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**CHINA STAR
ENTERTAINMENT LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 972)

**(I) CONNECTED TRANSACTION —
ISSUE OF CONVERTIBLE BONDS
(II) CHANGE OF USE OF PROCEEDS
AND
(III) RESUMPTION OF TRADING**



ETERNITY INVESTMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

**(I) MAJOR TRANSACTION —
SUBSCRIPTION OF CONVERTIBLE
BONDS
(II) VERY SUBSTANTIAL
ACQUISITION — CONVERSION
OF CONVERTIBLE BONDS
AND
(III) RESUMPTION OF TRADING**

Joint financial advisers



Mansion House Securities (F.E.) Limited

Nuada Limited

Corporate Finance Advisory

THE SUBSCRIPTION AGREEMENT

On 21 January 2011 (after trading hours of the Stock Exchange), China Star and Eternity entered into the Subscription Agreement, pursuant to which China Star has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for the Convertible Bonds in the maximum principal amount of HK\$650 million in two tranches at their face value.

Detailed terms of the Convertible Bonds are set out in the paragraph headed “Principal terms of the Convertible Bonds”. The issuance/subscription of the Convertible Bonds are subject to the conditions as set out in the paragraphs headed “Conditions Precedent” and “Completion”.

CHANGE OF USE OF PROCEEDS OF CHINA STAR

As disclosed in the China Star Circular (as defined herein), the directors of China Star intend to use the net proceeds from the China Star Rights Issue (as defined herein) of approximately HK\$141 million for (i) reducing the bank overdraft (subject to approvals of the minority shareholders of a subsidiary of China Star and the bank) of HK\$100 million, and (ii) hotel operation and general working capital of the China Star Group.

Subsequent to the completion of the China Star Rights Issue, the minority shareholders of a subsidiary of China Star and the bank had agreed to restructure the outstanding bank borrowing and bank overdraft owing to the bank. As a result, the outstanding bank borrowing and bank overdraft were repaid and substituted with a bank loan with better terms and longer repayment period. In view of the proposed acquisition of the property leasehold right of the Sites, the directors of China Star intend to apply the net proceeds of approximately HK\$100 million from China Star Rights Issue to satisfy part of the total consideration for the acquisition of the property leasehold right in respect of the Sites.

IMPLICATION OF THE LISTING RULES

As Eternity is a substantial shareholder of China Star and thus a connected person of China Star, the Subscription Agreement and the transactions contemplated thereunder constitute connected transaction for China Star under Chapter 14A of the Listing Rules. Accordingly, the Subscription Agreement and the transactions contemplated thereunder are subject to the approval of the China Star Independent Shareholders at the China Star SGM. Eternity and its associates shall abstain from voting to approve the Subscription Agreement and transaction contemplated thereunder at the China Star SGM. Given Mr. Heung and Ms. Chen are connected persons of Eternity, Mr. Heung and Ms. Chen and their respective associates shall also abstain from voting to approve the Subscription Agreement and transaction contemplated thereunder at the China Star SGM. An independent financial adviser will be appointed by China Star to advise the China Star Independent Board Committee and the China Star Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder.

The Subscription constitutes a major transaction and the conversion of the Convertible Bonds constitutes a very substantial acquisition of Eternity under Chapter 14 of the Listing Rules. Accordingly, the Subscription and the conversion of the Convertible Bonds are subject to Eternity Shareholders' approvals at the Eternity SGM. The Eternity SGM will be convened to approve the Subscription Agreement and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the directors of Eternity and having made all reasonable enquiries, no Eternity Shareholder shall abstain from voting to approve the Subscription Agreement and the transactions contemplated thereunder at the Eternity SGM.

GENERAL

As more time may be required to prepare information to be included in the circular of China Star, which containing, amongst other things, (i) further details of the Subscription Agreement and the transaction contemplated thereunder; (ii) the letter of advice from the China Star Independent Board Committee to the China Star Independent Shareholders and the recommendation of the independent financial adviser appointed by China Star to advise the China Star Independent Board Committee and the China Star Independent Shareholders in respect of the Subscription Agreement and the transaction contemplated thereunder; and (iii) the notice of China Star SGM, will be despatched to China Star Shareholders on or before 31 March 2011.

As more time may be required to prepare information to be included in the circular of Eternity, which containing, amongst other things, further details of the Subscription and the notice of Eternity SGM, will be despatched to Eternity Shareholders on or before 31 March 2011.

RESUMPTION OF TRADING

Trading in the issued China Star Shares and China Star Warrants on the Stock Exchange were suspended at the request of China Star with effect from 9:30 a.m. on 24 January 2011 pending the release of this announcement. China Star has applied for a resumption of trading in the issued China Star Shares and China Star Warrants with effect from 9:30 a.m. on 10 February 2011.

Trading in the issued Eternity Shares on the Stock Exchange was suspended at the request of Eternity with effect from 9:30 a.m. on 24 January 2011 pending the release of this announcement. Eternity has applied for a resumption of trading in the issued Eternity Shares with effect from 9:30 a.m. on 10 February 2011.

