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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(1) UPDATE ON VERY SUBSTANTIAL DISPOSAL OF PROPERTY LEASEHOLD RIGHTS AND (2) CHANGE IN USE OF PROCEEDS

UPDATE ON VERY SUBSTANTIAL DISPOSAL OF PROPERTY LEASEHOLD RIGHTS

Reference is made to the LOI Announcement, pursuant to which it was announced that the Vendor (a wholly-owned subsidiary of the Company), the Purchaser and the Company entered into the Letter of Intent for the proposed disposal of the entire issued share capital of the Target Company and the Sale Loans, which constituted a very substantial disposal transaction for the Company under the Listing Rules.

The Board announces that after trading hours on 12 December 2014, the Disposal Agreement relating to the Disposal was entered into and consequently the Letter of Intent was superseded by the Disposal Agreement.

A circular containing, among others, (i) information on the Disposal and (ii) other information as required under the Listing Rules, together with the notice of the SGM, shall be despatched to the Shareholders.

Pursuant to Rule 14.41 of the Listing Rules, the Company is required to despatch to the Shareholders a circular in relation to the Disposal within 15 business days (as defined under the Listing Rules) after the publication of the LOI Announcement. The Company is unable to despatch the circular within such period due to the finalisation and the signing of the Disposal Agreement. Also further time is required for preparing the relevant financial and other information to be included in the circular under the Listing Rules. The Company shall make a further announcement of the expected despatch of the circular in due course.

CHANGE IN USE OF PROCEEDS

The Board announces the use of proceeds from the Share Subscription would be changed from “investment in gaming/gaming-related business in Macau” to “film production and general working capital of the Company”.

(1) UPDATE ON VERY SUBSTANTIAL DISPOSAL OF PROPERTY LEASEHOLD RIGHTS

Reference is made to the announcement (“**LOI Announcement**”) of China Star Entertainment Limited (the “**Company**”) dated 21 November 2014, pursuant to which it was announced that the Vendor (a wholly-owned subsidiary of the Company), the Purchaser and the Company entered into the Letter of Intent for the proposed disposal of the entire issued share capital of the Target Company and the Sale Loans, which constituted a very substantial disposal transaction for the Company under the Listing Rule. Unless otherwise defined, terms used in this announcement shall have the same meanings as those defined in the LOI Announcement.

THE DISPOSAL AGREEMENT

The Board announces that after trading hours on 12 December 2014, the formal agreement (“**Disposal Agreement**”) relating to the disposal (the “**Disposal**”) of the entire issued share capital of the Target Company and the Sale Loans was entered into and consequently the Letter of Intent was superseded by the Disposal Agreement. Save for the terms and conditions set out below, certain representation and warranties to be given by the Vendor and the Company (as guarantor of the Vendor) and certain general clauses, the major terms of the Disposal Agreement are principally the same as the Letter of Intent:

Date

12 December 2014 (after trading hours)

Parties

- | | |
|----------------------------------|---|
| (1) Vendor: | China Star Entertainment (BVI) Limited, a direct wholly-owned subsidiary of the Company |
| (2) Purchaser: | Bestmix Holdings Limited |
| (3) Guarantor of the Vendor: | The Company |
| (4) Guarantors of the Purchaser: | CSI Properties Limited (“ CSI ”) and the Joint Beneficial Owner |

Conditions Precedent

Completion of the Disposal Agreement (“**Formal Completion**”) is conditional upon:

- (a) the Shareholders having approved the Disposal Agreement and the consummation of the transactions contemplated in the Disposal Agreement as required by the Listing Rules (if required);
- (b) there having been no material breach of any material term of the Disposal Agreement as at the date on which Formal Completion would otherwise have taken place but for this paragraph;

- (c) the warranties contained in the Disposal Agreement remaining true, accurate and not misleading in all respects as at the date on which Formal Completion would otherwise have taken place but for this paragraph;
- (d) the supplemental agreement (“**Supplemental Property Leasehold Right Agreement**”) relating to the Property Leasehold Rights (in the final form to be agreed by the Purchaser) having been duly executed by, among others, STD M, the Target Company and the Company on or before 27 January 2015 (or such other date as the Purchaser and the Vendor agree in writing); and
- (e) the power of attorney substantially in the form set out in the Supplemental Property Leasehold Right Agreement (or in such other form approved by the Purchaser in writing) having been executed by STD M.

If any of the above conditions (“**Conditions**”, which has not previously been waived by the Purchaser) has not been duly fulfilled to the satisfaction of the Purchaser on or before 30 August 2015 (the “**Long Stop Date**”) then the Purchaser may on that date, at its option (but without prejudice to any other right or remedy it may have), by notice to the Vendor:

- (i) waive the Conditions (other than the Condition set out in paragraph (a) above) which have not been satisfied;
- (ii) postpone the Long Stop Date to a date (being a business day) falling not more than 20 business days after the Long Stop Date; or
- (iii) terminate the Disposal Agreement, in which event all initial and further deposits, part payment(s) of the consideration and the balance of the Consideration to the extent paid by the Purchaser shall be forthwith returned to the Purchaser (without interest).

Consideration

Save that the definition of the following terms as set out in the LOI Announcement shall be amended as follows, the Consideration (comprising the Initial Consideration and the Bonus Consideration) are the same as the Letter of Intent:

“Accruals” means any accruals for unpaid administrative and operating charges and expenses (including provisions for tax in the Disposal Agreement) of the Target Group as at the Formal Completion, to be determined with reference to, as the case may be, the Pro Forma Completion Accounts (as defined below) or the Completion Accounts (as defined below);

“Completion Accounts”	means the consolidated statement of financial position of the Target Group (supported by the statement of financial position of each member company of the Target Group (“ Target Group Company ”)) as at the close of business on the date on which Formal Completion shall take place (“ Completion Date ”) and the consolidated statement of comprehensive income of the Target Group (supported by the statement of comprehensive income of each Target Group Company) for the period from 31 December 2013 (the “ Accounts Date ”) to the Completion Date, prepared in accordance with the Disposal Agreement;
“Other Liabilities”	means any actual or contingent liabilities of each Target Group Company as at Formal Completion, other than: <ul style="list-style-type: none"> (a) Accruals; (b) the Sale Loans; (c) any obligations under the Property Leasehold Rights after Formal Completion (save and except those which are otherwise agreed between the Vendor and the Purchaser in writing); and (d) any inter-company liabilities owing amongst the Target Group Companies, to be determined with reference to the Pro Forma Completion Accounts or the Completion Accounts (as the case may be);
“Proposed Disposal”	means the Disposal in accordance with the terms and conditions of the Disposal Agreement; and
“Pro Forma Completion Accounts”	means the consolidated pro forma statement of financial position of the Target Group (supported by the Operating Subsidiaries Accounts) as at the close of business on the Completion Date and prepared in accordance with Hong Kong generally accepted accounting principles and presented in the form required in the Disposal Agreement.

Due Diligence Review

There is no provision allowing the Purchaser to conduct any due diligence review on the Target Company. The Due Diligence Review as set out in the Letter of Intent has been completed on 12 December 2014.

Formal Completion

Formal Completion shall take place in Hong Kong or Macau (or at such other place as the Vendor and the Purchaser may agree in writing) on 15 April 2015 or 28 business days following the satisfaction of the Condition referred to in paragraph (a) of the paragraph headed “Conditions Precedent” above, whichever is the later, or such other date as the Vendor and the Purchaser may agree in writing.

Obligations of the Guarantors of the Purchaser

On Formal Completion, each of CSI and the Joint Beneficial Owner shall deliver to the Vendor, among other things, the duly executed guarantee in respect of the payment by the Purchaser of 51% and 49% of the Bonus Consideration, respectively. In the event that the Purchaser elects that any part of the balance of the initial Consideration (subject to deduction of Accruals and Other Liabilities) is to be payable in the form of P Note, a counterpart of the duly executed promissory note for the 51% and 49% of the Total P Note Sum shall be delivered from CSI and the Joint Beneficial Owner to the Vendor respectively.

Assignment of Successful Claim Amount

In the event that the Purchaser make a claim against the Vendor under the Disposal Agreement and the relevant documents (specifying in reasonable detail and, to the extent possible, the event or default to which the claim relates and the nature of the breach and amount claimed), CSI and/or the Joint Beneficial Owner shall be entitled to withhold and defer the payment of an aggregate amount equivalent to the amount claimed from any outstanding Total P Note Sum payable under the P Note in accordance with the terms contained therein, pending the final determination, resolution, settlement or satisfaction of the relevant claim.

Authorisation and Sub-Delegation

The Vendor shall procure that CSCD executes such authorisation or sub-delegation in favour of such third party professional consultant(s) nominated by the Purchaser so that such third party may represent CSCD in any “subject to contract” negotiation with the Macau Government (and/or the relevant government authority), submit applications, request information regarding any of the Properties, submit previous studies, request registration plants and alignments, and apply for foundation permits of construction with the Macau Government (and/or the relevant government authority) as the Purchaser may reasonably direct on matters relating to the Property Leasehold Rights.

GENERAL

A circular containing, among others, (i) information on the Disposal and (ii) other information as required under the Listing Rules, together with the notice of the SGM, shall be despatched to the Shareholders.

Pursuant to Rule 14.41 of the Listing Rules, the Company is required to despatch to the Shareholders a circular in relation to the Disposal within 15 business days (as defined under the Listing Rules) after the publication of the LOI Announcement. The Company is unable to despatch the circular within such period due to the finalisation and the signing of the Disposal Agreement. Also further time is required for preparing the relevant financial and other information to be included in the circular under the Listing Rules. The Company shall make a further announcement of the expected despatch of the circular in due course.

(2) CHANGE IN USE OF PROCEEDS

Reference is also made to the Company’s announcement dated 8 July 2014 and the Company’s circular dated 12 September 2014 (the “**Circular**”) in relation to the subscription (“**Share Subscription**”) of 1,500,000,000 shares of the Company (“**Subscription Shares**”) at the subscription price of HK\$0.09 per Subscription Share pursuant to the share subscription agreement entered into between the Company and Long Joy Investments Limited.

As disclosed in the Circular, all the net proceeds (after deducting all relevant costs and expenses) (the “**Net Proceeds**”) of the Share Subscription of approximately HK\$134.30 million will be used for investment in gaming/gaming-related business in Macau to be identified by the Board in future. However, no suitable investment has been identified by the Board up to the date of this announcement. In order to increase the Group’s flexibility in its financial and treasury management and to cope with the continuing development of the other businesses of the Group, the Board has resolved to allocate the Net Proceeds for other immediate business operation requirements, in particular, the production of new films and general working capital of the Group.

In light of the foregoing, the Board hereby announces the use of proceeds from the Share Subscription would be changed from “investment in gaming/gaming-related business in Macau” to “film production and general working capital of the Company”.

The Board is of the view that the change in use of the Net Proceeds is the best use of the money and therefore is in the interests of the Company and the Shareholders as a whole.

By Order of the Board
China Star Entertainment Limited
Heung Wah Keung **Mung Kin Keung**
Co-Chairman *Co-Chairman*

Hong Kong, 12 December 2014

As at the date of this announcement, the executive Directors are Mr. Heung Wah Keung, Mr. Mung Kin Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung and the independent non-executive Directors are Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert.