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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** about any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold or transferred** all your shares in the Company, you should at once hand this circular, together with the accompanying form of proxy, 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.

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**CHINA STAR ENTERTAINMENT LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

**(1) ISSUE OF CONVERTIBLE BOND;  
(2) REFRESHMENT OF SCHEME MANDATE LIMIT  
AND  
(3) NOTICE OF SPECIAL GENERAL MEETING**

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

A notice convening the SGM to be held at Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong at 12:00 noon on Thursday, 3 September 2009 is set out on pages 21 to 23 of this circular. If you are unable to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Registrar at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

17 August 2009

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## DEFINITIONS

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

“Announcement”	the announcement jointly issued by the Company and CSI dated 27 July 2009 relating to the CB Subscription;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors;
“CB Subscription”	the proposed subscription of the Convertible Bond by CSI pursuant to the CB Subscription Agreement;
“CB Subscription Agreement”	the conditional subscription agreement dated 23 July 2009 entered into between the Company and CSI in respect of the CB Subscription;
“Classical Statue”	Classical Statue Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial CSI Shareholder, which is wholly owned by Glenstone Investment Limited which in turn is owned as to 60% by Porterstone and 40% by Mr. Heung;
“Code”	the Hong Kong Code on Takeovers and Mergers;
“Company”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange;
“Completion”	completion of the CB Subscription in accordance with the CB Subscription Agreement;
“connected person(s)”	has the meaning given to that term in the Listing Rules;
“Conversion Price”	the initial conversion price of HK\$0.20 per Conversion Share (subject to adjustment) pursuant to the terms of the Convertible Bond;

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## DEFINITIONS

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“Conversion Shares”	the new Shares which would fall to be allotted and issued upon exercise of the conversion rights attached to the Convertible Bond;
“Convertible Bond”	the convertible bond in the principal amount of HK\$200 million conferring rights to convert into the Conversion Shares at the Conversion Price to be issued by the Company to CSI;
“CSI”	China Star Investment Holdings Limited, a company incorporated in Bermuda with limited liability, the issued CSI Shares are listed on the main board of the Stock Exchange;
“CSI Director(s)”	director(s) of CSI;
“CSI SGM”	the special general meeting of CSI to be convened to consider, if thought fit, and approve the transactions contemplated under CB Subscription Agreement (including the CB Subscription and the conversion of the Convertible Bond);
“CSI Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of CSI;
“CSI Shareholder(s)”	the holder(s) of the issued CSI Share(s);
“Directors”	directors of the Company;
“Dorest”	Dorest Company Limited, a company incorporated in Hong Kong with limited liability which is beneficially owned as to 60% by Ms. Chen through Porterstone and as to 40% by Mr. Heung;
“Eligible Person(s)”	as defined under the New Share Option Scheme and as set out in the circular of the Company dated 30 April 2002;
“Group”	the Company and its subsidiaries;

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## DEFINITIONS

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“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China;
“Last Trading Day”	23 July 2009, being the last trading day for the issued Shares before the publication of the Announcement;
“Latest Practicable Date”	14 August 2009, being the latest practicable date prior to the printing of this circular for inclusion of certain information in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan Advance”	the loan advance in the outstanding principal amount of HK\$200 million drawn by the Company under the Loan Facility as at the date of the CB Subscription Agreement;
“Loan Facility”	the unsecured loan facility of up to HK\$200 million granted by CSI to the Company, details of which were set out in the Previous Announcement;
“Long Stop Date”	31 December 2009 (or such other date as may be agreed by the Company and CSI in writing);
“Mr. Heung”	Mr. Heung Wah Keung, an executive Director and an executive CSI Director;
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, an executive Director and an executive CSI Director;
“Old Share(s)”	the ordinary shares of HK\$0.05 each in the share capital of the Company prior to the capital reorganisation of the Company which became effective on 4 May 2009;
“New Share Option Scheme”	the share option scheme adopted by the Company on 27 May 2002
“Old Share Option Scheme”	the share option scheme adopted by the Company on 23 October 1996 and terminated on 27 May 2002