WARNING OF THE RISK OF DEALINGS IN THE CHINA STAR SHARES AND THE CHINA STAR WARRANTS AND THE ETERNITY SHARES

China Star Shareholders, Eternity Shareholders and potential investors should note that the issuance/subscription of the Convertible Bonds is subject to the satisfaction of the conditions precedent as set out in the paragraphs headed “Conditions Precedent” and “Completion”. Accordingly, the issuance/subscription of the Convertible Bonds may or may not proceed.

China Star Shareholders and potential investors are advised to exercise caution when dealing in the China Star Shares and the China Star Warrants.

Eternity Shareholders and potential investors are advised to exercise caution when dealing in the Eternity Shares.

On 21 January 2011 (after trading hours of the Stock Exchange), China Star and Eternity entered into the Subscription Agreement, pursuant to which China Star has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription by its nominee(s) for the Convertible Bonds in the maximum principal amount of HK\$650 million in two tranches at their face value.

THE SUBSCRIPTION AGREEMENT

Parties and date

Date: 21 January 2011

Issuer: China Star

Subscriber: Eternity

As at the date of the Subscription Agreement:

- (a) Eternity, through Simple View, is interested in 680,000,000 China Star Shares, representing approximately 15.69% of the issued share capital of China Star, and the China Star Warrants in an aggregate principal amount of HK\$26,248,000 entitling Simple View to subscribe for 141,881,081 new China Star Shares at an adjusted subscription price of HK\$0.185 per China Star Share (subject to further adjustment);
- (b) Mr. Heung and Ms. Chen, who are the executive directors of China Star, resigned as directors of Eternity on 1 February 2010;
- (c) Mr. Ho Wai Chi, Paul, an independent non-executive director of China Star, resigned as a director of Eternity on 25 May 2010, Mr. Ho does not hold any China Star Shares or China Star Warrants as at the date of the Subscription Agreement; and
- (d) Mr. Heung, Ms. Chen and their respective associates are interested in aggregate 246,852,025 China Star Shares, representing approximately 5.70% of the issued share capital of China Star, and the China Star Warrants in an aggregate principal amount of approximately HK\$5,458,311 entitling them to subscribe for 29,504,385 new China Star Shares at an adjusted subscription price of HK\$0.185 per China Star Share (subject to further adjustment).

As such, (a) Eternity is a substantial shareholder of China Star and thus a connected person of China Star and (b) Mr. Heung, Ms. Chen and Mr. Ho Wai Chi, Paul are connected persons of Eternity as they were directors of Eternity within twelve months preceding the date of the Subscription Agreement.

Save as disclosed above, to the best of knowledge, information and belief of the directors of China Star and having made all reasonable enquiries, Eternity and its ultimate beneficial owners are third parties independent of and not connected nor acting in concert with any directors, chief executive or substantial shareholders of China Star or its subsidiaries, or any of their respective associates.

Save as disclosed above, to the best of knowledge, information and belief of the directors of Eternity and having made all reasonable enquiries, China Star and its ultimate beneficial owners are third parties independent of and not connected nor acting in concert with any directors, chief executive or substantial shareholders of Eternity or its subsidiaries, or any of their respective associates.

Principal terms of the Convertible Bonds

Principal amount: A maximum principal amount of HK\$650 million, of which HK\$350 million for the First Tranche Subscription and HK\$300 million for the Second Tranche Subscription.

Maturity: The fifth anniversary of the date of issue of the Convertible Bonds.

Interest: The Convertible Bonds carry an interest to be accrued at 8% per annum on the actual number of days elapsed and on the basis of a 365-day year. A default interest rate of 16% per annum is payable on any overdue amount, whether principal or interest.

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

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

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

Conversion Price: HK\$0.08 per Conversion Share or HK\$0.80 per Conversion Share upon the China Star Capital Reorganisation becoming effective (subject to adjustment). The adjustments are subject to review by China Star's auditors or an approved merchant bank. The adjustments for the Conversion Price include the followings:

- (i) an alternation of nominal amount of each China Star Share by reason of any consolidation or subdivision;

- (ii) an issue (other than in lieu of a cash dividend) by China Star of China Star Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund);
- (iii) a capital distribution (as defined in the Instruments) being made by China Star, whether on a reduction of capital or otherwise, to holders of the China Star Shares in their capacity as such;
- (iv) an offer or grant being made by China Star to holders of China Star Shares by way of rights or of options or warrants to subscribe for new China Star Shares at a price which is less than 90% of the market price (calculation as provided in the Instruments);
- (v) an issue wholly for cash being made by China Star of securities convertible into or exchangeable for or carrying rights of subscription for new China Star Shares, if in any case the total effective consideration per China Star Share (as defined in the Instruments) initially receivable for such securities is less than 90% of the market price (calculation as provided in the Instruments), or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per China Star Share initially receivable for such securities is less than 90% of the market price;
- (vi) an issue being made by China Star wholly for cash of China Star Shares at a price per China Star Share less than 90% of the market price (calculation as provided in the Instruments); and
- (vii) an issue being made by China Star of China Star Shares for acquisition of assets at a total effective consideration per China Star Share less than 90% of the market price (calculation as provided in the Instruments).

