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## **CHINA STAR ENTERTAINMENT LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 326)

### **(1) PLACING OF NEW SHARES UNDER GENERAL MANDATE; AND (2) RESUMPTION OF TRADING**

#### **PLACING AGENT**



**KINGSTON SECURITIES LIMITED**

On 4 June 2007, the Company has conditionally agreed to place, through the Placing Agent under the Placing on a fully underwritten basis 165,905,000 Placing Shares to independent investors at a price of HK\$0.400 per Placing Share.

The 165,905,000 Placing Shares under the Placing represent (i) approximately 15.52% of the existing issued share capital of the Company of 1,068,869,108 Shares as at the date of this announcement; (ii) approximately 13.44% of the Company's issued share capital of 1,234,774,108 Shares as enlarged by the Placing.

The net proceeds of approximately HK\$64.6 million from the Placing is intended to be used for general working capital of the Group. The net proceeds raised per Share upon the completion of the Placing will be approximately HK\$0.39 per Placing Share.

The Placing is conditional upon, among other things, the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Placing Shares.

**Completion of the Placing is subject to the satisfaction of the conditions precedent in the Placing Agreement.**

**As the Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 4 June 2007 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on 5 June 2007.

### **THE PLACING AGREEMENT**

**Date**

4 June 2007

**Issuer**

The Company

### **Placing Agent**

The Placing Agent has conditionally agreed to place in aggregate of 165,905,000 Placing Shares on a fully underwritten basis and will receive a placing commission of 2.5% on the gross proceeds of the Placing. The Directors (including the independent non-executive Directors) are of the view that the placing commission is fair and reasonable. The Placing Agent and its ultimate beneficial owners are independent of and not connected persons (as defined in the Listing Rules) of the Company and its connected persons (as defined in the Listing Rules). No individual Placee will become a substantial Shareholder (as defined in the Listing Rules) immediately after the Placing.

### **Placees**

The Placing Agent agreed to place the Placing Shares on a fully underwritten basis, to not fewer than six Placees who and whose ultimate beneficial owners will not be connected persons (as defined in the Listing Rules) of the Company and will be independent of and will not be connected with the Company and its connected persons (as defined in the Listing Rules).

### **Placing Shares**

The 165,905,000 Placing Shares under the Placing represent (i) approximately 15.52% of the existing issued share capital of the Company of 1,068,869,108 Shares as at the date of this announcement; (ii) approximately 13.44% of the Company's issued share capital of 1,234,774,108 Shares as enlarged by the Placing.

### **Ranking of Placing Shares**

The Placing Shares under the Placing will rank, upon issue, *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Placing Shares.

### **Placing Price**

The Placing Price was fixed on the day of which the Company and the Placing Agent entered into the Placing Agreement, i.e. 4 June 2007. The Placing Price of HK\$0.40 represents (i) a discount of 16.67% to the closing price of HK\$0.480 per Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) a discount of approximately 16.84% to the average closing price per Share of HK\$0.481 in the last five consecutive trading days prior to the date of the Placing Agreement. The Placing Price of HK\$0.400 also represents a discount of approximately 10.71% to the average closing price per Share of HK\$0.448 in the last ten consecutive trading days prior to the date of the Placing Agreement.

The Placing Price was determined with reference to the prevailing market price of the Share and was negotiated on an arm's length basis between the Company and the Placing Agent. The Directors (including the independent non-executive Directors) consider that the terms of the Placing are on normal commercial terms and are fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

### **General Mandate**

The Placing Shares under the Placing will be issued under the General Mandate to allot, issue and deal with Shares granted to the Directors by resolution of the Shareholders passed at the SGM subject to the limit up to 20% of the then issued share capital of the Company as at the date of the SGM (i.e. 165,909,321 Shares). Up to the date of this announcement, no new Shares has been issued under the General Mandate.

### **Conditions of the Placing**

Completion of the Placing is conditional upon:

- (i) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Placing Shares; and
- (ii) the obligations of the Placing Agent under the Placing Agreement becoming unconditional and not being terminated in accordance with the terms of the Placing Agreement, including provisions regarding force majeure event.

### **Termination and force majeure**

The Placing Agreement may be terminated by the Placing Agent if at any time at or before 10:00 a.m. on the date for completion of the Placing Agreement, there occurs:

- (i) the introduction of any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; 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 Placing Agreement) of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudices the success of the placing of the Placing Shares by potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Placing; or
- (iii) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities) occurs which affect the success of the Placing (such success being the placing of the Placing Shares to potential investor(s)) or otherwise in the reasonable opinion of the Placing Agent make it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the Placing.

The Directors are not aware of the occurrence of any of such events as at the date of this announcement.

### **Completion of the Placing**

The conditions set out in the Placing Agreement is expected to be fulfilled on or before 25 June 2007 or such later date as may be agreed between the Company and the Placing Agent and the completion of the Placing will take place on or before the fourth business day after the Placing Agreement becomes unconditional.

**As the Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

### **OTHER INFORMATION ON THE PLACING**

#### **Reasons for the Placing**

The Directors consider the timing of the fund raising by the Placing is appropriate as the recent stock market has shown strong sentiment and there is strong demand of the Shares as the investors are interested and confident about the business prospect of the Company. The confidence towards the Company is further substantiated by the recent acquisition, such as the acquisition of Kingsway Hotel Limited. As such the Placing will be attractive to the potential investors. The Directors consider that notwithstanding that the Placing will result in the dilution of the existing shareholding interest of the Shareholders, the Placing represents an opportunity to raise capital for the Company to enhance the general working capital base and the business of the Group.

#### **Use of proceeds**

The gross proceeds from the Placing will be approximately HK\$66.4 million and the net proceeds will be approximately HK\$64.6 million from the Placing is intended to be used for general working capital of the Group. The net proceeds raised per Share upon completion of the Placing will be approximately HK\$0.39 per Placing Share.

## Fund raising activities in the past twelve months

Save as disclosed below, the Company has not conducted any fund raising activities in the past twelve months before the date of this announcement:

| Date of announcement | Event                                                                                                         | Net proceeds (approximately) | Intended use of proceeds                      | Actual use of proceeds                        |
|----------------------|---------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------------------|-----------------------------------------------|
| 7 June 2006          | Placing of 80,000,000 new Shares                                                                              | HK\$29,000,000               | For the acquisition of Kingsway Hotel Limited | For the acquisition of Kingsway Hotel Limited |
| 13 February 2007     | Issue of zero coupon unsecured convertible bonds due 2012 of an aggregate principal amount of HK\$168,500,000 | HK\$159,000,000              | For the acquisition of Kingsway Hotel Limited | For the acquisition of Kingsway Hotel Limited |
| 30 March 2007        | Placing of 124,900,000 new Shares                                                                             | HK\$44,800,000               | For the general working capital               | For the general working capital               |
| 30 March 2007        | Placing of 81,100,000 new Shares                                                                              | HK\$29,200,000               | For the general working capital               | For the general working capital               |

There were no changes to the intended use of proceeds in respect of the Company's fund raising activities in the last twelve months.

### Effects on shareholding structure

As at the date of this announcement, the existing authorized share capital of the Company consists of 20,000,000,000 Shares out of which 1,068,869,108 Shares are issued and fully paid up. As at the date of this announcement, there is an (i) outstanding convertible loan note with principal amount of HK\$20 million at a conversion price of HK\$5.83 per Share; (ii) outstanding options attaching rights to subscribe for 189,077,625 Shares granted under the share option schemes of the Company; and (iii) outstanding zero coupon unsecured convertible bonds due on 2012 of an aggregate principal face amount of HK\$137,000,000 at an initial conversion price of HK\$0.32 per conversion Share.

|                                          | As at the date of this announcement |                      | Upon completion of the Placing |                      |
|------------------------------------------|-------------------------------------|----------------------|--------------------------------|----------------------|
|                                          | Shares                              | %                    | Shares                         | %                    |
| Porterstone Limited ( <i>Note 1</i> )    | 131,905,000                         | 12.34                | 131,905,000                    | 10.68                |
| Dorest Company Limited ( <i>Note 2</i> ) | 18,510,000                          | 1.73                 | 18,510,000                     | 1.50                 |
| Heung Wak Keung ( <i>Note 3</i> )        | 36,395,000                          | 3.41                 | 36,395,000                     | 2.95                 |
| Chen Ming Yin, Tiffany ( <i>Note 4</i> ) | 21,144,410                          | 1.98                 | 21,144,410                     | 1.71                 |
| Li Yuk Sheung ( <i>Note 5</i> )          | 16                                  | 0.00                 | 16                             | 0.00                 |
| Subtotal                                 | <u>207,954,426</u>                  | <u>19.46</u>         | <u>207,954,426</u>             | <u>16.84</u>         |
| Public:                                  |                                     |                      |                                |                      |
| Placees ( <i>Note 6</i> )                | 0                                   | 0.00                 | 165,905,000                    | 13.44                |
| Other public Shareholders                | <u>860,914,682</u>                  | <u>80.54</u>         | <u>860,914,682</u>             | <u>69.72</u>         |
| Subtotal                                 | <u>860,914,682</u>                  | <u>80.54</u>         | <u>1,026,819,682</u>           | <u>83.16</u>         |
| Total                                    | <u><u>1,068,869,108</u></u>         | <u><u>100.00</u></u> | <u><u>1,234,774,108</u></u>    | <u><u>100.00</u></u> |

Note:

- (1) Porterstone Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by Ms. Chen. Accordingly, Mr. Heung, the husband of Ms. Chen is deemed to be interested in the Shares held by Porterstone Limited.
- (2) Dorest Company Limited, a company incorporated in Hong Kong with limited liability which is beneficially owned as to 60% by Ms. Chen through Porterstone Limited and as to 40% by Mr. Heung.
- (3) Mr. Heung Wah Keung is an executive Director.
- (4) Ms. Chen Ming Yin, Tiffany is an executive Director.

- (5) Ms. Li Yuk Sheung is an executive Director.
- (6) Such Shares will be allotted and issued upon completion of the Placing. No individual Placee will become a substantial Shareholder (as defined in the Listing Rules) immediately after the Placing.

The General Mandate was approved and granted by the Shareholders on 18 May 2007 on the basis that the total issued Shares as at the date of the SGM was 829,546,608 Shares. Accordingly, 165,909,321 new Shares can be further issued and allotted under the General Mandate.

## **GENERAL**

The Company is an investment holding company. The Group is principally engaged in film production, distribution of film and television drama series, the provision of post-production services, and property and hotel investment.

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Placing Shares.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 4 June 2007 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on 5 June 2007.

## **Terms and definitions**

|                     |                                                                                                                                                                                                                                                                           |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Board”             | the board of Directors                                                                                                                                                                                                                                                    |
| “Company”           | China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange                                                                                                                       |
| “Director(s)”       | director(s) of the Company                                                                                                                                                                                                                                                |
| “General Mandate”   | the general mandate granted to the Directors by the independent Shareholders at the SGM, among other things, to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of the SGM                                            |
| “Group”             | the Company and its subsidiaries                                                                                                                                                                                                                                          |
| “Hong Kong”         | Hong Kong Special Administrative Region of the People’s Republic of China                                                                                                                                                                                                 |
| “Last Trading Date” | 1 June 2007, being the last trading day for the Shares before the date of this announcement                                                                                                                                                                               |
| “Listing Rules”     | the Rules Governing the Listing of Securities on the Stock Exchange                                                                                                                                                                                                       |
| “Placee(s)”         | any individual(s), institutional or other professional investor(s) or any of their respective subsidiaries or associates procured by the Placing Agent to subscribe for any of the Placing Shares pursuant to the Placing Agent’s obligations under the Placing Agreement |
| “Placing”           | placing of 165,905,000 new Shares pursuant to the terms of the Placing Agreement                                                                                                                                                                                          |
| “Placing Agent”     | Kingston Securities Limited, a licensed corporation to carry on business in type 1 regulated activities (dealing in securities) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)                                                         |
| “Placing Agreement” | the conditional placing agreement entered into between the Company and the Placing Agent dated 4 June 2007 in relation to the Placing                                                                                                                                     |
| “Placing Price”     | HK\$0.400 per Placing Share                                                                                                                                                                                                                                               |
| “Placing Share(s)”  | an aggregate of 165,905,000 new Shares to be placed under the Placing                                                                                                                                                                                                     |
| “SGM”               | the special general meeting of the Company held on 18 May 2007                                                                                                                                                                                                            |
| “Share(s)”          | ordinary share(s) of HK\$0.05 each in the share capital of the Company                                                                                                                                                                                                    |

|                  |                                                     |
|------------------|-----------------------------------------------------|
| “Shareholder(s)” | holder(s) of the Share(s)                           |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited             |
| “HK\$”           | Hong Kong dollars, the lawful currency of Hong Kong |
| “%”              | per cent.                                           |

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

Hong Kong, 4 June 2007

*As at the date of this announcement, the Board comprises Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung who are the executive Directors; Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man who are independent non-executive Directors.*