

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 this announcement.



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

PROPOSED CAPITAL REORGANISATION

PROPOSED CAPITAL REORGANISATION

The Directors propose to reorganise the share capital of the Company in the following manner:

- (a) Share Consolidation: that every ten (10) issued and unissued Existing Shares of HK\$0.01 each be consolidated into one (1) Consolidated Share of HK\$0.10 each;
- (b) Capital Reduction: that (i) the issued share capital of the Company be reduced by the cancellation of the paid-up capital of the Company to the extent of HK\$0.09 on each of the then issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.10 to HK\$0.01; (ii) the authorised share capital of the Company be reduced by reducing the nominal value of all Consolidated Shares from HK\$0.10 each to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$500,000,000 divided into 5,000,000,000 Consolidated Shares to HK\$50,000,000 divided into 5,000,000,000 New Shares of HK\$0.01 each; and (iii) the credit arising from the reduction of the issued share capital of the Company be transferred to the contributed surplus account of the Company; and
- (c) Capital Increase: that the authorised share capital of the Company be increased from HK\$50,000,000 divided into 5,000,000,000 New Shares of HK\$0.01 each to HK\$500,000,000 divided into 50,000,000,000 New Shares of HK\$0.01 each.

The New Shares will continue to be traded in the board lots of 5,000 New Shares each on the business day immediately following the date of completion of the Capital Reorganisation.

Shareholders should be aware of and take note that the Capital Reorganisation is conditional upon satisfaction of the conditions precedent set out in the paragraph headed “Conditions of the Capital Reorganisation” below, and therefore may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. A circular containing, amongst other things, further information on the Capital Reorganisation and a notice to convene the SGM will be despatched to the Shareholders as soon as practicable.

PROPOSED CAPITAL REORGANISATION

The Directors propose to reorganise the share capital of the Company in the following manner:

(a) Share Consolidation

That every ten (10) issued and unissued Existing Shares of HK\$0.01 each be consolidated into one (1) Consolidated Share of HK\$0.10 each;

(b) Capital Reduction

That (i) the issued share capital of the Company be reduced by the cancellation of the paid-up capital of the Company to the extent of HK\$0.09 on each of the then issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.10 to HK\$0.01; (ii) the authorised share capital of the Company be reduced by reducing the nominal value of all Consolidated Shares from HK\$0.10 each to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$500,000,000 divided into 5,000,000,000 Consolidated Shares to HK\$50,000,000 divided into 5,000,000,000 New Shares of HK\$0.01 each; and (iii) the credit arising from the reduction of the issued share capital of the Company be transferred to the contributed surplus account of the Company; and

(c) Capital Increase

That the authorised share capital of the Company be increased from HK\$50,000,000 divided into 5,000,000,000 New Shares of HK\$0.01 each to HK\$500,000,000 divided into 50,000,000,000 New Shares of HK\$0.01 each.

As at the date of this announcement, the authorised share capital of the Company is HK\$500,000,000 divided into 50,000,000,000 Existing Shares of HK\$0.01 each, of which 4,911,788,757 Existing Shares have been in issue and are fully paid or credited as fully paid. Assuming there will be no change in the issued share capital of the Company from the date of this announcement up to the date on which the Capital Reorganisation becoming effective, the authorised share capital of the Company will become HK\$500,000,000 divided into 50,000,000,000 New Shares and the issued share capital of the Company will become HK\$4,911,788.75 divided into 491,178,875 New Shares.

The unissued share capital of the Company before and after the Capital Reorganisation will remain as Shares of HK\$0.01 each.

Based on 4,911,788,757 Shares in issue as at the date of this announcement, an entire amount of HK\$44,206,098.813 will arise as a result of the Capital Reduction. It is proposed that the total credit arising in the accounts of the Company from the Capital Reduction will be transferred to the contributed surplus account of the Company. The Board currently has no plan as to the use of such amount. The New Shares will rank pari passu in all respects with each other.

As at the date of this announcement, save for the Share Options entitling the holders thereof to subscribe for 263,304,058 Existing Shares and the outstanding Warrants in the principal amount of HK\$111,525,643.67 entitling the holders thereof to subscribe for new Existing Shares at an adjusted subscription price of HK\$0.182 per Existing Share (subject to further adjustment), the Company has no other outstanding warrants, options or convertible securities.

Effects of the Capital Reorganisation

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company before and immediately after the Capital Reorganisation assuming no further new Existing Shares are issued prior to the Capital Reorganisation becoming effective:

	Before the Capital Reorganisation	Immediately after the Capital Reorganisation
Nominal value per Share	HK\$0.01 per Existing Share	HK\$0.01 per New Share
Number of authorised Shares	50,000,000,000 Existing Shares	50,000,000,000 New Shares
Authorised share capital	HK\$500,000,000	HK\$500,000,000
Number of Shares in issued	4,911,788,757 Existing Shares	491,178,875 New Shares
Issued and fully paid up capital	HK\$49,117,887.57	HK\$4,911,788.75

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (a) the passing of the necessary special resolution by the Shareholders at the SGM to approve the Capital Reorganisation involving the Share Consolidation, the Capital Reduction and the Capital Increase;
- (b) compliance with the relevant procedures and requirements under the Listing Rules and Bermuda law to effect the Capital Reorganisation; and
- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares to be issued forthwith upon the Capital Reorganisation becoming effective and any New Shares which may fall to be issued upon exercise of the Share Options and may be issued upon subscription of the Warrants.

The Capital Reorganisation will become effective on the business day immediately following fulfilment of the above conditions.

The New Shares will continue to be traded in the board lots of 5,000 New Shares each on the business day immediately following the date of completion of the Capital Reorganisation

Reasons for and the effect of the Capital Reorganisation and impact on the Company and the Shareholders

Taking into account the Capital Reorganisation will increase the trading price per board lot, and hence reduce the overall transaction and handling costs for dealing in the New Shares and the credit arising from the Capital Reduction may be applied in the future for distribution to the Shareholders or in any manner permitted by the laws of Bermuda and the Bye-laws of the Company as and when the Board considers appropriate, the Directors are of the view that the Capital Reorganisation is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The New Shares will rank *pari passu* in all respects with the Existing Shares in issue prior to the Capital Reorganisation becoming effective and each other and there will be no change in the respective rights of the Shareholders. Any fractional entitlements to the New Shares will be aggregated, sold and retained for the benefit of the Company.

Other than the expenses to be incurred in relation to the Capital Reorganisation, the implementation thereof will not alter the underlying assets, liabilities, business operations, management or financial position of the Company or the interests or rights of the Shareholders.

Application for listing of the New Shares

Application will be made by the Company to the Listing Committee of the Stock Exchange for granting the listing of, and permission to deal in, the New Shares to be issued forthwith upon the Capital Reorganisation becoming effective and any New Shares which may fall to be issued upon exercise of the Share Options and may be issued upon subscription of the Warrants.

All necessary arrangements will be made for the New Shares to be admitted into the Central Clearing and Settlement System established and operated by HKSCC.

CCASS Eligibility

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS in 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.

Free exchange of new share certificates for the New Share and trading arrangements

Subject always to the passing of the resolution approving the Capital Reorganisation, Shareholders may, during business hours for a period as stated in the expected timetable hereunder submit their share certificates for Existing Shares (in red colour) held by them to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong in exchange for new share certificates for New Shares at the expense of the Company. Thereafter, share certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) for each new share certificate issued for the New Shares or each share certificate for Existing Shares submitted for cancellation, whichever the number of certificates issued or cancelled is higher. Nevertheless, share certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for new share certificates for New Shares at any time but are not acceptable for trading, settlement and registration purpose upon completion of the Capital Reorganisation. Details of the colour of the new share certificates will be published in the circular to be despatched to the Shareholders.

The expected timetable for implementation of the Capital Reorganisation and the associated trading arrangement are set out below:

2011

Despatch of the circular and proxy form of the SGM	on or before Monday, 7 March
Latest time for lodging the form of proxy	4:30 p.m. on Wednesday, 13 April
SGM	4:30 p.m. on Friday, 15 April
Announcement of the results of the Capital Reorganisation.	Friday, 15 April
Effective date of the Capital Reorganisation	Monday, 18 April
Dealing in New Shares commences.	9:00 a.m. on Monday, 18 April
Original counter for trading in Existing Shares in board lot size of 5,000 Existing Shares temporarily closes	9:00 a.m. on Monday, 18 April
Temporary counter for trading in New Shares in board lot size of 500 New Shares in the form of existing share certificates opens	9:00 a.m. on Monday, 18 April

First day for free exchange of share certificates of Existing Shares for new share certificates for New Shares Monday, 18 April

Original counter for trading in New Shares in board lot size of 5,000 New Shares in the form of new share certificates for New Shares re-opens 9:00 a.m. on Thursday, 5 May

Parallel trading in New Shares in the form of new share certificates and existing share certificates commences. 9:00 a.m. on Thursday, 5 May

Designated broker starts to stand in the market to purchase and sell odd lots of New Shares Thursday, 5 May

Parallel trading in New Shares in the form of new share certificates and existing share certificates ends 4:00 p.m. on Thursday, 26 May

Temporary counter for trading in New Shares in board lot size of 500 New Shares in the form of existing share certificates closes 4:00 p.m. on Thursday, 26 May

Designated broker ceases to stand in the market to purchase and sell odd lots of New Shares 4:00 p.m. on Thursday, 26 May

Last day for free exchange of share certificates of Existing Shares for new share certificates for New Shares Monday, 30 May

Arrangement for matching service for odd lots

In order to alleviate the difficulties arising from the existence of odd lots of the New Shares, the Company has agreed to procure a designated broker to arrange for the matching of the sales and purchases of odd lots of the New Shares. Details of the odd lot arrangements will be provided in the circular to be despatched to the Shareholders.

Adjustments in relation to the exercise price of the Share Options and the subscription price of the Warrants

As at the date of this announcement, there are outstanding Share Options entitling the holders thereof to subscribe for 263,304,058 Existing Shares and the outstanding Warrants in the principal amount of HK\$111,525,643.67 entitling the holders thereof to subscribe for new Existing Shares at an adjusted subscription price of HK\$0.182 per Existing Share (subject to further adjustment). The Capital Reorganisation will cause

adjustments to the exercise prices and/or the number of the Share Options and the subscription price of the Warrants. The Company will instruct its auditors or an approved financial adviser to review and certify the basis of such adjustments to the Share Options in compliance with Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and in accordance with the rules of the share option scheme of the Company, and the Warrants in accordance with the terms and conditions of the warrant instrument respectively. The Company will inform the holders of the Share Options and the Warrants of the adjustments accordingly.

WARNING

Shareholders should be aware of and take note that the Capital Reorganisation is conditional upon satisfaction of the conditions precedent set out in the paragraph headed “Conditions of the Capital Reorganisation” above, and therefore may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

GENERAL

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

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation. A circular containing, amongst other things, the Capital Reorganisation and a notice to convene the SGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, the following words and expressions shall, unless the context otherwise requires, have the same meanings when used herein:

“Board”	the board of Directors
“Capital Increase”	the proposed increase of authorised share capital from HK\$50,000,000 divided into 5,000,000,000 New Shares of HK\$0.01 each to HK\$500,000,000 divided into 50,000,000,000 New Shares of HK\$0.01 each

“Capital Reduction”	the proposed (i) the issued share capital of the Company be reduced by the cancellation of the paid-up capital of the Company to the extent of HK\$0.09 on each of the then issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.10 to HK\$0.01; and (ii) the reduction of the authorised share capital of the Company by reducing the nominal value of all Consolidated Shares from HK\$0.10 each to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$500,000,000 divided into 5,000,000,000 Consolidated Shares to HK\$50,000,000 divided into 5,000,000,000 New Shares of HK\$0.01 each; and (iii) the credit arising from reduction of the issued share capital of the Company be transferred to the contributed surplus account of the Company
“Capital Reorganisation”	the proposed capital reorganisation of the Company involving the Share Consolidation, the Capital Reduction and the Capital Increase
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	China Star Entertainment Limited, an exempted company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Consolidated Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company immediately after the Share Consolidation becoming effective but before the Capital Reduction and the Capital Increase
“Directors”	the directors of the Company
“Existing Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company before the implementation of the Capital Reorganisation
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“New Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“SGM”	the special general meeting of the Company to be convened and held to consider and, if thought fit, approve the Capital Reorganisation
“Share Consolidation”	the proposed consolidation of every ten (10) issued and unissued Existing Shares of HK\$0.01 each into one (1) Consolidated Share of HK\$0.10 each
“Share Options”	the share options granted under the share option scheme adopted by the Company
“Share(s)”	Existing Share(s), Consolidated Share(s), and/or New Share(s), as the case may be
“Shareholders”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Warrants ”	the outstanding warrants in an aggregate principal amount of HK\$111,525,643.67 entitling the holders thereof to subscribe for Shares at an adjusted subscription price of HK\$0.182 per Existing Share (subject to further adjustment) pursuant to the warrant instrument issued by the Company on 15 June 2010
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China

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

Hong Kong, 9 February 2011

As at the date of this announcement, the executive Directors are Mr. Heung Wah 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. Leung Hok Man.