

---

## THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

---

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

A copy of each of the Prospectus Documents (as defined herein), having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix IV to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and a copy of this prospectus has been, or will as soon as reasonably practicable be, filed with the Registrar of Companies in Bermuda as required by the Companies Act 1981 of Bermuda (as amended). The Registrar of Companies in Hong Kong, the Securities and Futures Commission of Hong Kong, the Registrar of Companies in Bermuda and Bermuda Monetary Authority take no responsibility for the contents of any of these documents.

Dealings in the securities of the Company and the Rights Shares (as defined herein) in their nil-paid form and fully-paid form may be settled through CCASS (as defined herein) operated by HKSCC (as defined herein) and you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

**If you have sold or transferred** all or part of your Shares, you should at once hand the Prospectus Documents to the purchaser(s) or the transferee(s) or to the licensed securities dealer, the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). The Prospectus Documents should not, however, be distributed, forwarded to or transmitted to, into or from any jurisdiction where to do so might constitute a violation of local securities laws or regulations. Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange (as defined herein) as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on 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.

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

---



# CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

**(Warrant Code: 972)**

## **RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE AT HK\$0.25 PER RIGHTS SHARE WITH BONUS WARRANTS ON THE BASIS OF ONE BONUS WARRANT FOR EVERY FIVE RIGHTS SHARES TAKEN UP UNDER THE RIGHTS ISSUE**

Underwriters



**Mansion House Securities (F.E.) Limited**

**Heung Wah Keung Family  
Endowment Limited**

Financial adviser to China Star Entertainment Limited

**Nuada Limited**

*Corporate Finance Advisory*

---

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

The Shares have been dealt in on an ex-entitlement basis commencing from Monday, 30 May 2011. The Rights Shares are expected to be dealt in their nil-paid form from Friday, 10 June 2011 to Friday, 17 June 2011 (both dates inclusive). Shareholders and potential investors should note that dealing in Shares and/or nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled.

Shareholders and potential investors should note that the Rights Issue and the Bonus Issue is conditional upon fulfillment of various conditions precedent and the Underwriters are entitled to terminate the Underwriting Agreement prior to the Latest Time for Termination, details of which have been set out under the paragraph headed "Termination of the Underwriting Agreement" of this prospectus. Accordingly, the Rights Issue and the Bonus Issue may or may not proceed.

Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue and the Bonus Issue are subject are fulfilled (which is expected to be on or before 4:00 p.m. on Monday, 27 June 2011) and/or dealing in nil-paid Rights Shares between Friday, 10 June 2011 to Friday, 17 June 2011 (both dates inclusive), will accordingly bear the risk that the Rights Issue and the Bonus Issue may not become unconditional and may not proceed. Any Shareholder or person contemplating selling or purchasing Shares and/or nil-paid Rights Shares should exercise extreme caution when dealing in Shares and/or nil-paid Rights Shares, and if they are in any doubt about their position, they should consult his/her/its own professional adviser.

The Rights Issue is conditional upon the fulfillment of the conditions set out under the paragraph headed "Conditions of the Rights Issue and the Bonus Issue" in the section headed "Letter from the Board" on pages 22 and 23 of this prospectus. The Underwriters may, under the Underwriting Agreement, terminate the Underwriting Agreement on the occurrence of certain events, including but not limited to force majeure, as more particularly described in the section headed "Termination of the Underwriting Agreement" on pages 11 and 12 of this prospectus. The Rights Issue is therefore also subject to the right of the Underwriters to terminate the Underwriting Agreement. Accordingly, the Rights Issue may or may not proceed.

8 June 2011

---

## CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>EXPECTED TIMETABLE</b> .....	9
<b>TERMINATION OF THE UNDERWRITING AGREEMENT</b> .....	11
<b>LETTER FROM THE BOARD</b> .....	13
<b>APPENDIX I – SUMMARY OF TERMS OF THE BONUS WARRANTS</b> .....	36
<b>APPENDIX II – FINANCIAL INFORMATION OF THE GROUP</b> .....	45
<b>APPENDIX III – UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP</b> .....	51
<b>APPENDIX IV – GENERAL INFORMATION</b> .....	56

---

## DEFINITIONS

---

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

“2009 Proposed Acquisition”	the proposed acquisition of business interests pursuant to a conditional agreement dated 29 April 2009 entered into between the Group and Ms. Chen, details of which are set out in the announcement and circular of the Company dated 5 May 2009 and 17 August 2009 respectively, which is subject to conditions precedent and yet to be completed
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Acceptance Date”	Wednesday, 22 June 2011, being the last day for acceptance and payment of the Rights Shares, or such other date as the Company and Underwriters may agree in writing
“Announcement”	the announcement of the Company dated 18 April 2011 in relation to the Rights Issue, the Bonus Issue and the Whitewash Waiver
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bonus Issue”	the proposed issue of the Bonus Warrants on the basis of one Bonus Warrant for every five Rights Shares taken up under the Rights Issue
“Bonus Warrants”	not less than 294,707,325 bonus warrants and not more than 336,821,377 bonus warrants to be issued under the Bonus Issue
“Bonus Warrants Share(s)”	the new Shares to be allotted and issued pursuant to the exercise of the subscription rights attached to the Bonus Warrant(s) at the Bonus Warrants Subscription Price
“Bonus Warrants Subscription Price”	the initial subscription price of HK\$0.25 per Bonus Warrants Share (subject to adjustment)
“Bonus Warrants Subscription Period”	the period of 18 months from the date of the issue of the Bonus Warrants
“Business Day”	a day (other than a Saturday, a Sunday or days on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business

---

## DEFINITIONS

---

“Capital Reorganisation”	the capital reorganisation of the Company involving (i) the consolidation of every ten (10) issued and unissued Original Shares of HK\$0.01 each into one (1) consolidated Original Share of HK\$0.10 each; (ii) the capital reduction of the nominal value of all the authorised share capital of the Company and the cancellation of the paid-up capital of the issued Shares from HK\$0.10 each to HK\$0.01 each and the credit arising from reduction of the issued share capital of the Company be transferred to the contributed surplus account of the Company; and (iii) increase of authorised share capital of the Company, details of which were disclosed in the announcements of the Company dated 9 February 2011 and 28 February 2011 and the circular of the Company dated 7 March 2011, which has become effective on 9 May 2011
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chen Convertible Bonds”	the convertible bonds in principal amount of HK\$350 million conferring rights to subscribe for 70,000,000 new shares of the Company at the initial subscription price of HK\$0.50 per share of the Company (subject to adjustment) to be issued to Ms. Chen in relation to the 2009 Proposed Acquisition (which is subject to conditions precedent and yet to be completed)
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“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
“Concert Group”	HWKFE, Mr. Heung, Ms. Chen, Dorest, Eternity, Mr. Lei, Simple View and their respective associates and parties acting in concert with any of them
“Connected Person(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	directors of the Company
“Directors’ Options”	926 Shares Options held by Mr. Heung conferring rights to subscribe for 926 new Shares, and 926 Shares Options held by Ms. Chen conferring rights to subscribe for 926 new Shares

---

## DEFINITIONS

---

“Dorest”	Dorest Company Limited, an investment holding company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung
“Dorest Warrants”	an amount of approximately HK\$5,289 Existing Warrants held by Dorest entitling it to subscribe for 2,906 new Shares
“EAF(s)”	application form(s) for excess Rights Shares issued to Qualifying Shareholders in relation to the Rights Issue
“Eternity”	Eternity Investment Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 764) and its single largest shareholders is Mr. Lei who holds 19.99% of its issued shares
“Eternity Convertible Bonds”	the convertible bonds in principal amount of HK\$650 million conferring rights to subscribe for 812,500,000 new Shares at the initial conversion price of HK\$0.80 (subject to adjustment) proposed to be issued by the Company to Eternity in relation to the Proposed Subscription (which is subject to conditions precedent and yet to be completed)
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Future Commission of Hong Kong or any of his delegates
“EOEW”	the outstanding Share Options and Existing Warrants, except for the HWKFE Warrants and Simple View Warrants, which HWKFE and Simple View have undertaken not to exercise the subscription rights thereof respectively on or before completion of the Rights Issue pursuant to the Irrevocable Undertakings
“Existing Warrants”	the outstanding warrants in an aggregate principal amount of HK\$111,523,295.87 entitling the holders thereof to subscribe for 61,276,536 new Shares at an adjusted subscription price of HK\$1.82 per Share (subject to further adjustment) pursuant to the warrant instrument issued by the Company on 15 June 2010
“Group”	the Company and its subsidiaries
“HWKFE”	Heung Wah Keung Family Endowment Limited, an investment holding company incorporated in the British Virgin Islands and owned as to 50% by Mr. Heung and as to 50% by Ms. Chen and the directors are Mr. Heung and Ms. Chen

---

## DEFINITIONS

---

“HWKFE’s EAF Shares”	the Rights Shares successfully applied for or taken up by HWKFE and its associates by way of excess application for Rights Shares under the Rights Issue, which shall in any event not exceed 800,000,000 Right Shares
“HWKFE Warrants”	an amount of approximately HK\$5,453,021 Existing Warrants held by HWKFE entitling it to subscribe for 2,996,166 new Shares
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	the parties or persons who are third parties independent of and not connected with the director, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates
“Independent Shareholders”	Shareholders other than the Concert Group and those who are involved in, or interested in the Underwriting Agreement, the Rights Issue, the Bonus Issue and the Whitewash Waiver, who are required to abstain from voting in respect of the Rights Issue, the Bonus Issue and the Whitewash Waiver at the SGM pursuant to the Takeovers Code and the Listing Rules
“Irrevocable Undertakings”	the irrevocable undertakings given by HWKFE, Simple View, Eternity, and Ms. Chen respectively, details of which are set out in the paragraph headed “Irrevocable Undertakings” of this prospectus
“Last Trading Day”	29 March 2011, being the last trading day of the Shares prior to the release of the Announcement
“Latest Lodging Time”	4:30 p.m. on Tuesday, 31 May 2011 as the latest time for lodging transfer of the Shares in order to be qualified for the subscription of the Rights Issue and the Bonus Issue
“Latest Practicable Date”	3 June 2011, being the latest practicable date prior to the despatch of this prospectus for ascertaining certain information for inclusion in this prospectus

---

## DEFINITIONS

---

“Latest Time for Acceptance”	4:00 p.m. on Wednesday, 22 June 2011 or such later time or date as may be agreed between the Company and the Underwriters, being the latest time for acceptance of and payment for, the Rights Shares
“Latest Time for Termination”	4:00 p.m. on the third Business Day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and the Underwriters, being the latest time to terminate the Underwriting Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Mansion House”	Mansion House Securities (F.E.) Limited, a corporation licensed to conduct Type 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance), 7 (providing automated trading services) and 9 (asset management) regulated activities under the SFO, being one of the Underwriters
“Mr. Heung”	Mr. Heung Wah Keung, an executive Director and the spouse of Ms. Chen
“Mr. Lei”	Mr. Lei Hong Wai, the single largest shareholder of Eternity holding 19.99% of the issued share capital of Eternity and an employee of the Company
“Mr. Lei Warrants”	an amount of approximately HK\$513,380 Existing Warrants held by Mr. Lei entitling him to subscribe for 282,077 new Shares, which represents approximately 0.46% of the total Existing Warrants
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, an executive Director and the spouse of Mr. Heung
“Original Shares”	ordinary shares of HK\$0.01 each in the existing issued and unissued share capital of the Company before the Capital Reorganisation becoming effective
“Overseas Letter(s)”	letter(s) from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Rights Issue and the Bonus Issue

---

## DEFINITIONS

---

“Overseas Shareholders”	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date
“PAL(s)”	the provisional allotment letter(s) issued to Qualifying Shareholders in relation to the Rights Issue
“Prohibited Shareholder(s)”	those Overseas Shareholder(s) to whom the Board, after making enquires, considers it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Rights Shares (with the Bonus Warrants) to them
“Proposed Acquisition”	the proposed acquisition of the property leasehold right in respect of the leasehold granted by the Macau Government over the Sites pursuant to the conditional agreement entered into between the Company and Sociedade de Turismo e Diversões de Macau, S.A., details of which are set out in the announcement and the circular of the Company dated 7 January 2011 and 20 May 2011 respectively, which is subject to conditions precedent and yet to be completed
“Proposed Subscription”	the proposed subscription of the Eternity Convertible Bonds by Eternity, details of which are set out in the announcement dated 9 February 2011 jointly issued by the Company and Eternity, which is subject to condition precedent and yet to be completed
“Prospectus Documents”	this prospectus and the PAL and the EAF
“Prospectus Posting Date”	Wednesday, 8 June 2011 or such later date as may be agreed between the Underwriters and the Company for the despatch of the Prospectus Documents
“Qualifying Shareholders”	the Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	Tuesday, 7 June 2011, being the date by reference to which entitlements to the Rights Issue and the Bonus Issue will be determined
“Registrar”	Computershare Hong Kong Investor Services Limited located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, the branch share registrar and transfer office of the Company in Hong Kong



---

## DEFINITIONS

---

“Relevant Period”	the period commencing six months preceding the date of the Announcement and ending on the Latest Practicable Date
“Rights Issue”	the proposed issue of the Rights Shares by way of rights issue on the basis of three Rights Shares for every one Share held on the Record Date, with Bonus Warrants on the basis of one Bonus Warrant for every five Rights Shares taken up
“Rights Share(s)”	Not less than 1,473,536,625 Shares and not more than 1,684,106,889 Shares proposed to be offered to the Qualifying Shareholders for subscription under the Rights Issue
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company convened and held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Tuesday, 7 June 2011 at 4:00 p.m. (or immediately after the conclusion or adjournment of the meeting of the Company) to consider and approve the Rights Issue, the Bonus Issue and the Whitewash Waiver and the transactions contemplated thereunder
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the capital of the Company upon the Capital Reorganisation becoming effective on 9 May 2011
“Shareholder(s)”	holder(s) of Share(s)
“Share Options”	1,780,530 outstanding share options granted by the Company exercisable into 1,780,530 Shares as at the Latest Practicable Date
“Share Option Scheme”	the share option scheme adopted by the Company on 27 May 2002
“Simple View”	Simple View Investment Limited, a wholly-owned subsidiary of Eternity and whose directors are Mr. Heung and Ms. Chen
“Simple View Warrants”	an amount of approximately HK\$26,248,000 Existing Warrants held by Simple View entitling it to subscribe for 14,421,978 new Shares
“Sites”	Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE)

---

## DEFINITIONS

---

“Specified Event”	an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.25 per Rights Share
“Supplemental Agreement”	the supplemental agreement dated 18 April 2011 entered into amongst the Company and the Underwriters in relation to the Underwriting Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwritten Shares”	the Rights Shares, other than those entitled and undertaken to be taken up by HWKFE and Simple View respectively under the Rights Issue pursuant to the Irrevocable Undertakings
“Underwriters”	Mansion House and HWKFE
“Underwriting Agreement”	the underwriting agreement dated 29 March 2011 (as supplemented by the Supplemental Agreement) entered into between the Company and the Underwriters in relation to the Rights Issue and the Bonus Issue
“Untaken Shares”	the Rights Shares not taken up by the Qualifying Shareholders
“Whitewash Waiver”	a waiver from the obligation of the Concert Group to make a mandatory offer to the Shareholders under Rule 26 of the Takeovers Code as a result of the acceptance for the Rights Shares and underwriting the Rights Shares (with Bonus Warrants) under the Underwriting Agreement and/or application of excess Rights Shares pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code
“%”	per cent.