The initial Conversion Price of HK\$0.08 represents (i) a premium of approximately 9.59% over the closing price of HK\$0.073 per China Star Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) a premium of approximately 11.11% over the average closing prices of approximately HK\$0.072 per China Star Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day.

Conversion Shares: Assuming the Convertible Bonds are converted into China Star Shares in full at the initial Conversion Price of HK\$0.08 per Conversion Share, China Star will allot and issue an aggregate of 8,125,000,000 new China Star Shares, representing approximately 187.47% of the issued share capital of China Star as at the date of the Subscription Agreement and approximately 65.21% of the issued share capital of China Star as at the date of the Subscription Agreement as enlarged by allotment and issue of the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the China Star SGM subject to the China Star Independent Shareholders' approval.

Conversion: Provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) which exercised the Conversion Rights and its party(ies) acting in concert; and (ii) will not cause the public float of China Star unable to meet requirement under Rule 8.08 of the Listing Rules, the bondholder(s) shall have the right at any time during the conversion period of the Convertible Bonds to convert the whole or part of the outstanding principal amount of the Convertible Bonds into the Conversion Shares at the Conversion Price provided further that any conversion shall be made in amounts of not less than a whole multiples of HK\$1 million on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK\$1 million, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted.

Transferability: The bondholder(s) may only assign or transfer the Convertible Bonds to the transferee subject to the consent of China Star.

China Star will promptly notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bonds by any connected person.

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

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

Voting rights:	The holders of the Convertible Bonds shall not be entitled to attend or vote at any general meetings of China Star.
Application for listing:	No application will be made by China Star for listing of the Convertible Bonds. Application will be made by China Star to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conditions Precedent

The obligations of the parties to the Subscription Agreement to effect the Subscription shall be conditional upon:

- (a) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which China Star and Eternity have no reasonable objection) the listing of, and permission to deal in, the Conversion Shares;
- (b) the China Star Independent Shareholders having approved at the China Star SGM the transactions contemplated in the Subscription Agreement and the issue of the Convertible Bonds and the issue and allotment of the Conversion Shares upon the exercise of the Conversion Rights or otherwise pursuant to the terms and conditions of the Convertible Bonds;
- (c) the Eternity Shareholders (other than those who are required to abstain from voting, if any) having approved at the Eternity SGM the transactions contemplated in the Subscription Agreement and the subscription of the Convertible Bonds and the conversion of the Convertible Bonds;
- (d) there being no occurrence of circumstances which, in the reasonable opinion of Eternity, will have a material adverse effect on the financial condition, prospects, earning, business, undertaking or assets of China Star and its subsidiaries, in each case, taken as a whole, since the date of the Subscription Agreement;
- (e) all the representations, warranties and undertakings made by China Star in the Subscription Agreement remaining true, accurate and complete in all material respects and not misleading in any material respect;
- (f) all necessary consents and approvals required to be obtained on the part of China Star and Eternity in respect of the Subscription Agreement and the transactions contemplated thereby having been obtained; and
- (g) if necessary, the Bermuda Monetary Authority granting consent for the allotment and issue of Conversion Shares upon conversion of the Convertible Bonds.

If the conditions precedent as set out above are not fulfilled on or before 31 July 2011 (or such other date as may be agreed by China Star and Eternity in writing), the Subscription Agreement shall lapse and become null and void and the parties shall be released from all obligations thereunder, save for any liability arising out of any antecedent breaches of the Subscription Agreement.

According to the Subscription Agreement, the Subscription is not conditional on the completion of the proposed acquisition of the property leasehold right in respect of the Sites as announced by China Star on 7 January 2011. As set out in the paragraph headed “Completion” below, China Star shall produce to Eternity the Works License (工程准照) in respect of the Sites issued by the Macau Government for completing the Second Tranche Subscription. Accordingly, if China Star cannot produce the Works License (工程准照) to Eternity, the Second Tranche Subscription is not proceeded.

Completion

Completion of the First Tranche Subscription shall take place on the date falling on the third business day (or such other date as may be agreed by China Star and Eternity in writing) after the fulfillment of the conditions as set out in the section headed “Conditions Precedent” above.

Completion of the Second Tranche Subscription is also subject to the following conditions and shall take place on or before 30 June 2012 (or such other date as may be agreed by China Star and Eternity in writing):

- (a) China Star shall produce to Eternity the Works License (工程准照) in respect of the Sites issued by the Macau Government;
- (b) Eternity shall have received evidence to its satisfaction that the proceeds from the Second Tranche Subscription of HK\$300 million will be applied for the purpose of developing the Sites; and
- (c) Eternity has sufficient fund available for the Second Tranche Subscription.

For the provision of evidence by China Star in applying the proceeds from the Second Tranche Subscription for development of the Sites, Eternity expects, including but not limited to, a written confirmation from the directors of China Star and/or an opening of a designated bank account for the use of proceeds.

