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CHINA STAR FILM GROUP LIMITED

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

(Stock Code: 8172)

**(I) PROPOSED CAPITAL REORGANISATION;
(II) PROPOSED PLACING OF NEW SHARES
SUBJECT TO SHAREHOLDERS' APPROVAL;
AND
(III) CHANGE OF AUDITORS**

Placing Agent



KINGSTON SECURITIES LIMITED

PROPOSED CAPITAL REORGANISATION

The Directors propose to implement the Capital Reorganisation which involves:

- (i) the consolidation of shares whereby every five (5) Existing Shares of HK\$0.01 each in the issued and unissued share capital of the Company shall be consolidated into one (1) Consolidated Share of HK\$0.05 in the issued and unissued share capital of the Company;
- (ii) the reduction of the par value of each of the issued Consolidated Shares from HK\$0.05 each to the Adjusted Share of HK\$0.01 each by canceling the paid-up capital to the extent of HK\$0.04 on each issued Consolidated Share;
- (iii) the reduction of the par value of each of the authorised but unissued Consolidated Shares from HK\$0.05 to the Adjusted Share of HK\$0.01 by a diminution of HK\$0.04 on each authorised but unissued Consolidated Share; and
- (iv) the credit of HK\$5,410,642.16 arising from the reduction of issued share capital will be transferred to the contributed surplus account of the Company and applied to offset against part of the accumulated loss permitted by the laws of Bermuda and the Bye-laws.

The Capital Reorganisation is proposed in order to allow the Company to apply the credit standing to the contributed surplus account arising from the reduction of capital as set out above to facilitate the payment of dividends as and when the Directors consider it appropriate in the future.

The Capital Reorganisation is conditional upon fulfillment of certain conditions as more particularly described in the paragraphs headed “Conditions of the Capital Reorganisation” below.

The SGM will be held for the Shareholders to consider and, if thought fit, approve the Capital Reorganisation.

PROPOSED PLACING OF NEW SHARES SUBJECT TO SHAREHOLDERS’ APPROVAL

On 7 December 2009 (after trading hours), the Company entered into the Placing Agreement with the Placing Agent, pursuant to which, the Company has conditionally agreed to place, through the Placing Agent, 200,000,000 Placing Shares by tranches provided that the number of Placing Shares for each tranche is in integral multiples of 50,000,000, on a fully underwritten basis, to not fewer than six Places at a price of HK\$0.30 per Placing Share.

The 200,000,000 Placing Shares represent approximately (i) 147.86% of the issued share capital of the Company of 135,266,054 Adjusted Shares as at the date of this announcement; and (ii) 59.65% of the issued share capital of the Company of 335,266,054 Adjusted Shares as enlarged by the issue of 200,000,000 Placing Shares.

The Placing Price of HK\$0.30 represents (i) a discount of approximately 41.18% to the closing price of HK\$0.51 per Existing Share adjusted for the Capital Reorganisation as quoted on the Stock Exchange at the date of this announcement; (ii) a discount of approximately 38.52% to the average of the closing prices of approximately HK\$0.488 per Existing Share adjusted for the Capital Reorganisation for the last five consecutive trading days prior to the date of this announcement; and (iii) a discount of approximately 36.71% to the average of the closing prices of approximately HK\$0.474 per Existing Share adjusted for the Capital Reorganisation for the last ten consecutive trading days prior to the date of this announcement.

The gross proceeds from the Placing will be approximately HK\$60 million and the net proceeds from the Placing will be approximately HK\$59 million which are intended to be used for future investment and general working capital of the Group.

Application will be made by the Company to the Listing Committee of GEM for the grant of the listing of, and permission to deal in, the Placing Shares under the relevant tranche of the Placing.

The Placing is conditional upon the fulfillment of the conditions as set out under the heading “Conditions Precedent” of the Placing below. The allotment and issue of the Placing Shares will be subject to an approval by the Shareholders at the SGM.

The Placing Agent and its associates, being the holders of 11,029,027 Existing Shares as at the date of this announcement, are required to abstain from voting at the SGM approving the Placing.

