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## **CHINA STAR FILM GROUP LIMITED**

### **中國星電影集團有限公司**

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8172)**

**(I) TERMINATION OF THE PROPOSED ACQUISITION;**

**(II) VERY SUBSTANTIAL DISPOSAL;**

**(III) PROPOSED SPECIAL DIVIDEND;**

**AND**

**(IV) RESUMPTION OF TRADING**

#### **TERMINATION OF THE PROPOSED ACQUISITION**

On 9 February 2010 (after trading hours), the Company, as purchaser, and the Acquisition Vendor, as vendor entered into the Acquisition Agreement pursuant to which the Company has conditionally agreed to acquire and the Acquisition Vendor has conditionally agreed to the Target Company, at the consideration of HK\$1,800 million, subject to adjustment.

The Proposed Acquisition would constitute, if not terminated by the Termination Agreement, a very substantial acquisition on the part of the Company under Chapter 19 of the GEM Listing Rules and would subject to the Shareholders' approval requirement.

As the Acquisition Vendor considered the sale of its interests in the Target Company to the Company might be jeopardized as the Proposed Acquisition is considered a reverse takeover in accordance with the GEM Listing Rules, which would require additional time to complete the Acquisition Agreement, the Company and the Acquisition Vendor have mutually agreed to terminate the Acquisition Agreement by entering into the Termination Agreement. Pursuant to the Termination Agreement, the Acquisition Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other. Hence, the Group will have no further obligations to proceed with the Proposed Acquisition.

## **THE DISPOSAL**

On 8 February 2010 (after trading hours), the Company entered into the Disposal Agreement with Keen Modern pursuant to which the Company has conditionally agreed to sell and Keen Modern has conditionally agreed to purchase the Mega Shell Sale Share and the Mega Shell Sale Loan for the Disposal Price of approximately RMB119.57 million (or approximately HK\$136.07 million), which is satisfied in the following manner: (a) Keen Modern has paid the Disposal Deposit of RMB5 million (or approximately HK\$5.69 million) upon signing of the Disposal Agreement; and (b) Keen Modern shall pay approximately RMB114.57 million (or approximately HK\$130.38 million) in cash being the remaining balance of the Disposal Price upon Disposal Completion. Keen Modern has the right (but not obliged) to pay the remaining balance of the Disposal Price prior to the Disposal Completion.

The Disposal Agreement constitutes a very substantial disposal on the part of the Company under the Chapter 19 of the GEM Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval at the SGM. Given the net proceeds from the Disposal will be applied for the repayment of the amount owed to Riche by the Company, Riche is considered to have an interest in the Disposal Agreement. Therefore, Riche and its associates will be required to abstain from voting to approve the Disposal Agreement and the transactions contemplated thereunder at the SGM. To the best knowledge of the Directors, save for Riche, there is no Shareholder having material interests in the Disposal as at the date of this announcement and therefore no Shareholder, other than Riche and its associates, will be required to abstain from voting on the resolutions approving the Disposal and the transactions contemplated thereunder at the SGM.

## **PROPOSED SPECIAL DIVIDEND**

The Board proposes that the Proposed Special Dividend of not less than HK\$40,231,926 (subject to finalisation) will be distributed to the Shareholders on a pro rata basis. Based on 335,266,054 Shares in issue as at the date of this announcement, the Proposed Special Dividend will be not less than HK\$0.12 per Share (subject to finalisation). The Proposed Special Dividend will be paid in cash to the Shareholders by the Company.

The distribution of the Proposed Special Dividend is conditional upon the Shareholders' approvals on the distribution of the Proposed Special Dividend and the Disposal Agreement and the transactions contemplated thereunder at the SGM and the completion of the Capital Reorganisation. For further details in relation to the Capital Reorganisation, please refer to the announcement of the Company dated 1 April 2010. Further announcements on the closure of register of members of the Company for distributing the Proposed Special Dividend will be released as soon as practicable. An ordinary resolution will be put forward at the SGM for distribution of the Proposed Special Dividend.

## GENERAL

A circular containing, among other things, further details of the Disposal, the valuation report of the Property and the Proposed Special Dividend together with a notice convening the SGM will be despatched to the Shareholders as soon as possible in accordance with the GEM Listing Rules.

**Shareholders and potential investors should note that (i) completion of the Disposal is subject to conditions precedent as defined in the Disposal Agreement and accordingly the Disposal may or may not proceed; (ii) the possible implication under Rule 19.82 of the GEM Listing Rules on the Company; and (iii) the Proposed Special Dividend is subject to the fulfillment of the conditions as set out in this announcement, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.**

## SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the issued Shares on the GEM has been suspended from 9:30 a.m. on 9 February 2010 pending for the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the GEM from 9:30 a.m. on 14 April 2010.

## TERMINATION OF THE PROPOSED ACQUISITION

Reference is made to the suspension announcement and the holding announcement of the Company dated 9 February 2010 and 2 March 2010, respectively relating to a very substantial disposal and a very substantial acquisition of the Company, in which the Company disclosed that the trading of the Shares would be suspended pending the issue of an announcement relating to a proposed very substantial acquisition and a proposed very substantial disposal. The Board would like to inform the Shareholders and the public that the proposed very substantial acquisition was terminated on 13 April 2010.

On 9 February 2010 (after trading hours), the Company, as purchaser, and the Acquisition Vendor, as vendor entered into the conditional sale and purchase agreement pursuant to which the Company has conditionally agreed to acquire and the Acquisition Vendor has conditionally agreed to sell the sale share, representing the entire issued share capital of the Target Company which is principally engaged in design, management and implementation of integrated information system and advanced energy saving technology which aims for wise and modern management of the city's public services in the PRC, at the consideration of HK\$1,800 million, subject to adjustment. Pursuant to the Acquisition Agreement, the Company has agreed to satisfy the above consideration (i) by cash or by the issue of the promissory notes; and (ii) by the issue of the convertible bonds of the Company.

The Proposed Acquisition would constitute, if not terminated by the Termination Agreement, a very substantial acquisition on the part of the Company under Chapter 19 of the GEM Listing Rules and would subject to the Shareholders' approval requirement.

As the Acquisition Vendor considered the sale of its interests in the Target Company to the Company might be jeopardized as the Proposed Acquisition is considered a reverse takeover in accordance with the GEM Listing Rules, which would require additional time to complete the Acquisition Agreement, the Company and the Acquisition Vendor mutually agreed to terminate the Acquisition Agreement by entering into the Termination Agreement. Pursuant to the Termination Agreement, the Acquisition Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other. Hence, the Group will have no further obligations to proceed with the Proposed Acquisition.

Under the Termination Agreement, each of the Acquisition Vendor and the Company releases and discharges one another from its obligations, liabilities and duties under the Acquisition Agreement, and from all actions, claims, demands, damages, proceedings, costs and expenses arising from such obligations, liabilities and duties.

Given that no deposit has been paid by the Company to the Acquisition Vendor prior to the date of the Termination Agreement, to the best of Directors' knowledge, information and belief, the termination of the Proposed Acquisition will not have any adverse material impact on the business, operations or financial condition of the Group, and will not affect the Disposal. Although the Proposed Acquisition was terminated, the Board is in negotiation with the Acquisition Vendor for a possible investment opportunity in environmental protection business in the PRC. If the Company proceeds with the above plan, the Stock Exchange may treat the possible investment as a reverse takeover pursuant to Rule 19.06(6) of the GEM Listing Rules and the Company will be required to comply with the applicable requirements of the GEM Listing Rules. A further announcement will be made by the Company in respect thereof.

## **THE DISPOSAL**

### **The Disposal Agreement**

**Date:** 8 February 2010 (after trading hours)

**Parties:** (1) Vendor : the Company

(2) Purchaser : Keen Modern

Keen Modern is an investment holding company. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, Keen Modern and its ultimate beneficial owner are Independent Third Parties.

### **Assets to be disposed**

Pursuant to the Disposal Agreement, the Company has conditionally agreed to sell and Keen Modern has conditionally agreed to purchase the Mega Shell Sale Share, which constitutes the entire issued share capital of Mega Shell, and the Mega Shell Sale Loan.

Mega Shell is an investment holding company which acquired the entire issued share capital of each of Shinhan-Golden and World East on 8 April 2009.

Shinhan-Golden is an investment holding vehicle which holds 96.7% of the registered capital of Beijing Suoma. Shinhan-Golden also holds the entire issued share capital of Beijing Jianguo (BVI), which is a dormant company with no business operation. Except the aforesaid, Shinhan-Golden has no other business.

The remaining 3.3% registered capital of Beijing Suoma is held by Shanghai Shengping. Shanghai Shengping is owned as to 49% by Liao and 51% by Chen. Each of Chen and Liao has respectively by the Chen Undertaking and the Liao Undertaking undertaken to World East to transfer their respective interests in the registered capital in Shanghai Shengping to World East at a price with reference to valuation of such respective registered capital when the laws in the PRC allow foreign investors to own more than 51% in the registered capital of Shanghai Shengping. As at the date of this announcement, Chen and Liao have not transferred their interests in the registered capital in Shanghai Shengping to World East. Other than holding the Chen Undertaking and the Liao Undertaking, World East has no other business.

Following the disposal of the Disposed Properties as mentioned in the announcement of the Company dated 19 August 2009, the principal assets of Beijing Suoma are the Property and the remaining Balance of approximately RMB53.51 million (or approximately HK\$60.89 million) as at 8 February 2010 (being the date of the Disposal Agreement). The Property mainly consists of 15 apartment rooms, a clubhouse, a retail floor and an equipment room. The 15 apartment rooms and the retail floor are for rental purposes. The rental income and the occupancy rates in respect of the 15 apartment rooms and the retail floor for the year ended 31 December 2009 are as follows:

	<b>Rental income</b>	<b>Occupancy rate</b>
15 apartment rooms	approximately HK\$0.74 million	25.62%
Retail floor	HK\$nil	0.00%

Beijing Suoma is the registered and beneficial owner of the Property which comprises the 1st Floor and the 2nd Floor together with equipment room of the main building and the entire ancillary building located at No. 9, Gongyan Xijie, Dongcheng District, Beijing, the PRC with the land use right certificate number Jing Shi Dong She Wai Guo You (2001 Chu) Zi Di no. 10136. The Property has a total gross floor area of about 6,769.98 square meters.

## **Disposal Price**

The Disposal Price of approximately RMB119.57 million (or approximately HK\$136.07 million) is satisfied in the following manner:

- (a) Keen Modern has paid the Disposal Deposit of RMB5 million (or approximately HK\$5.69 million) upon signing of the Disposal Agreement;
- (b) Keen Modern shall pay approximately RMB114.57 million (or approximately HK\$130.38 million) in cash being the remaining balance of the Disposal Price upon Disposal Completion. Keen Modern has the right (but not obliged) to pay the remaining balance of the Disposal Price prior to the Disposal Completion.

The Disposal Price was agreed between the Company and Keen Modern after arm's length negotiations by reference to the book value of the Property of approximately HK\$113.72 million as at 30 September 2009. The negotiations of the Disposal Price were based on the book value of the Property as at 30 September 2009, instead of an updated valuation of the Property. It is because (a) Keen Modern has accepted that the book value of the Property is the starting point to determine the Disposal Price; and (b) the Disposal Price represents the maximum amount that Keen Modern is willing to pay. The Directors believe that the book value of the Property as at 30 September 2009 plus a premium of 19.65% does not significantly depart from the updated valuation of the Property. As the Disposal Price represents a premium of 19.65% over the book value of approximately HK\$113.72 million, the Directors (including the independent non-executive Directors) consider that the Disposal Price is fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## **Conditions precedent of the Disposal**

Completion of the Disposal shall be conditional on and subject to the fulfillment of the following conditions:

- (a) if necessary, the passing by the Shareholders who are not required by the GEM Listing Rules to abstain from voting at the SGM of the necessary resolutions to approve the Disposal Agreement and the transactions contemplated thereunder;
- (b) all necessary consents, approvals, licences and authorisation required to be obtained on the part of Keen Modern in respect of the Disposal Agreement and the transactions contemplated thereunder having been obtained;
- (c) all necessary consents, approvals, licences and authorisation required to be obtained on the part of the Company in respect of the Disposal Agreement and the transactions contemplated thereunder having been obtained;



- (d) the warranties given by Keen Modern in the Disposal Agreement remaining true and accurate in all material respects;
- (e) the warranties given by the Company in the Disposal Agreement remaining true and accurate in all material respects;
- (f) the Balance having been received by Beijing Suoma in full; and
- (g) Keen Modern, acting reasonably, confirming that it is satisfied with the results of the due diligence review to be conducted on the Mega Shell Group, including Beijing Suoma's title to the Property.

All conditions, except conditions (e) and (g) which Keen Modern may waive and condition (d) which the Company may waive, are not waivable. If the conditions have not been satisfied or waived on or before 4:00 p.m. on 30 April 2010 (the “**Disposal Long Stop Date**”) (or such later date as agreed in writing by the parties to the Disposal Agreement), the Disposal Agreement shall cease and determine in accordance with the terms thereof, and thereafter neither party shall have any obligations and liabilities towards each other, save for any antecedent breaches of the terms thereof. The Company will within five Business Days after the Disposal Long Stop Date return to Keen Modern the Disposal Deposit without interest.

If the conditions set out above have been fulfilled or waived on or before the Disposal Long Stop Date, but Keen Modern shall fail to complete the purchase of the Mega Shell Sale Share and the Mega Shell Sale Loan in accordance with the Disposal Agreement, the Company may forthwith determine the Disposal Agreement by giving notice of termination in writing to Keen Modern to such effect, in which event the Company shall be entitled to forfeit the Disposal Deposit absolutely and either party shall have any obligations and liabilities thereunder and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies save for any antecedent breaches of the terms thereof.

Likewise, if the conditions set out above have been fulfilled or waived on or before the Disposal Long Stop Date, but the Company shall fail to complete the sale of the Mega Shell Sale Share and the Mega Shell Sale Loan in accordance with the Disposal Agreement, Keen Modern may forthwith determine the Disposal Agreement by giving notice of termination in writing to the Company to such effect, in which event the Company shall forthwith refund the Disposal Deposit (without interest) plus an amount equivalent to the Disposal Deposit to Keen Modern and neither party shall have any obligations and liabilities thereunder and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies save for any antecedent breaches of the terms thereof.

Disposal Completion shall take place on the date falling the third Business Days after the fulfillment (or waiver) of the conditions set out above.

## REASONS FOR THE DISPOSAL

Following the global financial crisis in 2008, many multinational companies have cut the number of expatriates staff stationed in the PRC causing a weak demand for serviced apartments in Beijing. As a result, the revenue generated from the Property is less than its operating expenses. According to the Annual Report 2009, the serviced apartment operations recorded a segment loss of approximately HK\$16.83 million.

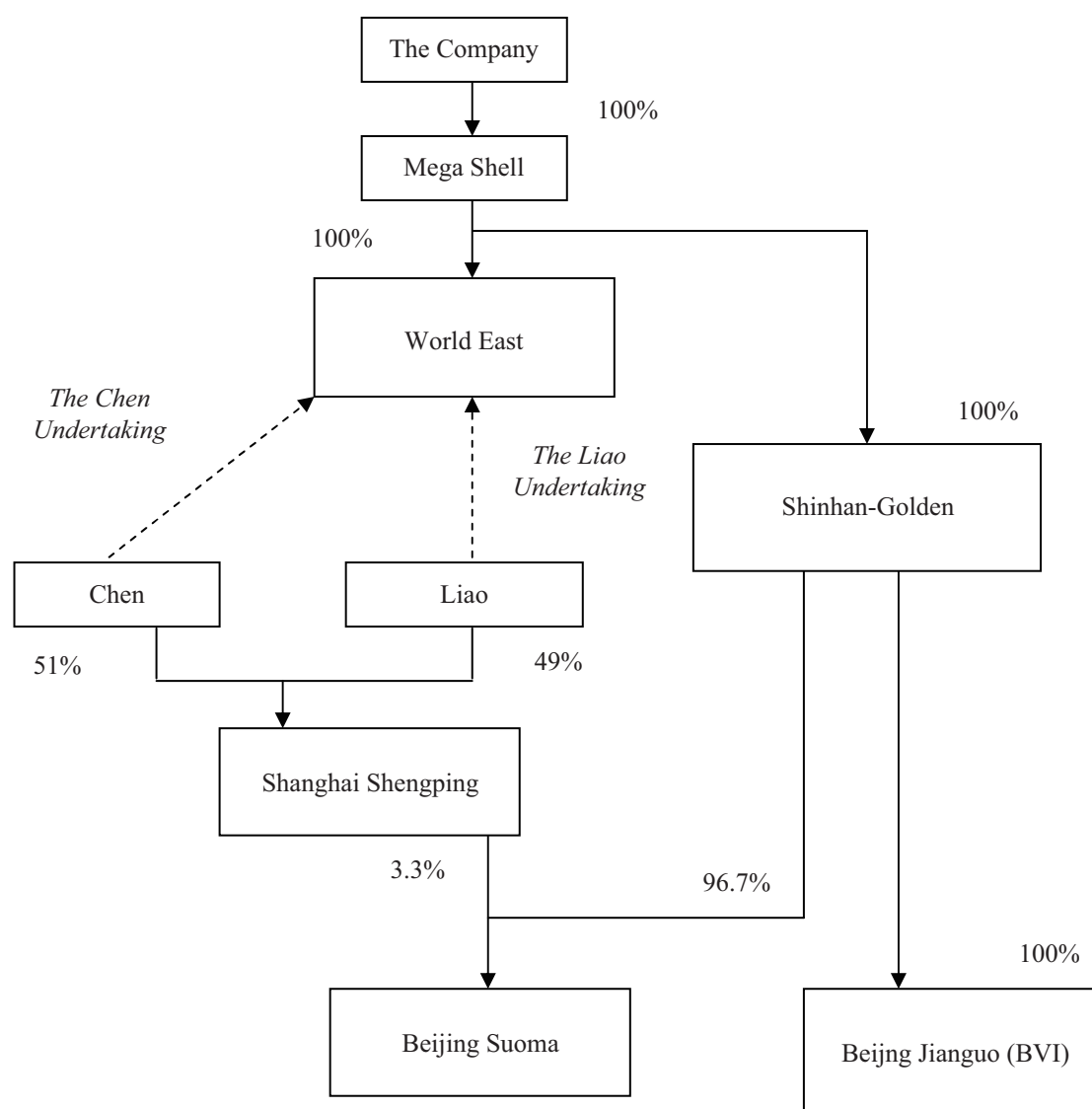
In late 2009, the PRC Government has taken initial measures to cool down the booming property market by suggesting commercial banks to tighten lendings for property investment activities. The Directors also note that there have been reports in the media that the PRC Government may take additional measures to cool down the property market in the PRC by imposing the resale tax and property tax to property owners. In view of the Property in a loss-making performance and the property market in the PRC being affected by the various measures of the PRC Government, the Directors consider that the Disposal represents an opportunity for the Group to realise the Property and re-allocate its resources for improving the Group's financial performance.

The terms of the Disposal Agreement are determined after arm's length negotiations and the Disposal Price is agreed at approximately RMB119.57 million (or approximately HK\$136.07 million) by reference to the book value of the Property of approximately HK\$113.72 million as at 30 September 2009. The Disposal Price represents a premium of 19.65% over the book value of approximately HK\$113.72 million as at 30 September 2009. The Directors (including the independent non-executive Directors) consider that the Disposal Agreement is on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon completion of the Disposal, the remaining business activities of the Group will comprise, namely film production and distribution, the provision of artists management services and investment in the JCE.



## GROUP STRUCTURE OF MEGA SHELL



## FINANCIAL INFORMATION OF MEGA SHELL AND THE MEGA SHELL GROUP

According to the management accounts of Mega Shell for the period from 2 June 2008 (date of incorporation) to 31 December 2008 which were prepared in accordance with the Hong Kong Financial Reporting Standards, the unaudited net assets value of Mega Shell as at 31 December 2008 was HK\$7.80. There was no profit or loss recorded by Mega Shell for the period from 2 June 2008 (date of incorporation) to 31 December 2008. As at 31 December 2008, the Mega Shell Sale Loan is nil. Mega Shell was a dormant company until it acquired the entire issued share capital of Shinhan-Golden and World East on 8 April 2009.

According to the audited consolidated accounts of the Mega Shell Group for the year ended 31 December 2009 which were prepared in accordance with the Hong Kong Financial Reporting Standards, the audited consolidated net assets value of the Mega Shell Group as at 31 December 2009 was approximately HK\$58.09 million. The audited consolidated profit before taxation for the year ended 31 December 2009 was approximately HK\$24.80 million. The audited consolidated profit after taxation for the year ended 31 December 2009 was approximately HK\$58.63 million. The reporting of a profit by the Mega Shell Group for the year ended 31 December 2009 was mainly attributable to the recognition of a discount on acquisitions of Shinhan-Golden and World East of approximately HK\$105.39 million. As at 31 December 2009, the Mega Shell Sale Loan amounted to approximately HK\$131.91 million.

## **FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS FROM THE DISPOSAL**

It is expected that, upon Disposal Completion, the Mega Shell Sale Loan amounts to HK\$4.52 million. Based on the audited consolidated net assets value of the Mega Shell Group of approximately HK\$58.09 million as at 31 December 2009 adjusted for the Mega Shell Sale Loan of HK\$4.52 million upon Disposal Completion, the Group is expected to recognise a gain on disposal of approximately HK\$73.46 million assuming the Disposal had been completed on 31 December 2009.

Prior to the Disposal, Mega Shell, Shinhan-Golden, World East, Shanghai Shengping, Beijing Suoma and Beijing Jianguo (BVI) are treated as subsidiaries of the Company and their results are consolidated into that of the Company. Upon the Disposal Completion, Mega Shell, Shinhan-Golden, World East, Shanghai Shengping, Beijing Suoma and Beijing Jianguo (BVI) will cease to be subsidiaries of the Company.

The entire proceeds of the Disposal of approximately RMB119.57 million (or approximately HK\$136.07 million) is intended to be used for repaying the amount due to Riche of approximately HK\$155.54 million. As the provision of financial assistance under the amount due to Riche is granted by Riche to facilitate the acquisition of the investment properties by the Group in April 2009, the Board considers that it is rational and reasonable for the Group to settle the amount due to Riche following the realisation of the investment properties.

**Shareholders and potential investors should note that completion of the Disposal is subject to various conditions as stated in the sub-sections headed “Conditions Precedent of the Disposal” under the sections headed “The Disposal Agreement” above. As the Disposal may or may not proceed, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.**

## FINANCIAL AND TRADING PROSPECT OF THE GROUP

As at the date of this announcement, the Group is principally engaged in property investment, film production and distribution, the provision of artists management services and investment in the JCE.

### Artists management services business

In July 2009, the Group expanded into provision of artists management services business by acquiring China Star Management Limited (“CSML”) and Anglo Market International Limited (“AMIL”) on 31 July 2009. The turnover generated from the provision of artists management business for the year ended 31 December 2009 amounted to approximately HK\$19.1 million, approximately HK\$7.2 million of which was booked by the Group as the remaining turnover of approximately HK\$11.9 was related to pre-acquisition.

According to the track records of CSML and AMIL, the combined turnover of CSML and AMIL for the year ended 31 December 2007 and 2008 were approximately HK\$17.4 million and HK\$13.1 million respectively. The combined net loss of CSML and AMIL for the year ended 31 December 2007 and 2008 were approximately HK\$4.0 million and HK\$6.0 million respectively.

The provision of artists management services business has possessed existing resources, including a pool of non-contracted and contracted artists and experienced management in the media field. The contracted artists are 陳小春 (Jordan Chan), 應采兒 (Cherrie Ying), 黃浩然 (Raymond Wong), 谷祖琳 (Jo Koo), 安志杰 (Andy On), 金燕玲 (Elaine Jin), 閻清 (Qing Yan), 徐自賢 (Jessica Tsui) and 黃蕊 (Shirley Huang). The business mainly focuses on locating projects, contract negotiations, work scheduling, artist training and development, image building and improvement, publicity campaigns and provision of personal assistant services for artists in Hong Kong and outside Hong Kong. The artist management services business of the Group involves the Group acting as sole and exclusive agent or manager of the artists in all aspects. The Group charges commission at a rate, which is specified in the relevant management agreements on the performance fees receivable by the artists. The artists management services business of the Group comprises five staffs who are responsible for the daily operation of the business and negotiating contracts on behalf of the artists for commercials, advertisements, movies and shows in Hong Kong and the PRC.

To avoid a large cash outlays for contracting renowned artists, the Group has planned to enlarge its pool of contracted artists by recruiting new talents in coming years. As the economic growth of the PRC is strong, there is an increasing demand for entertainment. The Group places more emphasis on extending the geographical coverage of its artists in the PRC.

## **Film distribution and production business**

The Group expanded into film distribution and production business by acquiring Creative Formula Limited (“CFL”) in film production and distribution business in October 2009. As at 31 December 2009, the Group had film rights ready for distribution of approximately HK\$8.0 million.

According to the track records of CFL, no turnover was recorded for the period from 13 August 2007 (being the date of incorporation) to 31 March 2008, the year ended 31 March 2009 and the nine months ended 31 December 2009. The net loss of CFL for the period from 13 August 2007 to 31 March 2008, the year ended 31 March 2009 and the nine months ended 31 December 2009 were approximately HK\$0.1 million, HK\$1.47 million and HK\$1.44 million respectively. Prior to the acquisition, the distribution of film rights was done by a former related company of CFL for taxation purposes. Therefore, no turnover has been recorded by CFL.

Given the number of cable and satellite TV stations in Asia Pacific, particularly in the PRC, is increasing, the Group is actively seeking investments in films, including acquisition of film rights and film production, to build up a film library for distribution. As it requires six to nine months for producing a film, the Group concentrates on acquiring film rights for building up its film library. The Board believes that such strategy produces speedy results on the Group’s film distribution and production business. The Group is currently in a preliminary negotiation with an oversea distributor for sourcing film rights of old Hong Kong-made movies. Given the film distribution and production is in a development stage, the Group retains one employee, who works for CFL prior to the acquisition and has extensive experience and network in film distribution and production business. The employee manages day-to-day operations of the film distribution. He is responsible for seeking investments in films and locating overseas distributors.

## **Investment in the JCE**

As the distribution of high-end apparel and accessories business has incurred loss, the Group disposed of its 50% interest in the business by allotting new shares of the Amazing Goal International Limited, a wholly-owned subsidiary of the Company to Chung Chiu (PTC) Ltd., an associate of a connected person of the Company, and formed the JCE in the year ended 31 December 2009. Each of the venturers has appointed two directors to the board of directors of the JCE to participate in and govern the financial and operating decisions of the JCE and recognises its interest in the JCE using proportionate consolidation. The Group prepares the financial accounts of the JCE.

Notwithstanding that the Group’s interests in the JCE decreased to 19% in August 2009, the Group is entitled to exercise its rights to top-up its interest in the JCE to a maximum of 50%. Given the JCE is currently in loss making, the Group closely monitors the operations of the JCE from time to time and exercises the right to top-up its interest in the JCE as and when the performance of the JCE improves.

According to the Annual Report 2009, the turnover of the JCE for the year ended 31 December 2008 and 2009 were approximately HK\$74.12 million and HK\$8.80 million respectively. The profit of

segment results in the investment in the JCE business was approximately HK\$37.96 million for the year ended 31 December 2008, and the loss of segment results was approximately HK\$23.59 million for the year ended 31 December 2009.

## **Overview**

As disclosed in the Annual Report 2009, the turnover of the Group derived from the investment in JCE of approximately HK\$8.80 million, the provision of artists management services businesses of approximately HK\$7.20 million and property investment business of approximately HK\$8.22 million. Other than the Mega shell Group, the Group has a total of fourteen full-time personnel, including the Directors and senior management. Taking into account the decrease in the Group's interest in the JCE from 100% to 19%, the turnover attributed to the remaining business of the Group after the Disposal Completion for the year ended 31 December 2009 was approximately HK\$9.01 million, representing approximately 37.20% of the turnover for the year ended 31 December 2009. It demonstrates that the Group has sufficient operation following the Disposal.

The Group reported consecutive losses for the two years ended 31 December 2008 and net liabilities of approximately HK\$44.65 million as at 31 December 2008. To strengthen the financial position of the Group, the Company has carried out various fund raising exercises and reported net assets of approximately HK\$175.38 million as at 31 December 2009. With a view to improving its profitability and diversifying its earnings base, the Group has undertaken various corporate activities by disposing its loss making business and acquiring assets and businesses with profit potential since the fourth quarter of the financial year 2008. The Group made a turnaround in its financial performance and recorded a profit of approximately HK\$26.10 million in the year ended 31 December 2009, whereas loss for the year ended 31 December 2008 amounted to approximately HK\$75.31 million.

Despite the fact that the Proposed Acquisition has been terminated, the Company continues to seek appropriate investment projects for the Group to improve its profitability and diversify its earnings base and more resources are allocated to further develop the remaining businesses of the Group.

Save for the Disposal and the negotiation between the Acquisition Vendor for a possible investment opportunity in environmental protection business in the PRC, the Company has not entered into any agreement, arrangement, understanding or negotiation about any acquisition or disposal of the company or assets (whether concluded or not). The Board has no intention to dispose any of its remaining businesses after the Disposal as at the date of this announcement.

As at the date of this announcement, the Company had total borrowings of approximately HK\$422.54 million, of which HK\$415.54 million is redeemable by the Company prior to maturity and approximately HK\$7.0 million of a convertible bond in which the bondholder has agreed to mandatory convert the outstanding principal of convertible bond into Shares at maturity.

The redeemable borrowings of HK\$415.54 million comprise of (i) the amount due to Riche of approximately HK\$155.54 million; (ii) the promissory note issued to Riche of approximately HK\$100

million; (iii) the convertible bond issued to Riche of approximately HK\$100 million; and (iv) the convertible bond issued to China Star Entertainment Limited of approximately HK\$60 million. Details of the redeemable borrowings are as follows:

- (i) The amount due to Riche of approximately HK\$155.54 million is unsecured and interest-free and has no fixed term of repayment and is repayable on demand. It was arisen from the acquisition of the investment properties by the Group in April 2009.
- (ii) The promissory note issued to Riche of approximately HK\$100 million was arisen in settling the consideration in acquisition of the Group's investment properties in April 2009. The promissory note is unsecured, interest-free and maturing on 7 April 2014.
- (iii) The convertible bond issued to Riche of approximately HK\$100 million was arisen in settling the consideration in acquisition of the Group's investment properties in April 2009. The convertible bond is unsecured, interest-free and maturing on 7 April 2019.
- (iv) The convertible bond issued to China Star Entertainment Limited of approximately HK\$60 million was arisen for financing the Group's general working capital and/or repayment of its borrowings. The convertible bond is unsecured, interest-free and maturing on 28 January 2019.

The Board proposes to repay the redeemable borrowings of (ii), (iii) and (iv) on or before the Disposal Completion and to repay the redeemable borrowing of (i) upon Disposal Completion. Although the Company is not obliged to early repay the redeemable borrowings before their maturity, the Board considers that it is fair and reasonable and in the interests of the Company and the Shareholders to make the early repayment on or before the Disposal Completion on the following grounds:

- (a) it improves the Company's financial position and reduces gearing ratio for future business development;
- (b) as a majority of the redeemable borrowings represents debts granted by Riche for facilitating the acquisition of the investment properties of the Group and settling part of the consideration for acquisition in April 2009, it is rational and reasonable to early repay those borrowings following the realisation by the Group;
- (c) the potential massive dilution effect on the shareholding of the Company is eliminated by repaying the outstanding redeemable convertible bonds; and
- (d) it enables the compliance of Rule 19.82 of the GEM Listing Rules by the Company.



## **PROPOSED SPECIAL DIVIDEND**

The Board proposes that the Proposed Special Dividend of not less than HK\$40,231,926 (subject to finalisation) will be distributed to the Shareholders on a pro rata basis. Based on 335,266,054 Shares in issue as at the date of this announcement, the Proposed Special Dividend will be not less than HK\$0.12 per Share (subject to finalisation). The Proposed Special Dividend will be paid in cash to the Shareholders by the Company. As the Company would have sufficient internal resource for its operations after the Disposal Completion, the Board considered it is a good opportunity for the Company to award the return of the Company to the Shareholders.

The distribution of the Proposed Special Dividend is conditional upon the Shareholders' approvals on the Proposed Special Dividend and the Disposal Agreement and the transactions contemplated thereunder at the SGM and the completion of the Capital Reorganisation. For further details in relation to the Capital Reorganisation, please refer to the announcement of the Company dated 1 April 2010. Further announcements on the closure of register of members of the Company for distributing the Proposed Special Dividend will be released as soon as practicable. An ordinary resolution will be put forward at the SGM for distribution of the Proposed Special Dividend. Further details, including the final amount of the Proposed Special Dividend to be declared and payable by the Company, will be set out in the circular.

## **GEM LISTING RULES IMPLICATIONS**

Following the Disposal, the remaining businesses of the Group are film production and distribution, provision of artists management services and investment in the JCE. Taking into account the decrease in the Group's interest in the JCE from 100% to 19%, the turnover attributed to the remaining businesses for the year ended 31 December 2009 was approximately HK\$9.01 million, representing approximately 37.20% of the turnover for the year ended 31 December 2009. The Company still has sufficient level of operations or assets of sufficient potential value to warrant the continued listing of the Shares in accordance with Rule 17.26 of the GEM Listing Rules following the Disposal Completion.

Pursuant to Rule 19.82 of the GEM Listing Rules which stipulates that if the assets of a listed issuer consist wholly or substantially of cash or short-dated securities, it will not be regarded as suitable for listing and trading in its securities will be suspended. Based on the management accounts of the Group and taking into account the net proceeds from the Disposal, the Company anticipates that the Company's assets will consist substantially of cash upon completion of the Disposal. The Company may be regarded as a cash company under Rule 19.82 of the GEM Listing Rules upon the Disposal Completion. To ensure the compliance with Rule 19.82 of the GEM Listing Rules, the Company shall (a) repay the promissory note of HK\$100 million issued to Riche, the convertible bond of HK\$100 million issued to Riche and the convertible bond of HK\$60 million issued to China Star Entertainment Limited on or before the Disposal Completion; (b) repay the amount due to Riche of HK\$155.54 million upon Disposal Completion; and (c) distribute the Proposed Special Dividend on the day immediately after the SGM.



On the assumption that, upon Disposal Completion, (a) the net proceeds of HK\$136.07 million is received from the Disposal; (b) the debts of HK\$415.54 million of redeemable borrowings are repaid by the Group; and (c) the distribution of the Proposed Special Dividend, the Company would have a cash to total assets ratio of approximately 79.57%. In the event that the Board notices that the Company's assets comprise wholly or substantially of cash or short-dated securities as a result of the Disposal, the Company will make an announcement and request for suspension of dealings in the Shares as soon as practicable.

## **SGM**

A SGM will be convened and held for the purpose of considering and, if thought fit, approve the Disposal Agreement and the transactions contemplated thereunder and the Proposed Special Dividend.

## **GENERAL**

The Disposal constitutes a very substantial disposal on the part of the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under the GEM Listing Rules.

Given the net proceeds from the Disposal will be applied for the repayment of the amount owed to Riche by the Group, Riche is considered to have an interest in the Disposal Agreement. Therefore, Riche and its associates will be required to abstain from voting to approve the Disposal Agreement and the transactions contemplated thereunder at the SGM. To the best knowledge of the Directors, save for Riche, there is no Shareholder having material interests in the Disposal as at the date of this announcement and therefore no Shareholder, other than Riche and its associates, will be required to abstain from voting on the resolutions approving the Disposal Agreement and the transactions contemplated thereunder at the SGM. No Shareholders will be required to abstain from voting on the resolution approving the Proposed Special Dividend at the SGM.

A circular containing, among other things, further details of the Disposal, the valuation report of the Property and the Proposed Special Dividend together with a notice convening the SGM will be despatched to the Shareholders as soon as possible in accordance with the GEM Listing Rules.

**Shareholders and potential investors should note that (i) completion of the Disposal is subject to conditions precedent as defined in the Disposal Agreement and accordingly the Disposal may or may not proceed; (ii) the possible implication under Rule 19.82 of the GEM Listing Rules on the Company; and (iii) the Proposed Special Dividend is subject to the fulfillment of the conditions as set out in this announcement, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.**

## SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the issued Shares on the GEM has been suspended from 9:30 a.m. on 9 February 2010 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the GEM from 9:30 a.m. on 14 April 2010.

## TERMS USED IN THIS ANNOUNCEMENT

“Acquisition Agreement”	the conditional sale and purchase agreement dated 9 February 2010 (after trading hours) entered into between the Company and the Acquisition Vendor in relation to the Proposed Acquisition
“Acquisition Vendor”	an Independent Third Party
“Annual Report 2009”	the annual report of the Company for the year ended 31 December 2009
“Balance”	the balance of the consideration in the sum of RMB 450 million to be received by Beijing Suoma for the sale and purchase of the Disposed Properties pursuant to the sale and purchase agreement dated 8 August 2009 entered into between Beijing Suoma and 北京銀座興業房地產經紀有限公司 (Beijing Yinzuo Xingye Real Estate Agency Company Limited**)
“Beijing Jianguo (BVI)”	Beijing Jianguo Real Estate Development Co., Ltd., a company incorporated in the BVI and a wholly-owned subsidiary of Shinhan-Golden
“Beijing Suoma”	北京莎瑪房地產開發有限公司 (Beijing Shama Real Estate Development Company Limited**) (formerly known as 北京建國房地產開發有限公司 (Beijing Jianguo Real Estate Development Company Limited)), a company organised and existing under the laws of the PRC
“Board”	the board of Directors
“BVI”	the British Virgin Islands

“Business Day”	a day (other than Saturdays, Sundays and such other days where a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above is in force or hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon in Hong Kong), on which licensed banks in Hong Kong are open for business throughout their normal business hour
“Capital Reorganisation”	the proposed capital reorganisation of the Company announced on 1 April 2010 in relation to (i) the proposed reduction of the entire amount standing to the credit of the share premium account of the Company; (ii) the proposed transfer of the entire amount standing to the credit of the share premium account of the Company to the contributed surplus account of the Company; and (iii) the proposed application of approximately HK\$212,283,009.22 from the contributed surplus account of the Company to offset against the accumulated losses of the Company
“Chen”	Ms. Chen Peng (陳萍), a PRC citizen and owner of 51% registered capital of Shanghai Shengping
“Chen Undertaking”	an undertaking dated 3 July 2003 as supplemented by a supplemental undertaking dated 7 November 2003 by Chen in relation to the transfer of 51% of the registered capital in Shanghai Shengping
“Company”	China Star Film Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares are listed on the GEM
“Directors”	the directors of the Company
“Disposal”	the proposed disposal of the Mega Shell Sale Share and the Mega Shell Sale Loan pursuant to the Disposal Agreement
“Disposal Agreement”	the conditional sale and purchase agreement dated 8 February 2010 entered into the Company and Keen Modern in relation to the sale and purchase of the Mega Shell Sale Share and the Mega Shell Sale Loan
“Disposal Completion”	completion of the Disposal in accordance with the Disposal Agreement
“Disposal Deposit”	a refundable deposit in the sum of RMB 5.00 million (or approximately HK\$5.69 million), which being a deposit and part payment of the Disposal Price payable by Keen Modern to the Company

“Disposal Price”	the aggregate consideration of approximately RMB119.57 million (or approximately HK\$136.07 million) for the Disposal pursuant to the Disposal Agreement
“Disposed Properties”	the 193 residential and the 186 car parking spaces located at No. 9, Gongyan Xijie, Dongcheng District, Beijing, the PRC
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) independent of and not connected or acting in concert with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules) and are not connected persons of the Company
“JCE”	Amazing Goal International Limited, a 19% owned jointly controlled entity of the Group and principally engaged in distribution of high-end apparel and accessories
“Keen Modern”	Keen Modern Limited, a company incorporated in the BVI and wholly owned by Mr. Long Rui Ming John who is an Independent Third Party
“Last Trading Day”	8 February 2010, being the last day of trading of Shares immediately prior to the date on which the Shares were suspended from trading on the GEM pending the release of this announcement
“Liao”	Mr. Liao Miao-yuan (賴淼源), a PRC citizen and owner of 49% registered capital in Shanghai Shengping
“Liao Undertaking”	an undertaking dated 3 July 2003 as supplemented by a supplemental undertaking dated 7 November 2003 by Liao in relation to the transfer of 49% of the registered capital in Shanghai Shengping
“Mega Shell”	Mega Shell Services Limited, a company incorporated in the BVI and a directly wholly owned subsidiary of the Company

“Mega Shell Group”	collectively, Mega Shell, Shinhan-Golden, World East, Beijing Suoma, Shanghai Shengping and Beijing Jianguo (BVI)
“Mega Shell Sale Loan”	all debts, liabilities and obligations of the Company owing or incurred by Mega Shell to the Company, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable as at the date of Disposal Completion. As at 8 February 2010 (being the date of the Disposal Agreement), Mega Shell is indebted to the Company in the sum of HK\$59,634,979
“Mega Shell Sale Share”	the one issued ordinary share of par value of US\$1.00 in the capital of Mega Shell
“Old Share(s)”	issued Shares prior to the share consolidation and capital reduction of the Shares. Details of which has been disclosed in the announcement of the Company dated 7 December 2009 and the circular dated 23 December 2009
“PRC”	the People’s Republic of China
“Property”	comprising the 1st Floor and the 2nd Floor together with equipment room of the main building and the entire ancillary building located at No. 9, Gongyan Xijie, Dongcheng District, Beijing, the PRC with total gross floor area of about 6,769.98 square meters
“Proposed Acquisition”	the proposed acquisition of the entire issued share capital of the Target Company subject to the terms and conditions of the Acquisition Agreement
“Proposed Special Dividend”	the proposed distribution of cash dividend of not less than HK\$40,231,926 (subject to finalisation) by the Company to the Shareholders on a pro rata basis
“Riche”	Riche (BVI) Limited, a wholly-owned subsidiary of China Star Investment Holdings Limited and a Shareholder holding approximately 6.32% of the issued share capital of the Company as at the date of this announcement
“SGM”	the special general meeting of the Company to be convened by the Company for the purpose of, among other things, approving the Disposal and the transactions contemplated thereunder

“Shanghai Shengping”	上海昇平文化發展有限公司 (Shanghai Shengping Culture Development Company Limited**), a company organised and existing under the laws of the PRC
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Shares
“Shinhan-Golden”	Shinhan-Golden Faith International Development Limited, a company incorporated in the BVI and an indirectly wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	a company principally engaged in design, management and implementation of integrated information system and advanced energy saving technology which aims for wise and modern management of the city’s public services in the PRC
“Termination Agreement”	an termination agreement dated 13 April 2010 entered into between the Company and the Acquisition Vendor to terminate the Acquisition Agreement
“World East”	World East Investments Limited, a company incorporated in the BVI and an indirectly wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

By Order of the Board  
**China Star Film Group Limited**  
**Lai Hok Lim**  
*Chairman*

Hong Kong, 13 April 2010

*As at the date of this announcement, the executive Directors are Mr. Lai Hok Lim and Mr. Wong Chi Chiu; and the independent non-executive Directors are Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng.*

*This announcement, for which the Directors collectively and individually accept full responsibilities, includes particulars given in compliance with the GEM 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: (i) the information contained in this announcement is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumption that are fair and reasonable.*

*This announcement will remain on the GEM website on the “Latest Company Announcement” page for at least 7 days from the date of its publication and on the Company’s website at [www.golife.com.hk](http://www.golife.com.hk).*

*\*\* English translation only*