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## DEFINITIONS

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“Options”	the share options to subscribe for Shares granted under the New Share Option Scheme;
“Porterstone”	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;
“Previous Announcement”	the announcement dated 12 March 2009 issued by CSI in respect of the Loan Facility;
“Prime Rate”	the rate of interest per annum as announced or applied by The Hongkong and Shanghai Banking Corporation Limited (or such other bank as CSI may from time to time select in its absolute discretion) from time to time as its prime interest rate in Hong Kong for lending Hong Kong dollars to its prime customers;
“Registrar”	Computershare Hong Kong Investor Services Limited, Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, the branch share registrar of the Company in Hong Kong;
“Scheme Mandate Limit”	the total number of Old Shares/Shares (being up to 10% of Old Shares/Shares in issue at the date of the relevant general meeting) which may be issued upon exercise of all options to be granted under the New Share Option Scheme as at the date of adoption of the New Share Option Scheme or as refreshed
“SGM”	the special general meeting of the Company to be convened and held at 12:00 noon on Thursday, 3 September 2009 at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong to consider, if thought fit, and approve the CB Subscription Agreement and the transactions contemplated thereunder including the issue of the Convertible Bond and the allotment and issue of the Conversion Shares upon exercise of the Conversion rights attaching to the Convertibles Bond;

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## DEFINITIONS

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“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;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong; and
“%”	per cent.

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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

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Independent non-executive Directors:*

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

*Principal place of business  
in Hong Kong*

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

17 August 2009

*To the Shareholders and, for information only  
the holders of options and the holders of convertible notes of the Company*

Dear Sir or Madam,

**(1) ISSUE OF CONVERTIBLE BOND;  
(2) REFRESHMENT OF SCHEME MANDATE LIMIT  
AND  
(3) NOTICE OF SPECIAL GENERAL MEETING**

#### INTRODUCTION

Reference is made to the Previous Announcement dated 12 March 2009 issued by CSI in respect of the Loan Facility of up to HK\$200 million. The maximum amount of the Loan Facility of HK\$200 million was drawn by the Company on 29 April 2009.



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## LETTER FROM THE BOARD

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As stated in the Announcement, on 23 July 2009 (after trading hours), the Company and CSI entered into the CB Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and CSI has conditionally agreed to subscribe or procure subscription for the Convertible Bond in the principal amount of HK\$200 million, the subscription price of which shall be satisfied by setting off against the Loan Advance.

The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM.

The Board also proposes to seek Shareholders' approval for the refreshment of the Scheme Mandate Limit at the SGM.

The purpose of this circular is to give you further information on the CB Subscription and the proposed refreshment of Scheme Mandate Limit, together with notice convening the SGM.

### THE CB SUBSCRIPTION

On 23 July 2009 (after trading hours), the Company and CSI entered into the CB Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and CSI has conditionally agreed to subscribe or procure subscription for the Convertible Bond in the principal amount of HK\$200 million, the subscription price of which shall be satisfied by setting off against the Loan Advance.

The principal terms of the Convertible Bond are summarised as follows:

Issuer:	the Company
Principal amount:	HK\$200 million
Maturity:	the third anniversary from the date of issue of the Convertible Bond

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## LETTER FROM THE BOARD

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**Interest:** The Convertible Bond carries an interest to be accrued at the Prime Rate on the actual number of days elapsed and on the basis of a 365-day year. A default interest rate of three (3) % per annum above the Prime Rate is payable on any overdue amount, whether principal or interest.

Interest on the Convertible Bond shall be payable on the last day of each interest period, which is of six (6) months intervals commencing from the date of issue of the Convertible Bond.

The above terms regarding the interest and default interest are identical to those under the Loan Advance. The interest rate and default interest rate were determined after arms' length negotiation between CSI and the Company based on the fact that given the coupon rate for three (3)-year US Treasuries is currently at 1.50% and the Prime Rate is currently at 5.00%, there is a risk premium of 3.50% for the Loan Advance and the Convertible Bond.

**Redemption:** The Company may at any time upon the date of issue and before the maturity date of the Convertible Bond, by serving at least seven days' prior written notice to the bondholder(s) with the total amount proposed to be redeemed from the bondholder(s) specified in the Convertible Bond, redeem the Convertible Bond at par.

Any amount of the Convertible Bond which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.

**Conversion Price:** HK\$0.20 per Conversion Share (subject to adjustment). The adjustments are subject to review by the Company's auditors or an approved merchant bank. The adjustments for the Conversion Price include the followings:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;

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## LETTER FROM THE BOARD

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- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution being made by the Company, whether on a reduction or otherwise, to Shareholders (in their capacity as such);
- (iv) an offer of new Shares for subscription by way of rights, or grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 90% of the market price on the date of announcement of the terms of the issue of such securities;
- (vi) an issue of Shares wholly for cash at a price per Share which is less than 90% of the market price on the date of announcement of the terms of such issue; and
- (vii) an issue of Shares for acquisition of assets at a total effective consideration per Share which is less than 90% of the market price of the date of the announcement of the terms of such issue.

The initial Conversion Price is arrived at after arms' length negotiation between the Company and CSI with reference to the prevailing share prices of the Company and the market risk relating to the volatility of the market condition assumed by CSI. The Directors consider that the market risk relating to the volatility of the market condition assumed by CSI is fair and reasonable taking into account the placing price of HK\$0.20 per Share for the placing of 800,000,000 new Shares completed in June 2009 and the duration of the Convertible Bond for three years.

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## LETTER FROM THE BOARD

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The initial Conversion Price represents (i) a discount of approximately 27.27% to the closing price of HK\$0.275 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 24.81% over the average of the closing prices of HK\$0.266 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; (iii) a discount of approximately 25.09% to the average of the closing prices of HK\$0.267 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and (iv) a discount of approximately 19.35% to the closing price of HK\$0.248 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

### Conversion Shares:

Assuming the Convertible Bond is converted into Shares in full at the initial Conversion Price, the Company will allot and issue an aggregate of 1,000,000,000 new Shares, representing approximately (i) 96.20% of the issued share capital of the Company as at the date of the Announcement, (ii) 77.13% of the issued share capital of the Company as at the Latest Practicable Date, and (iii) 43.54% of the issued share capital of the Company as at the Latest Practicable Date as enlarged by allotment and issue of the Conversion Shares (assuming there being no other changes to the issued share capital of the Company).

The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM.

### Conversion:

Provided that any conversion of the Convertible Bond (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (ii) will not cause the public float of the Company unable to meet the requirement under the Listing Rules, the bondholder(s) shall have the right at any time during the conversion period of the Convertible Bond to convert the whole or part of the outstanding principal amount of the Convertible Bond into the Conversion Shares at the Conversion Price (in multiples of HK\$1 million), save that if at any time the aggregate outstanding principal amount of the Convertible Bond is less than HK\$1 million, the whole (but not part only) of the outstanding principal amount of the Convertible Bond may be converted into the Conversion Shares.

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## LETTER FROM THE BOARD

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**Transferability:** The bondholder(s) may only assign or transfer the Convertible Bond to the transferee subject to the consent of the Company.

The Company will promptly notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bond by any connected person.

**Ranking:** The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue on the date of the allotment and issue of the Conversion Shares.

**Status of Convertible Bond:** The Convertible Bond constitutes direct, unconditional, unsubordinated and unsecured obligations of the Company and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

**Voting rights:** The Convertible Bond does not confer any voting rights at any general meetings of the Company.

**Application for listing:** No application will be made by the Company for listing of the Convertible Bond. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

### **Conditions Precedent**

Completion of the CB Subscription is conditional upon:

- (1) if necessary, the CSI Shareholders having approved at the CSI SGM the transactions contemplated under the CB Subscription Agreement (including the CB Subscription and the conversion of the Convertible Bond);
- (2) if necessary, the Shareholders having approved at the SGM the transactions contemplated under the CB Subscription Agreement and the issue of the Convertible Bond and the issue and allotment of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bond or otherwise pursuant to the terms and conditions of the Convertible Bond;

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## LETTER FROM THE BOARD

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- (3) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company and CSI have no reasonable objection) the listing of, and permission to deal in, the Conversion Shares;
- (4) all necessary consents and approvals required to be obtained on the part of the Company and CSI in respect of the CB Subscription Agreement and the transactions contemplated thereby having been obtained;
- (5) all representations, warranties and undertakings made by the Company in the CB Subscription Agreement remaining true, accurate and complete in all material respects and not misleading in any material respect;
- (6) there being no occurrence of circumstances which, in the reasonable opinion of CSI, will have a material adverse effect on the financial condition, prospects, earning, business, undertaking or assets of the Company and its subsidiaries, in each case, taken as a whole, since the date of the CB Subscription Agreement; and
- (7) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of Conversion Shares upon conversion of the Convertible Bond.

Completion of the CB Subscription shall take place on the date falling on the second business day after the fulfillment of the conditions precedent set out above or such other date as the parties to the CB Subscription Agreement may agree.

If the conditions precedent set out above are not fulfilled on or before the Long Stop Date, the CB Subscription Agreement shall lapse and become null and void and the parties shall be released from all obligations thereunder, save for any liability arising out of any antecedent breaches thereof, in accordance with the terms of the CB Subscription Agreement.

### **Termination**

CSI may, by notice to the Company given at any time prior to Completion, terminate the CB Subscription Agreement in any of the following circumstances:

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## LETTER FROM THE BOARD

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In the reasonable opinion of CSI, the success of the CB Subscription 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 reasonable opinion of CSI 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 CB Subscription; 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 hereof) 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 reasonable opinion of CSI materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and makes it inexpedient or inadvisable to proceed with the CB Subscription; or
- (iii) 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 reasonable opinion of CSI is likely to materially or adversely affect the success of the CB Subscription or otherwise makes it inexpedient or inadvisable to proceed with the CB Subscription; or
- (iv) 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
- (v) any suspension in the trading of securities generally or the the Company's securities on the Stock Exchange for a period of more than 15 consecutive business days, excluding any suspension in connection with the clearance of the Announcement, the circular or other documents in connection with the CB Subscription; or
- (vi) any material breach of any of the representations, warranties or undertakings contained in the CB Subscription Agreement comes to the knowledge of CSI.

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## LETTER FROM THE BOARD

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If at any time prior to Completion any such notice as is referred to above is given by CSI, the obligations of all parties under the CB Subscription Agreement shall terminate forthwith and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches of the CB Subscription Agreement.

### **REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE CB SUBSCRIPTION AGREEMENT**

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.

The CSI is an investment holding company and its subsidiaries are principally engaged in sales of financial assets and provision of management services to concierge departments of gaming promoters.

The Directors consider that the CB Subscription is in the interests of the Company and the Shareholders as a whole taking into account (a) the continuous financing from the issue of the Convertible Bond, the subscription price of which shall be satisfied by setting off against the Loan Advance; (b) the Conversion Price is arrived at after arms' length negotiation between the Company and CSI with reference to the prevailing share prices of the Company and the market risk relating to the volatility of the market condition assumed by CSI; (c) the restriction under the terms of the Convertible Bond that conversion of the Convertible Bond shall not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties (i.e. 30% or more of the voting rights under the existing Code); (d) the interest rate and default interest rate of the Convertible Bond are the same as, and no less favourable to the Company than, those of the Loan Advance and were determined based on the Prime Rate which the Directors consider the interest rate and the default interest rate are fair and reasonable given the Convertible Bond is unsecured; and (e) the fact that the repayment burden under the Loan Advance would be released should any principal amount of the Convertible Bond is converted into Shares notwithstanding the potential dilution effect on the shareholdings of the Company upon any conversion of the Convertible Bond, and that the terms of the CB Subscription Agreement (including the Conversion Price, the interest rate and the default interest rate of the Convertible Bond) are determined after arm's length negotiations and on normal commercial terms and fair and reasonable to the Company and the Shareholders as a whole.



## LETTER FROM THE BOARD

### EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) assuming full conversion of the Convertible Bond at the initial Conversion Price; and (iii) assuming conversion of the Convertible Bond up to the extent that CSI and the parties acting in concert with it is interested in not more than 30% of the issued share capital of the Company are set out as below:

Shareholders	As at the Latest Practicable Date		Assuming full conversion of the Convertible Bond at the initial Conversion Price (Note 2)		Assuming conversion of the Convertible Bond to the extent that CSI and parties acting in concert with it are interested in not more than 30% of the issued share capital of the Company (Note 2)	
	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %
Porterstone	45,662,174	3.52	45,662,174	1.99	45,662,174	2.61
Dorest (Note 1)	137,025	0.01	137,025	0.01	137,025	0.01
Mr. Heung	23,176,653	1.79	23,176,653	1.01	23,176,653	1.33
Ms. Chen	1,427,247	0.11	1,427,247	0.06	1,427,247	0.08
CSI	—	—	1,000,000,000	43.54	452,566,783	25.87
Sub-total	70,403,099	5.43	1,070,403,099	46.61	522,969,882	29.90
Public	1,226,093,269	94.57	1,226,093,269	53.39	1,226,093,269	70.10
Total	<u>1,296,496,368</u>	<u>100.00</u>	<u>2,296,496,368</u>	<u>100.00</u>	<u>1,749,063,151</u>	<u>100.00</u>

Note 1: Those Shares held by Dorest are under a charging order.

Note 2: For illustrative purpose only. Pursuant to the terms of the Convertible Bond, the bondholder(s) shall have the right to convert the Convertible Bond into the Conversion Shares, provided that any conversion of the Convertible Bond (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (ii) will not cause the public float of the Company unable to meet the requirement under the Listing Rules.

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## LETTER FROM THE BOARD

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### FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

Set out below is the fund raising activities conducted by the Company in the past twelve months immediately preceding the date of the Announcement and up to the Latest Practicable Date:

Date of initial announcement	Description	Net proceeds	Intended use of proceeds	Actual use of proceeds as at the date of the Announcement
8 December 2008	Placing of 88,000,000 Old Shares at HK\$0.102 per Old Share	Approximately HK\$8.8 million	To finance the subscription of the convertible bonds of Golife Concepts Holdings Limited	The net proceeds has been fully utilised as intended
8 December 2008	Open offer of 1,064,486,080 Old Shares on the basis of two offer Old Shares for every one existing Old Share at the subscription price of HK\$0.05 per Old Share with bonus issue on the basis of three bonus Old Shares for every one offer Old Share taken up	Approximately HK\$51.5 million	To finance the subscription of the convertible bonds of Golife Concepts Holdings Limited	The net proceeds has been fully utilised as intended
12 May 2009	Placing of 800,000,000 new Shares at HK\$0.20 per Share	Approximately HK\$158 million	To finance the hotel operation and for general working capital of the Group	The net proceeds will be used 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 of the Group	The net proceeds will be used as intended

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## LETTER FROM THE BOARD

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### **REFRESHMENT OF THE SCHEME MANDATE LIMIT**

Pursuant to a resolution passed at the annual general meeting of the Company held on 27 May 2002, the New Share Option Scheme was adopted and the Old Share Option Scheme was terminated.

The purpose of the New Share Option Scheme is to provide incentives and rewards to Eligible Persons for their contribution or potential contribution to the Group. The exercise price of an Option must be the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business day immediately preceding the date of grant; and (iii) the nominal value of the Share.

### **Old Share Option Scheme**

As the Old Share Option Scheme was terminated, no further options can be granted under the Old Share Option Scheme. However, the outstanding options granted under the Old Share Option Scheme prior to the said termination on 27 May 2002 shall remain valid and exercisable in accordance with the provisions of the Old Share Option Scheme. As at the Latest Practicable Date, there are 52,189 outstanding options granted but yet to be exercised under the Old Share Option Scheme.

Apart from the New Share Option Scheme, the Company has no other share option scheme in place.

### **New Share Option Scheme**

Pursuant to the New Share Option Scheme, the total number of Shares which may be issued upon exercise of all Options to be granted by the Company under the New Share Option Scheme and any other options to be granted by the Company under any other share option schemes of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the New Share Option Scheme and as at the date of approving the refreshment of Scheme Mandate Limit. Options lapsed in accordance with the terms of the New Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit. The Scheme Mandate Limit may be refreshed by Shareholders in general meeting from time to time.

At the annual general meeting of the Company held on 29 June 2009 (the "2009 AGM"), the Scheme Mandate Limit was refreshed to allow the Company to grant Options entitling

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## LETTER FROM THE BOARD

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holders to subscribe for Shares not exceeding 10% of the issued share capital of the Company as at the date of approving the refreshment, which amounted to 103,950,936 Options.

On 17 July 2009, the Company granted a total of 103,943,000 Options to certain Eligible Persons to allow them to subscribe for 103,943,000 Shares, which represented approximately 99.99% of the Scheme Mandate Limit as refreshed at the 2009 AGM.

As at the Latest Practicable Date, 49,087,000 Options granted on 17 July 2009 was exercised.

Up to the Latest Practicable Date, there are 71,894,611 Options (after adjustments) outstanding and unexercised since the adoption of the New Share Option Scheme to which holders were entitled to subscribe for 71,894,611 Shares.

As approximately 99.99% of the Scheme Mandate Limit of 103,950,936 Options as refreshed on 29 June 2009 has been used, the Directors are of the view that in order to provide incentives and rewards to the Eligible Persons for their contribution or potential contribution to the Group by granting Options to them, the Scheme Mandate Limit shall be refreshed to provide the Company with greater flexibility on recruiting and retaining high calibre employees and attracting human resources that are valuable to the Group.

As at the Latest Practicable Date, there were 1,296,496,368 Shares in issue. Assuming there is no allotment and issue of Shares and no further grant of Options under the New Share Option Scheme, upon the granting of a refreshment of the Scheme Mandate Limit by the Shareholders at the SGM, the Scheme Mandate Limit (as refreshed) will allow the Company to grant Option entitling holders thereof to subscribe for Shares not exceeding 10% of the issued share capital of the Company as at the date of approving the refreshment of the Scheme Mandate Limit which are 129,649,636 Shares.

The limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes adopted by the Company including the Old Share Option Scheme must not exceed 30% of the Shares in issue from time to time. As at the Latest Practicable Date, there are 71,946,800 options of the Company outstanding (including 52,189 outstanding options under the Old Share Option Scheme and 71,894,611 Options), representing 5.55% of the issued share capital of the Company. Assuming 129,649,636 Options are approved, refreshed and granted under the Scheme Mandate Limit at the SGM, a total of 201,596,436 Shares, representing 15.55% of the Shares in issue, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes adopted by the Company including the Old Share Option Scheme does not exceed 30% of the Shares in issue.

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## LETTER FROM THE BOARD

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The refreshment of the Scheme Mandate Limit is conditional upon:

1. The passing by the Shareholders of an ordinary resolution at the SGM to approve, among other things, the refreshment of the Scheme Mandate Limit; and
2. The Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, 10% of the Shares in issue at the date of approval of the refreshment of the Scheme Mandate Limit which may be issued pursuant to the exercise of Options to be granted under the New Share Option Scheme.

Application will be made to the Listing Committee of the Stock Exchange for the grant of listing of, and permission to deal in, 10% of the Shares in issue at the date of approval of the refreshment of the Scheme Mandate Limit which may be issued pursuant to the exercise of Options to be granted under the New Share Option Scheme.

### **SGM**

A notice convening the SGM to be held at 12:00 noon on Thursday, 3 September 2009 at Unit 3409 Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong, at which ordinary resolutions will be proposed to consider and, if thought fit, to approve the the CB Subscription Agreement and the transaction contemplated thereunder and the proposed refreshment of the Scheme Mandate Limit is set out on pages 21 to 23 of this circular.

As at the Latest Practicable Date, (i) Mr. Heung and Ms. Chen are the common executive directors of CSI and the Company and Mr. Ho Wai Chi, Paul is the common independent non-executive director of CSI and the Company; (ii) Mr. Heung, Ms. Chen and their associates are the common shareholders of CSI and the Company who are beneficially interested in 32,928,286 CSI Shares, representing approximately 29.90% of the entire issued share capital of CSI, and 70,403,099 Shares, representing approximately 5.43% of the entire issued share capital of the Company; (iii) Mr. Heung and Ms. Chen are also interested in 26,367 and 26,367 share options of the Company respectively; and (iv) Mr. Ho Wai Chi, Paul is not interested in any CSI Shares or Shares.

To the best of the Directors' information, knowledge and belief having made all reasonable enquiries, save as disclosed above, CSI and its associates are independent of and not connected with any connected person (as defined under the Listing Rules) of the Company.

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## LETTER FROM THE BOARD

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Mr. Heung, Ms. Chen and their associates will abstain from voting on the relevant resolutions in respect of the CB Subscription Agreement and the transactions contemplated thereunder at the SGM. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Shareholder, other than Mr. Heung, Ms. Chen and their associates (including Porterstone and Dorest), is required to abstain from voting on the relevant resolutions in respect of the CB Subscription Agreement and the transactions contemplated thereunder at the SGM.

No Shareholder is required to abstain from voting on the relevant resolution in respect of the proposed refreshment of the Scheme Mandate Limit.

A form of proxy for use by the Shareholders at the SGM is enclosed. If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Registrar at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### **RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts not contained herein the omission of which would make any statement herein misleading.

### **RECOMMENDATION**

The Directors consider the terms of the CB Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors also consider that the refreshment of the Scheme Mandate Limit is in the interests of the Company and the Shareholders as a whole. Accordingly, they recommend the Shareholders to vote in favour of the resolutions proposed at the SGM.

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

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## NOTICE OF SGM

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## CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**Meeting**”) of China Star Entertainment Limited (the “**Company**”) will be held at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong at 12:00 noon on Thursday, 3 September 2009 for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions:

### ORDINARY RESOLUTIONS

1. “**THAT**

- (a) subject to the fulfillment or waiver of the conditions as set out in the conditional subscription agreement (the “**CB Subscription Agreement**”, a copy of which having been produced to the Meeting marked “A” and initialled by the chairman of the Meeting for the purpose of identification) dated 23 July 2009 and entered into between the Company and China Star Investment Holdings Limited (“**CSI**”) in respect of the subscription of convertible bond (the “**Convertible Bond**”) in the principal amount of HK\$200,000,000, the CB Subscription Agreement and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the issue and the creation of the Convertible Bond be and is hereby generally and unconditionally approved in all respects and any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to execute by way of deed poll the instrument (the “**CB Instrument**”) constituting the Convertible Bond;

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## NOTICE OF SGM

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- (c) the allotment and issue of the new shares (the “**Conversion Shares**”) upon exercise of the conversion right attaching to the Convertible Bond be and is hereby approved and any one or more of the Directors be and is/are hereby authorised to allot and issue the Conversion Shares pursuant to and in accordance with the terms and conditions of the CB Instrument; and
- (d) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient in his/her/their opinion to implement and/or give effect to the CB Subscription Agreement, including but not limited to the issue and creation of the Convertible Bond to CSI and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bond, and any other matters contemplated thereunder.”

### 2. “**THAT**

- (a) the refreshment (the “**Proposed Refreshment**”) of the total number of ordinary shares in the capital of the Company which may be issued upon the exercise of options to be granted under the share option scheme (the “**Share Option Scheme**”) adopted by the Company on 27 May 2002 to up to 10 per cent. of the shares of the Company in issue as at the date of passing of this resolution be and is hereby approved; and
- (b) any one or more of the Directors be and is/are hereby authorised to take all such acts and things and execute all such documents, including under seal where applicable, as he/she/they consider(s) necessary, desirable or expedient in his/her/their opinion to implement and/or give effect to the Proposed Refreshment.”

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

Hong Kong, 17 August 2009



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## NOTICE OF SGM

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*Registered office:*  
Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Head office and principal place of  
business in Hong Kong:*  
Unit 3409,  
Shun Tak Centre, West Tower  
168-200 Connaught Road Central  
Hong Kong

*Notes:*

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney duly authorised.
3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.
5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.
6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.