CHANGE OF AUDITORS

The Board hereby announces that Vision A.S. Limited has resigned as auditors of the Company with effect from 7 December 2009 as the Company and Vision A.S. Limited could not reach a consensus about the auditors’ remuneration. The Company has accepted the resignation of Vision A.S. Limited solely for audit fee competitiveness reason, which is in line with the Company’s policy to control and reduce operation costs. HLB Hodgson Impey Cheng is proposed by the Board as the new auditors of the Company to fill the casual vacancy left by the resignation of Vision A.S. Limited and to hold office until the conclusion of the next annual general meeting of the Company, subject to the appointment being approved by the Shareholders at the special general meeting to be held pursuant to the Bye-laws.

GENERAL

The Placing and the Capital Reorganisation are not inter-conditional.

The SGM will be convened to consider and, if thought fit, approve (i) the Placing Agreement and the transactions contemplated thereunder; (ii) the Capital Reorganisation; and (iii) the change of Company’s auditors. The Placing Agent and its associates, being the holders of 11,029,027 Existing Shares as at the date of this announcement, are required to abstain from voting in respect of the Placing Agreement and the transactions contemplated thereunder at the SGM.

A circular containing, among other things, details of (i) the Capital Reorganisation; (ii) the Placing Agreement and the transactions contemplated thereunder; (iii) the change of Company’s auditors; and (iv) a notice convening the SGM will be despatched to the Shareholders as soon as possible in accordance with the GEM Listing Rules.

Shareholders should be aware of and take note that the completion of the Capital Reorganisation and the Placing are conditional upon satisfaction of the conditions precedents set out in the paragraph headed “Conditions of the Capital Reorganisation” and “Conditions of the Placing” below. As the Placing and the Capital Reorganisation may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

PROPOSED CAPITAL REORGANISATION

The Directors propose to implement the Capital Reorganisation which involves:

- (i) the consolidation of shares whereby every five (5) Existing Shares of HK\$0.01 each in the issued and unissued share capital of the Company shall be consolidated into one (1) Consolidated Share of HK\$0.05 in the issued and unissued share capital of the Company;
- (ii) the reduction of the par value of each of the issued Consolidated Shares from HK\$0.05 each to the Adjusted Share of HK\$0.01 each by canceling the paid-up capital to the extent of HK\$0.04 on each issued Consolidated Share;
- (iii) the reduction of the par value of each of the authorised but unissued Consolidated Shares from HK\$0.05 each to the Adjusted Share of HK\$0.01 each by a diminution of HK\$0.04 on each authorised but unissued Consolidated Share; and
- (iv) the credit of HK\$5,410,642.16 arising from the reduction of issued share capital will be transferred to the contributed surplus account of the Company and applied to offset against part of the accumulated loss permitted by the laws of Bermuda and the Bye-laws.

The Capital Reorganisation is conditional upon fulfillment of certain conditions as more particularly described in the paragraphs headed “Conditions of the Capital Reorganisation” below.

The SGM will be held for the Shareholders to consider and, if thought fit, approve the ordinary resolution in respect of the Capital Reorganisation.

As at the date of this announcement, the authorised share capital of the Company is HK\$30,000,000 divided into 3,000,000,000 Existing Shares, of which 676,330,271 Existing Shares have been in issue and are fully paid or credited as fully paid.

As at the date of this announcement, save for the options of the Company entitling the holders thereof to subscribe for 29,200,000 Existing Shares and the convertible bonds amounted to HK\$167,000,000 entitling the holders thereof to convert 727,978,657 Existing Shares, the Company has no other outstanding warrants, options or convertible securities.

Effects of the Capital Reorganisation

As at the date of this announcement, the authorised share capital of the Company is HK\$30,000,000 divided into 3,000,000,000 Existing Shares of HK\$0.01 each, of which 676,330,271 Existing Shares are issued and fully paid. Assuming that no further Existing Shares are issued or repurchased between the date of this announcement and the date of the SGM, immediately upon the Capital Reorganisation becoming effective, the authorised share capital of the Company will become HK\$6,000,000 divided into 600,000,000 Adjusted Shares of HK\$0.01 each, of which 135,266,054 Adjusted Shares will be in issue.

Based on 676,330,271 Existing Shares in issue as at the date of this announcement, a credit of approximately HK\$5,410,642.16 will arise as a result of the Capital Reduction and will be transferred to the contributed surplus account of the Company and applied to offset against part of the amount of the accumulated losses permitted by the laws of Bermuda and the Bye-laws.

