlled corporation	265,009,700 ( <i>Note c</i> )	9.17
Skylight Property Ltd.	Beneficial owner	237,970,000	8.23
Porterstone	Beneficial owner/ interest of controlled corporation	254,450,430	8.80

All interests stated above represent long positions.

*Notes:*

- (a) These Shares/underlying Shares are held by Kingston Securities Limited.
- (b) These Shares/underlying Shares are held by Simple View Investment Limited.
- (c) These Shares are held as to 237,970,000 Shares by Skylight Property Ltd. and as to 27,039,700 Shares by Yo Chen Limited. Skylight Property Ltd. and Yo Chen Limited are beneficially owned as to 50% by Mr. Kwok Lung and as to 50% by Mr. Li Chi Lam.

Other than disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or any persons (other than the Directors and chief executive of the Company) who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group.

**PROFILES OF DIRECTORS****Executive Directors**

**Mr. HEUNG Wah Keung**, aged 61, is the chairman of the Company. He is the husband of Ms. Chen Ming Yin, Tiffany, vice chairman of the Company. He has over 20 years of experience in the entertainment and multimedia industries. He was the founder of Win's Entertainment Limited ("Win's") and One Hundred Years of Film Company Limited ("One Hundred Years"), which produces films recommended by audiences and distributors around the world. He is also the vice-chairman of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited. Mr. Heung was appointed as an executive Director in 1996. Mr. Heung was the chairman and executive director of China Star Investment Holdings Limited, a main board listed company in Hong Kong, and resigned on 1 February 2010. Save as disclosed above, Mr. Heung had not held any directorship with any other listed companies within the past three years and does not have any relationship with any other Directors or general managers of the Company. Save as disclosed in Part 3 of Appendix III in the Prospectus, Mr. Heung does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**Ms. CHEN Ming Yin, Tiffany**, aged 53, is the vice chairman of the Company. She is the wife of Mr. Heung and has over 15 years of experience in the entertainment and multimedia industries. Ms. Chen has produced a number of blockbuster films for Win's and One Hundred Years. In 2003, she was selected as one of 2003 Women in Entertainment – International Power by The Hollywood Reporter. Ms. Chen was appointed as an executive Director in 1996. Ms. Chen was an executive director of China Star Investment Holdings Limited, a main board listed company in Hong Kong, and resigned on 1 February 2010. Save as disclosed above, Ms. Chen had not held any directorship with any other listed companies within the past three years and does not have any relationship with any other Directors or general managers of the Company. Save as disclosed in Part 3 of Appendix III in the Prospectus, Ms. Chen does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**Ms. LI Yuk Sheung**, aged 42 is an executive Director. She has more than 10 years experience of management in the entertainment and multimedia industries. She is responsible for the overall operations, and is familiar with the Group's system. Ms. Li was appointed as an executive Director in 2001. Ms. Li had not held any directorship with any other listed companies within the past three years and does not have any relationship with any Directors or general managers of the Company. Save as disclosed in Part 3 of Appendix III in the Prospectus, Ms. Li does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**Independent Non-executive Directors**

**Mr. HUNG Cho Sing**, aged 69, is an independent non-executive Director. He has over 30 years of experience in the film distribution industry and founded Delon International Film Corporation in 1970. He has been the chairman of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited since 1991 and was the chairman of Hong Kong Film Awards Association from 1992 to 1995. Mr. Hung was appointed as a non-executive Director in 1996. Mr. Hung had not held any directorship with any other listed companies within the past three years and does not have any relationship with any Directors or general managers of the Company. Mr. Hung does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**Mr. HO Wai Chi, Paul**, aged 59, is an independent non-executive Director. He is the sole proprietor of Paul W. C. Ho & Company, Certified Public Accountants (Practising), and is an associate of the Institute of Chartered Accountants in England and Wales, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ho was appointed as a non-executive Director in 1996. Mr. Ho also holds directorships as independent non-executive director of companies listed on the main board of the Stock Exchange which included China Star Investment Holdings Limited, Ngai Hing Hong Company Limited and Bel Global Resources Holdings Limited. Save as disclosed above, Mr. Ho had not held any directorship with any other listed companies within the past three years. Mr. Ho does not have any relationship with any Directors or general managers of the Company and does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**Mr. LEUNG Hok Man**, aged 47, is an independent non-executive Director. Mr. Leung read law at the University of East London before completing the Legal Practice Course at the College of Law, York. After having admitted as a solicitor of the High Court of Hong Kong in 1999, he has moved into the field of intellectual property. He is currently an in-house solicitor at an international patent and trademark agency firm. He has substantial experience in intellectual property practice. Mr. Leung was appointed as an independent non-executive Director in 2007. Mr. Leung had not held any directorship with any other listed companies within the past three years and does not have any relationship with any Directors or general managers of the Company. Mr. Leung does not have any shareholding interest under the provisions of Divisions 2 and 3 of Part XV of the SFO.

