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CHINA STAR FILM GROUP LIMITED
中國星電影集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock code: 8172)

DISCLOSEABLE TRANSACTION
IN RELATION TO
THE ACQUISITION OF THE INFRARED-RELATED BUSINESS
WHICH INVOLVES THE ISSUE OF NEW SHARES
UNDER THE GENERAL MANDATE

The Purchaser and the Vendors entered into the Sale and Purchase Agreement, pursuant to which the Purchaser agreed to acquire from the Vendors the Sale Shares and the Sale Debts at a consideration of HK\$14.5 million.

The Purchase Price shall be satisfied by the Company issuing 59,183,672 new Shares at issue price of HK\$0.245 per new Share under the General Mandate. The issue price of HK\$0.245 represents, (i) a discount of approximately 15.52% to the closing price of HK\$0.290 per Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) a discount of approximately 18.33% to the average of the closing prices of approximately HK\$0.300 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Sale and Purchase Agreement.

Upon the Completion, the Target Company will become a wholly-owned subsidiary of the Company. The Target Company is principally engaged in providing infrared thermal imaging and thermography solutions and consultancy services.

Since the applicable percentage ratios as defined under the GEM Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules.

THE SALE AND PURCHASE AGREEMENT

Date

16 July 2010

Parties

- (a) Purchaser: Premium Dignity Investment Limited, a company incorporated in British Virgin Islands with limited liability which is a wholly-owned subsidiary of the Company
- (b) Vendors: Mr. Ko and Mr. Yuen

As at the date of the Sale and Purchase Agreement and up to the date of the Completion, each of Mr. Ko and Mr. Yuen shall hold 50% of the issued share capital of the Target Company. To the best knowledge, information and belief of the Directors after having made all reasonable enquires, Mr. Ko and Mr. Yuen are Independent Third Parties.

Assets to be Acquired

Pursuant to the Sale and Purchase Agreement, the Purchaser has agreed to acquire and the Vendors have agreed to sell the Sale Shares, being the entire issued share capital of the Target Company, and the Sale Debts, being the aggregate outstanding shareholders' loans owing by the Target Company to the Vendors at Completion, subject to the terms and conditions as set out in the Sale and Purchase Agreement.

As at the date of this announcement, the Sale Debts amounts to approximately HK\$200,000.

For further information on the Target Company, please refer to the section headed "Information on the Target Company" in this announcement.

Purchase Price and payment method

Purchase Price

The Purchase Price shall be HK\$14.5 million, which shall be satisfied by the Purchaser to procure the Company issuing the Consideration Shares to the Vendors or their respective nominees and payable upon the Completion.

The Purchase Price was determined among the Purchaser, the Company and the Vendors, after arm's length negotiations after taking into account the factors set out in the section headed "Reasons for the Acquisition" below and the valuation of the Target Company as at 30 June 2010 (the "Valuation Date") of HK\$15 million, as assessed by Asset Appraisal Limited, an independent qualified valuer by adopting the income approach.

As the valuation of the Target Company as set out above constitutes profit forecast under Rule 19.61 of the GEM Listing Rules, Rules 19.60A and 19.62 of the GEM Listing Rules are applicable. Information required under Rules 19.60A and 19.62 of the GEM Listing Rules is set out in the paragraph headed "Disclosure in relation to Rules 19.60A and 19.62 of the GEM Listing Rules" and Appendix I and Appendix II to this announcement.

Taking into account that the Purchase Price is comparable to the valuation of the Target Company conducted by the independent qualified valuer and the reasons and benefits as stated in the paragraph below headed "Reasons for the Acquisition", the Directors are of view that the Purchase Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Payment method

The Purchase Price shall be satisfied by the Company issuing the Consideration Shares at issue price of HK\$0.245 per new Share.

The issue price of HK\$0.245 represents, (i) a discount of approximately 15.52% to the closing price of HK\$0.290 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 18.33% to the average of the closing prices of approximately HK\$0.300 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Sale and Purchase Agreement.

The Consideration Shares represent, (i) approximately 17.65% of the existing share capital of the Company to be allotted to the Vendors; and (ii) approximately 15.00% of the share capital of the Company as enlarged by the issue of the Consideration Shares.