The Capital Reorganisation will not result in any change in the relative rights of the Shareholders. Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the interests of the Shareholders as a whole.

The Adjusted Shares will rank pari passu in all respects with the Existing Shares in issue prior to the Capital Reorganisation becoming effective to each other.

Reasons for the Capital Reorganisation

The Capital Reorganisation will provide the Company with greater flexibility in issuing Adjusted Shares in future should such opportunities arise. Hence, the Board is of the view that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (a) the passing of the necessary resolution(s) by the Shareholders at the SGM to approve the Capital Reorganisation;
- (b) compliance with the relevant procedures and requirements under the GEM Listing Rules and Bermuda laws to effect the Capital Reorganisation; and
- (c) the Listing Committee of GEM granting the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation.

Subject to the fulfillment of the conditions of the Capital Reorganisation, the Capital Reorganisation is expected to be effective on the date immediately after the date of the SGM.

Application for listing of the Adjusted Shares

Application will be made by the Company to the GEM for the grant of the listing of, and permission to deal in, the Adjusted Shares which will be in issue upon the Capital Reorganisation becoming effective and any Adjusted Shares which may fall to be issued upon the exercise of the conversion rights attached to the convertible bonds or the options of the Company.

The Adjusted Shares will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Fractional Adjusted Shares and odd lot trading arrangement

Fractional Adjusted Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of the Adjusted Shares will be aggregated and sold for the benefit of the Company.

In order to facilitate the trading of odd lots (if any) of the Adjusted Shares, the Company will appoint a securities firm to provide a matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Adjusted Shares to make up a full board lot, or to dispose of their holding of odd lots of the Adjusted Shares. Details of the odd lot matching arrangements will be set out in the circular in relation to the Capital Reorganisation to be despatched to the Shareholders.

Exchange of share certificates

Subject to the Capital Reorganisation becoming effective, which is expected to be on 14 January 2010; Shareholders may, on or after Thursday, 14 January 2010 until Tuesday, 23 February 2010 (both days inclusive) submit share certificates for Shares to the Company's branch share registrar in Hong Kong (the "**Branch Registrar**"), Computershare Hong Kong Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, to exchange, at the expense of the Company, for certificates for the Adjusted Shares. It is expected that the new certificates for the Adjusted Shares will be available for collection within 10 Business Days after the submission of the existing share certificates to the Branch Registrar for exchange. Thereafter, certificates for Existing Shares will remain effective as documents of legal title but will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) per certificate issued or cancelled, whichever is higher, payable by Shareholders to the Branch Registrar.

Adjustments to the outstanding share options and convertible bonds of the Company

The Placing and Capital Reorganisation may lead to adjustments to the exercise price and/or the number of the Adjusted Share to the options of the Company and conversion price and/or the number of Adjusted Shares to be issued upon conversion of the convertible bonds of the Company. The Company will notify the holders thereof by way of announcement regarding adjustments to be made (if any) pursuant to the terms of the options and the convertible bonds of the Company (as and when appropriate).

Expected timetable of the Capital Reorganisation

	2009
Despatch of circular, notice of SGM and form of proxy.	Monday, 21 December
	2010
Latest time for the Shareholder lodge the form of proxy for SGM.	4:00 p.m. on Monday, 11 January
SGM	4:00 p.m. on Wednesday, 13 January
Effective date of the Capital Reorganisation	Thursday, 14 January
Commencement of dealings in the Adjusted Shares	9:30 a.m. on Thursday, 14 January

Original counter for trading in Existing Shares in existing
share certificates in board lots of 20,000 9:30 a.m. on
Existing Shares temporarily closes. Thursday, 14 January

Temporary counter for trading in board lots of 4,000 Adjusted 9:30 a.m. on
Shares (in the form of existing share certificates) opens Thursday, 14 January

First day of free exchange of certificates for Existing Shares
into new certificates for the Adjusted Shares Thursday, 14 January

Original counter for trading in Adjusted Shares in board lots
of 20,000 Adjusted Shares (only new certificates for 9:30 a.m. on
the Adjusted Shares can be traded at this counter) re-opens. Thursday, 28 January

Parallel trading in the Adjusted Shares (in the form of 9:30 a.m. on
new and existing certificates) commences Thursday, 28 January

Designated broker starts to stand in the market to provide
matching services for the sale and purchase of
odd lots of Adjusted Shares Thursday, 28 January

Temporary counter for trading in board lots of 4,000 Adjusted 4:00 p.m. on
Shares (in the form of existing share certificates) closes Friday 19 February

Parallel trading in the Adjusted Shares (in the form 4:00 p.m. on
of new and existing certificates) ends Friday 19 February

Designated broker ceases to stand in the market to provide
matching services for the sale and purchase of
odd lots of Adjusted Shares Friday 19 February

Last day of free exchange of certificates for Existing Shares
into new certificates for the Adjusted Shares Tuesday, 23 February

All times stated in this announcement refer to Hong Kong times. Dates stated in this announcement for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Capital Reorganisation will be announced as appropriate.

THE PLACING AGREEMENT

Date: 7 December 2009 (after trading hours)

Parties: The Company and the Placing Agent

Placing Agent

The Placing Agent has conditionally agreed to place 200,000,000 Placing Shares by tranches provided that the aggregate number of Placing Shares for each tranche is in integral multiples of 50,000,000, on a fully underwritten basis, to the Placees.

In consideration of the prevailing market rate of the placing commission, the Directors (including the independent non-executive Directors) are of the view that the placing commission of 1% on the gross proceeds of the actual number of Placing Shares being placed for each tranche is fair and reasonable. To the best of Directors' knowledge, information and belief and having made all reasonable inquiries, an aggregate of 11,029,027 Existing Shares are being held by the Placing Agent and its associates, representing approximately 1.63% of the issued share capital of the company as at the date of this announcement. As the Placing Agent, which have interests in the Placing Agreement, the Placing Agent and its associates are required to abstain from voting to approve the Placing Agreement and the transactions contemplated thereunder.

Placees

Pursuant to the Placing Agreement, the Placing Agent undertakes to place the Placing Shares to not fewer than six Placees who and whose ultimate beneficial owners will be independent of and not be connected persons of the Company and its connected persons. It is expected that none of the Placees will become a substantial Shareholder (as defined under the GEM Listing Rules) immediately after the relevant tranche of the Placing.

Placing Price

The Placing Price of HK\$0.30 represents:

- (i) a discount of approximately 41.18% to the closing price of HK\$0.510 per Existing Share adjusted for the Capital Reorganisation as quoted on the Stock Exchange at the date of this announcement;
- (ii) a discount of approximately 38.52% to the average of the closing prices per Existing Share adjusted for the Capital Reorganisation of approximately HK\$0.488 for the last five consecutive trading days prior to the date of this announcement; and

- (iii) a discount of approximately 36.71% to the average of the closing prices per Existing Share adjusted for the Capital Reorganisation of approximately HK\$0.474 for the ten consecutive trading days prior to the date of this announcement.

The net price for each Placing Share will be approximately HK\$0.295.

The Placing Price was determined after arm's length negotiation between the Company and the Placing Agent after taking into account (a) the market sentiment; and (b) the performance of the Shares and the attractiveness to the potential investors. The Directors (including the independent non-executive Directors) consider that the terms of the Placing are on normal commercial terms and are fair and reasonable as the Company can broaden its Shareholders' base and strengthen the Company's financial position. As such, the Placing is in the interests of the Company and the Shareholders as a whole.

Placing Shares

Pursuant to the Placing Agreement, 200,000,000 Placing Shares will be placed by the Placing Agent to the Placees on a fully underwritten basis, representing (i) approximately 147.86% of the issued share capital of the Company of 135,266,054 Existing Shares adjusted for the Capital Reorganisation as at the date of this announcement; and (ii) approximately 59.65% of the Company's issued share capital of 335,266,054 Existing Shares adjusted for the Capital Reorganisation as enlarged by the issue of 200,000,000 Placing Shares. The aggregate nominal value of the Placing Shares under the Placing will be HK\$2,000,000.

The Placing Shares will be allotted and issued subject to Shareholders' approval at the SGM. The Placing Shares will, when fully paid, be allotted and issued in accordance with the memorandum of association and Bye-laws and with the relevant rules and regulations applicable to the Company in Hong Kong and Bermuda and will, upon allotment and issue, be free from all liens, charges, encumbrances or third party rights of whatsoever nature and together with all rights attaching thereto at completion of each tranche of the Placing and thereafter.