The business address of all the Directors is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

**5. CORPORATE INFORMATION**

BOARD OF DIRECTORS	Mr. Heung Wah Keung ( <i>Chairman</i> ) Ms. Chen Ming Yin, Tiffany ( <i>Vice Chairman</i> ) Ms. Li Yuk Sheung ( <i>Executive Director</i> ) Mr. Hung Cho Sing ( <i>Independent Non-Executive Director</i> ) Mr. Ho Wai Chi, Paul ( <i>Independent Non-Executive Director</i> ) Mr. Leung Hok Man ( <i>Independent Non-Executive Director</i> )
AUTHORISED REPRESENTATIVES	Mr. Heung Wah Keung Ms. Chen Ming Yin, Tiffany
COMPANY SECRETARY	Ms. Wong Shuk Han, Dorothy

REGISTERED OFFICE	Canon's Court 22 Victoria Street Hamilton HM12 Bermuda
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS	Unit 3409, Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
PRINCIPAL REGISTRAR AND TRANSFER OFFICE	Butterfield Fulcrum Group (Bermuda) Limited Rosebank Centre 11 Bermudiana Road Pembroke HM08, Bermuda
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
PRINCIPAL BANKERS	Industrial and Commercial Bank of China (Macau) Limited The Summit, ICBC Tower Macau Landmark 555 Avenida da Amizade Macau  Bank of China (Hong Kong) Limited 1 Garden Road, Hong Kong  Hang Seng Bank Limited 83 Des Voeux Road Central, Hong Kong  Standard Chartered Bank (Hong Kong) Limited G/F Standard Chartered Bank Building, 4-4A Des Voeux Road, Central, Hong Kong  The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong
AUDITORS AND REPORTING ACCOUNTANTS	HLB Hodgson Impey Cheng Chartered Accountants Certified Public Accountants 31/F., Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong

**LEGAL ADVISERS TO  
THE COMPANY**

As to Bermuda Law:  
Appleby  
8/F Bank of America Tower  
12 Harcourt Road, Central, Hong Kong

As to Hong Kong Law:  
Robertsons  
57/F, The Center, 99 Queen's Road Central, Hong Kong

Michael Li & Co  
14/F, Printing House, 6 Duddell Street, Central, Hong Kong

**STOCK CODE**

326

**WEBSITE**

[www.chinastar.com.hk](http://www.chinastar.com.hk)  
[www.irasia.com/listco/hk/chinastar](http://www.irasia.com/listco/hk/chinastar)

**6. EXPERT**

The following is the qualification of the expert who have given an opinion or advice which are contained in the Prospectus:

HLB Hodgson Impey Cheng

Chartered Accountants  
Certified Public Accountants

As at the Latest Practicable Date, HLB Hodgson Impey Cheng did not have any interest, either direct or indirect, in any assets which have been, since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group, or any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

HLB Hodgson Impey Cheng has given and has not withdrawn its respective written consent to the issue of the Prospectus with the inclusion of its respective letter and/or report and/or reference to its respective name, in the form and context in which it respectively appears.

**7. LITIGATION**

As at the Latest Practicable Date, none of the member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

**8. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the member of the Group within the two years immediately preceding the Latest Practicable Date:

- (i) the memorandum of agreement dated 3 December 2008 entered into between China Star Production Services Limited, a wholly-owned subsidiary of the Company and Hong Kong Movie City Company Limited relating to the disposal of numbers of system/unit owned by the Company at a total consideration of HK\$11,200,000;
- (ii) the underwriting agreement dated 1 December 2008 (as supplemented by the supplemental agreement dated 8 December 2008) entered into between the Company and Underwriter in relation to an open offer of not less than 888,486,080 offer Shares and not more than 1,064,486,080 offer Shares on the basis of two offer Shares for every one existing Share held on the record date at a price of HK\$0.05 per Share with bonus issue on the basis of three bonus Shares for every one offer Share take up;
- (iii) the conditional placing agreement dated 1 December 2008 entered into between the Company and Underwriter in relation to a placing for 88,000,000 new Shares on a fully underwritten basis to independent investors at a price of HK\$0.102 per Share;
- (iv) the subscription agreement dated 26 November 2008 entered into between the Company and Golife Concepts Holdings Limited in relation to a subscription and issue of the zero coupon convertible bonds in the principal amount of HK\$60 million;
- (v) the termination agreement dated 23 December 2008 entered into between the Company, Legend Rich Limited and China Star Investment Holdings Limited (formerly known as Riche Multi-Media Holdings Limited) (“Riche”) to terminate the sale and purchase agreement dated 1 August 2007 relating to the sale and purchase of entire issued share capital of Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company, and a sale loan amounted to approximately HK\$409,222,000 for an aggregate consideration of HK\$447,000,000;
- (vi) the conditional placing agreement dated 12 May 2009 entered into between the Company and Underwriter relating to the placing of up to a maximum of 800,000,000 new Shares (by a maximum of eight tranches in which each tranche shall not be less than 100,000,000 new Shares, save for the last tranche) on a fully underwritten basis to independent investors at a price of HK\$0.2 per Share;
- (vii) the conditional sale and purchase agreement dated 8 June 2009 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company and Elite Plan Investments Limited relating to the disposal of the entire issued share capital of Bingo Chance Limited at a total consideration of HK\$22,960,000;
- (viii) the conditional sale and purchase agreement entered into between Bestjump Holdings Limited, a wholly owned subsidiary of the Company and Ms. Chen dated 29 April 2009 in respect of the Acquisition;

- (ix) the conditional placing agreement dated 16 July 2009 entered into between the Company and Underwriter in relation to a placing of 207,900,000 new Shares on a fully underwritten basis to professional investors at a price of HK\$0.22 per Share;
- (x) the conditional subscription agreement dated 23 July 2009 entered into between the Company and Riche in relation to the proposed subscription of a convertible bond in the principal amount of HK\$200 million at an initial conversion price of HK\$0.20 per conversion Share;
- (xi) the deed of variation dated 14 August 2009 entered into between Bestjump Holdings Limited and Ms. Chen in respect of the Acquisition;
- (xii) the subscription agreement dated 4 January 2010 entered into between the Company and Skylight Property Ltd. in relation to a subscription of 540,000,000 new Shares at an subscription price of HK\$0.14 per Share; and
- (xiii) the Underwriting Agreement.

## **9. GENERAL**

- (i) The secretary and the qualified accountant of the Company is Ms. Wong Shuk Han, Dorothy. Ms. Wong is member of the Hong Kong Institute of Certified Public Accountants.
- (ii) The business address of all Directors is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.
- (iii) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The head office and principal place of business is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is Butterfield Fulcrum Group (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.
- (iv) The Hong Kong branch share registrar and transfer office of the Company are Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (v) As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or have or may have any other conflicts of interest with the Group pursuant to the Listing Rules.
- (vi) The English text of the Prospectus shall prevail over the Chinese text.

## **10. EXPENSES**

The expenses in connection with the Rights Issue, including the underwriting commission, printing, registration, translation, legal and accounting charges are estimated to be approximately HK\$3,000,000 and will be payable by the Company.

**11. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

A copy of this Prospectus, together with copies of the Provisional Allotment Letter and the Excess Application Form and the written consent referred to in the paragraphs headed “Expert” in this appendix have been delivered to the Registrar of Companies in Hong Kong for registration as required by Section 342C of the Companies Ordinance. A copy of this Prospectus will as soon as reasonably practicable be filed with the Registrar of Companies in Bermuda.

**12. LEGAL EFFECT**

The Prospectus Documents and all acceptance of any offer or application contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all person concerned bound by the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours on any Business Day at the principal place of business in Hong Kong of the Company at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong from the date of the Prospectus up to and including Wednesday, 4 August 2010:

- (a) the Prospectus;
- (b) the memorandum of association and bye-laws of the Company;
- (c) the annual reports of the Company for each of the two financial years ended 31st December 2008 and 2009;
- (d) the reports from HLB Hodgson Impey Cheng on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company, the text of which are set out on pages 28 to 30 of the Prospectus;
- (e) the written consent referred to in the paragraphs headed “Expert” in this appendix; and
- (f) the material contracts referred to under the paragraph headed “Material Contracts” in this appendix.