The Consideration Shares shall be allotted and issued under the General Mandate granted at the annual general meeting of the Company on 19 May 2010, under which the Directors have been authorised by the Shareholders to allot and issue up to 20% of the issued share capital of the Company. No new Shares have been issued under the General Mandate since its grant and up to the date of this announcement. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Consideration Shares, which will rank pari passu in all respects with the then existing Shares.

The issue price of the Consideration Share was determined among the Purchaser, the Company and the Vendors, after arm's length negotiations and with reference to the prevailing market price and liquidity of the Shares traded on the Stock Exchange. The Directors consider that the issue price of the Consideration Shares is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Conditions

Completion is conditional upon the following conditions being satisfied:

- (A) the Stock Exchange granting listing of and permission to deal in the Consideration Shares;
- (B) the Purchaser having obtained a valuation report issued by an independent qualified valuer retained by the Purchaser or the Company, that indicates the fair value of the Target Company is no less than HK\$14.5 million; and
- (C) the Purchaser being reasonably satisfied with the results of the due diligence exercise (whether legal, accounting, financial, operational or other aspects that the Purchaser considers relevant) on the Target Company and their related businesses, operations, prospects and other status which the Purchaser, its agents or professional advisers think necessary and appropriate to conduct.

As at the date of this announcement, the condition specified in (B) above has been satisfied. Pursuant to the Sale and Purchase Agreement, if the above conditions are not fulfilled or, as the case may be, waived by the Purchaser on or before 12:00 noon on the Long Stop Date (or such later date as agreed in writing by the parties to the Sale and Purchase Agreement), the obligations of the parties shall cease and determine in accordance with the terms thereof and neither party shall have any claim under the Sale and Purchase Agreement against the others of them save in respect of any antecedent breaches of the Sale and Purchase Agreement.

Completion shall take place on the third business day (or such other date to be agreed by parties to the Sale and Purchase Agreement) upon the fulfillment of all conditions set out above.

INFORMATION ON THE TARGET COMPANY

The Target Company is found by Mr. Ko and Mr. Yuen and is incorporated on 28 July 2005 in Hong Kong with limited liability. The Target Company is principally engaged in sales of infrared-related equipments, providing infrared thermal imaging and thermography solutions and consultancy services, as well as the provision of training in infrared thermography and imaging technology for various academic institutions and private organizations in Hong Kong and the PRC. The Target Company is the one of few firms in Hong Kong which is operated with professional qualifications in (i) Level III Thermographer of Personnel Certification of Non-destructive Testing under British Institute of Non-destructive Testing in civil division; (ii) Certified Senior Enterprise Risk Manager in the PRC, which is certified by Minister of Labour and Social Security of the PRC; (iii) Board Qualified Clinical Thermography technician which is awarded by Academy of Medical Infrared training; and (iv) Certified Level I to III Thermographers from Infrared Training Centre (ITC), a global leader in infrared training thermography training.

The application of the infrared thermal imaging and infrared thermography covers the following areas:

- Building condition survey : Infrared thermography is becoming an increasing popular mean for undertaking non-destructive test and survey in construction and building industry. Its common applications in building condition survey include external wall tile debonding investigation, water leakage and seepage investigation and roof top survey.
- Medical : Thermal medical imaging is a new and exciting application for infrared imaging. Promising research is being done in the fields of vascular, muscle and cancer detection. Infrared thermography has the ability to detect the chemical and blood vessel changes in pre-cancerous as well as cancerous breast tissue.
- Security and Surveillance : One of the most common applications of infrared imaging is surveillance. Armed Forces and law enforcement agencies nowadays deploy infrared systems, replacing the night vision systems based on the vidicon tube technology.
- Industrial Safety Investigation : Electrical thermography and mechanical thermography are more popular in an established sector in North America and European Countries. Infrared thermography is very effective and reliable in preventive maintenance, predictive maintenance and condition monitoring.

Set out below is a summary of the unaudited financial information of the Target Company for the preceding two financial years ended 31 December 2009 prepared in accordance with the Hong Kong Financial Reporting Standards.