The Placing Shares will rank, upon issue, *pari passu* in all respects with the existing Shares in issue on the date of allotment and issue of the Placing Shares.

Conditions Precedent

Completion of the Placing is conditional upon:

- (i) the Listing Committee of GEM granting the listing of, and permission to deal in the Placing Shares under the relevant tranche of the Placing;
- (ii) the passing of resolution(s) by Shareholders to approve the Placing Agreement and the transactions contemplated thereunder, including the allotment and issue of the Placing Shares at the SGM;

- (iii) the obligation of the Placing Agent under the Placing Agreement becoming unconditional and not being terminated in accordance with the terms thereof, including provisions regarding force majeure event;
- (iv) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of the Placing Shares under the relevant tranche of the Placing; and
- (v) the Capital Reorganisation becoming effective.

Completion of the Placing

Completion of each tranche of the Placing will take place within four Business Days after the fulfillment of the above conditions precedent for each tranche but not later than three months after the date of the SGM.

The Company and the Placing Agent have agreed that the Placing will be completed partially by tranches provided that the number of the Placing Shares for each tranche of the Placing is in integral multiples of 50,000,000 and that the listing approval as referred to condition (i) above in respect of the relevant tranche of the Placing Shares has been obtained and that the completion of the Placing shall apply to each of such partial completion.

Termination of the Placing

- (i) Unless otherwise agreed between the Company and the Placing Agent, the Placing Agent's appointment shall terminate upon the earlier of (a) completion of the Placing and (b) termination of the Placing by the Placing Agent in accordance with the terms and conditions of the Placing Agreement, whereby the Company will be formally notified by the Placing Agent in writing in accordance with the terms of the Placing Agreement.
- (ii) The Placing Agent reserves its right to terminate the Placing Agreement by notice in writing prior to 10:00 a.m. on the date of completion of each tranche of the Placing, if in the absolute opinion of the Placing Agent, the success of the Placing would be materially and adversely affected by any force majeure events (as defined below).

For this purpose, a "force majeure event" refers to

- (a) the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; 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 of the Placing Agreement) of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances (inclusive of any pandemic or epidemics) which may, in the absolute opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group or adversely prejudices the success of the placing of the Placing Shares to potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Placing; or
 - (c) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction or trading in securities) occurs which affect the success of the Placing (such success being the placing of the Placing Shares to potential investor(s)) or otherwise in the absolute opinion of the Placing Agent makes it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the Placing.
- (iii) If, at or prior to 10:00 a.m. on the date of completion of each tranche of the Placing;
- (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed or assumed under the Placing Agreement; or
 - (b) any suspension in the trading of the Shares on GEM for more than ten consecutive trading days save for the purposes of clearing of the announcement relating to the Placing Agreement or circulars relating to the Placing; or
 - (c) the Placing Agent shall become aware of the fact that any of the representations or warranties contained in the Placing Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if repeated the Placing Agent shall determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the financial or trading position or prospects of the Group taken as a whole or will otherwise likely to have a material prejudicial effect on the Placing.

The Placing Agent shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Placing Agent from its obligations under the Placing Agreement.

- (iv) Upon giving of notice pursuant to the paragraph above, all obligations of the Placing Agent under the Placing Agreement shall cease and determine and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Placing Agreement, save for any antecedent breaches.

Listing

Application will be made by the Company to the Listing Committee of GEM for the grant of the listing of, and permission to deal in, the Placing Shares under the relevant tranche of the Placing.

REASONS FOR AND BENEFIT OF THE PLACING AND USE OF PROCEEDS

The gross proceeds from the Placing will be approximately HK\$60 million and the net proceeds from the Placing will be approximately HK\$59 million which are intended to be used for future investment and general working capital of the Group.

According to the interim report of the Company for the period ended 30 September 2009, the loss attributable to equity holders of the Company had recorded HK\$1.5 million. In order to improve the financial position of the Group, the Company had streamlined its loss-making business of the Group. Furthermore, the Group has been actively seeking new investment opportunities in other areas. Taking into account the overall economic climate around the global has become improved, the Board considered that the Placing represents an opportunity for the Company to improve the financial position as well as broaden Shareholders' portfolio and enhance the Group's flexibility in future developments or investment as and when opportunities arise. Accordingly, the Directors (including the independent non-executive Directors) consider the entering into the Placing Agreement is in the interests of the Company and the Shareholders as a whole.

For effect on the Shareholding structure of the Company from the Placing, please refer to the "Effect on Shareholding Structure on the Placing and the Capital Reorganisation" below in this announcement.

FUND RAISING ACTIVITY OF THE COMPANY IN THE PAST TWELVE MONTHS IMMEDIATELY PRECEDING THE DATE OF THIS ANNOUNCEMENT

Save as disclosed below, the Company has not conducted any fund raising activities in the past twelve months before the date of this announcement:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds as announced	Actual use of proceeds
8 December 2008	Issue of convertible bonds to China Star Entertainment Limited, a company listed on the main board of the Stock Exchange, in the principal amount of HK\$60.0 million	HK\$60.0 million	All of the proceeds will be used for general working capital purposes of the Group and/or borrowings repayment	HK\$38.2 million has been utilised for the repayment of convertible bonds; HK\$15.9 million has been used for borrowings repayment and HK\$5.9 million has been utilised for investment purpose
8 December 2008	Issue of convertible bonds to Xing Lin Medical Information Technology Company Limited (formerly known as Brilliant Arts Multi-Media Holding Limited), a company listed on GEM, in the principal amount of HK\$100 million	HK\$100.0 million	All of the proceeds will be used for general working capital purposes of the Group and/or borrowings repayment	All the proceeds have been utilised for borrowings repayment
23 April 2009	Placing of 11,560,000 Existing Shares at the placing price of HK\$0.205 per Existing Share	HK\$2.3 million	All of the proceeds will be used for general working capital of the Group	HK\$2.3 million has been used for general working capital of the Group
23 April 2009	Open offer of 555,031,352 Existing Shares at the issue price of HK\$0.10 per Existing Share	HK\$54.4 million	All of the proceeds will be used for reducing the Group's borrowings, finance any future possible investment and/or for general working capital of the Group	HK\$12.3 million has been utilised for investment purpose and HK\$42.1 million has been used for borrowings repayment

There has been no change in the above use of proceeds for the captioned raising activities.

EFFECT ON SHAREHOLDING STRUCTURE TO THE CAPITAL REORGANISATION AND TO THE PLACING

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company after (i) the Capital Reorganisation becoming effective assuming no further new Existing Shares are issued; and (ii) the Capital Reorganisation becoming effective assuming no further new Existing Shares are issued and upon completion of the Placing are set out as below:

	As at the date of this announcement		Immediately after the Capital Reorganisation becoming effective		Immediately after the Capital Reorganisation becoming effective and the completion of the Placing	
	No. of Shares	Approximately percentage	No. of Adjusted Shares	Approximately percentage	No. of Adjusted Shares	Approximately percentage
Riche (Note 1)	105,922,746	15.66%	21,184,549	15.66%	21,184,549	6.32%
<i>Public Shareholders:</i>						
Placees	—	—	—	—	200,000,000	59.65%
Others	570,407,525	84.34%	114,081,505	84.34%	114,081,505 (Note 2)	34.03%
Total	<u>676,330,271</u>	<u>100.00%</u>	<u>135,266,054</u>	<u>100.00%</u>	<u>335,266,054</u>	<u>100.00%</u>

Notes:

1. Riche (BVI) Limited is a wholly-owned subsidiary of China Star Investment Holdings Limited, a company whose shares are listed in the main board of the Stock Exchange. As at the date of this announcement, Riche (BVI) Limited holds HK\$100,000,000 convertible bonds of the Company which entitles to convert 436,681,222 Existing Shares.
2. Some Placees may be the existing Shareholders (holding less than 5% of the entire issued share capital of the Company as at the date of this announcement). Any of the existing holdings of the Placees, if any, are included under “Other public Shareholders”.

CHANGE OF AUDITORS

The Board hereby announces that Vision A.S. Limited has resigned as auditors of the Company with effect from 7 December 2009 as the Company and Vision A.S. Limited could not reach a consensus about the auditors’ remuneration. The Company has accepted the resignation of Vision A.S. Limited solely for audit fee competitiveness reason, which is in line with the Company’s policy to control and reduce operation costs. HLB Hodgson Impey Cheng is proposed by the Board as the new auditors of the Company to fill the vacancy left by the resignation of Vision A.S. Limited and to hold office until the conclusion of the next annual general meeting of the Company, subject to the appointment being approved by the Shareholders at the special general meeting to be held pursuant to the Bye-laws.

Vision A.S. Limited has confirmed in its resignation letter dated 7 December 2009 that there are no circumstances in connection with its resignation that needs to be brought to the attention of the Shareholders or creditors of the Group. Moreover, the Board was not aware of any matters that should be brought to the attention of the Shareholders or creditors of the Group in relation to the resignation of Vision A.S. Limited. The Board would like to take this opportunity to express its appreciation for the professional services of Vision A.S. Limited provided to the Company in the past years.

GENERAL

China Star Film Group Limited is principally engaged in property investment, the provision of artists management services, investment in jointly controlled entity which is principally engaged in distribution of high-end apparel and accessories film production and film distribution.

The SGM will be convened to consider and, if thought fit, approve (i) the Placing Agreement and the transactions contemplated thereunder; (ii) the Capital Reorganisation; and (iii) the change of Company's auditors. The Placing Agent and its associates, being the holders of 11,029,027 Existing Shares as at the date of this announcement, are required to abstain from voting in respect of the SGM approving the Placing Agreement and the transactions contemplated thereunder at the SGM.

A circular containing, among other things, details of (i) the Capital Reorganisation; (ii) the Placing Agreement and the transactions contemplated thereunder; (iii) the change of Company's auditors; and (iv) a notice convening the SGM will be despatched to the Shareholders as soon as possible in accordance with the GEM Listing Rules.

Shareholders should be aware of and take note that the completion of the Capital Reorganisation and the Placing are conditional upon satisfaction of the conditions precedents set out in the paragraph headed "Conditions of the Capital Reorganisation" and "Conditions of the Placing" above. As the Capital Reorganisation and the Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

TERMS USED IN THIS ANNOUNCEMENT

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

"Adjusted Shares"	the ordinary share(s) of HK\$0.01 each in the share capital of the Company immediately upon the Capital Reorganisation becoming effective
"associate(s)"	has the meaning ascribed to it in the GEM Listing Rules
"Board"	the board of Directors

“Business Day”	a day on which licensed banks in Hong Kong are generally open for business, other than a Saturday or a Sunday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is issued in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon
“Bye-laws”	the bye-laws of the Company from time to time
“Capital Reduction”	the proposal for the reduction of the par value of the issued Consolidated Shares from HK\$0.05 each to HK\$0.01 each by canceling HK\$0.04 of the paid-up capital on each issued Consolidated Share
“Capital Reorganisation”	the Share Consolidation and the Capital Reduction
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Codes”	The Codes on Takeovers and Mergers and Share Repurchases
“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 GEM
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Consolidated Shares”	the ordinary share(s) of HK\$0.05 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“Directors”	the directors of the Company
“Existing Shares”	the ordinary share(s) of HK\$0.01 each in the existing share capital of the Company immediately before the Capital Reorganisation becoming effective
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries

“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders other than Placing Agent and its associates
“Placee(s)”	any professional, institutional or other investors procured by the Placing Agent to subscribe for the Placing Shares
“Placing”	the private placing of 200,000,000 the Adjusted Shares by the Placing Agent to the Placee, on a fully underwritten basis, pursuant to the Placing Agreement
“Placing Agent”	Kingston Securities Limited, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	a conditional placing agreement dated 7 December 2009 entered into between the Company and the Placing Agent in respect of the Placing
“Placing Price”	HK\$0.30 per Placing Share
“Placing Shares”	an aggregate of 200,000,000 new Adjusted Shares to be allotted and issued pursuant to the Placing Agreement
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Placing Agreement and the Capital Reorganisation
“Shareholder(s)”	the holder(s) of the issued Share(s)
“Shares”	Existing Shares, Consolidated Shares and/or Adjusted Shares, as the case may be
“Share Consolidation”	the proposed consolidation of every five (5) issued and unissued Shares of HK\$0.01 each into one (1) Consolidated Share of HK\$0.05 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

“%” per cent

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

Hong Kong, 7 December 2009

As at the date of this announcement, the executive Directors are Mr. Lai Hok Lim and Mr. Heung Wah Keung 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 responsibility, 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will be published on the GEM website on the “Latest Company Announcement” page for at least 7 days from the date of publication and on the Company’s website at www.golife.com.hk.