



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2008

The board of directors of China Star Entertainment Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2008 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2008

		Six months ended 30th June	
		2008	2007
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Continuing operations			
Turnover	4	95,834	56,157
Cost of sales		(15,844)	(38,561)
Gross profit		79,990	17,596
Other revenue	5	3,154	4,302
Other income	6	155	2,710
Administrative expenses		(32,975)	(16,233)
Marketing and distribution expenses		(247)	(561)
Share-based payment expenses		–	(14,631)
Net realised and unrealised gain on financial assets classified as held-for-trading		1,293	17,290
Profit from operations	7	51,370	10,473
Finance costs		(7,096)	(1,855)
Share of results of associates		(3,303)	33,227
Discount on acquisition of interest in associates		–	2,659
Gain on disposal of subsidiaries		476	–
Loss on deemed disposal of interest in an associate		(17,551)	(35,873)
Profit before taxation		23,896	8,631
Taxation	8	235	(15)
Profit for the period from continuing operations		24,131	8,616
Discontinued operations			
Loss for the period from discontinued operations	9	(12,531)	(33,379)
		11,600	(24,763)
Attributable to:			
Equity holders of the Company		17,865	(24,754)
Minority interests		(6,265)	(9)
		11,600	(24,763)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period			
From continuing and discontinued operations			
Basic	10	HK\$0.05	(HK\$0.30)
Diluted	10	HK\$0.05	(HK\$0.30)
From continuing operations			
Basic	10	HK\$0.06	HK\$0.11
Diluted	10	HK\$0.06	HK\$0.10

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2008

	<i>Notes</i>	30th June 2008 <i>HK\$'000</i> (Unaudited)	31st December 2007 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		6,244	7,138
Interests in leasehold land		5,560	5,642
Investment properties		51,100	51,100
Intangible asset		989,205	–
Goodwill		38,037	29,062
Available-for-sale financial assets		25,200	39,900
Convertible note receivable from an associate		–	667
Conversion option embedded in convertible notes receivable from an associate		–	222
Interests in associates		–	375,148
		1,115,346	508,879
Current assets			
Inventories		301	301
Film rights		40,269	50,797
Films in progress		21,828	24,948
Trade receivables	11	74,723	51,666
Deposits, prepayments and other receivables		30,121	36,790
Deposits for investments		–	400,000
Held-for-trading investments		24,300	16,600
Amounts due from associates		663	7,359
Prepaid tax		485	456
Cash and cash equivalents		23,967	22,735
		216,657	611,652
Assets classified as held for sale		1,396,666	1,187,072
		1,613,323	1,798,724
Total assets		2,728,669	2,307,603
Capital and reserves			
Share capital		22,212	140,305
Reserves		1,398,682	1,033,828
		1,420,894	1,174,133
Equity attributable to equity holders of the Company		1,420,894	1,174,133
Minority interests		1,197	1,328
Total equity		1,422,091	1,175,461

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30th June 2008

		30th June 2008	31st December 2007
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current liabilities			
Bank borrowings – due after one year		7,199	8,523
Deferred tax liabilities		15,059	3,466
Unsecured convertible notes		319,225	–
		<u>341,483</u>	<u>11,989</u>
Current liabilities			
Trade payables	12	14,946	17,621
Deposits received, accruals and other payables		58,805	66,018
Bank borrowings – due within one year		2,517	2,418
		<u>76,268</u>	<u>86,057</u>
Liabilities associated with assets classified as held for sale		888,827	1,034,096
		<u>965,095</u>	<u>1,120,153</u>
Total liabilities		<u>1,306,578</u>	<u>1,132,142</u>
Total equity and liabilities		<u>2,728,669</u>	<u>2,307,603</u>
Net current assets		<u>648,228</u>	<u>678,571</u>
Total assets less current liabilities		<u>1,763,574</u>	<u>1,187,450</u>

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Interim Financial Statements should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2007.

The Interim Financial Statements have been prepared on the historical cost basis except certain investment properties and financial assets, which are measured at fair values, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 31st December 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“HK(IFRIC) – Int”) issued by the HKICPA (hereinafter collectively referred to as the “new HKFRSs”), which are effective for the Group’s accounting period beginning 1st January 2008.

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions ¹
HK(IFRIC) – Int 12	Service Concession Arrangements ²
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Minimum Funding Requirements and their Interaction ²

¹ Effective for financial period commencing on or after 1st March 2007

² Effective for financial period commencing on or after 1st January 2008

The adoption of the new HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised Hong Kong Accounting Standards (“HKAS”s) and Hong Kong Financial Reporting Standards (“HKFRS”s) or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (revised)	Borrowing Costs ¹
HKAS 27 (revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations arising on Liquidation ¹
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹ Effective for financial period commencing on or after 1st January 2009

² Effective for financial period commencing on or after 1st July 2009

³ Effective for financial period commencing on or after 1st July 2008

⁴ Effective for financial period commencing on or after 1st October 2008

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Geographical segments

The following table provides an analysis of the Group's sales and results from operation by location of markets:

For the six months ended 30th June 2008:

	Continuing operations					Discontinued operations		
	Hong Kong and Macau (Unaudited) HK\$'000	The People's Republic of China excluding Hong Kong, Macau and Taiwan (The "PRC") (Unaudited) HK\$'000	American and Europe (Unaudited) HK\$'000	South-east Asia (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Hong Kong and Macau (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Turnover	91,405	1,120	-	3,192	117	95,834	-	95,834
Segment result	80,764	(1,215)	(62)	308	(52)	79,743	-	79,743
Unallocated revenue and income						4,602	248	4,850
Unallocated corporate expenses						(32,975)	(4,609)	(37,584)
Profit/(loss) from operations						51,370	(4,361)	47,009

For the six months ended 30th June 2007:

	Continuing operations					Discontinued operations	Consolidated
	Hong Kong and Macau	The PRC	South-east Asia	Others	Total	Hong Kong and Macau	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	6,553	–	922	48,682	56,157	13,873	70,030
Segment result	5,198	–	(283)	12,120	17,035	9,391	26,426
Unallocated revenue and income					24,302	–	24,302
Unallocated corporate expenses					(30,864)	(10,834)	(41,698)
Profit/(loss) from operations					10,473	(1,443)	9,030

Business segments

For the six months ended 30th June 2008:

	Continuing operations				Discontinued operations	Consolidated
	Film distribution	Others	Gaming and entertainment	Total	Hotel services	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	14,575	2,495	78,764	95,834	–	95,834
Segment result	(1,297)	2,276	78,764	79,743	–	79,743
Unallocated revenue and income				4,602	248	4,850
Unallocated corporate expenses				(32,975)	(4,609)	(37,584)
Profit/(loss) from operations				51,370	(4,361)	47,009

For the six months ended 30th June 2007:

	Continuing operations			Discontinued operations	Consolidated <i>HK\$'000</i> (Unaudited)
	Film distribution <i>HK\$'000</i> (Unaudited)	Others <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)	Hotel services <i>HK\$'000</i> (Unaudited)	
Turnover	53,367	2,790	56,157	13,873	70,030
Segment result	14,463	2,572	17,035	9,391	26,426
Unallocated revenue and income			24,302	–	24,302
Unallocated corporate expenses			(30,864)	(10,834)	(41,698)
Profit/(loss) from operations			10,473	(1,443)	9,030

4. TURNOVER

	Continuing operations		Discontinued operations		Consolidated	
	2008 <i>HK\$'000</i> (unaudited)	2007 <i>HK\$'000</i> (unaudited)	2008 <i>HK\$'000</i> (unaudited)	2007 <i>HK\$'000</i> (unaudited)	2008 <i>HK\$'000</i> (unaudited)	2007 <i>HK\$'000</i> (unaudited)
Distribution fee income	14,575	4,695	–	–	14,575	4,695
Sales of film rights	–	48,672	–	–	–	48,672
Service income	150	150	–	–	150	150
Production fee income	2,345	2,640	–	–	2,345	2,640
Gaming and entertainment	78,764	–	–	–	78,764	–
Hotel operation income	–	–	–	13,873	–	13,873
	95,834	56,157	–	13,873	95,834	70,030

5. OTHER REVENUE

	Continuing operations		Six months ended 30th June Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Dividend income	-	79	-	-	-	79
Interest income	304	1,673	190	-	494	1,673
Rental income	120	120	-	-	120	120
Management fee income received from associates	2,430	2,430	-	-	2,430	2,430
Others	300	-	58	-	358	-
	3,154	4,302	248	-	3,402	4,302

6. OTHER INCOME

	Continuing operations		Six months ended 30th June Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Gain on disposal of property, plant and equipment	1	20	-	-	1	20
Gain on redemption of convertible notes	-	2,315	-	-	-	2,315
Gain on fair value change of convertible options	-	373	-	-	-	373
Others	154	2	-	-	154	2
	155	2,710	-	-	155	2,710

7. PROFIT FROM OPERATIONS

	Continuing operations		Six months ended 30th June Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Profit from operations has been arrived at after charging:						
Amortisation of film rights (included in cost of sales)	15,622	37,735	-	-	15,622	37,735
Amortisation of interests in leasehold land	82	82	-	3,033	82	3,115
Depreciation of property, plant and equipment	1,160	1,627	-	1,493	1,160	3,120
Net foreign exchange losses	377	78	-	-	377	78
Employee benefit expenses	7,919	7,027	1,675	2,990	9,594	10,017
Impairment loss on amount due from associates	14,975	-	-	-	14,975	-
Share-based payment expenses	-	14,631	-	-	-	14,631
	14,975	14,631	1,675	2,990	9,594	10,017

8. TAXATION

	Continuing operations		Six months ended 30th June Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
The taxation (credit)/charge comprises:						
Current tax charge in other jurisdictions	1	15	-	-	1	15
Deferred tax	(236)	-	-	-	(236)	-
	(235)	15	-	-	(235)	15

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for both periods as the Company and its subsidiaries have no assessable profits arising in Hong Kong or as assessable profits were wholly absorbed by estimated tax losses brought forward. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

9. DISCONTINUED OPERATIONS

On 1st August 2007, the Company entered into an agreement with China Star Investment Holdings Limited (formerly known as Riche Multi-Media Holdings Limited) (“China Star Investment”) and Legend Rich Limited, a wholly owned subsidiary of China Star Investment, whereby the Company has agreed to sell and/or procure the sale of 100% of the issued share capital of Exceptional Gain Profits Limited (“Exceptional Gain”) and a sale loan owed by Exceptional Gain to the Company amounted to approximately HK\$409,222,000 as at the date of the agreement for an aggregate consideration of HK\$447,000,000 (the “Proposed Disposal”). Exceptional Gain is an investment holding company which holds 50% interest in Kingsway Hotel Limited (“KHL”), a subsidiary of the Group which operates the hotel business. The Proposed Disposal has been approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and is expected to be completed in October 2008. Accordingly, all the results of the group headed by Exceptional Gain (i.e. the hotel services operation) are classified as discontinued operations and its corresponding results for the six months ended 30th June 2007 has been reclassified to conform with the current period’s presentation.

The combined results of the discontinued operations included in the condensed consolidated income statement are set out as follows:

	Six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period from discontinued operations		
Turnover	–	13,873
Cost of sales	–	(4,482)
	<hr/>	<hr/>
Gross profit	–	9,391
Other revenue	248	–
Administrative expenses	(4,609)	(10,834)
	<hr/>	<hr/>
Loss from operations	(4,361)	(1,443)
Finance costs	(8,170)	(1,963)
Discount on acquisition of subsidiaries	–	15,498
Loss on disposal of subsidiaries	–	(45,471)
	<hr/>	<hr/>
Loss before taxation	(12,531)	(33,379)
Taxation	–	–
	<hr/>	<hr/>
Loss for the period from discontinued operations	(12,531)	(33,379)
	<hr/> <hr/>	<hr/> <hr/>
Attributable to:		
Equity holders of Exceptional Gain	(6,269)	(33,379)
Minority interests	(6,262)	–
	<hr/>	<hr/>
	(12,531)	(33,379)
	<hr/> <hr/>	<hr/> <hr/>

10. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings/(loss) per share attributable to equity holders of the Company is based on the following data:

	Six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profit/(loss) attributable to equity holders of the Company for the purpose of basic and diluted earnings/(loss) per share	17,865	(24,754)
	2008	2007
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	388,860	81,650

The weighted average number of ordinary shares for the six months ended 30th June 2008 and 2007 for the purpose of basic and diluted earnings/(loss) per share has been adjusted to take into the effect of the share consolidation that became effective on 8th May 2008.

The computation of diluted earnings/(loss) per share for the six months ended 30th June 2008 and 2007 did not assume the exercise of the Company's outstanding share options and conversion of the convertible notes outstanding during the period since their exercise and conversion would have an anti-dilutive effect on earnings/(loss) per share.

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to equity holders of the Company is based on the following data:

	Six months ended 30th June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to equity holders of the Company for the purpose of basic earnings/(loss) per share	17,865	(24,754)
Less: Loss for the period from discontinued operations	(6,269)	(33,379)
Earnings for the purpose of basic earnings per share from continuing operations	24,134	8,625
Effect of dilutive potential ordinary shares:		
– interest expense on unsecured convertible notes	6,916	970
– tax effect relating to interest expense on unsecured convertible notes	(905)	–
	30,145	9,595
	2008	2007
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	388,860	81,650
Adjustment for assumed exercise of share options	–	2,743
Adjustment for assumed exercise of unsecured convertible notes	128,000	10,117
	516,860	94,510

The weighted average number of ordinary shares for the six months ended 30th June 2008 and 2007 for the purpose of basic and diluted earnings per share has been adjusted to take into the effect of the share consolidation that became effective on 8th May 2008.

The computation of diluted earnings per share for the six months ended 30th June 2008 and 2007 did not assume the exercise of certain outstanding share options during the period since their exercise would have an anti-dilutive effect on earnings per share.

From discontinued operations

Basic and diluted loss per share for the discontinued operations is HK\$0.02 per share for the six months ended 30th June 2008 (Six months ended 30th June 2007: HK\$0.41), based on the loss for the period from the discontinued operations of HK\$6,269,000 (Six months ended 30th June 2007: HK\$33,379,000) and the denominators detailed as continuing and discontinuing operations for basic earnings/(loss) per share.

11. TRADE RECEIVABLES

The credit period granted to customers ranges from 30 to 90 days. The aged analysis of the trade receivables is as follows:

	As at 30th June 2008 HK\$'000 (Unaudited)	As at 31st December 2007 HK\$'000 (Audited)
Brilliant Arts Multi-Media Holding Limited and its subsidiaries (the "Brilliant Arts Group")		
0 to 30 days	—	12
Others		
0 to 30 days	25,001	885
31 to 60 days	1,509	2,784
61 to 90 days	102	224
91 to 180 days	1,547	151
Over 180 days	50,598	51,644
	78,757	55,688
Less: Impairment loss on trade receivables	(4,034)	(4,034)
	74,723	51,654
	74,723	51,666

12. TRADE PAYABLES

The aged analysis of the trade creditors is as follows:

	As at 30th June 2008 HK\$'000 (Unaudited)	As at 31st December 2007 HK\$'000 (Audited)
0 to 30 days	368	2,980
31 to 60 days	519	1,174
61 to 90 days	105	5
91 to 180 days	1,999	167
Over 180 days	11,955	13,295
	<hr/> 14,946 <hr/>	<hr/> 17,621 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30th June 2008, the Group's turnover from continuing operations increased by 71% to approximately HK\$95,834,000 as compared to HK\$56,157,000 for the same period in the previous year. Of the total turnover amount, HK\$14,575,000 or 15% was generated from film distribution and sale of film rights, HK\$78,764,000 or 82% was generated from gaming and entertainment business and HK\$2,495,000 or 3% was generated from film post-production services and other service income.

Profit from operations and profit for the six months ended 30th June 2008 from continuing operations amounted to approximately HK\$51,370,000 and HK\$24,131,000 respectively as compared to HK\$10,473,000 and HK\$8,616,000 respectively for the same period in the previous year. The significant improvement in overall results was mainly due to increase in turnover derived from sharing of profit streams from investments in gaming and entertainment business in Macau. The effect on net profit was partially offset by loss on deemed disposal of interest in an associate of HK\$17,551,000 and an impairment loss on amount due from associates of HK\$14,975,000 included in administrative expenses.

Loss for the period from discontinued operations amounted to approximately HK\$12,531,000 as compared to HK\$33,379,000 for the same period in the previous year. Kingsway Hotel Limited ("KHL") became a subsidiary of the Group and the results being consolidated into the results of the Group with effect from 30th March 2007. The principal asset of KHL is Kingsway Hotel, a three star hotel located in Macau. Kingsway Hotel ceased its operation from end of July 2007 and is currently under renovation to becoming a luxury boutique hotel. On 1st August 2007, the Company entered into an agreement ("Proposed Disposal") to dispose all its interest

in Exceptional Gain Profits Limited (“Exceptional Gain”) to China Star Investment Holdings Limited (formerly known as Riche Multi-Media Holdings Limited)(“China Star Investment”). The principal asset in Exceptional Gain is its interest in KHL. The Proposed Disposal has been approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and is expected to complete in October 2008. Accordingly, all the results of the group headed by Exceptional Gain which comprised the hotel operations were classified as discontinued operations and all its corresponding results for the six months ended 30th June 2007 were reclassified to conform with the current period’s presentation.

The profit attributable to equity holders of the Company for the six months ended 30th June 2008 was HK\$17,865,000, representing a 172% improvement over loss of HK\$24,754,000 in the last corresponding period.

Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2008.

Business Review

This period, the Group has successfully completed the acquisition of 100% equity interest in Best Mind International Inc. (“Best Mind”), the profit receiving company from Ocho Sociedade Unipessoal Limitada (“Ocho”), one of the leading gaming junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. The sound performance of Best Mind has exceeded our expectation as the Group had shared approximately HK\$78,764,000 from the gaming and entertainment business, a 42% higher than the guarantee profit of approximately HK\$55,385,000 for the same period as provided by Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner of Ocho.

For the film distribution business, the Group had released only 2 new films in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. During the six months ended 30th June 2008, turnover for film distribution division amounted to HK\$14,575,000 (2007: HK\$53,367,000) and its segment result amounted to loss of HK\$1,297,000 (2007: profit of HK\$14,463,000) respectively. The decrease in turnover was mainly attributable to partial income from sale of film rights of 100 titles in our film library was recorded in the last corresponding period. The segment loss was attributable to sales of certain old titles at lower prices during the period.

For the geographical segment, turnover for Hong Kong and Macau segment amounted to HK\$91,405,000 or 95% of the total turnover as compared to HK\$6,553,000 or 12% of total turnover for the last corresponding period. Segment result amounted to HK\$80,764,000 as compared to HK\$5,198,000 for the last corresponding period. The huge increase in turnover and segment profit in the current period for Hong Kong and Macau segment was a result of revenue derived from sharing of profit streams from investments in gaming and entertainment business in Macau during the period.

For the six months ended 30th June 2008, administrative expenses (net of amortisation and depreciation on property, plant and equipment) amounted to HK\$31,733,000, a 118% increase from HK\$14,524,000 as compared to the corresponding period in last year. The increase was mainly attributable to a 13% increase in employee benefit expenses from HK\$7,027,000 to HK\$7,919,000 with response to the inflation in the period and an impairment loss on amount due from associates of HK\$14,975,000 was recorded during the period under review.

Finance costs for the six months ended 30th June 2008 amounted to HK\$7,096,000, an 283% increase from HK\$1,855,000 as compared to the last corresponding period. The substantial increase in finance costs was attributable to the issue of an aggregate principal amount of HK\$384,000,000 unsecured convertible notes (“Convertible Notes”) as part of the consideration for the acquisition of Best Mind. In accordance with Hong Kong Accounting Standard 39 issued by the Hong Kong Institute of Certified Public Accountants, interest expenses of HK\$6,916,000 for the Convertible Notes were calculated using the prevailing market interest rate of similar instruments of 7.75% per annum, instead of the actual coupon rate of 5% per annum.

Liquidity and Financial Resources

As at 30th June 2008, the Group had total assets of approximately HK\$2,728,669,000 and a net current assets of HK\$648,228,000, representing a current ratio of 1.7 (31st December 2007: 1.6). The Group had a total cash and bank balances of approximately HK\$23,967,000 (31st December 2007: HK\$22,735,000). As at 30th June 2008, the Group had total borrowings of HK\$328,941,000 comprising a bank mortgage loan of HK\$9,716,000 which was secured by the Group’s investment properties, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 67 monthly instalments; and the Convertible Notes of HK\$319,225,000 (liabilities component of principal amount of HK\$384,000,000). The Group’s gearing remained reasonable during the period with total debts of HK\$328,941,000 against shareholders’ funds of HK\$1,420,894,000. This represents a gearing ratio, calculated in the basis of the Group’s total borrowings over shareholders’ fund of 0.23. As at 30th June 2008, KHL, a non wholly owned subsidiary of the Group had total banking facilities amounted to HK\$625,000,000 which were utilised to the extent of HK\$457,820,000, comprising a bank loan of HK\$425,000,000 and a bank overdraft of HK\$32,820,000. These bank borrowings were classified as liabilities of hotel business associated with assets classified as held for sale in the balance sheet.

As the majority of the Group’s transactions, assets and liabilities are denominated in Hong Kong Dollars and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2008, the Group had no contingent liability.

On 11th December 2007, the Company entered into a placing agreement with a placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 1,400,000,000 new Shares to independent investors at a price of HK\$0.12 per Share. 1,400,000,000 new Shares was issued on 29th February 2008 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 24th January 2008. The net proceeds of approximately HK\$163,679,000 were intended to be used for the acquisition of Best Mind.

On 18th March 2008, the Company had issued 236,333,333 new Shares at a price of HK\$0.3 per Share as part of the consideration upon completion for the acquisition of Best Mind.

On 9th May 2008, the Company completed a capital reorganisation comprising (i) share consolidation that every 10 issued and unissued Shares be consolidated into 1 consolidated share of the Company (“Consolidated Shares”); (ii) capital reduction that the nominal value of all issued and unissued Consolidated Shares be reduced from HK\$0.50 each to HK\$0.05 each; and (iii) share premium cancellation that the entire amount of HK\$1,356,449,856.32 in the share premium account of the Company as at 31st December 2007 be cancelled and credit to the contributed surplus account of the Company, a sum of approximately HK\$864,665,000 in the contributed surplus of the Company be applied to set off against the accumulated losses of the Company as at 31st December 2006.

Associates

China Star Investment Holdings Limited

As at 30th June 2008, the Group had approximately 29.9% equity interest in China Star Investment. China Star Investment and its subsidiaries (“China Star Investment Group”) are principally engaged in the distribution of films, sub-licensing of film rights and sale of financial assets and property investment. As at 30th June 2008, China Star Investment Group had net assets of approximately HK\$1,077,973,000. Turnover and net loss of China Star Investment Group for the six months ended 30th June 2008 were approximately HK\$2,000,000 and HK\$8,446,000 respectively. Accordingly, the Group had shared a net loss of approximately HK\$2,525,000 for the six months ended 30th June 2008.

Brilliant Arts Multi-Media Holding Limited

The Group had approximately 25.74% equity interest in Brilliant Arts and its subsidiaries (“Brilliant Arts Group”) as at 31st December 2007. Brilliant Arts Group is principally engaged in the provision of film production services, production of television movies, investment in film productions and worldwide film distribution. On 28th January 2008, Brilliant Arts issued 180,000,000 shares as consideration for the acquisition of Grandeur Concord Limited and the equity interest held by the Company was diluted to approximately 18.07% and thus ceased to become an associate of the Group. As at 30th June 2008, the Group interested in approximately 8.68% equity interest in Brilliant Arts.

Together Again Limited

As at 30th June 2008, the Group held 49% equity interest in the group headed by Together Again Limited (“TAL Group”), a company incorporated in British Virgin Islands with limited liability and it indirectly holds 85% equity interest in China Entertainment Group, Inc., a U.S. public company traded on the Over-The-Counter Bulletin Board. TAL Group is principally engaged in the provision of artist management services.

As at 30th June 2008, TAL Group had net liabilities of HK\$2,634,000. Turnover and loss of TAL Group for the six month ended 30th June 2008 were HK\$1,435,000 and HK\$4,627,000, respectively. Accordingly, the Group shared a loss of HK\$nil for the six months ended 30th June 2008.

On 3rd July 2008, China Entertainment Group, Inc. was disposed to its ex-shareholder with zero assets and liabilities.

Material Acquisition

Best Mind International Inc.

On 18th March 2008, the Company had completed the acquisition of 100% issued share capital of Best Mind at an aggregate consideration of HK\$1,054,900,000 satisfied as to HK\$600,000,000 in cash, HK\$384,000,000 by the issue of the Convertible Notes at an initial conversion price of HK\$0.30 per Share and the balance of HK\$70,900,000 by the allotment and issue of 236,333,333 Shares credited as fully paid. Best Mind became a subsidiary of the Group and started to contribute cash profit to the Group.

Best Mind had entered into a profit agreement with Ocho, a Macau company engaged in the gaming promotion business, to acquire 0.4% of the rolling turnover generated by Ocho and/or its customers at one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau. Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner of Ocho, has guaranteed to Best Mind that the profit to be received by Best Mind shall not be less than HK\$264,000,000 and HK\$120,000,000 during the period from 17th August 2007 to 31st December 2008 and the period from 1st January 2009 to 16th August 2009 respectively. During the period under review, the Group had recorded revenue of HK\$78,764,000 from the gaming and entertainment related business.

Material Disposals

Exceptional Gain Profits Limited and Kingsway Hotel Limited

On 1st August 2007, the Company entered into an agreement with Legend Rich Limited, a wholly-owned subsidiary of China Star Investment, and China Star Investment relating to the sale of 100% of the issued share capital of Exceptional Gain and the relevant sale loan for an aggregate consideration of HK\$447,000,000. Exceptional Gain is an investment holding vehicle which holds 50% interest in KHL. Following the completion of the Proposed Disposal, KHL will cease to be a subsidiary of the Group. As stated in

the circular of the Company dated 9th October 2007, the Group is estimated to recognise a gain on disposal of approximately HK\$71,992,000 if assuming the Proposed Disposal would be completed on 30th June 2007. This gain will differ upon actual completion of the Proposed Disposal. The Proposed Disposal is expected to complete in October 2008. As such, the results of Exceptional Gain and KHL were recorded under discontinued operations and all the assets and liabilities of them were classified as assets held for sale and the liabilities associated with assets were classified as liabilities held for sale.

Classical Statue Limited (“CSL”), China Star Investment Holdings Limited and Brilliant Arts Multi-Media Holding Limited

On 13th May 2008, the Company’s wholly owned subsidiary, China Star Entertainment (BVI) Limited entered into a sale and purchase agreement with Glenstone Investments Limited, a substantial shareholder of the Company to dispose the entire issued share capital of CSL for a cash consideration of HK\$330,567,000. CSL’s major assets are the 58,360,612 shares of China Star Investment, representing 29.90% of the issued share capital of China Star Investment at date of agreement; 109,090,908 shares in Brilliant Arts, representing approximately 8.68% of the issued share capital of Brilliant Arts at date of agreement; and a convertible bond receivable from Brilliant Arts with principal face value of HK\$1,000,000.

Assuming the disposal had been completed on 31st December 2007, the Group would estimate to recognise a loss on disposal of approximately HK\$78,670,000. This loss will differ upon actual completion of the disposal.

As such, all the assets and liabilities of CSL, China Star Investment and Brilliant Arts were classified as assets held for sale and the liabilities associated with these assets were classified as liabilities held for sale.

The disposal has been completed on 18th August 2008.

Employees

As at 30th June 2008, the Group employed 78 staffs (2007: 248 staffs), including 30 staffs (2007: 203 staffs) employed by KHL. The directors believe that the quality of its employees is the single most important factor in sustaining the Group’s reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

Prospect

During the period under review, the Group has successfully diversified its business into the gaming and entertainment business and broadens the Group’s revenue sources and provides stable cash income to the Group. The performance of this new business is encouraging. Despite the recent tightening of travel restrictions for Mainland Chinese travelers to visit Macau may have impact on Macau’s gaming revenue growth over the

next few months, the Group remains optimistic in the potential growth of China and Macau in the medium and long term growth. The Group believes that travel restrictions would be short term and the Macau gaming and entertainment business would growth internationally when its infrastructural development becomes more matured.

Besides, the Group will continue its strength in the production of high quality films with stringent control and cautious measure on capital investment and efficient management.

Looking ahead, the Group will streamline its business operations which can enable the Group to operate in a much cost effective manner, such as the disposal of CSL and concentrate its resources on investment opportunity with good potential of revenue growth and a positive impact on the Group's return in the long run.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30th June 2008, except for the following deviation:

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. However, all the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th June 2008. The Model Code also applies to other specified senior management of the Group.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2008.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at 30th June 2008 was comprising Messrs. Hung Cho Sing, Ho Wai Chi, Paul and Leung Hok Man, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

The main function of the Audit Committee is to assist the Board to oversee the financial reporting system, risk management and internal control procedures and the internal and external audit functions. The Audit Committee annually assesses the appointment of the external auditor, taking into account the quality and rigor of the audit, the quality of the audit service provided, the audit firm's quality control procedures, relationships between the external auditors and the Company, and the independence of the external auditors.

The unaudited condensed consolidated interim financial statements for the six months ended 30th June 2008 have been reviewed by the audit committee of the Company.

BOARD OF DIRECTORS

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

PUBLICATION OF INTERIM REPORT

The Company's 2008 interim report will be dispatched to the shareholders of the Company on or before 30th September 2008 and will be published on the Website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company's website (www.chinastar.com.hk or www.irasia.com/listco/hk/chinastar).

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 23rd September 2008