As the directors of Eternity give top priority to develop the Eternity Group’s own business, Eternity does not have any plan to ensure it has sufficient fund for the Second Tranche Subscription. In addition, Eternity has reserved its right to conclude whether it has sufficient fund available for the Second Tranche Subscription. In the event that Eternity does not have sufficient fund, the Second Tranche Subscription will lapse. Pursuant to the Subscription Agreement, there is no arrangement between China Star and Eternity if Eternity considers that it does not have sufficient fund.

Termination

Eternity may, by notice to China Star given at any time prior to the completion of each of the First Tranche Subscription and the Second Tranche Subscription, terminate the Subscription Agreement in any of the following circumstances:

In the reasonable opinion of Eternity, the success of the Subscription 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 reasonable opinion of Eternity materially and adversely affect the business or the financial or trading position or prospects of the China Star Group as a whole or is materially adverse in the context of the Subscription; 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 reasonable opinion of Eternity materially and adversely affect the business or the financial or trading position or prospects of the China Star Group as a whole or materially and makes it inexpedient or inadvisable to proceed with the Subscription; or
- (c) 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 of trading in securities) occurs which in the reasonable opinion of Eternity is likely to materially or adversely affect the success of the Subscription or otherwise makes it inexpedient or inadvisable to proceed with the Subscription; or
- (d) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (e) any suspension in the trading of securities generally or the securities of China Star on the Stock Exchange for a period of more than 15 consecutive business days, excluding any suspension in connection with the clearance of this announcement, the circular or other documents in connection with the Subscription; or
- (f) any material breach of any of the representations, warranties or undertakings contained in the Subscription Agreement comes to the knowledge of Eternity.

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

STATUS OF THE CONVERTIBLE BOND SUBSCRIBED BY THE ETERNITY GROUP ON 21 SEPTEMBER 2009

On 21 September 2009, the Eternity Group subscribed the convertible bond in the principal amount of HK\$200,000,000 from China Star pursuant to the conditional subscription agreement dated 23 July 2009.

During the second half of 2009, the Eternity Group converted the convertible bond of HK\$200,000,000 entirely into 1,000,000,000 new China Star Shares at a conversion price of HK\$0.20 per China Star Share by three conversions. On 12 October 2009, the Eternity Group disposed of 320,000,000 China Star Shares to independent third parties at a price of HK\$0.20 per China Star Share pursuant to the conditional placing agreement dated 12 October 2009. As a result, the Eternity Group holds 680,000,000 China Star Shares as at the date of the Subscription Agreement.

UPDATE ON THE USE OF PROCEEDS FROM RIGHTS ISSUE AS ANNOUNCED BY ETERNITY ON 28 JULY 2010

On 28 July 2010, Eternity announced an issue of not less than 826,584,147 and not more than 879,960,951 new Eternity Shares by way of rights on the basis of three new Eternity Shares for every one existing Eternity Share held on 3 September 2010 at a subscription price of HK\$0.40 per new Eternity Share. The proceeds of HK\$325.11 million from the rights issue are intended to apply for the fund required under the revolving facility of up to HK\$700 million to be granted to by Eternity to the joint venture company engaged in property development in Vietnam or, if the formation of the joint venture company cannot completed, expanding into property investment/development business on its own.

Given the formation of the joint venture company cannot completed, Eternity intends to use the proceeds from the rights issue to expand into property investment/development business on its own, instead of applying such proceeds to fund the Subscription.

FINANCIAL INFORMATION OF THE CHINA STAR GROUP AND THE ETERNITY GROUP

The China Star Group recorded an audited net profit before and after taxation of approximately HK\$167.24 million and HK\$164.40 million (before non-controlling interests of approximately HK\$39.99 million) for the financial year ended 31 December 2009 respectively, and an audited net profit before and after taxation credit of approximately HK\$63.15 million and HK\$65.59 million (before non-controlling interests of approximately HK\$25.01 million) for the financial year ended 31 December 2008 respectively. The China Star Group had an unaudited net assets of approximately HK\$2,374.52 million as at 30 June 2010.

The Eternity Group recorded an audited net profit (from continuing and discontinued operations) before and after taxation of approximately HK\$402.67 million and approximately HK\$416.56 million for the financial year ended 31 December 2009, respectively and an audited net loss (from continuing and discontinued operations) before and after taxation of approximately HK\$260.58 million and of approximately HK\$224.51 million, respectively for the financial year ended 31 December 2008. The Eternity Group had unaudited net assets of approximately HK\$1,433.32 million as at 30 June 2010.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE SUBSCRIPTION AGREEMENT

As announced by China Star on 7 January 2011, the China Star Group has entered into a conditional agreement with Sociedade de Turismo e Diversões de Macau, S.A. in relation to the proposed acquisition of the property leasehold right in respect of the Sites at a consideration of HK\$550 million. Given the superb location of the Sites which is adjacent to Hotel Lan Kwai Fong Macau, Macao Polytechnic Institute, Forum de Macao and Golden Lotus and is couple blocks away from Macau Fisherman's Wharf and Sands Casino, the China Star Group 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 area of Hotel Lan Kwai Fong Macau. The directors of China Star consider that the proposed acquisition of the property leasehold right in respect of the Sites will diversify the China Star Group's investment portfolio in Macau and broaden its revenue base which have a positive impact on its long-term profitability. As stated in China Star's announcement dated 7 January 2011 in relation to the proposed acquisition of the property leasehold right in respect of the Sites, the consideration of HK\$550 million will be funded from/by internal resources of China Star, bank borrowings and/or equity financing. The directors of China Star consider that the Subscription Agreement provides an opportunity to the China Star Group for financing the proposed acquisition and the development of the Sites.