	For the year ended 31 December 2009	For the year ended 31 December 2008
	<i>HK\$</i> <i>(unaudited)</i>	<i>HK\$</i> <i>(unaudited)</i>
(Loss)/Profit before taxation	(382,430)	302,871
(Loss)/Profit after taxation	(382,430)	302,871
Net assets	10,500	392,930

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in film production and distribution, the provision of artists management services and investment in jointly controlled entity which is principally engaged in distribution of high-end apparel and accessories.

With the buildings ageing in Hong Kong, the Hong Kong Government launched the Proposed Mandatory Building Inspection Consultation early this year. Under the proposed scheme, the Buildings Department shall select 2,000 buildings involving around 70,000 units of more than 30-year old every year and demands them to undertake mandatory building inspection (“MBI”) every seven years. According to buildings department, the usage of building in Hong Kong is around 50 to 80 years on average. As at 2005, there were about 39,000 buildings in Hong Kong, 13,000 of which were over 30 years old. In ten years’ time, it is expected that the number will increase to 22,000.

Depending on how long it takes for Legislative Council to scrutinize the bill and enact subsidiary legislation, the Hong Kong Government estimates that the scheme will be implemented in the fourth quarter of 2011 or early 2012 at the earliest. Upon the implementation of MBI scheme, it is expected that the demand for building condition survey as well as building external wall defects investigation would be dramatically increased. Infrared thermography as one of the means in examining the surface defects for such buildings on a non-destructive basis shall be involved as part of the investigation process.

Besides the business opportunities arised from the MBI scheme, the Directors consider that applications of the infrared thermography in medical and industrial safety investigation shall have great business potentials in future. Therefore, the Directors consider that the Acquisition provides an opportunity for the Company to grasp the business opportunity arised from the MBI scheme and to diversify its income stream which is in the interests of the Company and its Shareholders as a whole.

Upon the Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of which will be consolidated into the accounts of the Company.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company as at the date of this announcement and after the issue of the Consideration Shares:

Name	As at the date		Shareholding	
	of this		immediately after	
	announcement		the issue of the	
	(Number of Shares)	(%)	Consideration	
			Shares	(%)
			(Number of Shares)	
Galaxy Asset Management (H.K.) Limited (Note)	49,690,000	14.82	49,690,000	12.60
The Vendors:				
Mr. Ko	0	0.00	29,591,836	7.50
Mr. Yuen	0	0.00	29,591,836	7.50
Other Shareholders	<u>285,576,054</u>	<u>85.18</u>	<u>285,576,054</u>	<u>72.40</u>
	<u><u>335,266,054</u></u>	<u><u>100.00</u></u>	<u><u>394,449,726</u></u>	<u><u>100.00</u></u>

Note: Based on the information disclosed on the web-site of the Stock Exchange.

DISCLOSURE IN RELATION TO RULES 19.60A AND 19.62 OF THE GEM LISTING RULES

As set out in the paragraph headed “Purchase Price and payment method” above, the valuation of the Target Company conducted by Asset Appraisal Limited, the independent qualified valuer, constitutes profit forecast under Rule 19.61 of the GEM Listing Rules (“Profit Forecast”). As such, Rules 19.60A and 19.62 of the GEM Listing Rules are applicable.

Pursuant to Rule 19.62(1) of the GEM Listing Rules, the following is the details of the principal assumptions, including commercial assumptions, upon which the forecast is based:

- i. there will be no major change in the existing political, legal and economic conditions in the PRC in which the Target Company is to be operated;
- ii. save for those proposed changes on taxation policies announced by the Inland Revenue Department of Hong Kong and the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Target Company and its subsidiaries (if any) in its operations;

- iii. the interest rates and exchange rates will not differ materially from those presently prevailing;
- iv. the availability of finance will not be a constraint on the forecast growth of the Target Company's operations in accordance with business plan and the projection;
- v. the business forecast revealed to the valuer by the Company or the management of the Target Company is based on reasonable grounds, reflecting estimates which have been arrived at after due and careful consideration by its management and will materialize;
- vi. the production facilities, systems and the technology utilized by the Target Company in carrying out its existing and future businesses do not infringe any relevant regulations and law;
- vii. the Target Company has obtained or shall have no impediment to obtain all necessary Government permits and approvals to carry out its business operations in Hong Kong and in the PRC;
- viii. saved for those liabilities reported in the financial statements of the Target Company, it is not subject to any liabilities, interest-bearing loans and encumbrances that would impair its Target Company value as at the Valuation Date;
- ix. the Target Company shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support its business operations; and
- x. the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the business enterprise value of the Target Company.