---

## EXPECTED TIMETABLE

---

*2011*

First day of dealing in nil-paid Rights Shares .....	Friday, 10 June
Latest time for splitting nil-paid Rights Shares .....	4:30 p.m. on Tuesday, 14 June
Parallel trading in Shares in the form of new share certificates and existing share certificates ends. ....	4:00 p.m. on Tuesday, 14 June
Temporary counter for trading in Shares in board lot size of 500 Shares in the form of existing share certificates closes .....	4:00 p.m. on Tuesday, 14 June
Designated broker ceases to stand in the market to purchase and sell odd lots of Shares .....	4:00 p.m. on Tuesday, 14 June
Last day for free exchange of share certificates of Original Shares for new share certificates for Shares .....	Thursday, 16 June
Last day of dealing in nil-paid Rights Shares.....	Friday, 17 June
Latest time for acceptance of and payment for Rights Shares and for application and payment for excess Rights Shares.....	4:00 p.m. on Wednesday, 22 June
Latest time for the Rights Issue and the Bonus Issue to become unconditional. ....	4:00 p.m. on Monday, 27 June
Announcement of the results of acceptance and excess application of the Rights Issue to be posted on the Stock Exchange's website .....	Tuesday, 28 June
Refund cheques for wholly and partially unsuccessful excess applications to be posted .....	Wednesday, 29 June
Certificates for fully-paid Rights Shares and Bonus Warrants to be posted .....	Wednesday, 29 June
Dealing in fully-paid Rights Shares and Bonus Warrants commences .....	Monday, 4 July

---

## EXPECTED TIMETABLE

---

*Note: For the timetable regarding implementation of the Capital Reorganisation and the associated trading arrangement, please refer to the announcement dated 28 February 2011 and the circular dated 7 March 2011 of the Company.*

All references to times and dates in this prospectus are references to Hong Kong local times and dates.

Dates or deadlines specified herein may be varied or extended by the Company and the Underwriters and are therefore tentative and indicative only. Further announcement(s) will be made by the Company on any changes to the above expected timetable, if and when appropriate.

*Note: The latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take effect if there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning:*

- (1) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; or*
- (2) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.*

*If the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares does not take effect on the Acceptance Date, the dates mentioned above may be affected. An announcement will be made by the Company in such event as soon as practicable.*

---

## TERMINATION OF THE UNDERWRITING AGREEMENT

---

If, prior to the Latest Time for Termination:

- (1) in the sole and absolute opinion of the Underwriters, the success of the Rights Issue and the Bonus Issue would be materially and adversely affected by:
  - (a) 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 sole and absolute opinion of the Underwriters 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 Rights Issue and the Bonus Issue; or
  - (b) 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 sole and absolute opinion of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue and the Bonus Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue and the Bonus Issue; or
  - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (2) 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 sole and absolute opinion of the Underwriters is likely to materially or adversely affect the success of the Rights Issue and the Bonus Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue and the Bonus Issue; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriters will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement, or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue and the Bonus Issue; or

---

## TERMINATION OF THE UNDERWRITING AGREEMENT

---

- (5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriters is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue and the Bonus Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it,

the Underwriters shall at their sole and absolute discretion be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriters shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriters; or
- (2) any Specified Event comes to the knowledge of the Underwriters.

Any such notice shall be served by the Underwriters prior to the Latest Time for Termination.

---

## LETTER FROM THE BOARD

---



# CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

**(Warrant Code: 972)**

*Executive Directors:*

Mr. Heung Wah Keung  
Ms. Chen Ming Yin, Tiffany  
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  
Mr. Tang Chak Lam, Gilbert

*Head office and principal place  
of business in Hong Kong*

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

8 June 2011

*To the Shareholders and for information only,  
the holders of the Existing Warrants and Share Options,*

Dear Sir or Madam,

**RIGHTS ISSUE ON THE BASIS OF  
THREE RIGHTS SHARES FOR EVERY ONE SHARE HELD  
ON THE RECORD DATE AT HK\$0.25 PER RIGHTS SHARE WITH  
BONUS WARRANTS ON THE BASIS OF ONE BONUS  
WARRANT FOR EVERY FIVE RIGHTS SHARES TAKEN UP UNDER THE RIGHTS ISSUE**

### INTRODUCTION

On 18 April 2011, the Board announced, amongst other things, that, the Company proposed to raise not less than approximately HK\$368.38 million but not more than approximately HK\$421.03 million before expenses, by way of rights issue of not less than 1,473,536,625 Rights Shares and not more than 1,684,106,889 Rights Shares at the Subscription Price of HK\$0.25 per Rights Share on the basis of three Rights Shares for every one Share in issue on the Record Date.

The purpose of this prospectus is to set out further information regarding the Rights Issue and the Bonus Issue, including information on the dealings in, and acceptance or transfer of, the Rights Shares and certain financial and other information of the Group.

---

## LETTER FROM THE BOARD

---

### RIGHTS ISSUE AND THE BONUS ISSUE

Reference is made to the announcements dated 9 February 2011 and 28 February 2011 issued by the Company in relation to the Capital Reorganisation. The relevant resolution in respect to the Capital Reorganisation has been passed by the Shareholders at the special general meeting of the Company convened on 6 May 2011, therefore the Capital Reorganisation has become effective on 9 May 2011.

#### Issue statistics

Basis of the Rights Issue:	Three Rights Shares for every one Share held on the Record Date
Basis of the Bonus Issue:	One Bonus Warrant for every five Rights Shares taken up under the Rights Issue
Subscription Price:	HK\$0.25 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	491,180,290 Shares
Number of Shares in issue assuming the EOEW (excluding HWKFE Warrants and Simple View Warrants) are exercised in full before the Record Date:	536,819,212 Shares
Number of Rights Shares:	Not less than 1,473,536,625 Rights Shares (with aggregate nominal value of HK\$14,735,366.25) and not more than 1,684,106,889 Rights Shares (with aggregate nominal value of HK\$16,841,068.89)
Number of Bonus Warrants:	Not less than 294,707,325 Bonus Warrants (entitling holders thereof to subscribe for a total of 294,707,325 Bonus Warrants Shares at the Bonus Warrants Subscription Price) and not more than 336,821,377 Bonus Warrants (entitling holders thereof to subscribe for a total of 336,821,377 Bonus Warrants Shares at the Bonus Warrants Subscription Price)
Number of Shares in issue immediately upon completion of the Rights Issue and the Bonus Issue and assuming none of the Bonus Warrants is exercised:	Not less than 1,964,715,500 Shares and not more than 2,245,475,852 Shares



---

## LETTER FROM THE BOARD

---

Number of Shares in issue immediately upon completion of the Rights Issue and the Bonus Issue and assuming the Bonus Warrants are exercised in full:	Not less than 2,259,422,825 Shares and not more than 2,582,297,229 Shares
--	---

In view of the Irrevocable Undertakings given by HWKFE, Simple View, Eternity and Ms. Chen, details of which are set out in the paragraph headed “Irrevocable Undertakings” of this prospectus, the Rights Issue is fully underwritten by the Underwriters on the terms and subject to the conditions of the Underwriting Agreement, details of which are set out under the paragraph headed “Underwriting Agreement” under the section headed “Underwriting Arrangement” of this prospectus.

### **Share Options, Existing Warrants, Chen Convertible Bonds and Eternity Convertible Bonds**

As at the Latest Practicable Date, there are 1,780,530 Share Options entitling the holders thereof to subscribe for a total of 1,780,530 Shares (including the 315,488 Share Options held by the Concert Group, representing approximately 17.72% of the total Share Options). Other than those held by the Concert Group, the Share Options are held by eligible persons as defined in the Share Option Scheme. There are an amount of HK\$111,523,295.87 Existing Warrants entitling the holders thereof to subscribe for a total of 61,276,536 Shares (including the 17,703,127 Shares may be subscribed by the Concert Group after exercising the subscription rights attached to the HWKFE Warrants, Simple View Warrants, Mr. Lei Warrants and Dorest Warrants, representing approximately 28.89% of the Existing Warrants).

Pursuant to the Irrevocable Undertakings: (i) HWKFE has undertaken to the Company and Mansion House, among other things, not to dispose of and not to exercise the subscription rights attached to the HWKFE Warrants to subscribe for a total of 2,996,166 new Shares on or before completion of the Rights Issue; and (ii) Simple View has undertaken to the Company and the Underwriters, among other things, not to dispose of and not to exercise the subscription rights attached to the Simple View Warrants to subscribe for 14,421,978 new Shares on or before completion of the Rights Issue. Details of the Irrevocable Undertakings are set out in the paragraph headed “Irrevocable Undertakings” of this prospectus.

Furthermore, the Chen Convertible Bonds may be issued to Ms. Chen in relation to the 2009 Proposed Acquisition (which is subject to conditions precedent and yet to be completed), details of which are set out in the announcement of the Company dated 5 May 2009, and the Eternity Convertible Bonds may be issued to Eternity in relation to the Proposed Subscription (which is subject to condition precedent and yet to be completed), details of which are set out in the announcement of the Company dated 9 February 2011. Pursuant to the Irrevocable Undertakings, Eternity has undertaken to the Company and the Underwriter not to dispose of any Eternity Convertible Bonds, not to transfer the Eternity Convertible Bonds to any third party or take such actions to make those bonds available for conversion and not to exercise any of the conversion rights attaching to the Eternity Convertible Bonds, if issued, on or before completion of the Rights Issue, and Ms. Chen has undertaken to the Company and the Underwriters not to dispose of any Chen Convertible Bonds, not to transfer the Chen Convertible Bonds to any third party or take such actions to make those bonds available for conversion and not to exercise any of the conversion rights attaching to the Chen Convertible Bonds, if issued, on or before completion of the Rights Issue, details of which are set out in the paragraph headed “Irrevocable Undertakings” of this prospectus.

---

## LETTER FROM THE BOARD

---

None of the holders of the Share Options (including the 315,488 Share Options held by the Concert Group) has given any undertaking in relation to the exercise of the Share Options nor acceptance or non-acceptance of Rights Shares.

Accordingly, other than the EOEW conferring rights to subscribe for an aggregate of 45,638,922 new Shares (being the 63,057,066 new Shares which may fall to be issued upon exercise of the Share Options and the subscription rights attaching to the Existing Warrants less the 17,418,144 new Shares which may fall to be issued upon exercise of the subscription rights attaching to the HWKFE Warrants and the Simple View Warrants which will not be exercised on or before completion of the Rights Issue) which may be exercised by their holders, none of the Share Options or the Existing Warrants will be exercised on or before completion of the Rights Issue.

Save as disclosed above, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date.

### **Qualifying Shareholders**

The Rights Issue and the Bonus Issue are only available to the Qualifying Shareholders. The Company has sent (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Overseas Letter together with this prospectus (without the PAL and EAF), for information only, to the Prohibited Shareholders.

To qualify for the Rights Issue and the Bonus Issue, the Shareholders must at the close of business on the Record Date: (i) be registered on the register of members of the Company; and (ii) not be the Prohibited Shareholders. In order to be registered as members of the Company on the Record Date, the Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Tuesday, 31 May 2011.

### **Rights of the Overseas Shareholders**

If, at the close of business on the Record Date, a Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Rights Issue and the Bonus Issue as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. Based on the register of members of the Company as at the Latest Lodging Time, the Overseas Shareholders are situated in the People's Republic of China (the "PRC"), Macau and Singapore. Given that the register of members of the Company was closed from Wednesday, 1 June 2011 to Tuesday, 7 June 2011 and no Shares were transferred during the book closure period, the register of members of the Company on the Record Date was the same as that on the Latest Lodging Time. Pursuant to Rule 13.36(2) of the Listing Rules, the Board has made enquiries with its legal advisers in these jurisdictions as to whether there is any legal restriction under the applicable securities legislation of the relevant jurisdiction or requirement of any relevant regulatory body or stock exchange with respect to the issue of the Rights Shares and the Bonus Warrants to such Overseas Shareholders.

---

## LETTER FROM THE BOARD

---

Based on the legal advice provided by the legal advisers of the PRC, Macau and Singapore, either (i) there is no legal restriction under the applicable legislation of the relevant jurisdictions or requirement of any relevant regulatory body or stock exchange with respect to the extension of the Rights Issue and the Bonus Issue to the Overseas Shareholders in the relevant jurisdiction; or (ii) the Company would be exempt from obtaining approval from, and/or registration of the Prospectus Documents with, the relevant regulatory authorities under the applicable laws and regulations of the relevant jurisdictions since the Company would meet the relevant requirements for exemption under the registered addresses in the PRC, Macau and Singapore. The Prospectus Documents will be sent to each of such Overseas Shareholders.

It is the responsibility of any person (including but not limited to nominee, agent and trustee) outside Hong Kong wishing to make an application for the Rights Shares and the Bonus Warrants to satisfy himself or herself or itself as to the full observation of the laws and regulations of the relevant territory or jurisdiction, including the obtaining of any governmental or other consents and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection herewith. Any application for the Rights Shares and the Bonus Warrants by any person will be deemed to constitute a representation and warranty from such persons to the Company that these local laws and requirements have been complied with. Qualifying Shareholders should consult their professional advisers if in doubt.

### **Closure of register of members**

The register of members of the Company has been closed from Wednesday, 1 June 2011 to Tuesday, 7 June 2011, both dates inclusive, to determine those who/which are eligible for the Rights Issue and the Bonus Issue. No transfer of Shares had been registered during this period.

### **Subscription Price**

The Subscription Price is HK\$0.25 per Rights Share, payable in full on acceptance of the provisional allotment of the Rights Shares or application for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

- (i) a discount of approximately 54.55% to the adjusted closing price of HK\$0.55 per Share (adjusted for the effect of the Capital Reorganisation), based on the closing price of HK\$0.055 per Original Share as quoted on Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 24.24% to the closing price of HK\$0.33 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (iii) a discount of approximately 23.08% to the theoretical ex-entitlement price of approximately HK\$0.325 per Share after the Rights Issue (adjusted for the effect of the Capital Reorganisation), based on the closing price of HK\$0.055 per Original Share as quoted on the Stock Exchange on the Last Trading Day; and
- (iv) a discount of approximately 56.90% to the adjusted average closing price of HK\$0.58 per Share (adjusted for the effect of the Capital Reorganisation), based on the average closing price of HK\$0.058 per Original Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day.

The net price for the Rights Shares is approximately HK\$0.247 per Rights Share (calculated as the estimated net proceeds from the Rights Issue divided by the total number of the Rights Shares).

---

## LETTER FROM THE BOARD

---

### **Bonus Warrants and Bonus Warrants Subscription Price**

Subject to the satisfaction of the conditions of the Rights Issue and the Bonus Issue, the Bonus Warrants will be issued to the first registered holders of the Rights Shares on the basis of one Bonus Warrant for every five Rights Shares taken up under the Rights Issue. Each Bonus Warrant will entitle the holders thereof to subscribe for one Share at the Bonus Warrants Subscription Price of HK\$0.25 per Bonus Warrants Share (subject to adjustment). The Bonus Warrants Subscription Price is equivalent to the Subscription Price. The Bonus Warrants Subscription Period is the period of 18 months from the date of the issue of the Bonus Warrants.

On the basis of not less than 1,473,536,625 Rights Shares and not more than 1,684,106,889 Rights Shares to be issued under the Rights Issue, not less than 294,707,325 Bonus Warrants entitling holders thereof to subscribe for a total of 294,707,325 Bonus Warrants Shares at the Bonus Warrants Subscription Price and not more than 336,821,377 Bonus Warrants entitling holders thereof to subscribe for a total of 336,821,377 Bonus Warrants Shares at the Bonus Warrants Subscription Price will be issued. The Shares to be issued upon exercise of the Bonus Warrants represents approximately 15.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares immediately upon the Rights Issue.

In compliance with Rule 15.02 of the Listing Rules, the Shares to be issued upon exercise of the Bonus Warrants will not, when aggregated with the Shares which remain to be issued on exercise of the Existing Warrants, if the Existing Warrants were immediately exercised, whether or not such exercise is permissible, exceed 20% of the issued share capital of the Company at the time the Bonus Warrants are issued, given the Share Options which are granted under the Share Option Scheme which comply with Chapter 17 of the Listing Rules are excluded for the purpose of such limit.

### **Basis of determining the Subscription Price and the Bonus Warrants Subscription Price**

The Subscription Price and the Bonus Warrants Subscription Price were arrived at after arm's length negotiation between the Company and the Underwriters with reference to the prevailing market price of the Original Shares. Taking into consideration the theoretical ex-entitlement price per Share, the Directors consider that the Subscription Price and the Bonus Warrants Subscription Price are appropriate. The Directors consider that the discount would encourage the Qualifying Shareholders to participate in the Rights Issue, which would enable the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group. The Directors consider the Subscription Price and the Bonus Warrants Subscription Price are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Status of the Rights Shares and the Bonus Warrants Shares**

The Rights Shares and the Bonus Warrants Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the Shares then in issue. Holders of the fully-paid Rights Shares and the Bonus Warrants Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid on or after the date of allotment and issue of the Rights Shares (in fully-paid form) and the Bonus Warrants Shares.

---

## LETTER FROM THE BOARD

---

### **Basis of provisional allotment**

The basis of the provisional allotment shall be three Rights Shares for every one Share held by the Qualifying Shareholders on the Record Date. Acceptance for all or part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being accepted for.

### **Fractions of the Rights Shares and the Bonus Warrants**

The Company will not provisionally allot fractions of the Rights Shares in nil-paid form or allot fractions of Bonus Warrants. All fractions of Right Shares and Bonus Warrants will be aggregated (rounded down to the nearest whole number) and allotted to a nominee appointed by the Company and all nil-paid Rights Shares arising from such aggregation will be sold in the market, if a premium (net of expenses) can be obtained, and the Company will retain the proceeds from such sale(s) for its own benefit.

Any unsold fractions of the Rights Shares and Bonus Warrants will be made available for excess applications by the Qualifying Shareholders.

### **Application for excess Rights Shares**

Qualifying Shareholders are entitled to apply for, by way of excess application, any unsold entitlements of the Prohibited Shareholders (if any) and for any nil-paid Rights Shares provisionally allotted but not accepted by other Qualifying Shareholders by the Latest Time for Acceptance.

If a Qualifying Shareholder wishes to apply for any Rights Shares in addition to his/her provisional allotment, he/she must complete and sign the enclosed EAFs in accordance with the instructions printed thereon and lodge the same with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong so as to be received by not later than 4:00 p.m. on Wednesday, 22 June 2011. All remittances must be made by cheque or cashier's order in Hong Kong dollars and cheques must be drawn on a bank account with, or cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "CHINA STAR ENTERTAINMENT LIMITED EXCESS APPLICATION" and crossed "ACCOUNT PAYEE ONLY". The Registrar will notify the relevant Qualifying Shareholders of any allotment of excess Rights Shares made to them. An announcement of results of acceptance of and excess applications for the Rights Issue will be published on Tuesday, 28 June 2011.

The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

- (1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism; and

---

## LETTER FROM THE BOARD

---

- (2) subject to availability of excess Rights Shares after allocation under principle (i) above, the excess Rights Shares will be allocated to Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for a smaller number of Rights Shares are allocated with a higher percentage of successful application but will receive a lesser number of Rights Shares, whereas Qualifying Shareholders applying for a larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive a higher number of Rights Shares).

No preference treatment will be given to the Concert Group in the allocation of the excess Rights Shares, if any.

Shareholders or potential investors should note that the number of excess Rights Shares which may be allocated to them may be different where they make applications for excess Rights Shares by different means, such as making applications in their own names as against through nominees who also hold Shares for other Shareholders/investors. The investors whose Shares are held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, investors whose Shares are registered in the name of nominee companies (including Shares held through CCASS) should note that the aforesaid arrangement in relation to the allocation of excess Rights Shares will not be extended to beneficial owners individually. Shareholders and investors should consult their professional advisers if they are in any doubt as to whether they should register their shareholdings in their own names and apply for excess Rights Shares themselves.

Investors whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company must lodge all necessary documents with the Registrar at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for completion of the relevant registration by the Latest Lodging Time.

If no excess Rights Shares are allotted to a Qualifying Shareholder, the full amount tendered on application is expected to be returned by refund cheque to that Qualifying Shareholder by ordinary post and at his/her/its own risk on or before Wednesday, 29 June 2011. If the number of excess Rights Shares allotted to a Qualifying Shareholder is less than that applied for, the surplus application monies are also expected to be returned by refund cheque to him/her/it by ordinary post and at his/her/its own risk on or before Wednesday, 29 June 2011.

If the Underwriters exercise the right to terminate their obligations under the Underwriting Agreement before the Latest Time for Termination, the monies received in respect of relevant applications for excess Rights Shares will be returned to the relevant persons without interest, by means of cheques despatched by ordinary post at the risk of such applicants on or before Wednesday, 29 June 2011.

---

## LETTER FROM THE BOARD

---

All cheques or cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of an EAF together with a cheque or cashier's order in payment for the excess Rights Shares applied for will constitute a warranty by the applicant(s) that the cheque or cashier's order will be honoured on first presentation. Without prejudice to its other rights in respect thereof, the Company reserves the right to reject any EAF in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation.

The EAF is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques or cashier's orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses by the Registrar. The Company may, at its discretion, treat an EAF as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions.

### **Application for listing**

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms), the Bonus Warrants and the Bonus Warrants Shares. Dealings in the Rights Shares (in both nil-paid and fully-paid forms), the Bonus Warrants and the Bonus Warrants Shares will be subject to the payment of stamp duty and any other applicable fees and charges in Hong Kong.

No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms), the Bonus Warrants and the Bonus Warrants Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Bonus Warrants on the Stock Exchange as well as compliance with the stock admission requirement of HKSCC, the Rights Shares (in both nil-paid and fully-paid forms), the Bonus Warrants and the Bonus Warrants Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Bonus Warrants will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in each of their nil-paid and fully-paid forms and the Bonus Warrants on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on 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.

The Shares are currently traded on the Stock Exchange in board lots of 500 Shares under temporary counter and in board lots of 10,000 Shares under original counter. Nil-paid Rights Shares are expected to be traded in board lots of 10,000 Rights Shares (being the same as that of the Shares). Dealings in the Rights Shares, in both nil-paid and fully-paid forms (both in board lots of 10,000 Shares), which are registered in the Registrar, will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy or any other applicable fees and charges in Hong Kong. The Bonus Warrants are expected to be traded in board lots of 5,000 Bonus Warrants.

---

## LETTER FROM THE BOARD

---

### **Certificates of the Rights Shares and the Bonus Warrants and refund cheques**

Subject to fulfillment of the conditions of the Rights Issue and the Bonus Issue, share certificates for the fully-paid Rights Shares and warrant certificates for the Bonus Warrants are expected to be posted on or before Wednesday, 29 June 2011 to those entitled thereto by ordinary post to their registered addresses at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before Wednesday, 29 June 2011 by ordinary post to the applicants' registered addresses at their own risk. Dealing in the fully-paid Rights Shares and the Bonus Warrants are expected to commence on Monday, 4 July 2011.

### **Conditions of the Rights Issue and the Bonus Issue**

The Rights Issue and the Bonus Issue are conditional upon:

- (1) the passing by the Independent Shareholders at the SGM of an ordinary resolution (such vote shall be taken by way of poll) to approve the Rights Issue;
- (2) the passing by the Independent Shareholders at the SGM of an ordinary resolution (such vote shall be taken by way of poll) to approve the Whitewash Waiver;
- (3) the filing with the Registrar of Companies in Bermuda one copy of each of the Prospectus Documents duly signed by all the Directors or one of the Directors (for and on behalf of all the Directors) (and all other documents required to be attached thereto) and otherwise in compliance with the Companies Act 1981 of Bermuda (as amended from time to time) as soon as reasonably practicable after the Prospectus Posting Date;
- (4) the Executive granting the Whitewash Waiver to the Concert Group and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted and such other necessary waiver or consent of the Executive for the transactions contemplated under the Rights Issue and the Bonus Issue;
- (5) if necessary, the Bermuda Monetary Authority granting consent to the issue of the Rights Shares, the Bonus Warrants and the Bonus Warrants Shares by the Latest Time of Termination or such later time as the Underwriters may agree with the Company in writing;
- (6) the delivery to the Stock Exchange and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) not later than the Prospectus Posting Date and otherwise in compliance with the Listing Rules and the Companies Ordinance;
- (7) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date;



---

## LETTER FROM THE BOARD

---

- (8) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares (in both nil-paid and fully paid forms), the Bonus Warrants and the Bonus Warrants Shares by no later than the Prospectus Posting Date;
- (9) the Capital Reorganisation having become effective;
- (10) the passing of an ordinary resolution by the Independent Shareholders at the SGM to approve the issue of the Bonus Warrants and the issue and allotment of the Bonus Warrants Shares;
- (11) compliance with and performance of all undertakings and obligations of HWKFE under the Irrevocable Undertakings;
- (12) compliance with and performance of all undertakings and obligations of Simple View under the Irrevocable Undertakings;
- (13) compliance with and performance of all undertakings and obligations of Ms. Chen under the Irrevocable Undertakings;
- (14) compliance with and performance of all undertakings and obligations of Eternity under the Irrevocable Undertakings;
- (15) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement; and
- (16) compliance with and performance of all undertakings and obligations of the Underwriters under the Underwriting Agreement.

The condition stated at point (9) above has been fulfilled. The conditions precedent are incapable of being waived. If the conditions precedent are not satisfied in whole by the Latest Time for Termination or such other date as the Company and the Underwriters may agree, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches, and the Rights Issue and the Bonus Issue will not proceed.

### **PROCEDURES FOR ACCEPTANCE AND PAYMENT OR TRANSFER**

Qualifying Shareholders will find enclosed with this prospectus the PALs which entitles the Qualifying Shareholders to subscribe for the number of Rights Shares shown therein. If a Qualifying Shareholder wishes to exercise his/her/its rights to subscribe for the number of the Rights Shares specified in the PALs, the Qualifying Shareholder must lodge the PALs in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar by no later than 4:00 p.m. on Wednesday, 22 June 2011. All remittances must be made by cheques or cashier orders in Hong Kong dollars. Cheques must be drawn on an account with, and cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "CHINA STAR ENTERTAINMENT LIMITED RIGHTS ISSUE" and crossed "ACCOUNT PAYEE ONLY".

---

## LETTER FROM THE BOARD

---

It should be noted that unless the duly completed PAL, together with the appropriate remittance, has been lodged with the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. on Wednesday, 22 June 2011, whether by the original allottee or any person in whose favour the rights have been validly transferred, the relevant provisional allotment and all rights and entitlements thereunder will be deemed to have been declined and will be cancelled. The Company may (at its sole discretion) treat a PAL as valid and binding on the person(s) by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions in the PAL. The Company reserves the right to refuse to accept any acceptance of provisional allotments of Rights Shares or any application for excess Rights Shares where it believes that in doing so, it would, or may violate the applicable securities regulations or other laws or regulations of any jurisdiction. If the Qualifying Shareholders wish to accept only part of their provisional allotment or transfer a part of their rights to subscribe for the Rights Shares provisionally allotted to them under the PAL or transfer all or part of their rights to more than one person, the PAL must be surrendered and lodged for cancellation by not later than 4:30 p.m. on Tuesday, 14 June 2011 to the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, who will cancel the original PAL and issue new PALs in the denominations required which will be available for collection at the office of the Registrar after 9:00 a.m. on the second Business Day after the surrender of the original PAL.

The PAL contains further information regarding the procedures to be followed if Qualifying Shareholders wish to accept the whole or part of their provisional allotment. All cheques and cashier orders accompanying completed PALs will be presented for payment immediately upon receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Completion and return of a PAL with a cheque and/or a cashier's order in payment for the Rights Shares accepted will constitute a warranty by the applicant that the cheque and/or the cashier's order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any PAL in respect of which the accompanying cheque and/or cashier's order is dishonoured on first presentation, and, in such event, the relevant provisional allotment of Rights Shares and all rights and entitlements given thereunder will be deemed to have been declined and will be cancelled.

No receipt will be issued in respect of any acceptance monies received. If the conditions of the Underwriting Agreement are not fulfilled and/or the Underwriting Agreement is terminated in accordance with its terms before the Latest Time for Termination, the monies received in respect of acceptance of Rights Shares will be returned to the Qualifying Shareholders or, in case of joint applicants, to the first-named person without interest by means of cheques despatched by ordinary post to the respective addresses specified in the register of members of the Company at the risk of such Qualifying Shareholder as soon as practicable thereafter.

---

## LETTER FROM THE BOARD

---

### UNDERWRITING ARRANGEMENT

#### Irrevocable Undertakings

As at the Latest Practicable Date, HWKFE is interested in 24,671,500 Shares, representing approximately 5.02% of the existing issued share capital of the Company, and the HKWFE Warrants conferring rights to subscribe for 2,996,166 new Shares. HWKFE has given an irrevocable undertaking to the Company and Mansion House: (a) to accept or procure the acceptance for the 74,014,500 Rights Shares (with 14,802,900 Bonus Warrants), to which HWKFE is entitled under the Rights Issue and the Bonus Issue; and (b) not to dispose of and not to exercise the subscription rights attached to the HKWFE Warrants on or before completion of the Rights Issue.

As at the Latest Practicable Date, Simple View is interested in 68,000,000 Shares, representing approximately 13.84% of the existing issued share capital of the Company, and the Simple View Warrants conferring rights to subscribe for 14,421,978 new Shares. Simple View has given an irrevocable undertaking to the Company and the Underwriters: (a) to accept or procure the acceptance for 200,000,000 Rights Shares (with 40,000,000 Bonus Warrants), to which Simple View is entitled under the Rights Issue and the Bonus Issue; and (b) not to dispose of and not to exercise the subscription rights attached to the Simple View Warrants on or before completion of the Rights Issue. Simple View has not given any undertaking in relation to the acceptance of the remaining 4,000,000 Rights Shares (with 800,000 Bonus Warrants) entitled by it under the Rights Issue and the Bonus Issue.

Furthermore, the Chen Convertible Bonds may be issued to Ms. Chen in relation to the 2009 Proposed Acquisition (which is subject to conditions precedent and yet to be completed), details of which are set out in the announcement of the Company dated 5 May 2009, and the Eternity Convertible Bonds may be issued to Eternity in relation to the Proposed Subscription (which is subject to condition precedent and yet to be completed), details of which are set out in the announcement of the Company dated 9 February 2011. Ms. Chen has given an irrevocable undertaking to the Company and the Underwriters not to dispose of any Chen Convertible Bonds, not to transfer the Chen Convertible Bonds to any third party or take such actions to make those bonds available for conversion and not to exercise any of the conversion rights attaching to the Chen Convertible Bonds (if issued) on or before completion of the Rights Issue. Eternity has given an irrevocable undertaking to the Company and the Underwriters not to dispose of any Eternity Convertible Bonds, not to transfer the Eternity Convertible Bonds to any third party or take such actions to make those bonds available for conversion and not to exercise any of the conversion rights attaching to the Eternity Convertible Bonds (if issued) on or before completion of the Rights Issue.

None of the holders of the Share Options (including the 315,488 Share Options held by the Concert Group, representing approximately 17.72% of the total Share Options) has given any undertaking in relation to the exercise of the Share Options nor acceptance or non-acceptance of Rights Shares.

Save for the Simple View Warrants and the HWKFE Warrants, none of the warrants holders has given any undertaking.

---

## LETTER FROM THE BOARD

---

### Underwriting Agreement

**Date:** 29 March 2011

**Underwriters:** HWKFE and Mansion House

HWKFE is a Shareholder and its ordinary course of business does not include underwriting. HWKFE will not be entitled to any underwriting commission. HWKFE is a company owned as to 50% by Mr. Heung and as to 50% by Ms. Chen. As at the Latest Practicable Date, the Concert Group is interested in approximately 19.28% of the existing issued share capital of the Company.

To the best of the Directors' knowledge and information, Mansion House and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons (as defined under the Listing Rules), and are not interested in any Shares. Pursuant to the Underwriting Agreement, Mansion House will receive a commission calculated as 2.5% of the aggregate Subscription Price in respect of the number of Underwritten Shares (the number of Rights Shares as determined on the Record Date minus 800,000,000 Rights Shares) payable by the Company and the Company will reimburse the Underwriters for all reasonable costs and expenses incurred in connection with the Underwriting under the Underwriting Agreement.

### Number of Rights Shares underwritten by the Underwriters

Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite the Underwritten Shares in the manner that if:

- (a) the HWKFE's EAF Shares (if any) together with the Untaken Shares are equal to or less than 800,000,000 Rights Shares, HWKFE shall subscribe for all such Untaken Shares; or
- (b) the HWKFE's EAF Shares (if any) together with the Untaken Shares exceed 800,000,000 Rights Shares, HWKFE shall subscribe for such number of Untaken Shares equivalent to 800,000,000 Rights Shares less the HWKFE's EAF Shares (if any), and Mansion House shall subscribe or procure subscription for all the remaining Untaken Shares (being not more than 610,092,389 Underwritten Shares).

As stated in (a) above, the aggregate number of HWKFE's EAF Shares and the Untaken Shares subscribed by HWKFE shall in any event not exceed 800,000,000 Rights Shares. Therefore, the HWKFE's EAF Shares shall in any event not exceed 800,000,000 Rights Shares and if the number of HWKFE's EAF Shares equals to 800,000,000, HWKFE will not take up any Untaken Shares.

Given the Irrevocable Undertakings, details of which are set out in the paragraph headed "Irrevocable Undertakings" of this prospectus, the Rights Issue is fully underwritten.

Mansion House has sub-underwritten 610,092,388 Underwritten Shares and one Underwritten Share will be remained for its own account. Mansion House has undertaken to the Company that (i) it will ensure that the subscribers or purchasers of the Underwritten Shares procured by it or by the sub-underwriters are third parties independent of and not acting in concert with the directors, chief executive

---

## LETTER FROM THE BOARD

---

or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (including the Concert Group); (ii) no such subscriber or purchaser of the Underwritten Shares shall be procured by it or by the sub-underwriters if allotment and issue of any Rights Shares (with Bonus Warrants) to it would result in it and its associates and concert parties, when aggregated with the Shares (if any) already held by them holding 30% or more of the enlarged issued share capital of the Company immediately after completion of the Rights Issue and the Bonus Issue; and (iii) in performing its underwriting obligations under the Underwriting Agreement, no subscriber or purchaser of the Underwritten Shares will become a substantial Shareholder immediately after completion of the Rights Issue and the Bonus Issue. The Underwritten Shares taken up by Mansion House will be placed to not less than six places.

As at the Latest Practicable Date, Mansion House and the sub-underwriters of Mansion House have entered into the sub-underwriting agreements and Mansion House has already confirmed the procurement of the sub-underwriting of the 610,092,388 Underwritten Shares and the places to be procured by the sub-underwriters of Mansion House will be independent and not acting in concert with the Concert Group.

### **Termination of the Underwriting Agreement**

If, prior to the Latest Time for Termination:

- (1) in the sole and absolute opinion of the Underwriters, the success of the Rights Issue and the Bonus Issue would be materially and adversely affected by:
  - (a) 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 sole and absolute opinion of the Underwriters 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 Rights Issue and the Bonus Issue; or
  - (b) 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 sole and absolute opinion of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue and the Bonus Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue and the Bonus Issue; or
  - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (2) 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 sole and absolute opinion of the Underwriters is likely to materially or adversely affect the success of the Rights Issue and the Bonus Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue and the Bonus Issue; or

---

## LETTER FROM THE BOARD

---

- (3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriters will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement, or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue and the Bonus Issue; or
- (5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriters is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue and the Bonus Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it,

the Underwriters shall at their sole and absolute discretion be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriters shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriters; or
- (2) any Specified Event comes to the knowledge of the Underwriters.

Any such notice shall be served by the Underwriters prior to the Latest Time for Termination.

### **INTENTION OF HWKFE**

It is the intention of HWKFE that the Group will continue its current business. HWKFE has no intention to make any major changes to the business or employment of the employees of the Group or redeploy the fixed assets of the Group.

### **REASONS FOR THE RIGHTS ISSUE AND THE BONUS ISSUE AND USE OF PROCEEDS**

The Group is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, investing in operations which receive the profit stream from gaming promotion business and property and hotel investment.

---

## LETTER FROM THE BOARD

---

As disclosed in the Company's announcement dated 7 January 2011, the development period of the Sites shall end on 14 April 2013 and, subject to the fulfillment of the conditions precedent, the Proposed Acquisition is expected to be completed on or before 30 June 2011 (the long stop date), the Company has a funding need for development of the Sites. Given the tight deadline imposed on the development of the Sites, the entering into the Underwriting Agreement between the Company and the Underwriters prior to the Capital Reorganisation becoming effective enables the Company to have sufficient time to source other alternatives to fund the development of the Sites, if the Rights Issue and the Bonus Issue do not proceed.

The gross proceeds from the Rights Issue will be not less than approximately HK\$368.38 million and not more than approximately 421.03 million. The estimated net proceeds from the Rights Issue will be not less than approximately HK\$363.53 million but not more than approximately HK\$414.86 million. On 23 December 2010, the Company has entered into a conditional agreement with Sociedade de Turismo e Diversões de Macau, S.A. in relation to the Proposed Acquisition. As stated in its announcement dated 7 January 2011, the Company intends to develop the Sites into office units and residential apartment for sale and the street level of the Sites into an area consisting of restaurants, bars, nightclubs and art galleries in order to create traffic in the surrounding areas of Hotel Lan Kwai Fong Macau. The Board considers that the Proposed Acquisition will diversify the Group's investment portfolio in Macau and broaden its revenue base which have a positive impact on its long-term profitability. Given the lengthy due diligence process and/or pledging of assets required for bank financing, the Board intends to apply approximately HK\$360 million of the net proceeds from the Rights Issue to fund the financial needs for developing the Sites and/or the remaining for general working capital of the Group. If the Proposed Acquisition does not proceed, the Company intends to apply the net proceeds from the Rights Issue for other possible property investment opportunities in Macau, other investment opportunities and/or for general working capital of the Group. As at the Latest Practicable Date, the Company has not identified any such investment opportunities. Subject to the fulfillment of the conditions precedent, the completion of the Proposed Acquisition is expected to be on or before 30 June 2011 (the long stop date).

Assuming full exercise of the Bonus Warrants at the Bonus Warrants Subscription Price, the cash proceeds from the exercise of the Bonus Warrants would be not less than approximately HK\$73.68 million and not more than HK\$84.21 million. It is expected that the proceeds from the exercise of the Bonus Warrants, if any, will be used for general working capital of the Group.

Having taken into account the terms of the Rights Issue and the Bonus Issue, the Board considers that the Rights Issue and the Bonus Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Furthermore, it also offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company to participate in the future development of the Company should they wish to do so. In addition, the Bonus Issue will be an additional incentive for the Shareholders to take part in the Rights Issue. **However, those Qualifying Shareholders who do not take up the Rights Shares (with the Bonus Warrants) to which they are entitled should note that their shareholdings in the Company will be diluted.**

## LETTER FROM THE BOARD

### EFFECTS ON SHAREHOLDING STRUCTURE

For illustration purposes only, the effects on the shareholding structure of the Company as a result of the Rights Issue and the Bonus Issue based on the Irrevocable Undertakings and different scenarios are illustrated as follows:

(1) Based on none of the EOEW are exercised before the Record Date:

	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue and the Bonus Issue, assuming all Qualifying Shareholders take up his/hers/its entitlements under the Rights Issue and the Bonus Issue		Immediately upon completion of the Rights Issue and the Bonus Issue, assuming no Qualifying Shareholders take up Rights Shares (except the Underwriters)		Immediately upon completion of the Rights Issue and Bonus Issue, assuming no Qualifying Shareholders take up Rights Shares (except the Concert Group) (Note 5)		Assuming that only the Bonus Warrants held by Concert Group are exercised					
	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %	No. of Shares	Approx. %				
<b>The Concert Group</b>														
HWKFE (Note 1)	24,671,500	5.02	98,686,000	5.02	898,686,000	45.74	1,073,488,900	47.51	898,686,000	45.74	1,073,488,900	47.51	1,073,488,900	49.21
Dorest (Note 2)	13,702	0.01	54,808	0.01	13,702	0.00	13,702	0.00	54,808	0.01	63,029	0.00	63,029	0.00
Simple View and its associates (Note 3a)	69,995,000	14.25	279,980,000	14.25	269,995,000	13.74	309,995,000	13.72	279,980,000	14.25	321,977,000	14.25	321,977,000	14.76
<b>Sub-total</b>	<b>94,680,202</b>	<b>19.28</b>	<b>378,720,808</b>	<b>19.28</b>	<b>1,168,694,702</b>	<b>59.48</b>	<b>1,383,497,602</b>	<b>61.23</b>	<b>1,178,720,808</b>	<b>60.00</b>	<b>1,395,528,929</b>	<b>61.76</b>	<b>1,395,528,929</b>	<b>63.97</b>
The places (Note 4)	-	-	-	-	399,526,370	20.34	479,431,644	21.22	389,500,264	19.82	467,400,317	20.69	389,500,264	17.85
Public Shareholders	396,500,088	80.72	1,586,000,352	80.72	396,500,088	20.18	396,500,088	17.55	396,500,088	20.18	396,500,088	17.55	396,500,088	18.18
<b>Total</b>	<b>491,180,290</b>	<b>100.00</b>	<b>1,964,721,160</b>	<b>100.00</b>	<b>1,964,721,160</b>	<b>100.00</b>	<b>2,259,429,334</b>	<b>100.00</b>	<b>1,964,721,160</b>	<b>100.00</b>	<b>2,259,429,334</b>	<b>100.00</b>	<b>2,181,529,281</b>	<b>100.00</b>



## LETTER FROM THE BOARD

(2) Assuming the EOEW are exercised in full before the Record Date:

As at the Latest Practicable Date	Immediately upon completion of the Rights Issue and the Bonus Issue, assuming all Qualifying Shareholders take up his/her/its entitlements under the Rights Issue and the Bonus Issue		Immediately upon completion of the Rights Issue and the Bonus Issue, assuming no Qualifying Shareholders take up Rights Shares (except the Underwriters)		Immediately upon completion of the Rights Issue and Bonus Issue, assuming no Qualifying Shareholders take up Rights Shares (except the Concert Group) (Note 5)		Assuming that only the Bonus Warrants held by the Concert Group are exercised					
	No. of Shares	Approx. %	Assuming none of the Bonus Warrants are exercised	Assuming the Bonus Warrants are exercised in full	Assuming none of the Bonus Warrants are exercised	Assuming the Bonus Warrants are exercised in full	No. of Shares	Approx. %				
<b>The Concert Group</b>												
HWKFE (Note 1)	24,671,500	5.02	98,686,000	4.59	898,686,000	41.85	1,073,488,900	43.47	1,073,488,900	45.40		
Dorest (Note 2)	13,702	0.01	66,432	0.01	16,608	0.00	16,608	0.00	66,432	0.01		
Mr. Heung	-	0.00	3,704	0.00	926	0.00	926	0.00	3,704	0.00		
Ms. Chen	-	0.00	3,704	0.00	926	0.00	926	0.00	3,704	0.00		
Simple View and its associates (Note 3a)	69,995,000	14.25	282,362,852	13.15	270,590,713	12.60	310,590,713	12.58	282,362,852	13.15		
							(Note 3b)					
<b>Sub-total</b>	<b>94,680,202</b>	<b>19.28</b>	<b>381,122,692</b>	<b>17.75</b>	<b>1,169,295,173</b>	<b>54.45</b>	<b>1,384,098,073</b>	<b>56.05</b>	<b>1,181,122,692</b>	<b>55.01</b>	<b>1,398,291,095</b>	<b>59.14</b>
The placees (Note 4)	-	-	-	-	536,443,136	24.98	643,731,763	26.07	524,615,617	24.43	629,538,741	25.49
Public Shareholders	396,500,088	80.72	1,766,154,156	82.25	441,538,539	20.57	441,538,539	17.88	441,538,539	20.56	441,538,539	18.67
<b>Total</b>	<b>491,180,290</b>	<b>100.00</b>	<b>2,147,276,848</b>	<b>100.00</b>	<b>2,147,276,848</b>	<b>100.00</b>	<b>2,469,368,375</b>	<b>100.00</b>	<b>2,147,276,848</b>	<b>100.00</b>	<b>2,469,368,375</b>	<b>100.00</b>

---

## LETTER FROM THE BOARD

---

*Notes:*

1. HWKFE is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.
2. Dorest is beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung. The Shares held by Dorest are under a charging order and Dorest is the registered shareholder and has the voting right. These Shares had been deposited in C.A. Pacific Finance Limited which is in liquidation.
3.
  - (a) Simple View is a wholly owned subsidiary of Eternity. Mr. Heung and Ms. Chen are directors of Simple View.
  - (b) This figure includes the 200,000,000 Rights Shares (with 40,000,000 Bonus Warrants) undertaken to be accepted by Simple View.
4. Mansion House has undertaken to the Company that (i) it will ensure that the subscribers or purchasers of the Underwritten Shares procured by it or by the sub-underwriters are third parties independent of and not acting in concert with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates; (ii) no such subscriber or purchaser of the Underwritten Shares shall be procured by it or by the sub-underwriters if allotment and issue of any Rights Shares (with Bonus Warrants) to it would result in it and its associates and concert parties, when aggregated with the Shares (if any) already held by them holding 30% or more of the enlarged issued share capital of the Company immediately after completion of the Rights Issue and the Bonus Issue; and (iii) in performing its underwriting obligations under the Underwriting Agreement, no subscriber or purchaser of the Underwritten Shares will become a substantial Shareholder immediately after completion of the Rights Issue and the Bonus Issue. The places to be procured by the sub-underwriters of Mansion House will be independent and not acting in concert with the Concert Group.
5. These scenarios are for illustrative purpose assuming the Concert Group take up their respective entitlements, if any, under the Rights Issue and the Bonus Issue. It should be noted that:
  - (a) Dorest has not given any undertaking in relation to exercise of the Dorest Warrants nor acceptance of the 41,106 Rights Shares (with 8,221 Bonus Warrants) entitled by it. The Shares held by Dorest are under charging order.
  - (b) None of the holders of the Share Options (including the 315,488 Share Options held by the Concert Group, representing approximately 17.72% of the total Share Options) has given any undertaking in relation to the exercise of the Share Options nor acceptance or non-acceptance of Rights Shares. Save for the Simple View Warrants and the HWKFE Warrants, none of the holders of the Existing Warrants has given any undertaking.
  - (c) Pursuant to the Irrevocable Undertakings, Simple View has undertaken to accept 200,000,000 Rights Shares (with 40,000,000 Bonus Warrants) to which it is entitled under the Rights Issue and the Bonus Issue. Save as disclosed, Simple View has not given any undertaking in relation to acceptance or non-acceptance of the remaining 4,000,000 Rights Shares (with 800,000 Bonus Warrants ) entitled by it under the Rights Issue and the Bonus Issue.

---

## LETTER FROM THE BOARD

---

### FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Set out below are the fund raising activities conducted by the Company in the past twelve months immediately prior to the Announcement:

Date of announcement	Description	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds as at the date of the Announcement
9 February 2011	The Proposed Subscription	HK\$649.50 million	For financing the Proposed Acquisition and development of the Sites and/or general working capital of the Group	The Proposed Subscription is subject to conditions precedent and may or may not proceed
14 January 2011	Placing of up to 577,855,000 Original Shares at a price of HK\$0.07 per Original Share	HK\$39.93 million	To satisfy part of the consideration for the Proposed Acquisition	The net proceeds will be used as intended
8 July 2010	Rights issue of 1,444,643,184 Original Shares on the basis of one Original Share for every two Original Shares held on 20 July 2010 at the subscription price of HK\$0.10 per Original Share	HK\$141.46 million	To reduce the Group's bank borrowings and financing hotel operation or finance the general working capital of the Group	Approximately HK\$41 million has been applied to hotel operation and general working capital of the Group and HK\$100.46 million will be applied to the Proposed Acquisition

### DEALINGS OF THE SHARES OR ORIGINAL SHARES BY THE CONCERT GROUP

There has been no dealing of Original Shares, Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company by the Concert Group for the six months' period immediately prior to the date of the Announcement and up to the Latest Practicable Date.

As at the Latest Practicable Date, save as the 94,680,202 Shares (representing approximately 19.28% of the entire issued share capital of the Company), the 315,488 Share Options (representing approximately 17.72% of the total Share Options) and the Existing Warrants which can be exercised to subscribe 17,703,127 Shares (representing 28.89% of the Existing Warrants held by the Concert Group), the Concert Group:

---

## LETTER FROM THE BOARD

---

- (a) did not hold any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (b) save for the Irrevocable Undertakings, there was no arrangement (whether by way of option, indemnity or otherwise) in relation to shares of HWKFE and the Company and which may be material to the Underwriting Agreement, the Whitewash Waiver, the Rights Issue and the Bonus Issue;
- (c) there was no agreements or arrangements to which the Concert Group is a party which related to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Underwriting Agreement, the Whitewash Waiver, the Rights Issue and the Bonus Issue, other than those set out in the section headed “Condition of the Rights Issue and the Bonus Issue” of this prospectus;
- (d) did not receive any irrevocable commitment or arrangements to vote in favour of or against the resolution in respect of the Underwriting Agreement or the Rights Issue or the Bonus Issue or the Whitewash Waiver; and
- (e) did not borrow or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

### ADJUSTMENTS TO SHARE OPTIONS AND EXISTING WARRANTS

Adjustments to the exercise prices and number of the Share Options and the subscription price of the Existing Warrants may be required under the Share Option Scheme and the relevant terms under the warrant instrument constituting the Existing Warrants. An approved financial adviser or the auditors of the Company will be appointed to certify the necessary adjustments, if any, to the exercise prices and the numbers of the Share Options and the subscription price of the Existing Warrants. Further announcement will be made by the Company in this regard.

### WARNING OF THE RISK OF DEALINGS IN THE SHARES AND NIL-PAID RIGHTS SHARES

**The last day of dealing in the Shares on a cum-entitlement basis was Friday, 27 May 2011. The Shares have been dealt in on an ex-entitlement basis commencing from Monday, 30 May 2011. The Rights Shares are expected to be dealt in their nil-paid form from Friday, 10 June 2011 to Friday, 17 June 2011 (both dates inclusive). Shareholders and potential investors should note that dealing in Shares and/or nil-paid Rights Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled.**

**Shareholders and potential investors should note that the Rights Issue and the Bonus Issue is conditional upon fulfillment of various conditions precedent and the Underwriters are entitled to terminate the Underwriting Agreement prior to the Latest Time for Termination, details of which have been set out under the paragraph headed “Termination of the Underwriting Agreement” of this prospectus. Accordingly, the Rights Issue and the Bonus Issue may or may not proceed.**

---

## LETTER FROM THE BOARD

---

Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue and the Bonus Issue is subject are fulfilled (which is expected to be on 4:00 p.m. on Monday, 27 June 2011) and/or dealing in nil-paid Rights Shares between Friday, 10 June 2011 to Friday, 17 June 2011 (both dates inclusive), will accordingly bear the risk that the Rights Issue and the Bonus Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares and/or nil-paid Rights Shares should exercise extreme caution when dealing in Shares and/or nil-paid Rights Shares, and if they are in any doubt about their position, they should consult his/her/its own professional adviser.

### GENERAL

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.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this prospectus.

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

The Bonus Warrants will be issued subject to and with benefit of an instrument by way of deed poll (the “Instrument”) and they will be issued in registered form and will form one class and rank pari passu in all respects with each other.

The principal terms and conditions of the Bonus Warrants will be set out in the Warrant Certificates (as defined in the Instrument) and will include provisions to the effect set out below. Warrantholders (as defined in the Instrument) will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions of the Instrument, copies of which will be available at the principal place of business for the time being of the Company in Hong Kong.

## **1. EXERCISE OF SUBSCRIPTION RIGHTS**

- (A) The registered holder for the time being of a Bonus Warrant will have the rights (the “Subscription Rights”) for each unit of the Bonus Warrants to subscribe in cash the whole or part (in integral multiples of HK\$0.25) of the amount in respect of which the Warrant is issued for fully paid new Shares at an initial subscription price of HK\$0.25 per Share (subject to the adjustments referred to below). The Subscription Rights attaching to the Bonus Warrants may be exercised during the subscription period, being the period of 18 calendar months from the date of the issue of the Bonus Warrants which is expected to be Wednesday, 29 June 2011. The business day falling during the Bonus Warrants Subscription Period on which any of the Subscription Rights are duly exercised is referred to in this summary as a “Subscription Date”. Any Subscription Rights which have not been exercised during the Bonus Warrants Subscription Period will lapse and the relevant Warrant Certificates will cease to be valid for any purpose. Reference in this summary to “Shares” are to the existing Shares of the Company and all other (if any) Shares from time to time and for the time being ranking pari passu therewith.
- (B) Each Warrant Certificate will contain a subscription form. In order to exercise his Subscription Rights, a Warrantholder must complete and sign the subscription form (which shall, once signed and completed, be irrevocable) and deliver the Warrant Certificate (and, if the subscription form used is not the form endorsed on the Warrant Certificate, the separate subscription form) to the Registrar (as defined in the Instrument), together with a remittance for the relevant subscription monies (or in a case of a partial exercise, the relevant portion of the subscription monies), for the new Shares in respect of which the Subscription Rights are being exercised. In each case compliance must also be made with any exchange control, fiscal or other laws or regulations for the time being applicable.
- (C) No fraction of a Share will be allotted but any balance representing fractions of the subscription monies paid on the exercise of the Subscription Rights will be refunded to the person or persons whose name(s) stand(s) in the register of Warrantholders as the holder(s) of the relevant Bonus Warrant, provided always that if the Subscription Rights comprised in two or more Warrant Certificates are exercised at the same time by the same Warrantholder then, for the purpose of determining whether any (and if so, what) fraction of a Share arises, the Subscription Rights represented by such Warrant Certificate shall be aggregated.

- (D) The Company undertakes in the Instrument that Shares falling to be issued upon the exercise of the Subscription Rights will be issued and allotted, subject to any shorter period as prescribed or required by the Stock Exchange from time to time, not later than 28 days after the relevant Subscription Date and will rank pari passu with the fully-paid Shares in issue on the relevant Subscription Date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the relevant Subscription Date and other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the relevant Subscription Date and notice of the amount and record date for which shall have been given to the Stock Exchange prior to the relevant Subscription Date.
- (E) As soon as practicable after the relevant allotment of Shares (and, subject to any shorter period as prescribed by the Stock Exchange from time to time, not later than 28 days after the relevant Subscription Date) there will be issued free of charge to the Warrantholder:
- (i) a certificate (or certificates) for the relevant Shares in the name of such Warrantholder;
  - (ii) (if applicable) a balance Warrant Certificate in registered form in the name of such Warrantholder in respect of any Subscription Rights remaining unexercised; and
  - (iii) (if applicable) a refund cheque representing the fractional entitlement to Shares not allotted as mentioned in sub-paragraph (C) above.

The certificate(s) for Shares arising on the exercise of Subscription Rights, the balance Warrant Certificate (if any) and the refund cheque in respect of the fractional entitlements (if any) will be sent by post at the risk of such Warrantholder to the address of such Warrantholder or (in the case of a joint holding) to that one of them whose name stands first in the Register. If the Company agrees, such certificates and cheques may by prior arrangement be retained by the Registrar to await collection by the relevant Warrantholder.

## **2. ADJUSTMENTS OF BONUS WARRANTS SUBSCRIPTION PRICE**

The Instrument contains detailed provisions relating to the adjustment of the Bonus Warrants Subscription Price. The following is a summary of, and is subject to, the adjustment provisions of the Instrument:

- (A) The Bonus Warrants Subscription Price shall (except as mentioned in sub-paragraphs (B) and (C) below) be adjusted as provided in the Instrument in each of the following cases:
- (i) an alteration of the nominal amount of each Share by reason of any consolidation or sub-division;
  - (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 (as defined in the Instrument) being made by the Company, whether on a reduction of capital or otherwise, to holders of its Shares in their capacity as such;
  - (iv) a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;
  - (v) an offer or grant being made by the Company to Shareholders of new Shares by way of rights or of options or warrants to subscribe for new Shares at a price which is less than 90% of the market price (calculation as provided in the Instrument);
  - (vi) an issue wholly for cash being made by the Company or any other company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total Effective Consideration (as defined in the Instrument) per Share is less than 90% of the market price (calculated as provided in the Instrument), or the terms of any such issue being altered so that the said total Effective Consideration is less than 90% of the market price;
  - (vii) an issue being made wholly for cash of Shares (other than pursuant to an Employee Share Option Scheme (as defined in the Instrument)) at a price less than 90% of the market price (calculated as provided in the Instrument); and
  - (viii) the purchase by the Company of Shares or securities convertible into Shares or any rights to acquire Shares (excluding any such purchases made on the Stock Exchange or any recognised stock exchange, being a stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Bonus Warrants Subscription Price.
- (B) Except as mentioned in sub-paragraph (C) below, no such adjustment as is referred to in sub-paragraphs (ii) to (vii) of sub-paragraph (A) above shall be made in respect of:
- (i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon the exercise of any rights (including the Subscription Rights) to acquire Shares;
  - (ii) an issue of Shares or other securities of the Company or any of its subsidiaries wholly or partly convertible into, or rights to acquire, Shares to directors or employees of the Company or any of its subsidiaries pursuant to an Employee Share Option Scheme;
  - (iii) an issue by the Company of Shares or by the Company or any of its subsidiaries of securities wholly or partly convertible into or rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;



- (iv) an issue of fully paid Shares by way of capitalisation of all or part of the Subscription Right Reserve (as defined in the Instrument) (or other profits or reserves) to be established in certain circumstances pursuant to the terms and conditions contained in the Instrument (or any similar reserve which has been or may be established pursuant to the terms of any other securities wholly or partly convertible into, or rights to acquire, Shares); or
  - (v) an issue of Shares pursuant to a scrip dividend scheme where an amount of not less than the nominal amount of the Shares so issued is capitalised and the market value (calculation as provided in the Instrument) of such Shares is not more than 110% of the amount of dividend which Shareholders could elect to or would otherwise receive in cash.
- (C) Notwithstanding the provisions referred to in sub-paragraphs (A) and (B) above, in any circumstances where the Directors shall consider that an adjustment to the Bonus Warrants Subscription Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Bonus Warrants Subscription Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or at a different time from that provided for under the said provisions, the Company may appoint either an approved financial adviser (as defined in the Instrument) or auditors of the Company to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved financial adviser or the auditors of the Company (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including, without limitation, making an adjustment calculated on a different basis) and/or the adjustment shall take effect from such other date and/or time as shall be certified by such approved financial adviser or the auditors of the Company (as the case may be) to be in their opinion appropriate.
- (D) Any adjustment to the Bonus Warrants Subscription Price shall be made to the nearest one-tenth of a cent so that any amount under half of one-tenth of a cent shall be rounded down and any amount of half of one-tenth of a cent or more shall be rounded up. No adjustment shall be made to the Bonus Warrants Subscription Price in any case in which the amount by which the same would be reduced would be less than one-tenth of a cent and any adjustment which would otherwise then be required shall not be carried forward. No adjustment may be made (except on a consolidation of Share into Shares of a larger nominal amount) which would increase the Bonus Warrants Subscription Price.

- (E) Every adjustment to the Bonus Warrants Subscription Price will be certified by the auditors of the Company or an approved financial adviser in accordance with sub-paragraph (C) above and notice of each adjustment (giving the relevant particulars) will be given to the Warrantholders. In giving any certificate or making any adjustment hereunder, the auditors of the Company or the approved financial adviser shall be deemed to be acting as experts and not as arbitrators and in the absence of manifest error, their decision shall be conclusive and binding on the Company and Warrantholders and all persons claiming through or under them respectively. Any such certificate of the auditors of the Company and/ or approved financial adviser will be available at the principal place of business for the time being of the Company in Hong Kong, where copies may be obtained without charge.

### **3. REGISTERED WARRANTS**

The Bonus Warrants are issued in registered form. The Company shall be entitled to treat the registered holder of any Warrant as the absolute owner thereof and accordingly shall not except as ordered by a Court of competent jurisdiction or required by law be bound to recognise any equitable or other claim to or interest in such Warrant on the part of any other person, whether or not it shall have express or other notice thereof.

### **4. WINDING UP OF THE COMPANY**

- (A) In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purposes of considering, and if thought fit approving, a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to each Warrantholder and thereupon, every Warrantholder shall be entitled by irrevocable surrender of his Warrant Certificate(s) to the Company (such surrender to occur not later than two business days prior to the proposed shareholders' meeting referred to above) with the subscription form(s) duly completed, together with payment of the subscription monies or the relative portion thereof, to exercise the Subscription Rights represented by such Bonus Warrants and the Company shall as soon as practicable and in any event not later than the day immediately prior to the date of the proposed shareholders' meeting allot such number of Shares to the Warrantholder which fall to be issued pursuant to the exercise of the Subscription Rights represented by such Bonus Warrants. The Company shall give notice to the Warrantholder of the passing of such resolution within 7 days after the passing thereof.
- (B) If an effective resolution is passed during the Bonus Warrants Subscription Period for the voluntary winding up of the Company for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warrantholders, or some persons designated by them for such purpose by special resolution, shall be a party or in conjunction with which a proposal is made to the Warrantholders and is approved by special resolution, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all the Warrantholders.

Subject to the foregoing, if the Company is wound up, all Subscription Rights which have not been exercised at the commencement of the winding-up shall lapse and the Warrant Certificates will cease to be valid for any purpose.

**5. TRANSFER, TRANSMISSION AND REGISTER**

The Subscription Rights represented by the Warrant Certificate are transferable, in whole amounts or integral multiples of the Bonus Warrants Subscription Price for the time being in force, by instrument of transfer in any usual or common form or such other form as may be approved by the Directors, by an instrument of transfer executed under the hands by the authorized person(s). Where the transferor or the transferee is HKSCC Nominees Limited or its successor thereto (or such other company as may be approved by the board of Directors for this purpose), the transfers may be executed under the hands of authorised person(s) or by machine imprinted signature(s) on its behalf or of such person(s), as the case may be. For this purpose, the Company shall maintain the Register and the provisions of the bye-laws of the Company for the time being in relation to the registration, transfer and transmission of Shares shall apply, mutatis mutandi, to the registration, transfer and transmission of the Bonus Warrants and shall have full effect as if the same had been incorporated herein.

Persons who hold the Bonus Warrants and have not registered the Bonus Warrants in their own names and wish to exercise the Bonus Warrants may incur additional costs and expenses in connection with any expedited re-registration of the Bonus Warrants prior to the transfer or exercise of the Bonus Warrants, particularly during the period commencing ten business days prior to and including the last day for subscription.

Since the Bonus Warrants will be admitted to the Central Clearing and Settlement System ("CCASS"), so far as applicable laws or regulations of relevant regulatory authorities, terms of the instrument and circumstances permit, the Company may determine the last trading day of the Bonus Warrants to be a date at least three trading days before Friday, 28 December 2012.

**6. CLOSURE OF REGISTER OF WARRANTHOLDERS**

The registration of transfers may be suspended and the Register may be closed for such period as the Directors may from time to time direct, provided that the same shall not be closed for a period of more than 60 days in any one year. Any transfer or exercise of the Subscription Rights attached to the Bonus Warrants made while the Register is so closed shall, as between the Company and the person claiming under the relevant transfer of Bonus Warrants or, as the case may be, as between the Company and Warrantholder who has so exercised the Subscription Rights attached to his Bonus Warrants (but not otherwise), be considered as made immediately after the reopening of the Register.

**7. PURCHASE AND CANCELLATION**

The Company or any of its subsidiaries may at any time purchase Bonus Warrants:

- (i) in the open market or by tender (available to all Warrantholders alike) at any price; or
- (ii) by private treaty upon terms to be agreed between the parties, but the price of which shall in any event not exceeding 110% of the Exercise Monies (as defined in the Instrument),

but not otherwise.

All Bonus Warrants purchased as aforesaid shall be cancelled forthwith and may not be reissued or resold.

**8. MEETINGS OF WARRANTHOLDERS AND MODIFICATION OF RIGHTS**

- (A) The Instrument contains provisions for convening meetings of Warrantholders to consider any matter affecting the interests of Warrantholders, including the modification by special resolution of the provisions of the Instrument and/or the terms and conditions endorsed in the Warrant Certificate. A special resolution duly passed at any such meeting shall be binding on the Warrantholders, whether present or not.
- (B) All or any of the rights for the time being attached to the Bonus Warrants (including any of the provisions of the Instrument) may from time to time (whether or not the Company is being wound up), be altered or abrogated (including but without prejudice to that generality by waiving compliance with, or by waiving or authorising any past or proposed breach of, any of the provisions of the conditions endorsed on the Warrant Certificate and/or the Instrument) and the sanction of a special resolution shall be necessary and sufficient to effect such alteration or abrogation.
- (C) Where the Warrantholder is a recognised clearing house (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) or its nominee(s), it may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number and class of warrants in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house or its nominee(s) could exercise as if such person were an individual Warrantholder of the Company.

**9. OVERSEAS WARRANTHOLDERS**

If a Warrantholder has a registered address in any territory other than Hong Kong where, in the opinion of the Directors, the allotment of Shares to such Warrantholder upon exercise of any Subscription Rights would or might, in the absence of compliance with registration or any other special formalities in such territory, be unlawful or impracticable under the laws of such territory, then the Company shall as soon as practicable after exercise by such Warrantholder of any Subscription Rights either:

- (a) allot the Shares which would otherwise have been allotted to such Warrantholder to one or more third parties selected by the Company; or
- (b) allot such Shares to such Warrantholder and then, on his behalf, sell them to one or more third parties selected by the Company; in each case for the best consideration then reasonably obtainable by the Company. As soon as reasonably practicable following any such allotment or (as the case may be) allotment and sale, the Company shall pay to the relevant Warrantholder an amount equal to the consideration received by the Company therefor (but having deducted therefrom all brokerages, commissions, stamp duty, withholding tax and all other payments, charges or taxes incurred by the Company in respect thereof) by posting the relevant remittance to him at his risk.

**10. REPLACEMENT OF WARRANT CERTIFICATES**

If a Warrant Certificate is mutilated, defaced, lost or destroyed, it may, at the discretion of the Company, be replaced at the principal office of the Registrar on payment of such costs as may be incurred in connection therewith and on such terms as to evidence, indemnity and/or security as the Company may require and on payment of such scrip fee not exceeding the maximum fee as may from time to time be permitted by the Stock Exchange as the Company may determine. Mutilated or defaced Warrant Certificates must be surrendered before replacements will be issued.

In the case of lost Warrant Certificates, section 71A subsections (2), (3), (4), (6), (7) and (8) of the Company Ordinance (Chapter 32 of the Laws of Hong Kong) shall apply as if “shares” referred to herein included Bonus Warrants.

**11. PROTECTION OF SUBSCRIPTION RIGHTS**

The Instrument contains undertakings by and restrictions on the Company designed to protect the Subscription Rights.

**12. CALL**

If, at any time Bonus Warrants which have not been exercised carry rights to subscribe less than 10% in value of all Subscription Rights, the Company may, on giving not less than 3 months’ notice, require the Warrantholders either to exercise their Subscription Rights represented or to allow them to lapse. On expiry of such notice, all unexercised Bonus Warrants will be automatically cancelled without any compensation to the holders of such Bonus Warrants.

**13. FURTHER ISSUE**

The Company shall subject to the Listing Rules from time to time be at liberty to issue further subscription warrants, including warrants ranking pari passu with the Bonus Warrants, however, the Warrantholders will not be entitled to participate in any distributions or further issues of securities by the Company as a result of them being Warrantholders.

**14. NOTICES**

- (A) The Instrument contains provisions relating to notices to be given to the Warrantholders.
- (B) Every Warrantholder shall register with the Company an address in Hong Kong or elsewhere to which notices can be sent and if any Warrantholder shall fail to do so, notice may be given to such Warrantholder by sending the same in any of the manners hereinafter mentioned to his last known place of business or residence or, if there be none, by posting the same for 3 days at the principal place of business for the time being of the Company in Hong Kong.
- (C) A notice may be given by delivery, prepaid letter (airmail in the case of an overseas address), facsimile or by way of announcement in accordance with the requirements of the Stock Exchange.
- (D) All notices with respect to Bonus Warrants standing in the names of joint holders shall be given to whichever of such persons is named first in the Register and notice so given shall be sufficient notice to all the holders of such Bonus Warrants.

**15. GOVERNING LAW**

The Instrument and the Bonus Warrants are governed by and will be construed in accordance with the laws of Hong Kong.

**1. FINANCIAL INFORMATION OF THE GROUP**

The audited financial statements of the Group for each of the three years ended 31 December 2008, 2009 and 2010 are disclosed in the annual reports of the Company for the years ended 31 December 2008, 2009 and 2010 respectively, which are published on both the HKExnews website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of the Company ([www.chinastar.com.hk](http://www.chinastar.com.hk)).

The auditors of the Group have not issued any qualified opinion on the Group's financial statements for the financial years ended 31 December 2008, 2009 and 2010.

**2. STATEMENT OF INDEBTEDNESS****INDEBTEDNESS OF THE GROUP****Borrowings**

As at the close of business on 30 April 2011, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK\$564,746,000 which comprised of (i) bank borrowing of HK\$487,500,000 which are secured by the leasehold land and buildings of the Group, bank deposits and quota capital of a subsidiary and guaranteed as to 50% by the Company, as to 49% by a director of the subsidiary and 1% by other shareholder of the subsidiary indebted to this borrowing; (ii) amounts due to non-controlling interests of approximately HK\$65,502,000 which are unsecured, interest-free and repayable on demand; (iii) amount due to an associate of approximately HK\$11,987,000 which is unsecured, interest-free and repayable on demand; and (iv) obligation under financial lease of approximately HK\$265,000.

**Contingent liabilities**

As at 30 April 2011, the Company provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Company to the extent of HK\$265,500,000, the Group had no other material contingent liabilities.

**Disclaimer**

Save as referred to as above and apart from intra-group liabilities, the Group did not have, as at 30 April 2011, any debt securities issued and outstanding or authorised or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

**3. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the present available financial resources, the existing banking facilities available and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements and for the period up to twelve months from the date of this prospectus in the absence of unforeseen circumstances.

#### 4. MATERIAL CHANGE

There has been no material change in the financial or trading position or outlook of the Group since 31 December 2010, being the date to which the latest published audited financial statements of the Group were made up.

#### 5. MANAGEMENT DISCUSSION AND ANALYSIS

##### A. Business review for the year ended 31 December 2008

###### Business Overview

For the year ended 31st December 2008, the Group's turnover increased by 191% to approximately HK\$227,747,000 (2007: HK\$78,351,000). Profit from operations and profit for the year amounted to approximately HK\$121,695,000 and HK\$65,590,000 respectively as compared to loss from operations and loss for the year of HK\$65,910,000 and HK\$103,807,000 respectively for last year. The turnaround of the current year's result was mainly attributable to contribution from the sharing of profit streams from investments in gaming and entertainment business in Macau after the acquisition of the entire equity interest in Best Mind International Inc. ("Best Mind"). The profit attributable to equity holders of the Company for the year ended 31st December 2008 was HK\$90,604,000, representing a 198% improvement over loss of HK\$92,547,000 in the last year.

For the year ended 31st December 2008, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK\$77,330,000, a 50% increase from HK\$51,585,000 as compared to the last corresponding year. The increase was mainly attributable to an impairment on amount due from associates of HK\$25,179,000 for the year.

Finance costs for the year ended 31st December 2008 amounted to HK\$31,522,000, an 146% increase from HK\$12,827,000 as compared to the year ended 31st December 2007. The substantial increase in finance costs was attributable to the issue of an aggregate principal amount of HK\$384,000,000 unsecured convertible notes ("Convertible Notes") as part of the consideration for the acquisition of Best Mind. In accordance with Hong Kong Accounting Standard 39 issued by the Hong Kong Institute of Certified Public Accountants, interest expenses of HK\$13,729,000 for the Convertible Notes were calculated using the prevailing market interest rate of similar instruments of 7.75% per annum, instead of the actual coupon rate of 5% per annum.



**Liquidity and financial resources**

As at 31st December 2008, the Group had total assets of approximately HK\$2,605,167,000 and a net current assets of approximately HK\$132,755,000, representing a current ratio of 1.3 (2007: 1.6). The Group had cash and bank balances of approximately HK\$138,145,000 (2007: HK\$203,837,000, of which HK\$181,102,000 classified as assets held for sale). As at 31st December 2008, the Group had total borrowings of HK\$696,683,000 comprising a bank overdraft of HK\$174,826,000, a bank mortgage loan of HK\$8,467,000, a secured bank term loan of HK\$375,000,000 and an outstanding convertible notes with liabilities component of HK\$138,390,000. The bank mortgage loan was secured by the Group's investment properties with carrying value of HK\$40,880,000, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 61 monthly instalments. The bank overdraft facility and the term loan were secured by the Group's leasehold land, building and construction in progress with carrying value of approximately HK\$991,034,000 (2007: HK\$794,813,000, classified as assets held for sale). The term loan was repayable by 18 equal consecutive quarterly installments of HK\$25,000,000 each commencing from the 9th month after the date of the first loan drawdown. The overdraft facility was repayable on demand and reviewed annually by the bank. The outstanding convertible notes were unsecured, interest bearing at coupon rate of 5% per annum and will mature on 17th May 2012. The convertible notes carry the right to convert into Shares at an adjusted conversion price of HK\$3.0 per share as of 31st December 2008. As at 31st December 2008, KHL, a subsidiary of the Company had banking facilities amounting to HK\$575,000,000 which were utilised to the extent of HK\$549,826,000. The Group's gearing remained reasonable during the year with total debts of HK\$696,683,000 against shareholders' funds of HK\$1,418,711,000. This represents a gearing ratio, calculated on the basis of the Group's total borrowings over shareholders' fund of 49%.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Patacas and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedging activity was considered necessary. As at 31st December 2008, the Group had no contingent liability.

**Employees**

As at 31st December 2008, the Group employed 93 staffs (2007: 78 staffs). The Directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

**B. Business review for the year ended 31 December 2009****Business Overview**

For the year ended 31st December 2009, the Group's turnover increased by 139% to approximately HK\$543,429,000 (2008: HK\$227,747,000). Profit from operations and profit for the year amounted to approximately HK\$251,153,000 and HK\$164,395,000 respectively as compared to HK\$121,695,000 and HK\$65,590,000 respectively for the year ended 31 December 2008. The profit attributable to owners of the Company for the year ended 31st December 2009 was HK\$204,388,000, representing a 126% improvement over HK\$90,604,000 in the year ended 31 December 2008.

For the year ended 31st December 2009, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK\$254,518,000, a 229% increase from HK\$77,330,000 as compared to corresponding year. The increase was mainly attributable to the operations of the hotel and gaming service operations during the year. Employee benefit expenses increased from HK\$32,774,000 to HK\$77,651,000 with respect to the increase in the number of employees in Lan Kwai Fong after its grand opening in August 2009.

**Liquidity and financial resources**

As at 31st December 2009, the Group had total assets of approximately HK\$3,190,275,000 and a net current assets of HK\$247,563,000, representing a current ratio of 1.4 (2008: 1.3). The Group had cash and cash balances of approximately HK\$173,188,000 (2008: HK\$138,145,000). As at 31st December 2009, the Group had total borrowings of HK\$590,071,000 comprising a bank mortgage loan of HK\$5,906,000, a secured bank overdraft of HK\$178,764,000, a secured bank term loan of HK\$275,000,000 ("Term Loan I"), a secure bank term loan of HK\$60,000,000 ("Term Loan II"), an unsecured bank term loan of HK\$70,000,000 ("Term Loan III") and obligation under finance lease of HK\$401,000. The bank mortgage loan is secured by the Group's investment properties with carrying value of HK\$61,310,000, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 49 monthly instalments. The bank overdraft facility, Term Loan I and Term Loan II are secured by the Group's leasehold land, buildings and construction in progress with an aggregate carrying values of approximately HK\$761,223,000 (2008: HK\$991,034,000). The bank overdraft facility is interest bearing at 1% per annum below the bank's best lending rate, repayable on demand and reviewed by the bank annually. Term Loan I is interest bearing at 2.0% per annum below the bank's best lending rate, repayable by 18 equal consecutive quarterly installments of HK\$25,000,000 each commencing from the 9th month after the date of the first loan drawdown. Term Loan II and Term Loan III are interest bearing at 2.2% and 3% per annum respectively over 1-month HIBOR, repayable by 12 equal consecutive monthly installments of HK\$10,000,000 each commencing from the first month after the date of drawdown. As at 31st December

2009, Hotel LKF, a subsidiary of the Company had banking facilities amounting to HK\$535,600,000 which were utilised to the extent of HK\$513,764,000. The Group's gearing remained low during the year with total debts of HK\$590,071,000 against owners' equity of HK\$2,075,122,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 28%.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December 2009, the Group had no contingent liability.

### **Employees**

As at 31st December 2009, the Group employed 526 staffs (2008: 93 staffs). The Directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes, housing allowance and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

## **C. Business review for the year ended 31 December 2010**

### **Business Overview**

For the year ended 31st December 2010, the Group's turnover increased by 59% to approximately HK\$864,261,000 (2009: HK\$543,429,000). Profit from operations and profit for the year amounted to approximately HK\$41,033,000 and HK\$24,827,000 respectively as compared to HK\$251,153,000 and HK\$164,395,000 respectively for last year. The substantial decrease was mainly attributable to an aggregate impairment losses of HK\$206,948,000 recognised in respect of intangible assets of HK\$197,973,000 and goodwill of HK\$8,975,000 during the interim review of the Group as at 30th June 2010 with regard to the decrease in sharing of profit streams from investments in gaming promotion business in Macau from Best Mind International Inc. ("Best Mind"). Best Mind is the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming promoters at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. As at 31st December 2010, the Group did not identify further impairment losses. Taking out the effect of the impairment losses recognised, the Group's profit from operations and profit for the year would amount to approximately HK\$247,981,000 and HK\$231,775,000 respectively. The loss attributable to owners of the Company for the year ended 31st December 2010 was HK\$8,083,000, representing a 104% decrease over profit of HK\$204,388,000 in the last year.

For the year ended 31st December 2010, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK\$347,548,000, a 83% increase from HK\$190,264,000 as compared to the last corresponding year. The increase was mainly attributable to the full operations of Lan Kwai Fong during the year as compared to 5 months in the last corresponding year. Employee benefit expenses increased 32% from HK\$77,651,000 to HK\$102,334,000 for the same reason.

### **Liquidity and Financial Resources**

As at 31st December 2010, the Group had total assets of approximately HK\$3,345,092,000 and net current assets of HK\$1,059,311,000, representing a current ratio of 5.7 (2009: 1.4). The Group had cash and cash balances of approximately HK\$625,827,000 (2009: HK\$173,188,000). As at 31st December 2010, the Group had total borrowings of HK\$500,000,000 which comprised a secured bank term loan (“Term Loan”). The Term Loan is interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank, repayable by 19 equal consecutive quarterly installments of HK\$12,500,000 each commencing from the third month after the date of the first loan drawdown and a final repayment for the remaining balance. As at 31st December 2010, Hotel LKF, a subsidiary of the Company had banking facilities amounting to HK\$536,000,000 which were utilised to the extent of HK\$500,000,000. The Group’s gearing was low during the year with total debts of HK\$500,000,000 against owners’ equity of HK\$2,302,775,000. This represents a gearing ratio, calculated in the basis of the Group’s total borrowings over owners’ equity of 22% (2009: 28%).

As the majority of the Group’s transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December 2010, the Group had no contingent liability.

### **Employees**

As at 31st December 2010, the Group employed 556 staffs (2010: 526 staffs). The directors believe that the quality of its employees is the single most important factor in sustaining the Group’s reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes, housing allowance and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

---

**APPENDIX III      UNAUDITED PRO FORMA STATEMENT OF ADJUSTED  
CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

---

**1.      UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET  
TANGIBLE ASSETS OF THE GROUP**

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the rights issue of not less than 1,473,536,625 shares of the Company (the “Share”) and not more than 1,684,106,889 Shares at a price of HK\$0.25 each on the basis of three rights Shares for every one Share held (the Rights Issue”) on the consolidated net tangible assets of the Group attributable to owners of the Company as if the Rights Issue and the capital reorganisation of the Company which were disclosed in the announcements of the Company dated 9 February 2011 and 28 February 2011 and the circular of the Company dated 7 March 2011 (the “Capital Reorganisation”) had been completed on 31 December 2010.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Rights Issue been completed as at 31 December 2010 or any other future date.

---

**APPENDIX III      UNAUDITED PRO FORMA STATEMENT OF ADJUSTED  
CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

---

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company based on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 and adjusted for the effect of the Rights Issue.

	Consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 <i>(Note 1)</i> <i>HK\$'000</i>	Estimated net proceeds from the Rights Issue <i>(Note 2)</i> <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2010 immediately after completion of the Rights Issue <i>HK\$'000</i>
Based on 1,473,536,625 Shares to be issued	<u>1,471,184</u>	<u>363,529</u>	<u>1,834,713</u>
Based on 1,684,106,889 Shares to be issued	<u>1,471,184</u>	<u>414,855</u>	<u>1,886,039</u>
Consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2010 prior to effect of the Capital Reorganisation and completion of the Rights issue <i>(Note 3)</i>			<u>HK\$0.34</u>
Consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2010 after effect of the Capital Reorganisation and prior to completion of the Rights Issue <i>(Note 4)</i>			<u>HK\$3.40</u>
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2010 immediately after effect of the Capital Reorganisation and completion of the Rights Issue based on 1,473,536,625 Shares to be issued <i>(Note 5)</i>			<u>HK\$0.96</u>
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2010 immediately after effect of the Capital Reorganisation and completion of the Rights Issue based on 1,684,106,889 Shares to be issued <i>(Note 6)</i>			<u>HK\$0.89</u>

---

## APPENDIX III      UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

---

*Notes:*

1. The amount represents the consolidated net assets of the Group attributable to owners of the Company as at 31 December 2010 of approximately HK\$2,302,775,000 less intangible assets, being intangible assets of approximately HK\$791,232,000, film rights of approximately HK\$21,321,000 and films in progress of approximately HK\$19,038,000. These figures were extracted from the audited consolidated statement of financial position of the Group as at 31 December 2010 as set out in the annual report of the Company for the year ended 31 December 2010.

2. The estimated net proceeds from the Rights Issue of approximately HK\$363,529,000 are based on 1,473,536,625 Shares to be issued at HK\$0.25 per Share and after deduction of estimated related expenses of approximately HK\$4,855,000, including underwriting commission, legal and professional fees and other related expenses.

The estimated net proceeds from the Rights Issue of approximately HK\$414,855,000 are based on 1,684,106,889 Shares to be issued at HK\$0.25 per Share and after deduction of estimated related expenses of approximately HK\$6,172,000, including underwriting commission, legal and professional fees and other related expenses.

3. The consolidated net tangible assets of the Group attributable to owners of the Company per Share prior to effect of the Capital Reorganisation and completion of the Rights Issue is based on 4,333,933,757 Shares in issue as at 31 December 2010.

4. The consolidated net tangible assets of the Group attributable to owners of the Company per Share after effect of the Capital Reorganisation and prior to completion of Rights Issue is based on 433,393,375 Shares in issue as at 31 December 2010.

5. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after completion of the Rights Issue is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after effect of the Capital Reorganisation and completion of the Rights Issue and on the basis of 1,906,930,000 Shares in issue or to be issued, comprising 433,393,375 Shares in issue as at 31 December 2010 and 1,473,536,625 Shares to be issued.

6. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after completion of the Rights Issue is calculated based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after effect of the Capital Reorganisation and completion of the Rights Issue and on the basis of 2,117,500,264 Shares in issue or to be issued, comprising 433,393,375 Shares in issue as at 31 December 2010 and 1,684,106,889 Shares to be issued.

7. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2010.

8. The above adjustments do not take into account of the following transaction subsequent to 31 December 2010:

- approximately HK\$39,930,000 received from 577,855,000 Shares (equivalent to 57,785,500 Shares after effect of the Capital Reorganisation) issued upon completion of placing on 27 January 2011.

If the effect of this transaction was taken into account,

- the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue based on 1,473,536,625 Shares to be issued would have been approximately HK\$0.95, which is based on 1,964,715,500 Shares in issue or to be issued.
- the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue based on 1,684,106,889 Shares to be issued would have been approximately HK\$0.89, which is based on 2,175,285,764 Shares in issue or to be issued.

---

## APPENDIX III      UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

---

### 2.      ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

*The following is the text of the report, prepared for the sole purpose of inclusion in this prospectus, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group set out in this appendix.*



Chartered Accountants  
Certified Public Accountants

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

8 June 2011

The Directors  
China Star Entertainment Limited  
Unit 3409, Shun Tak Centre, West Tower  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of China Star Entertainment Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) attributable to owners of the Company, which has been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the proposed rights issue upon the Capital Reorganisation becoming effective of not less than 1,473,536,625 shares of the Company and not more than 1,684,106,889 shares at a price of HK\$0.25 each on the basis of three rights shares for every one share held might have affected the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company presented for inclusion in Section 1 of Appendix III to the prospectus issued by the Company dated 8 June 2011 (the “Prospectus”). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company is set out on pages 51 to 53 of Appendix III to the Prospectus.

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

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).



---

## APPENDIX III      UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

---

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

### **Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2010 or any future date.

### **Opinion**

In our opinion:

- the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully  
**HLB Hodgson Impey Cheng**  
*Chartered Accountants*  
*Certified Public Accountants*  
Hong Kong

## 1. RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus (other than that in relation to HWKFE and parties acting in concert with it) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this prospectus (other than those relating to the Concert Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this prospectus (other than those expressed by the Concert Group) have been arrived at after due and careful consideration and there are no other facts not contained in this prospectus, the omission of which would make any statement in this prospectus misleading.

The directors of HWKFE jointly and severally accept full responsibilities for the accuracy of the information contained in this prospectus (other than those relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this prospectus (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this prospectus, the omission of which would make any statement in this prospectus misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) as at the Record Date and following completion of the Rights Issue and full exercise of the Bonus Warrants, is as follows:

(i) *As at the Latest Practicable Date*

<i>Authorised share capital:</i>		<i>HK\$</i>
50,000,000,000	Shares	500,000,000.00
<i>Issued and fully paid share capital or credited as fully paid:</i>		
491,180,290	Shares	4,911,802.90

*(ii) As at the Record Date and following completion of the Rights Issue and full exercise of the Bonus Warrants*

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>50,000,000,000</u>	Shares	<u>500,000,000.00</u>
 <i>Issued and fully paid share capital or credited as fully paid:</i>		
491,180,290	Shares	4,911,802.90
1,473,540,870	Rights Shares to be issued	14,735,408.70
<u>294,708,174</u>	Bonus Warrants Shares to be issued	<u>2,947,081.74</u>
<u>2,259,429,334</u>	Shares	<u>22,594,293.34</u>

Save as disclosed above and the Irrevocable Undertakings, as at the Latest Practicable Date, the Company had no options, warrants and conversion rights convertible into shares of the Company. There were 577,856,243 Original Shares and 1,290 Shares issued since 31 December 2010, being the end of the last financial year.

No capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. All the Rights Shares which will be in issue upon completion of the Rights Issue and the Bonus Warrants Shares to be allotted and issued upon exercise of the subscription rights attached to the Bonus Warrants will, when issued and fully paid, rank pari passu in all respects with the then existing Shares in issue regards to all rights as to dividends, voting and return of capital.

The issued Shares are listed and traded on the Stock Exchange. None of the Shares is listed, or dealt in, on any other exchange, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

### 3. PROFILES OF DIRECTORS

#### Executive Directors

Mr. HEUNG Wah Keung, aged 62, is the Chairman of the Company. He is the husband of Ms. Chen Ming Yin, Tiffany, Vice Chairman of the Company. He has over 30 years of experience in the entertainment and multimedia industries. He was the founder of Win's Entertainment Limited ("Win's") and One Hundred Years of Film Company Limited ("One Hundred Years"), which produces films recommended by audiences and distributors around the world. He is also the vice-chairman of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited. Mr. Heung was appointed as an executive director of the Company in 1996.

Ms. CHEN Ming Yin, Tiffany, aged 54, is the Vice Chairman of the Company. She is the wife of Mr. Heung Wah Keung and has over 25 years of experience in the entertainment and multimedia industries. Ms. Chen has produced a number of blockbuster films for Win's and One Hundred Years. In 2003, she was selected as one of 2003 Women in Entertainment – International Power by The Hollywood Reporter. Ms. Chen was appointed as an executive Director in 1996.

Ms. LI Yuk Sheung, aged 43, is an executive Director. She has more than 10 years experience of management in the entertainment and multimedia industries. She is responsible for the overall operations, and is familiar with the Group's system. Ms. Li was appointed as an executive Director in 2001.

#### Independent Non-executive Directors

Mr. HUNG Cho Sing, aged 70, is an independent non-executive Director. He has over 30 years of experience in the film distribution industry and founded Delon International Film Corporation in 1970. He has been the chairman of Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited since 1991 and was the chairman of Hong Kong Film Awards Association from 1992 to 1995. Mr. Hung was appointed by the HKSAR Government as a member of the Hong Kong Film Development Council since 2007. He was also appointed as a director of the China Film Association since 2009. Mr. Hung was appointed as a non-executive Director in 1996.

Mr. HO Wai Chi, Paul, aged 60, is an independent non-executive Director. He is the sole proprietor of Paul W. C. Ho & Company, Certified Public Accountants (Practising), and is an associate of the Institute of Chartered Accountants in England and Wales, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ho was appointed as a non-executive Director in 1996.

Mr. LEUNG Hok Man, aged 48, is an independent non-executive Director. Mr Leung studied law at the University of East London before completing the Legal Practice Course at the College of Law, York. After having admitted as a solicitor of the High Court of Hong Kong in 1999, he has moved into practice in the field of intellectual property laws. He is currently an in-house solicitor at an international patent and trademark agency firm. He has substantial experience in intellectual property practice. Mr. Leung was appointed as an independent non-executive Director in 2007.

Mr. Tang Chak Lam, Gilbert, aged 60, is a practicing solicitor in Hong Kong since 1987 and is a senior partner of Messrs. Gilbert Tang & Co.. He was a director of Pok Oi Hospital in 1993 and a member of the Kowloon West Advisory Committee of Hong Kong Bank Foundation District Community Programme between July 1991 and November 1995. Mr. Tang holds a Bachelor of Law Degree from the University of Buckingham in the United Kingdom, and a Diploma in Chinese Law from the University of East Asia in Macau. Mr. Tang was appointed as an independent non-executive Director in 2011.

#### 4. CORPORATE INFORMATION

##### Board of Directors

##### *Executive Directors*

Mr. Heung Wah Keung  
Ms. Chen Ming Yin, Tiffany  
Ms. Li Yuk Sheung

##### *Independent Non-executive Directors*

Mr. Hung Cho Sing  
Mr. Ho Wai Chi, Paul  
Mr. Leung Hok Man  
Mr. Tang Chak Lam, Gilbert

##### *Audit Committee*

Mr. Hung Cho Sing  
Mr. Ho Wai Chi, Paul  
Mr. Leung Hok Man  
Mr. Tang Chak Lam, Gilbert

##### *Remuneration Committee*

Ms. Chen Ming Yin, Tiffany  
Mr. Hung Cho Sing  
Mr. Leung Hok Man  
Mr. Tang Chak Lam, Gilbert

##### *Nomination Committee*

Mr. Heung Wah Keung  
Mr. Hung Cho Sing  
Mr. Leung Hok Man  
Mr. Tang Chak Lam, Gilbert

##### Registered office

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

<b>Head office and principal place of business in Hong Kong</b>	Unit 3409 Shun Tak Centre West Tower 168-200 Connaught Road Central Hong Kong
<b>Company secretary</b>	Ms. Wong Shuk Han, Dorothy
<b>Authorised representatives</b>	Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany
<b>Auditors</b>	HLB Hodgson Impey Cheng
<b>Principal registrar and transfer office</b>	Butterfield Fulcrum Group (Bermuda) Limited Rosebank Centre 11 Bermuda Road Pembroke, Bermuda
<b>Hong Kong branch share registrar and transfer office</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Principal bankers</b>	Bank of China (Hong Kong) Limited Hang Seng Bank Limited Industrial and Commercial Bank of China (Macau) Limited Standard Chartered Bank (Hong Kong) Limited The Bank of East Asia, Limited
<b>Stock code</b>	326
<b>Website</b>	<a href="http://www.chinastar.com.hk">www.chinastar.com.hk</a> <a href="http://www.irasia.com/listco/hk/chinastar">www.irasia.com/listco/hk/chinastar</a>

**5. PARTIES INVOLVED IN THE RIGHTS ISSUE AND THE BONUS ISSUE**

<b>Underwriters</b>	Mansion House Securities (F.E.) Limited Heung Wah Keung Family Endowment Limited
<b>Financial adviser to the Company</b>	Nuada Limited 17/F, BLINK 111 Bonham Strand Sheung Wan Hong Kong
<b>Legal advisers to the Company</b>	<i>As to Bermuda Law:</i> Appleby 2206-19 Jardine House 1 Connaught Place Central, Hong Kong  <i>As to Hong Kong Law:</i> Michael Li & Co 14/F, Printing House, 6 Duddell Street, Central, Hong Kong
<b>Auditors</b>	HLB Hodgson Impey Cheng 31/F., Gloucester Tower, The Landmark 11 Pedder Street Central, Hong Kong
<b>Hong Kong branch share registrar and transfer office</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

## 6. DIRECTORS' INTERESTS

### (a) Directors' interests in the Company

As at the Latest Practicable Date, the interests of the Directors in the Shares and the underlying Shares and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung Wah Keung	Beneficial owner/ interest of spouse/ interest of controlled corporation	898,699,702 (Note a)	247,803,824 (Note b)	1,146,503,526	233.41
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	898,699,702 (Note a)	247,803,824 (Note b)	1,146,503,526	233.41
Ms. Li Yuk Sheung	Beneficial owner	–	9,268	9,268	0.00

All interests stated above represent long positions.

*Notes:*

- (a) These Shares are held as to 898,686,000 Shares (including 24,671,500 Shares and 874,014,500 Shares undertaken and underwritten under the arrangement of the Rights Issue) by HWKFE and as to 13,702 Shares by Dorest.
- (b) These underlying Shares comprised (i) outstanding options of the Company which are held as to 926 Share Options by Mr. Heung and as to 926 Share Options by Ms. Chen (the spouse of Mr. Heung). Therefore, Mr. Heung and Ms. Chen are deemed to be interested in the Share Options of each other; and (ii) HWKFE Warrants and Dorest Warrants; and (iii) Chen Conversion Bonds and (iv) 174,802,900 Bonus Warrants to be issued to HWKFE in respect of the Rights Shares undertaken or underwritten by HWKFE under the Rights Issue.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest in any Shares, options, warrants, derivatives or securities carrying conversion or subscription rights into Shares.



Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

**(b) Directors' interests in assets of the Company**

Save for 2009 Proposed Acquisition, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this prospectus and which was significant in relation to the business of the Group.

Save for Ms. Chen, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 December 2010, being the date to which the latest published audited accounts of the Group were made up.

Save as disclosed above and the interest of Mr. Heung in the Underwriting Agreement, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this prospectus and which was significant in relation to the business of the Group.

**(c) Directors' Service Contracts**

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies: (i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the commencement of the offer period; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 7. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SECURITIES

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Name	Capacity	Number of Shares or underlying Shares held	Approximate % of interest held
Eternity	Beneficial owner/ Interests of controlled corporation	1,134,921,978	50.54
Riche (BVI) Limited	Interests of controlled corporation	322,421,978	14.36
Simple View	Beneficial owner	322,421,978	14.36
HWKFE	Beneficial owner	1,076,485,066	219.16

All interests stated above represent long positions.

Other than disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or any persons (other than the Directors and chief executive of the Company) who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group.

### Interests in HWKFE

As at the Latest Practicable Date, the Group did not have any interest in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of HWKFE or its associates.

As at the Latest Practicable Date, the entire issued share capital of HWKFE was beneficially owned as to 50% by Mr. Heung and as to 50% by Ms. Chen and none of the other Directors had any interest in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of HWKFE or its associates.

**Dealings in securities of the Company**

During the Relevant Period, none of the Directors or any member of the Concert Group had any dealings in the shares, options, warrants, derivatives and securities carrying conversion or subscription rights into shares of the Company.

**Dealings in securities of HWKFE**

During the Relevant Period, none of the Directors or the Company had any dealings in the shares or any options, warrants, derivatives or securities carrying conversion or subscription rights into shares of HWKFE.

**Interests in other members of the Group**

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) were, directly or indirectly, interested in 10 per cent. or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the following subsidiaries of the Company:

<b>Name of subsidiary</b>	<b>Name of shareholder</b>	<b>Approximate shareholding</b>
Charm Faith Holdings Limited	Most Famous Enterprises Limited	49%
Classic Management & Service Company Limited	Most Famous Enterprises Limited	49%
Hotel Lan Kwai Fong (Macau) Limited	Most Famous Enterprises Limited	49%
Turbo International Co. Ltd.	Long Shong Pictures (H.K.) Limited	40%
Winner's Entertainment Limited	Wong Han Sau, Cecillia	49%

**Interests of experts in the Group**

None of the experts named in the paragraph headed "Qualification of experts" in this appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

**Interests in assets**

None of the experts named in the paragraph headed "Qualification of experts" in this appendix has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2010, being the date to which the latest published audited accounts of the Group were made up.

**Interest in competing business**

As at the Latest Practicable Date, none of the Directors nor their respective associates had any interests in business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**Miscellaneous**

As at the Latest Practicable Date:

- (a) no shares, options, derivatives and securities carrying conversion or subscription rights into Shares was owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by Nuada Limited or Mansion House or Goldin Financial or by any adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code;
- (b) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which includes any arrangement involving rights over Shares, any indemnity arrangement, and any agreement or understanding, formal or informal, of whatever nature, relating to such securities which may be an inducement to deal or refrain from dealing) with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code;
- (c) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which includes any arrangement involving rights over Shares, any indemnity arrangement, and any agreement or understanding, formal or informal, of whatever nature, relating to such securities which may be an inducement to deal or refrain from dealing) with any member of the Concert Group;
- (d) no Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares was managed on a discretionary basis by fund managers connected with the Company;
- (e) none of the Company, any Director or any member of the Concert Group had borrowed or lent any Shares, options, warrants, derivatives or securities carrying conversion or subscription rights into Shares;
- (f) none of the members of the Concert Group had borrowed or lent any Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares;
- (g) no benefit has been or would be given to any Director as compensation for loss of office or otherwise in connection with the Rights Issue and/or the Whitewash Waiver;

- (h) save for the Underwriting Agreement, there was (i) no agreement, arrangement or understanding (including any compensation arrangement) between any member of the Concert Group and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependence upon the Rights Issue and/or the Whitewash Waiver; and (ii) no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Rights Issue and/or the Whitewash Waiver or otherwise connected with the Rights Issue and/or the Whitewash Waiver;
- (i) save for the Underwriting Agreement, no material contracts had been entered into by HWKFE in which any Director had a material personal interest;
- (j) save for the Underwriting Agreement, there was no agreement or arrangement to which HWKFE was a party which related to the circumstances in which it may or may not invoke or seek to invoke a condition to the Rights Issue;
- (k) save as disclosed in this section, no Shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares was owned or controlled by any member of the Concert Group; and
- (l) no shares, options, warrants, derivatives and securities carrying conversion or subscription rights into Shares was owned or controlled by any persons who, prior to the posting of this prospectus irrevocably committed themselves or undertake to vote for or against the Rights Issue and/or the Whitewash Waiver.
- (m) save for Mr. Heung and Ms. Chen who are required to abstain from voting, none of the Directors hold Shares and, therefore, would not vote at the SGM.

## 8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by members of the Group within the two years preceding 18 April 2011 (being the date of the Announcement) and up to the Latest Practicable Date and are or may be material:

- (a) the conditional placing agreement dated 12 May 2009 entered into between the Company and Kingston Securities Limited relating to the placing of up to a maximum of 800,000,000 new Original Shares (by a maximum of eight tranches in which each tranche shall not be less than 100,000,000 new Shares, save for the last tranche) on a fully underwritten basis to independent investors at a price of HK\$0.2 per Original Share;
- (b) the conditional sale and purchase agreement dated 8 June 2009 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company and Elite Plan Investments Limited relating to the disposal of the entire issued share capital of Bingo Chance Limited at a total consideration of HK\$22,960,000;
- (c) the conditional sale and purchase agreement in respect of the 2009 Proposed Acquisition;

- (d) the conditional placing agreement dated 16 July 2009 entered into between the Company and Kingston Securities Limited in relation to a placing of 207,900,000 new Original Shares on a fully underwritten basis to professional investors at a price of HK\$0.22 per Original Share;
- (e) the conditional subscription agreement dated 23 July 2009 entered into between the Company and China Star Investment Holdings Limited in relation to the proposed subscription of a convertible bond in the principal amount of HK\$200 million at an initial conversion price of HK\$0.20 per Original Share;
- (f) the subscription agreement dated 4 January 2010 entered into between the Company and Skylight Property Ltd. in relation to a subscription of 540,000,000 new Original Shares at an subscription price of HK\$0.14 per Original Share;
- (g) the warrant instrument dated 15 June 2010 signed by the Company relating to the issue of warrant on the basis of one warrant for every five Shares held at 8 June 2010 at an initial subscription price of HK\$0.193 per Original Share;
- (h) the underwriting agreement dated 8 July 2010 entered into between the Company and Kingston Securities Limited relating to the issue of not less than 1,444,643,184 rights Original Shares and not more than 1,925,410,126 rights Original Shares at a subscription price of HK\$0.10 each on the basis of one rights Share for every two existing Shares held on 20 July 2010;
- (i) a joint venture agreement dated 8 December 2010 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company, KH Investment Holdings Limited and China Star Film Group Limited relating to formation of a joint venture company which is engaged in production and distribution of films at a total capital contribution of HK\$60 million;
- (j) the conditional agreement in respect of the Proposed Acquisition;
- (k) the conditional placing agreement dated 14 January 2011 entered into between the Company and Kingston Securities Limited in relation to a placing of up to 577,855,000 new Original Shares on a best effort basis at a price of HK\$0.07 per Original Share;
- (l) the conditional subscription agreement in respect of the Proposed Subscription; and
- (m) the Underwriting Agreement.

## 9. LITIGATION

Neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

**10. QUALIFICATION OF EXPERT**

The qualification of the expert who have given opinions in this prospectus is as follows:

<b>Name</b>	<b>Qualification</b>
HLB Hodgson Impey Cheng	Certified Public Accountants

**11. CONSENTS**

The expert named in the paragraph headed “Qualification of expert” in this appendix has given and has not withdrawn its respective written consent to the issue of this prospectus with copies of its reports or letters (as the case may be) and the references to its name included herein in the form and context in which it is respectively included.

Nuada Limited, the financial adviser to the Company, has given and has not withdrawn its consent to the publication of its name in this prospectus.

**12. EXPENSES**

The estimated expenses in connection with the Rights Issue and the Bonus Issue, including the underwriting commission, the financial advisory fees, printing, registration, translation, legal and accountancy charges and other related expenses are estimated to amount to approximately HK\$4.9 million and will be payable by the Company.

**13. GENERAL**

- (a) The registered office of HWKFE is Portcullis Trustnet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands and its correspondence address in Hong Kong is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.
- (b) The address of Simple View is Unit 3811, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.
- (c) The business address of all Directors is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.
- (d) The registered office of the Company is located at Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The head office and principal place of business is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.
- (e) The secretary of the Company is Ms. Wong Shun Han, Dorothy. Ms. Wong is member of the Hong Kong Institute of Certified Public Accountants.

(f) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Underwriters and any other person whereby the Shares to be acquired under the Rights Issue will be transferred, charged or pledged to any other persons.

(g) The English text of this prospectus shall prevail over the Chinese text.

#### **14. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

A copy of each of the Prospectus Documents, having attached thereto the written consent referred to in the paragraph headed “Consents” in this appendix, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance.

#### **15. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business in Hong Kong of the Company at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours from 10:00 a.m. to 6:00 p.m. up to and including Monday, 27 June 2011:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual reports of the Company for each of the two years ended 31 December 2010 and 2009;
- (c) the accountants’ report on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group issued by HLB Hodgson Impey Cheng, the text of which is set out in Appendix II to this prospectus;
- (d) the material contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (e) the written consents referred to in the paragraph headed “Consents” in this appendix;
- (f) the circular of the Company dated 20 May 2011 in relation to a very substantial acquisition and connected transaction; and
- (g) this prospectus.