The directors of China Star (excluding Mr. Hung Cho Sing and Mr. Leung Hok Man, the independent non-executive directors, whose view are to be included in the circular to be despatched by China Star to the China Star Shareholders) consider the terms of the Convertible Bonds is fair and reasonable taking into account the following:

- (a) the Conversion Price is arrived at after arm's length negotiation and on normal commercial terms between China Star and Eternity with reference to the prevailing share prices of China Star; and
- (b) the interest rate and default interest rate of the Convertible Bonds are determined with reference to the prime rate of Hong Kong given the Convertible Bonds is unsecured.

Notwithstanding the potential dilution effect on the shareholdings of the existing China Star Shareholders upon any conversion of the Convertible Bonds, the directors of China Star (excluding Mr. Hung Cho Sing and Mr. Leung Hok Man, the independent non-executive directors, whose view are to be included in the circular to be despatched by China Star to the China Star Shareholders) consider that the Subscription Agreement and the transaction contemplated thereunder are in the interests of China Star and the China Star Shareholders as a whole taking into account the following:

- (a) it represents opportunities to raise additional capital for China Star without having immediate dilution effect on the shareholding of the existing China Star Shareholders in order to satisfy the financial needs of the China Star Group for the proposed acquisition of the leasehold property right of the Sites and the development of the Sites;
- (b) compared to debt financing, which requires lengthy due diligence review of the financial position of the China Star Group by or pledging of assets of the China Star Group to banks or financial institutions;
- (c) the restriction under the terms of the Convertible Bonds that conversion of the Convertible Bond shall not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties (i.e. not more than 30% or more of the voting rights under the existing Code); and
- (d) upon exercise of the Conversion Rights, the shareholder base of China Star will be enlarged and the financial position of China Star Group will be strengthened.

The estimated maximum proceeds from the issue of the Convertible Bonds (after deducting all relevant expenses) of approximately HK\$649.50 million will be used for financing the proposed acquisition of the property leasehold right in respect of the Sites as announced by China Star on 7 January 2011, the development of the Sites and/or the general working capital of the Group.

The directors of Eternity consider that the Subscription would enable Eternity to participate in the development of the China Star Group and provide Eternity with the flexibility to be benefited from the interest income of 8% per annum from the Convertible Bonds as well as the upside of the share price performance of the China Star Shares through conversion of part or whole of the Convertible Bonds into China Star Shares as and when Eternity considers appropriate, and taking into account (i) the Conversion Price is arrived at after arm's length negotiation and on normal commercial terms between China Star and Eternity with reference to the prevailing share prices of China Star and the

market risk relating to the volatility of the market condition assumed by Eternity; and (ii) the interest rate and default interest rate of the Convertible Bonds are determined with reference to the prime rate of Hong Kong given the Convertible Bonds is unsecured, the directors of Eternity consider that the Subscription and the terms of the Subscription Agreement which are determined after arm's length negotiations and on normal commercial terms are fair and reasonable and in the interest of Eternity and the Eternity Shareholders as a whole.

EFFECT ON SHAREHOLDING STRUCTURE OF CHINA STAR

The shareholding structure of China Star (i) as at the date of this announcement, (ii) assuming full conversion of the Convertible Bonds at the Conversion Price, (iii) assuming full exercise of the China Star Warrants in an aggregate principal amount of HK\$26,248,000 to subscribe for 144,219,780 new China Star Shares by Eternity and full conversion of the Convertible Bonds at the Conversion Price, and (iv) assuming conversion of the Convertible Bonds up to the extent that Eternity and the parties acting in concert with it are interested in not more than 30% of the issued share capital of China Star, are set out as below:

	As at the date of this announcement		Assuming full conversion of the Convertible Bonds at the Conversion Price		Assuming full exercise of the China Star Warrants in an aggregate principal amount of HK\$26,248,000 to subscribe for 144,219,780 new China Star Shares by Eternity and full conversion of the Convertible Bonds at the Conversion Price		Assuming conversion of the Convertible Bonds up to the extent that Eternity and the parties acting in concert with it are interest in not more than 30% of the issued share capital of China Star	
	No. of China Star Shares	Approx.	No. of China Star Shares	Approx.	No. of China Star Shares	Approx.	No. of China Star Shares	Approx.
Simple View and its associates	680,000,000	13.84%	8,805,000,000	67.54%	8,949,219,780	67.90%	1,804,999,769	29.90%
Heung Wah Keung Family Endowment Limited (Note 2)	246,715,000	5.02%	246,715,000	1.89%	246,715,000	1.87%	246,715,000	4.09%
Dorest Company Limited (Note 3)	137,025	0.01%	137,025	0.00%	137,025	0.00%	137,025	0.00%
Sub-total	926,852,025	18.87%	9,051,852,025	69.43%	9,196,071,805	69.77%	2,051,851,794	33.99%
Public Shareholders	3,984,936,732	81.13%	3,984,936,732	30.57%	3,984,936,732	30.23%	3,984,936,732	66.01%
Total	4,911,788,757	100.00%	13,036,788,757	100.00%	13,181,008,537	100.00%	6,036,788,526	100.00%

Notes:

1. For illustrative purpose only. Pursuant to the terms of the Convertible Bonds, the bondholder(s) shall have the right to convert the Convertible Bonds into the Conversion Shares, provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (ii) will not cause the public float of China Star unable to meet the requirement under the Listing Rules.
2. Heung Wah Keung Family Endowment Limited is owned as to 50% by Mr. Heung and as to 50% by Ms. Chen.
3. Dorest Company Limited is owned as to 60% by Porterstone Limited (a company wholly owned by Ms. Chen) and as to 40% by Mr. Heung. The China Star Shares held by Dorest Company Limited are under a charging order.

CHANGE OF USE OF PROCEEDS OF CHINA STAR

As announced by the announcements of China Star on 8 July 2010 and 9 July 2010 and the circular of China Star dated 21 July 2010 (the “**China Star Circular**”) in respect of the rights issue (the “**China Star Right Issue**”) of 1,444,643,184 China Star Shares, the rights issue was completed on 11 August 2010. As disclosed in the China Star Circular, the directors of China Star intend to use the net proceeds from the rights issue of approximately HK\$141 million for (i) reducing the bank overdraft (subject to approvals of the minority shareholders of a subsidiary of China Star and the bank) of HK\$100 million, and (ii) hotel operation and general working capital of the China Star Group. In the event that the approvals of the minority shareholders of a subsidiary of China Star or the bank cannot be obtained by China Star, the amount of approximately HK\$100 million will apply to the secured bank term loan of HK\$225 million for next four installments of HK\$25 million each on its respective repayment dates as the secured bank term loan is repayable on maturity quarterly. The remaining 30% or approximately HK\$41 million will be applied to hotel operation and general working capital of China Star Group.

Subsequent to the completion of the China Star Rights Issue, the minority shareholders of a subsidiary of China Star and the bank had agreed to restructure the outstanding bank borrowing and bank overdraft owing to the bank. As a result, the outstanding bank borrowing and bank overdraft were repaid and substituted with a bank loan with better terms and longer repayment period. In view of the proposed acquisition of the property leasehold right of the Sites, the directors of China Star intend to apply the net proceeds of approximately HK\$100 million from China Star Rights Issue to satisfy part of the total consideration for the acquisition of the property leasehold right in respect of the Sites.

The directors of China Star consider that the change of use of proceeds from the China Star Rights Issue is in the interests of China Star and China Star Shareholders as a whole.

FUND RAISING ACTIVITIES OF CHINA STAR IN THE PAST 12 MONTHS IMMEDIATELY PRECEDING THE DATE OF THIS ANNOUNCEMENT

Set out below is the fund raising activities conducted by China Star in the past 12 months immediately preceding the date of this announcement:

Date of announcement	Description	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds as at the date of this announcement
14 January 2011	Placing of up to 577,855,000 new China Star Shares, on a best effort basis, at a price of HK\$0.07 per new China Star Share	HK\$39.93 million	To satisfy part of the consideration for the proposed acquisition of the property leasehold right of the Sites	The net proceeds will be used as intended
8 July 2010	Rights issue of 1,444,643,184 new China Star Shares on the basis of one rights China Star Share for every two existing China Star Shares held on 20 July 2010 at the subscription price of HK\$0.10 per rights China Star Share	HK\$141.46 million	To reduce the China Star Group's bank borrowings and financing hotel operation or finance the general working capital of the China Star Group	Approximately HK\$41 million has been applied to hotel operation and general working capital of China Star Group and HK\$100.46 million will be applied to the proposed acquisition of the property leasehold right in respect of the Sites

IMPLICATION OF THE LISTING RULES

As Eternity is a substantial shareholder of China Star and thus a connected person of the China Star, the Subscription Agreement and the transactions contemplated thereunder constitute connected transaction for China Star under Chapter 14A of the Listing Rules. Accordingly, the Subscription Agreement and the transactions contemplated thereunder are subject to the approval of the China Star Independent Shareholders at the China Star SGM. Eternity and its associates shall abstain from voting to approve the Subscription Agreement and transaction contemplated thereunder at the China Star SGM. Given Mr. Heung and Ms. Chen are connected persons of Eternity, Mr. Heung and Ms. Chen and their respective associates shall also abstain from voting to approve the Subscription Agreement and transaction contemplated thereunder at the China Star SGM. An independent financial adviser will be appointed by China Star to advise the China Star Independent Board Committee and the China Star Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder.

The Subscription constitutes a major transaction and the conversion of the Convertible Bonds constitutes a very substantial acquisition of Eternity under Chapter 14 of the Listing Rules. Accordingly, the Subscription and the conversion of the Convertible Bonds are subject to Eternity Shareholders' approvals at the Eternity SGM. The Eternity SGM will be convened to approve the Subscription Agreement and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the directors of Eternity and having made all reasonable enquiries, no Eternity Shareholder shall abstain from voting to approve the Subscription Agreement and the transactions contemplated thereunder at the Eternity SGM.

GENERAL

China Star 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 streams from the gaming promotion business and property and hotel investment.

Eternity is an investment holding company and its subsidiaries are principally engaged in distribution of films, sub-licensing of film rights, sales of financial assets and provision of management services to concierge departments of gaming promoters.

As more time may be required to prepare information to be included in the circular of China Star, which containing, amongst other things, (i) further details of the Subscription Agreement and the transaction contemplated thereunder; (ii) the letter of advice from the China Star Independent Board Committee to the China Star Independent Shareholders and the recommendation of the independent financial adviser appointed by China Star to advise the China Star Independent Board Committee and the China Star Independent Shareholders in respect of the Subscription Agreement and the transaction contemplated thereunder; and (iii) the notice of China Star SGM, will be despatched to China Star Shareholders on or before 31 March 2011.

As more time may be required to prepare information to be included in the circular of Eternity, which containing, amongst other things, further details of the Subscription and the notice of Eternity SGM, will be despatched to Eternity Shareholders on or before 31 March 2011.

RESUMPTION OF TRADING

Trading in the issued China Star Shares and China Star Warrants on the Stock Exchange were suspended at the request of China Star with effect from 9:30 a.m. on 24 January 2011 pending the release of this announcement. China Star has applied for a resumption of trading in the issued China Star Shares and China Star Warrants with effect from 9:30 a.m. on 10 February 2011.

Trading in the issued Eternity Shares on the Stock Exchange was suspended at the request of Eternity with effect from 9:30 a.m. on 24 January 2011 pending the release of this announcement. Eternity has applied for a resumption of trading in the issued Eternity Shares with effect from 9:30 a.m. on 10 February 2011.

WARNING OF THE RISK OF DEALINGS IN THE CHINA STAR SHARES AND THE CHINA STAR WARRANTS AND THE ETERNITY SHARES

China Star Shareholders, Eternity Shareholders and potential investors should note that the issuance/subSCRIPTION of the Convertible Bonds is subject to the satisfaction of the conditions precedent as set out in the paragraphs headed “Conditions Precedent” and “Completion”. Accordingly, the issuance/subSCRIPTION of the Convertible Bonds may or may not proceed.

China Star Shareholders and potential investors are advised to exercise caution when dealing in the China Star Shares and the China Star Warrants.

Eternity Shareholders and potential investors are advised to exercise caution when dealing in the Eternity Shares.

TERMS USED IN THIS ANNOUNCEMENT

In this announcement, unless the context otherwise required, the following terms and expressions shall have the following meanings when used herein:

“acting in concert”	has the meaning ascribed to it in the Code
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Code”	the Hong Kong Code on Takeovers and Mergers
“China Star”	China Star Entertainment Limited, a company incorporated in Bermuda with limited liability and the issued China Star Shares are listed on the Main Board of the Stock Exchange
“China Star Capital Reorganisation”	the proposed capital reorganisation of China Star involving (i) the consolidation of every ten (10) issued and unissued existing China Star Shares of HK\$0.01 each into one (1) consolidated China Star Share of HK\$0.10 each; (ii) the capital reduction of the nominal value of all the authorised China Star Share from HK\$0.10 each to HK\$0.01 each and the credit arising from reduction of the issued share capital of the China Star be transferred to the contributed surplus account of the China Star; and (iii) increase of authorised share capital of China Star. Details of the capital reorganisation of China Star has been disclosed in the announcement of China Star dated 9 February 2011
“China Star Group”	China Star and its subsidiaries

“China Star Independent Board Committee”	the independent board committee of China Star comprising Mr. Hung Cho Sing and Mr. Leung Hok Man, the independent non-executive directors of China Star, to advise the China Star Independent Shareholders
“China Star Independent Shareholders”	the China Star Shareholders other than Eternity, Mr. Heung, Ms. Chen and their respective associates
“China Star SGM”	the special general meeting of China Star to be convened to approve, inter alia, the transactions contemplated in the Subscription Agreement and the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon exercise of the Conversion Rights
“China Star Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of China Star prior to the China Star Capital Reorganisation
“China Star Shareholder(s)”	the holder(s) of the issued China Star Share(s)
“China Star Warrants”	the outstanding warrants in an aggregate principal amount of HK\$111,525,643.67 entitling the holders thereof to subscribe for new China Star Shares at an adjusted subscription price of HK\$0.185 per China Star Share as at the date of the Subscription Agreement (adjusted to HK\$0.182 per China Star Share upon completion of placing of 577,855,000 new China Star Shares on 27 January 2011, subject to further adjustment) pursuant to the warrant instrument of China Star dated 15 June 2010
“connected person”	has the meaning ascribed to it in the Listing Rules
“Convertible Bonds”	the convertible bonds in the maximum principal amount of HK\$650 million to be issued by China Star in two tranches pursuant to the Subscription Agreement
“Conversion Price”	the initial conversion price of HK\$0.08 per Conversion Share or HK\$0.80 per Conversion Share upon the China Star Capital Reorganisation becoming effective (subject to adjustment) pursuant to the terms of the Convertible Bonds
“Conversion Rights”	the rights attached to the Convertible Bonds to convert the principal amount (or any part(s) thereof) of the Convertible Bonds into Conversion Shares at the Conversion Price

“Conversion Shares”	the new China Star Shares to be issued by China Star under the Convertible Bonds upon exercise of the Conversion Rights
“Eternity”	Eternity Investment Limited, a company incorporated in Bermuda with limited liability and the issued Eternity Shares are listed on the Main Board of the Stock Exchange
“Eternity Group”	Eternity and its subsidiaries
“Eternity SGM”	the special general meeting of Eternity to be convened to approve the transactions contemplated in the Subscription Agreement and the subscription of the Convertible Bonds and the conversion of the Convertible Bonds
“Eternity Shares”	the ordinary share(s) of HK\$0.01 each in the share capital of Eternity
“Eternity Shareholder(s)”	the holder(s) of the issued Eternity Share(s)
“First Tranche Subscription”	the subscription of the first tranche of the Convertible Bonds by Eternity to subscribe for the Convertible Bonds in the principal amount of HK\$350,000,000 pursuant to the terms and conditions of the Subscription Agreement
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Instruments”	the instruments to be executed by China Star by way of a deed poll constituting the Convertible Bonds to be issued upon completion of the First Tranche Subscription and the Second Tranche Subscription
“Last Trading Day”	21 January 2011, being the last trading day before the publication of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Lot 6B”

an undeveloped parcel of land named as “Quarteirao 6 – Lote B”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,420 square meters, including walkways and other external areas, legally and validly granted to Sociedade de Turismo e Diversões de Macau, S.A. under leasehold by Dispatch no. 27/SATOP/89, published in the Macau Official Gazette on 26 December 1989, and later reviewed by Dispatch no. 149/SATOP/97, published in the Official Gazette no. 49 of 3 December 1997, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Properties Registry under no. 22608 and currently bounded by Rua de Xiamen on the west and Rua de Luis Gonzaga Gomes on the north, is adjacent to Lot 6C to the east

“Lot 6C”

an undeveloped parcel of land named as “Quarteirao 6 – Lote C”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,292 square meters, including walkways and other external areas, legally and validly granted to Sociedade de Turismo e Diversões de Macau, S.A. under leasehold by Dispatch no. 148/SATOP/94, published in the Macau Official Gazette on 21 December 1994, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Properties Registry under no. 22618 and currently bounded by Rua de Luis Gonzaga Gomes on the north, Lot 6B on the west and Lot 6D on the east

“Lot 6D”

an undeveloped parcel of land named as “Quarteirao 6 – Lote D”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,292 square meters, including walkways and other external areas, legally and validly granted to Sociedade de Turismo e Diversões de Macau, S.A. under leasehold by Dispatch no. 149/SATOP/94, published in the Macau Official Gazette on 21 December 1994, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Properties Registry under no. 22619 and currently bounded by Rua de Luis Gonzaga Gomes on the north, Lot 6C on the west and Lot 6E on the east

“Lot 6E”	an undeveloped parcel of land named as “Quarteirao 6 – Lote E”, located in Macau at Zona de Aterros do Porto Exterior (ZAPE), with a total site area of 1,292 square meters, including walkways and other external areas, legally and validly granted to Sociedade de Turismo e Diversões de Macau, S.A. under leasehold by Dispatch no. 150/SATOP/94, published in the Macau Official Gazette on 21 December 1994, for which certain infrastructures shall be paid by the lessee, which is registered in the Macau Property Registered under no. 22620 and currently bounded by Rua de Luis Gonzaga Gomes on the north, Lot 6D on the west
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Mr. Heung”	Mr. Heung Wah Keung, an executive director of China Star and a former executive director of Eternity
“Ms. Chen”	Ms. Chen Ming Yin, Tiffany, an executive director of China Star and a former executive director of Eternity
“Second Tranche Subscription”	the subscription of the second tranche of the Convertible Bonds by Eternity to subscribe for the Convertible Bonds in the principal amount of HK\$300,000,000 pursuant to the terms and conditions of the Subscription Agreement
“Simple View”	Simple View Investment Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Eternity
“Sites”	Lot 6B, Lot 6C, Lot 6D and Lot 6E
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the First Tranche Subscription and/or the Second Tranche Subscription
“Subscription Agreement”	the conditional subscription agreement dated 21 January 2011 entered into between China Star and Eternity in relation to the Subscription
“substantial shareholders”	has the meaning ascribed to it in the Listing Rules

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

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

By Order of the board of directors
Eternity Investment Limited
Lei Hong Wai
Chairman

Hong Kong, 9 February 2011

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

As at the date of this announcement, the executive directors of Eternity are Mr. Lei Hong Wai and Mr. Chan Kin Wah, Billy and Mr. Cheung Kwok Wai, Elton; and the independent non-executive directors of Eternity are Mr. Tang Chak Lam, Gilert, Mr. Hung Hing Man and Mr. Wan Shing Chi.