Valuation Conclusion

Based on the valuation basis, valuation assumptions and the appraisal method employed by Asset Appraisal Limited, the independent qualified valuer, the fair value of the Target Company free from any encumbrance is reasonably represented by the sum of HK\$15,000,000.

HLB Hodgson Impey Cheng confirms that the discounted future estimated cash flows and the calculations thereof has been properly compiled in accordance with the bases and assumptions made by the Director. Nuada Limited, the financial adviser of the Company, have reviewed the principal assumptions upon which the Profit Forecast is based and are of the view that the Profit Forecast has been made after due and careful enquiry. A letter from Nuada Limited and HLB Hodgson Impey Cheng, the auditors of the Company, are included in the Appendix I and Appendix II below pursuant to Rules 19.60A and 19.62 of the GEM Listing Rules.

Experts and consents

The following are the qualifications of the experts who have given their opinion and advice included in this announcement:

Name	Qualification
Asset Appraisal Limited	Professional valuer
Nuada Limited	Corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry on type 6 regulated activity
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants

To the best knowledge of the Directors, information and belief, each of Asset Appraisal Limited, Nuada Limited and HLB Hodgson Impey Cheng is Independent Third Party. As at the date of this announcement, neither Asset Appraisal Limited, Nuada Limited nor HLB Hodgson Impey Cheng has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Asset Appraisal Limited, Nuada Limited and HLB Hodgson Impey Cheng has given and has not withdrawn its written consent to the publication of this announcement with reference to its name included herein in the form and context in which it appears.

IMPLICATION UNDER THE GEM LISTING RULES

Since the applicable percentage ratios as defined under the GEM Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules.

DEFINITIONS

The following words and phrases used in this announcement have the following meaning:

“Acquisition”	means the acquisition of the Sale Shares and the Sale Debts
“Board”	means the board of Directors
“Business Day”	means a day (other than a Saturday or Sunday) on which banks are open for business in Hong Kong

“Company”	means China Star Film Group Limited, a company incorporated under the laws of the Cayman Islands and continued in Bermuda with limited liability, whose shares are listed on GEM
“Completion”	means completion of the Acquisition
“Connected Persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Consideration Shares”	means an aggregate of 59,183,672 new Shares at the issue price of HK\$0.245 per Share to be issued to the Vendors pursuant to the Sale and Purchase Agreement
“Directors”	means directors of the Company
“GEM”	means the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	means the Rules Governing the Listing of Securities on GEM
“General Mandate”	means the general mandate granted at the annual general meeting of the Company on 19 May 2010, under which the Directors have been authorised by the Shareholders to allot and issue up to 20% of the issued share capital of the Company
“Group”	means the Company and its subsidiaries
“Hong Kong”	means Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	means third party(ies) independent of and not connected with the Company and its Connected Persons
“Last Trading Day”	means 16 July 2010, being the trading day of the Shares on the Stock Exchange immediately before the signing of the Sale and Purchase Agreement
“Long Stop Date”	means 31 August 2010

“Mr. Ko”	means Mr. Ko Wing Hong, the vendor who holds 50% of the issued share capital of the Target Company
“Mr. Yuen”	means Mr. Yuen Po Cheung, the vendor who holds 50% of the issued share capital of the Target Company
“PRC”	means the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong and the Macau Special Administrative Region of the PRC
“Purchase Price”	means the total consideration of HK\$14.5 million for the Sale Shares and Sale Debts
“Purchaser”	means Premium Dignity Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	means the conditional sale and purchase agreement dated 16 July 2010 entered into between the Purchaser and the Vendors in relation to the Acquisition
“Sale Debts”	means the aggregate outstanding shareholders’ loans owing by the Target Company to the Vendors at Completion
“Sale Shares”	means such number of share as shall represent the entire issued share capital in Target Company immediately before the Completion
“Share(s)”	means ordinary share(s) of HK\$0.01 each in the existing share capital of the Company
“Shareholder(s)”	means shareholder(s) of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	as defined under the GEM Listing Rules
“Target Company”	means Infrared Engineering & Consultants Limited
“Vendors”	means Mr. Ko and Mr. Yuen

“HK\$” means Hong Kong dollars, the lawful currency of Hong Kong

“%” means per cent.

By order of the Board
China Star Film Group Limited
Wong Chi Chiu
Director

Hong Kong, 16 July 2010

As at the date of this announcement, the executive Directors are Mr. Lai Hok Lim and Mr. Wong Chi Chiu; and the independent non-executive Directors are Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng.

This announcement, for which the Directors collectively and individually accept full responsibilities, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumption that are fair and reasonable.

This announcement will be published on the GEM website on the “Latest Company Announcement” page for at least 7 days from the date of its publication and on the Company’s website at www.golife.com.hk.

Nuada Limited

Corporate Finance Advisory

16 July 2010

The Board of Directors
China Star Film Group Limited
Unit 3407, 34/F
Shun Tak Centre, West Tower
168-200 Connaught Road, Central
Hong Kong

Dear Sirs,

China Star Film Group Limited (the “Company”) and its subsidiaries (collectively, the “Group”)

Comfort letter on forecast underlying the valuation on 100% equity interest of Infrared Engineering & Consultants Limited

We refer to the discount cash flow forecasts underlying the valuation (the “Valuation”) prepared by Asset Appraisal Limited (“Asset Appraisal”) in relation to the appraisal of the valuation of a 100% equity interest in Infrared Engineering & Consultants Limited. The Valuation is regarded as a profit forecast under Rule 19.61 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

We have reviewed the forecasts upon which the Valuation has been made for which you as the directors of the Company (“Directors”) are solely responsible, and have discussed with you and Asset Appraisal the information and documents provided by you which formed part of the basis and assumptions upon which the forecasts have been prepared. We have also considered the letter from HLB Hodgson Impey Cheng dated 16 July 2010 addressed to yourselves as set out in Appendix II to the Company’s announcement dated 16 July 2010 regarding the calculations upon which the forecasts have been made.

On the basis of the foregoing, we are satisfied that the forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, have been made after due and careful enquiry by you.

Yours faithfully,
Nuada Limited

APPENDIX II — LETTER FROM HLB HODGSON IMPEY CHENG



Chartered Accountants
Certified Public Accountants

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

16 July 2010

The Board of Directors
China Star Film Group Limited
Unit 3407, 34/F
Shun Tak Centre, West Tower
168-200 Connaught Road, Central
HONG KONG

Dear Sirs

China Star Film Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”)

Comfort letter on forecasts underlying the business valuations in connection with discloseable transactions relating to acquisition of the entire equity interest in Infrared Engineering & Consultants Limited (“iREC”)

We report on the calculations of the discounted future estimated cash flows on which the business valuation (the “Valuation”) dated 16 July 2010 prepared by Asset Appraisal Limited in respect of the Valuation of iREC as at 30 June 2010 in connection with proposed acquisition of the entire equity interest in iREC. The Valuation which is determined based on the discounted cash flows is regarded as a profit forecast under Rule 19.61 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

Respective responsibilities of the directors of the Company and the reporting accountants

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows for the valuation which is regarded as a profit forecast under Rule 19.62 of the GEM Listing Rules.

It is our responsibility to report, as required by Rule 19.62(2) of the GEM Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. The discounted future estimated cash flows do not involve the adoption of accounting policies.

The discounted future estimated cash flows depend on future events and on a number of bases and assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Consequently, we have not reviewed, considered or conducted any work on the appropriateness and validity of the bases and assumptions and express no opinion on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows, and thus the Valuation, are based.

Basis of opinion

We conducted our work in accordance with Hong Kong Standards on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to the procedures under Auditing Guideline 3.341 “Accountants’ report on profit forecasts” issued by Hong Kong Institute of Certified Public Accountants. We examined the arithmetical accuracy of the Valuation. Our work has been undertaken solely to assist the directors of the Company in evaluating whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled and for no other purpose. We accept no responsibility to any other person in respect of, arising out of in connection with our work. Our work does not constitute any valuation of the iREC.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company.

Yours faithfully

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong