中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)

FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2006

FINAL RESULTS

The board of directors of China Star Entertainment Limited (the "Company") presents the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	2	**152,777**	92,234
Cost of sales		**(103,365)**	(60,825)
Gross profit		**49,412**	31,409
Other revenue		**9,068**	8,204
Other income		**3,682**	5,919
Administrative expenses		**(38,309)**	(37,012)
Marketing and distribution expenses		**(9,777)**	(22,353)
Share-based payment expenses		**(11,340)**	(24,057)
Fair value loss on financial assets at fair value through profit or loss		**(21,757)**	(5,510)
Impairment loss on trade receivables		**–**	(1,101)
Net gain on disposals of financial assets at fair value through profit or loss		**5,501**	1,493
Increase in fair value of investment properties		**2,880**	3,540
Loss from operations		**(10,640)**	(39,468)
Finance costs		**(2,212)**	(1,929)
Share of results of associates		**(9,796)**	(10,013)
Gain on deemed disposal of interest in an associate		**62,582**	45,021
Gain on disposal of an associate		**21,400**	–
Impairment loss recognised in respect of goodwill arising on acquisition of associates		**(32,565)**	(4,500)
Impairment loss reversed/(recognised) in respect of convertible notes receivables		**10,000**	(10,000)
Profit/(loss) before taxation		**38,769**	(20,889)
Taxation	4	**(1,918)**	(124)
Profit/(loss) for the year		**36,851**	(21,013)
Attributable to:			
Equity holders of the Company		**36,880**	(20,961)
Minority interests		**(29)**	(52)
		36,851	(21,013)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
Basic	5	**HK$0.06**	HK$(0.04)
Diluted	5	**HK$0.06**	N/A

CONSOLIDATED BALANCE SHEET

At 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment		**9,630**	19,147
Interests in leasehold land		**5,807**	13,684
Investment properties		**40,880**	42,190
Goodwill		**59,203**	59,203
Available-for-sale financial assets		**42,700**	–
Interests in associates		**198,113**	166,473
		356,333	300,697
Current assets			
Loan receivable		**–**	25,000
Inventories		**364**	362
Convertible notes receivables		**52,000**	42,000
Film rights		**97,427**	135,998
Films in progress		**29,469**	47,461
Trade receivables	6	**8,016**	14,597
Deposits, prepayments and other receivables		**45,161**	80,547
Deposit for investment		**40,000**	–
Financial assets at fair value through profit or loss		**64,560**	23,345
Amounts due from associates		**5,905**	41,760
Prepaid tax		**455**	129
Cash and cash equivalents		**89,347**	31,500
		432,704	442,699
Total assets		**789,037**	743,396
Capital and reserve attributable to Company's equity holders			
Share capital		**35,232**	26,027
Reserves		**659,595**	571,529
		694,827	597,556
Minority interests		**1,382**	1,432
		696,209	598,988
Non-current liabilities			
Bank borrowings – due after one year		**10,948**	13,193
Unsecured convertible loan notes		**–**	19,434
Deferred taxation		**1,888**	–
		12,836	32,627
Current liabilities			
Trade payables	7	**18,310**	18,892
Deposits received, accruals and other payables		**39,561**	80,692
Bank borrowings – due within one year		**2,254**	12,197
Unsecured convertible loan notes		**19,867**	–
		79,992	111,781
Total equity and liabilities		**789,037**	743,396
Net current assets		**352,712**	330,918
Total assets less current liabilities		**709,045**	631,615

Notes:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1st January 2006. A summary of the new HKFRSs are set out as below:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new HKFRSs did not result in substantial changes to the Group's accounting policies and did not result in significant impact to the Group's results and financial position for the current and prior periods.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	(Note a)	Capital Disclosures
HKFRS 7	(Note a)	Financial Instruments: Disclosures
HKFRS 8	(Note b)	Operating Segments
HK(IFRIC) – Int 7	(Note c)	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	(Note d)	Scope of HKFRS 2
HK(IFRIC) – Int 9	(Note e)	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	(Note f)	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	(Note g)	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	(Note h)	Service Concession Arrangements

Notes:

a. Effective for annual periods beginning on or after 1st January 2007
b. Effective for annual periods beginning on or after 1st January 2009
c. Effective for annual periods beginning on or after 1st March 2006
d. Effective for annual periods beginning on or after 1st May 2006
e. Effective for annual periods beginning on or after 1st June 2006
f. Effective for annual periods beginning on or after 1st November 2006
g. Effective for annual periods beginning on or after 1st March 2007
h. Effective for annual periods beginning on or after 1st January 2008

2. TURNOVER

	2006	2005
	HK$'000	*HK$'000*
Distribution fee income	**52,833**	85,970
Sales of film rights	**92,976**	–
Sales of video products	**72**	661
Service income	**1,790**	240
Production fee income	**5,106**	5,363
	152,777	92,234

3. SEGMENT INFORMATION

The directors of the Company report the geographical segments as the Group's primary segment information.

Geographical segments

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

Income statement for the year ended 31st December 2006:

	Hong Kong and Macau	The People's Republic of China excluding Hong Kong, Macau and Taiwan (The "PRC")	America and Europe	South-East Asia	Other	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**36,960**	**8,783**	**1,093**	**11,532**	**94,409**	**152,777**
Cost of sales	**(23,749)**	**(3,984)**	**(697)**	**(6,921)**	**(68,014)**	**(103,365)**
Marketing and distribution expenses	**(9,018)**	**(396)**	**(52)**	**(191)**	**(120)**	**(9,777)**
Segment results	**4,193**	**4,403**	**344**	**4,420**	**26,275**	**39,635**
Share-based payment expenses	**(11,340)**	**–**	**–**	**–**	**–**	**(11,340)**
Net gain on disposals of financial assets at fair value through profit or loss	**5,501**	**–**	**–**	**–**	**–**	**5,501**
Other revenue	**8,228**	**–**	**–**	**–**	**840**	**9,068**
Other income	**2,783**	**–**	**–**	**–**	**899**	**3,682**
Increase in fair value of investment properties	**2,880**	**–**	**–**	**–**	**–**	**2,880**
Fair value loss on financial assets at fair value through profit or loss	**(21,757)**	**–**	**–**	**–**	**–**	**(21,757)**
Unallocated corporate expenses						**(38,309)**
Loss from operations						**(10,640)**
Finance costs						**(2,212)**
Share of results of associates						**(9,796)**
Impairment loss reversed in respect of convertible notes receivables	**10,000**	**–**	**–**	**–**	**–**	**10,000**
Impairment loss recognised in respect of goodwill arising on acquisition of associates						**(32,565)**
Gain on disposal of an associate						**21,400**
Gain on deemed disposal of interest in an associate						**62,582**
Profit before taxation						**38,769**
Taxation						**(1,918)**
Profit for the year						**36,851**

Income statement for the year ended 31st December 2005:

	Hong Kong and Macau HK$'000	The PRC HK$'000	America and Europe HK$'000	South-East Asia HK$'000	Other HK$'000	Consolidated HK$'000
Turnover	49,805	10,217	8,046	22,589	1,577	92,234
Cost of sales	(33,925)	(6,915)	(4,878)	(14,320)	(787)	(60,825)
Marketing and distribution expenses	(10,505)	(9,666)	(529)	(1,552)	(101)	(22,353)
Segment results	5,375	(6,364)	2,639	6,717	689	9,056
Share-based payment expenses	(24,057)	–	–	–	–	(24,057)
Net gain on disposals of financial assets at fair value through profit or loss	1,493	–	–	–	–	1,493
Other revenue	6,943	–	–	–	1,261	8,204
Other income	–	–	–	–	5,919	5,919
Increase in fair value of investment properties	3,540	–	–	–	–	3,540
Fair value loss on financial assets at fair value through profit or loss	(5,510)	–	–	–	–	(5,510)
Unallocated corporate expenses						(38,113)
Loss from operations						(39,468)
Finance costs						(1,929)
Share of results of associates						(10,013)
Impairment loss recognised in respect of convertible notes receivables	(10,000)	–	–	–	–	(10,000)
Impairment loss recognised in respect of goodwill arising on acquisition of associates						(4,500)
Gain on deemed disposal of interest in an associate						45,021
Loss before taxation						(20,889)
Taxation						(124)
Loss for the year						(21,013)

No analysis of assets and liabilities by location of markets is disclosed as, in the opinion of the directors, there is no appropriate basis in allocating the assets and liabilities by location of markets.

No analysis of the carrying amount of segment assets, additions of property, plant and equipment and the depreciation and segment liabilities analysed by the geographical area are disclosed as more than 90% of the group assets are located in Hong Kong and Macau. The directors of the Company is also of the opinion that the segment for the PRC is of no continuing significant influence. The geographical segment for the year ended 31st December 2005 is presented for information purpose.

Balance sheet as at 31st December 2005

	Hong Kong And Macau HK$'000	The PRC HK$'000	Consolidated HK$'000
Segment assets	743,086	310	743,396
Segment liabilities	142,637	1,771	144,408
Additions of property, plant and equipment	5,606	–	5,606
Additions of interests in leasehold land	4,967	–	4,967
Depreciation and amortisation	9,810	–	9,810

Business segments

No business segments are presented in the financial statements as more than 90% of the Group's turnover, total assets and capital expenditure were derived from film distribution.

4. TAXATION

	2006 *HK$'000*	2005 *HK$'000*
The taxation charge is as follows:		
Current tax:		
Taxation in other jurisdictions:		
Provision for the year	**30**	124
Deferred tax		
Current year	**504**	–
Underprovision in prior years	**1,384**	–
	1,888	–
	1,918	124

No provision for Hong Kong Profits Tax has been made for both years either 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 jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

5. EARNINGS/(LOSS) PER SHARE

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

	2006 *HK$'000*	2005 *HK$'000*
Earnings/(loss) attributable to equity holders of the Company for the purpose of basic and diluted earnings/(loss) per share	**36,880**	(20,961)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	**631,665,019**	501,724,214
Effect of dilutive potential ordinary shares:		
Share options	**12,203,820**	–
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	**643,868,839**	501,724,214

The computation of diluted earnings per share for the year ended 31st December 2006 did not assumed the exercise of the Company's certain outstanding share options and the conversion of the convertible loan notes existed during the year since their conversion would result in an increase in earnings per share.

The computation of diluted loss per share for the year ended 31st December 2005 did not assume the exercise of the Company's outstanding share options and convertible loan notes existed during the year 2005 since their exercise would reduce loss per share.

6. TRADE RECEIVABLES

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

	The Group	
	2006	2005
	HK$'000	*HK$'000*
The Riche Group		
0 to 30 days	**2**	18
91 to 180 days	**1**	–
	3	18
Others		
0 to 30 days	**681**	1,148
31 to 60 days	**575**	4,471
61 to 90 days	**826**	300
91 to 180 days	**372**	393
Over 180 days	**8,776**	11,489
	11,230	17,801
Less: Impairment loss on trade receivables	**(3,217)**	(3,222)
	8,013	14,579
	8,016	14,597

The carrying amounts of the Group's trade receivables approximate to their fair values.

7. TRADE PAYABLES

The aged analysis of the trade payables is as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
0 to 30 days	**1,523**	2,680
31 to 60 days	**839**	836
61 to 90 days	**1,923**	1,368
91 to 180 days	**2,450**	3,123
Over 180 days	**11,575**	10,885
	18,310	18,892

The carrying amounts of the Group's trade payables approximate to their fair values.

DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31st December 2006 (2005: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31st December 2006, the Group's turnover increased by 66% to approximately HK$152.8 million (2005: HK$92.2 million). Loss from operations amounted to approximately HK$10.6 (2005: HK$39.5 million) and a profit attributable to equity holders of the Company amounted to approximately HK$36.9 million (2005: loss of HK$21.0 million) was recorded.

During the year, the Group had recognised a gain on deemed disposal of interest in an associate of HK$62.6 million from Riche Multi-Media Holdings Limited ("Riche Multi-Media") and a gain on disposal of an associate of HK$21.4 million from Golden Capital International Limited. The improvement in current year's result was mainly attributable to these gain and better performance in film distribution segment. However, the Group had recognised an impairment loss in respect of goodwill arising on acquisition of associates of approximately HK$32.6 million.

Business Review

This year, the Group had released 8 new films in the market including popular films like "The Shopaholic" and "Election II" which were same as last corresponding year. In response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films, the Group has adopted cautious measures to secure the revenue and control budget for each new film. These measures were proved effective and better gross profit was achieved. On 13th September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the "Venders"), all wholly owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited ("Fortune Star") entered into a deed pursuant to which Fortune Star has agreed to acquire from the Venders the perpetual and worldwide right, title and interest in 100 motion pictures at a total consideration of US$18,000,000 (subject to adjustment). The transaction was approved by the Company's shareholders at a special general meeting held on 31st October 2006. During the year ended 31st December, 2006, 65 out of these 100 motion pictures have been delivered and recorded in the income statement of the Group. Thus, the turnover and gross profit was further improved.

For the year ended 31st December 2006, total turnover was HK$152.8 million, of which HK$145.8 million or 95% was generated from film distribution and sales of film rights, the remaining 5% was generated from video distribution and other production services.

In year 2006, turnover and segment profit from Hong Kong and Macau amounted to HK$37.0 million (2005: HK$49.8 million) and HK$4.2 million (2005: HK$5.4 million) respectively. The performance in the market maintained at similar level as last year. The marketing and distribution expenses for the year ended 31st December 2006 was HK$9.8 million, representing a 56% decrease from HK$22.4 million for the last corresponding year.

Turnover and segment profit from the PRC amounted to HK$8.8 million (2005: HK$10.2 million) and HK$4.4 million (2005: loss of HK$6.4 million) respectively. The Group has sub-licensed China theatrical rights to other distributor for a fixed amount of distribution fees, thus securing the margin received by the Group.

Turnover and segment profit from America & Europe amounted to HK$1.1 million (2005: HK$8.0 million) and HK$0.3 million (2005: HK$2.6 million respectively.

Turnover and segment profit from South-east Asia amounted to HK$11.5 million (2005: HK$22.6 million) and HK$4.4 million (2005: HK$6.7 million) respectively.

Turnover and segment profit from elsewhere amounted to HK$94.4 million (2005: HK$1.6 million) and HK$26.3 million (2005: HK$0.7 million) respectively. It mainly represent the sales of film rights to Fortune Star this year.

To stay competitive in the market, the Group has regularly review its costs structure in these years by exercised prudence measures on cost policies and reduced its headcount. As a result, administrative expenses keep at a reasonable basis. For the year ended 31st December 2006, administrative expenses was HK$38.3 million (excluding share-based payment expenses of HK$11.3 million, a slight 4% increase from HK$37.0 million (excluding share-based payment expenses of HK$24.1 million) of the last corresponding year.

Liquidity and Financial Resources

As at 31st December 2006, the Group had total assets of approximately HK$789.0 million and a net current assets of HK$352.7 million, representing a current ratio of 5.4 (2005: 4.0). The Group had a total cash and bank balances of approximately HK$89.3 million (2005: HK$31.5 million). As at 31st December 2006, the Group had total borrowings of HK$33.1 million comprising a bank mortgage loan of HK$13.2 million 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 85 monthly instalments; and unsecured convertible loan notes ("Notes") of HK$19.9 million (represent the liability component of principal amount of HK$20 million) which is bearing interest at 4% per annum and will mature on 30th June 2007. The Notes carry the right to convert into shares ("Shares" and each a "Share") of HK$0.05 each in the share capital of the Company at the conversion price of HK$5.83 per Share as of 31st December 2006. The Group's gearing remained low during the year with total debts of HK$33.1 million against shareholders' funds of HK$694.8 million. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 5%.

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 31st December 2006, the Group had no contingent liability.

On 17th May 2006, Porterstone Limited ("Porterstone"), Dorest Company Limited ("Dorest"), Mr. Heung Wah Keung ("Mr. Heung") and Ms. Chen Ming Yin, Tiffany ("Ms. Chen") entered into a placing agreement with a placing agent and a top-up subscription agreement with the Company respectively. Pursuant to the placing agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen placed an aggregate 104,105,000 existing Shares to independent investors at a price of HK$0.33 per Share. Pursuant to the top-up subscription agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen subscribed for an aggregate of 104,105,000 new Shares at a price of HK$0.33 per Share. 104,105,000 new Shares issued for the subscription on 30th May 2006. The net proceeds of approximately HK$33.30 million was intended to be used as to HK$20,000,000 for future investment and as to the balance for general working capital of the Group.

On 6th June 2006, the Company had conditionally agreed to place in aggregate 80,000,000 new Shares to PMA Asian Opportunities Fund, Diversified Asian Strategies Fund and Asian Diversified Total Return Limited Duration Company at a price of HK$0.365 per Share. The issue of 80,000,000 new Shares was approved by the shareholders of the Company at a special general meeting held on 5th July 2006. The placing was completed on 7th July 2006. The net proceeds of approximately HK$29 million was intended to be used by the Group for the proposed acquisition of a hotel in Macau.

Subsequent to the balance sheet date, the Company entered into three subscription agreements all dated 19th January 2007 with Improvemany International Limited, Better Talent Limited and Aceyard Investments Limited (the "Subscribers"), whereby the Subscribers have conditionally agreed to subscribe and pay for the zero coupon unsecured convertible bonds due 2012 ("Firm Bonds") of an aggregate principal face value amount of HK$168.5 million to be issued by the Company at an issue price of 95% of the face value. The initial conversion price of the Firm Bonds is the lower of (i) HK$0.32 per conversion Share and (ii) the average closing price of the Shares for the last ten trading days prior to the closing date provided that the conversion price of the Firm Bonds shall in no event be less than HK$0.25 per conversion Share (subject to adjustments). The net proceeds of approximately HK$159 million will be used for the Second Acquisition (as defined herein). As at the date of this report, the Firm Bonds has not yet been issued.

On 12th March 2007, Classical Statue Limited ("Classical"), a wholly owned subsidiary of the Company entered into a subscription agreement with Milkyway Image Holdings Limited ("Milkyway"), a company whose shares are listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited, whereby Classical has conditionally agreed to subscribe for the zero coupon convertible bonds in principal amount of HK$25 million due 2012 ("Convertible Bonds") to be issued by Milkyway at an issue price of HK$22.5 million. The conversion price of the Convertible Bonds is initially HK$0.33 per shares of Milkyway (subject to adjustments). As at the date of this report, the Convertible Bonds has not yet been issued.

On 28th March 2007, the Company entered into a loan agreement with a finance company with Money Lender License for a term loan of HK$55 million (the "Loan") for the period from 28th March 2007 to 18th April 2007 at interest rate of 3% per annum over the prime rate quoted by The Hong Kong and Shanghai Banking Corporation Limited to finance the completion of the Second Acquisition (as defined herein). The Loan was repaid on 18th April 2007.

On 29th March 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 124,900,000 new Shares to independent investors at a price of HK$0.37 per Share ("Tranche I Placing"). 124,900,000 new Shares was issued for the Tranche I Placing on 17th April 2007 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 23rd June 2006. The net proceeds of approximately HK$44.8 million will be used for general working capital of the Group.

On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 81,100,000 new Shares to independent investors at a price of HK$0.37 per Share ("Tranche II Placing"). The Tranche II Placing is subject to the approval of the shareholders of the Company at a special general meeting to be convened by the Company. The net proceeds of approximately HK$29.2 million will be used for general working capital of the Group.

Associates

Riche Multi-Media Holdings Limited

As at 31st December 2006, the Group had approximately 34.43% equity interest in Riche Multi-Media and its subsidiaries (the "Riche Group"). Riche Group is principally engaged in film distribution, sub-licensing of film rights, property investment and investments in securities. As at 31st December 2006, Riche Group had net assets of approximately HK$403.5 million. Turnover and loss of Riche Group for the year ended 31st December, 2006 were approximately HK$17.5 million and HK$21.3 million respectively. Accordingly, the Group had shared a loss of approximately HK$7.3 million for the year ended 31st December 2006.

On 21 June 2006, 1,330,321,745 new shares of Riche Multi-Media ("Riche Shares") were issued to Northbay Investments Holdings Limited ("Northbay") at a price of HK$0.20 per Riche Share to settle the consideration of HK$266,064,350 in respect of the acquisition of 100% interest in the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and the debts owed by Shinhan-Golden to Northbay. Shinhan-Golden's major asset is the 96.7% equity interest in Beijing Jiang Guo Real Estate Development Co. Ltd. which is the registered and beneficial owner of a property located in the PRC. The equity interest held by the Group in the Riche Multi-Media was diluted from 41.07% to 32.64% and a gain on deemed disposal was recognised. Thereafter, the Group acquired a further 1.79% equity interest in Riche Multi-Media in the open market with a total consideration of approximately HK$19.4 million. As a result, the Group's equity interest in Riche Multi-Media increased to 34.43% as at 31st December 2006.

On 19th March 2007, Classical entered into a placing and subscription agreement with a placing agent and Riche Multi-Media. Pursuant to the placing and subscription agreement, Classical has agreed to place 1,296,860,000 existing Riche Shares to not less than six independent investors at a price of HK$0.04 per Riche Share and conditionally agreed to subscribe for 1,296,860,000 new Riche Shares at a price of HK$0.04 per Riche Share. Immediately after the completion of the placing and subscription agreement and up to the date of this report, the Group interested in approximately 28.69% of the enlarged issued share capital of Riche Multi-Media.

On 4th April 2007, Riche Multi-Media proposed that every ten Riche Shares of HK$0.01 each in the issued and unissued share capital of Riche Multi-Media be consolidated (the "Share Consolidation") into one new share of HK$0.10 each (the "Consolidated Shares"). On the same date, Riche Multi-Media has conditionally agreed to place (the "Riche Placing"), through a placing agent on a fully underwritten basis, 155,620,000 Consolidated Shares to independent investors at a price of HK$0.55 per Consolidation Share. The Share Consolidation and the Riche Placing are conditional and subject to the approval of its shareholders at a special general meeting to be held by Riche Multi-Media. Upon completion of the Share Consolidation and the Riche Placing, the Group's interest in Riche Multi-Media will be further diluted to approximately 23.91%.

Together Again Limited
As at 31st December 2006, 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 31st December 2006, TAL Group had net assets of HK$9.0 million. Turnover and loss of TAL Group for the year ended 31st December 2006 were HK$8.4 million and HK$5.8 million, respectively. Accordingly, the Group shared a loss of HK$2.9 million for the year ended 31st December 2006 and an impairment loss of HK$32.6 million was recognised.

ACQUISITION OF KINGSWAY HOTEL

On 13th June 2006, the Company had entered into agreements in relation to the acquisition (the "Initial Acquisition") of the entire issued share capital of Triumph Up Investments Limited and Great Chain Limited which indirectly hold in aggregate 61.5% interest in the issued quota of Kingsway Hotel Limited ("KHL") for an aggregate consideration of HK$490,000,000. The principal asset of KHL is Kingsway Hotel, a three star hotel with a total 383 guests rooms locate in Macau. As at the date of this report, the Initial Acquisition has not yet been completed and the longstop date of the Initial Acquisition has been extended to 31st May 2007. Of the total consideration, total deposits of HK$40 million have been paid by the Company. The balance of the consideration will be financed by the Disposals (as defined herein) and the internal resources of the Group.

On 3rd January 2007, the Company entered into agreement in relation to the acquisition (the "Second Acquisition") of the remaining indirect 38.5% interest in the issued quota of KHL and the relevant sale loans with Great Trust - Gestao E Participacoes, Limitada for an aggregate consideration of HK$240 million. The Second Acquisition has been completed on 30th March 2007 and was financed by the internal resources of the Group.

On 19th March 2007, the Company entered into agreements to dispose (the "Disposals") an aggregate 50% of the issued quota of KHL and the relevant sale loans with SJM-Investimentos Limitada ("SJM") and Most Famous Enterprises Limited for an aggregate consideration of HK$315 million. The Disposals constitute a very substantial disposal for the Company under the Listing Rules and is therefore subject to the approval of the shareholders of the Company at a special general meeting to be held by the Company. The completion of the Disposals is conditional upon the completions of the Initial Acquisition and the Second Acquisition and the Disposals will provide immediate cash flow for the Initial Acquisition.

After the completion of the Initial Acquisition, the Second Acquisition and the Disposals, the Company will be interested in 50% of the issued quota of KHL and will shared the result of KHL using equity method. The investment in KHL can diversified the Company' business in the hotel operation in Macau and the Disposals represents good opportunity for strengthening the management of KHL, particularly in its casino operations, through partnership with a reputable and experienced Macau Conglomerate, thus beneficing the future development of the Kingsway Hotel as upon completion of the Disposals:

(1) Dr. Stanley Ho Hung Sun, the management director of the holding company of SJM will be appointed as the chairman of KHL and Mr. Heung will be appointed as the vice - chairman of KHL;

(2) the two directors of KHL to be appointed by Most Famous Enterprises Limited will manage the matters relating to the casino and gaming marketing & promotion functions in KHL;

(3) SJM undertakes to the Company to lease part of the Kingsway Hotel (being not more than a gross floor area of 100,000 square feet) for casino with not less than 50 mass market gaming tables and a slot machine entertainment centre at a monthly rental and marketing & promotion fee to KHL of around (i) 40% of net win attributable from such mass market gaming tables per month; and (ii) 31% of net win attributable from slot machines per month; and

(4) SJM negotiates with KHL to build a casino extension on the piece of land, which is currently used as a parking lot, outside the front of the Kingsway Hotel.

Acquisition of Daido Group Limited ("Daido")
On 3rd August 2006, Classical entered into a sale and purchase agreement with Vision Harvest Limited and the guarantor, Mr. To Shu Fai for the purchase of 700,000,000 Daido shares for a total consideration of HK$52,500,000.

The transaction was completed on 11th August 2006. The Group become interested in 20.11% equity interest in Daido as at 31 December 2006 and was intentionally to treat this as a long-term investment. After discussion, the Board decided not to intervene the management of Daido and thus do not exercise influence on the composition of its board. The investment was then classified as available-for-sale financial assets in the financial statements of the Group as at 31st December 2006.

Daido and its subsidiaries carry on the business of provision of cold storage warehousing including relevant logistic services, manufacturing and trading of ice and property investment. A wholly owned subsidiary of Daido had entered into an agreement with Ever Apollo Limited for the acquisition of an indirect 12% interest in Grand Waldo Complex, a five star resort complex in Macau. In light of this, the acquisition of Daido shares represents a good opportunity for the Company to participate in the growing hospitality business in Macau.

The Board will closely monitor the development of this investment.

EMPLOYEES

As at 31st December 2006, the Group employed 47 staffs (2005: 51 staffs). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

PROSPECT

The film industry is a highly risk business and requires a huge in-flow of capital. To diversify such risk and for long-term growth, the Group has therefore actively diversified its business that can generate a steady source of income. The acquisition of Kingsway Hotel is expected to create a stable inflow of income to the Group and the Directors of the view that it is good opportunity for the Group to participate in the growing hospitality and entertainment business in Macau.

Looking ahead, the Group will continue its strength in the production of high quality films and at the same time diversify in our new operation, hotel business.

After the relaxation of the rules governing China travelers launched a few years ago, Macau absorbed a great number of tourists from China and every aspect reflected that Macau's economy is in strong growth, particularly the casino business and the tourism industry. Kingsway Hotel is a three star hotel that located at the centre of Macau. The room rates and the location of it can fit for a wide range of tourists from China. With the experience of the Group in the entertainment industry, we can help to promote the image of Kingsway Hotel and benefit from individual travelers. Following the completion of Initial Acquisition, Second Acquisition and the Disposals, Kingsway Hotel becomes an associate of the Group. The Group can directly share the contribution from the hotel operation and the rental and marketing and promotion fee from the casino operation managed by SJM, a wholly owned subsidiary of Sociedade De Jogos De Macau, S.A. which is a reputable and experienced Macau conglomerate, particularly in the operation of casino business.

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 year.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company is responsible for ensuring high standards of corporate governance are maintained and for accounting to shareholders. 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 of the the Listing Rules for the year ended 31st December 2006, except for the following deviations:

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.

Under the code provisions B.1.4 and C.3.4 of the Code, the issuer should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on the issuer's website. Since the Company has recently established its own website, the above requirement regard to provide such information on website cannot be met accordingly. However, the terms of reference of the two committees are available on request and will be posted on our website soon.

The information on the Company's compliance of the Code and deviations from certain code provisions of the Code for the year ended 31st December 2006 is set out in the Corporate Governance Report to be included in the Company's 2006 annual report which will be sent to the shareholders of the Company on or before 30th April 2007.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company comprises 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 audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the Group's consolidated financial statements for the year ended 31st December 2006.

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 throughout the year ended 31st December 2006. The Model Code also applies to other specified senior management of the Group.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.chinastar.com.hk). The Company's 2006 annual report will be despatched to the shareholders of the Company on or before 30th April 2007 and will be published on the Stock Exchange's website and the Company's website.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 26th April 2007

As at the date hereof, the Board of Directors of the Company comprises three Executive Directors, namely Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung, and three Independent Non-executive Directors, namely Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man.