



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

I
N
T
E
R
2006
R
I
M
R
E
P
O
R
T

Stock code: 326

中国星

CHINA
STAR

INTERIM RESULTS

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 2006 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2006

	Notes	Six months ended 30th June	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	2	56,042	46,411
Cost of sales		(33,125)	(28,936)
Gross profit		22,917	17,475
Other revenue	3	4,063	3,658
Other income		2,105	1,506
Administrative expenses		(17,581)	(31,886)
Marketing and distribution expenses		(9,009)	(12,964)
Net gain on disposal of financial assets at fair value through profit or loss		4,936	598
Unrealized (loss)/gain on financial assets at fair value through profit or loss		(12,069)	1,452
Loss from operations	4	(4,638)	(20,161)
Finance costs		(984)	(910)
Share of results of associates		(1,043)	(5,357)
Gain on disposal of an associate		21,400	–
Gain on deemed disposal of interest in an associate		62,582	–
Impairment loss recognized in respect of goodwill arising on acquisition of associates		(6,300)	–
Profit/(loss) before taxation		71,017	(26,428)
Taxation	5	(28)	(47)
Profit/(loss) for the period		70,989	(26,475)
Attributable to:			
Equity holders of the Company		71,002	(26,458)
Minority interests		(13)	(17)
		70,989	(26,475)
Earnings/(loss) per share			
Basic and diluted	6	13.17 cents	(5.49 cents)

The accompanying notes form an integral part of these financial statements.

All of the Group operations are classed as continuing.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2006

	Notes	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	7	13,811	19,147
Interest in leasehold land	7	10,257	13,684
Investment properties	7	42,190	42,190
Goodwill		59,203	59,203
Interests in associates	8	226,028	166,473
		351,489	300,697
CURRENT ASSETS			
Loan receivable		–	25,000
Inventories		335	362
Convertible notes receivables	9	42,000	42,000
Film rights	10	142,428	135,998
Films in progress		49,739	47,461
Trade receivables	11	16,499	14,597
Deposits, prepayments and other receivables		82,217	80,547
Financial assets at fair value through profit or loss		54,578	23,345
Amounts due from associates		4,726	41,760
Prepaid tax		339	129
Cash and cash equivalents		71,870	31,500
		464,731	442,699
TOTAL ASSETS		816,220	743,396
EQUITY			
Share Capital	12	31,232	26,027
Reserves		671,390	571,529
		702,622	597,556
Shareholders' funds		702,622	597,556
Minority interests		1,427	1,432
		704,049	598,988

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30th June 2006

	Notes	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	14	12,098	13,193
Unsecured convertible loan notes	15	–	19,434
		<u>12,098</u>	<u>32,627</u>
CURRENT LIABILITIES			
Trade payables	13	14,975	18,892
Deposits received, accruals and other payables		63,398	80,692
Bank borrowings – due within one year	14	2,266	12,197
Unsecured convertible loan notes	15	19,434	–
		<u>100,073</u>	<u>111,781</u>
TOTAL EQUITY AND LIABILITIES		<u>816,220</u>	<u>743,396</u>
NET CURRENT ASSETS		<u>364,658</u>	<u>330,918</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>716,147</u>	<u>631,615</u>

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2006

	Share capital	Share premium	Employee share-based payment reserve	Convertible loan notes reserve	Contributed surplus	Exchange reserve	Capital reduction reserve	Investment revaluation reserve	Accumulated losses	Sub-total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1st January 2005	18,270	778,975	7,841	566	186,624	680	316,008	479	(796,804)	512,639	1,464	514,103
Exchange adjustment	-	-	-	-	-	(55)	-	-	-	(55)	-	(55)
Share options granted	-	-	12,721	-	-	-	-	-	-	12,721	-	12,721
Issue of new shares	7,757	74,835	-	-	-	-	-	-	-	82,592	-	82,592
Net loss for the period	-	-	-	-	-	-	-	-	(26,458)	(26,458)	(17)	(26,475)
As at 30th June 2005	26,027	853,810	20,562	566	186,624	625	316,008	479	(823,262)	581,439	1,447	582,886
As at 1st January 2006	26,027	853,810	31,898	566	186,624	388	316,008	-	(817,765)	597,556	1,432	598,988
Exchange adjustment	-	-	-	-	-	873	-	-	-	873	8	881
Issue of new shares	5,205	27,986	-	-	-	-	-	-	-	33,191	-	33,191
Net profit for the period	-	-	-	-	-	-	-	-	71,002	71,002	(13)	70,989
As at 30th June 2006	31,232	881,796	31,898	566	186,624	1,261	316,008	-	(746,763)	702,622	1,427	704,049

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2006

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	8,034	(246)
Net cash generated from/(used in) investing activities	10,282	(30,634)
Net cash generated from financing activities	21,181	74,615
Net increase in cash and cash equivalents	39,497	43,735
Cash and cash equivalents at beginning of the period	31,500	54,108
Effect of foreign exchange rate change	873	(55)
Cash and cash equivalents at end of the period	71,870	97,788
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	71,870	97,788

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2006

I. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies used in preparation of these unaudited condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31st December 2005 except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also includes HKASs and Interpretations) which are generally effective and are relevant to the Group's operations for accounting periods beginning on or after 1st January 2006 and are adopted the first time by the Group for the current periods' financial statements.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The effects of change in foreign exchange rate – net investment in foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transaction
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 HKFRSs does not result in substantial changes to the accounting policies of the Company and its subsidiaries and has no significant effect on the results reported for the six months ended 30th June 2006 and prior periods.

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

HKAS 1 (Amendment)	Capital disclosures (Note i)
HKFRS 7	Financial instruments: disclosures (Note i)
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS29 financial reporting in hyperinflationary economies (Note ii)
HK(IFRIC)-Int 8	Scope of HKFRS 2 (Note iii)
HK(IFRIC)-Int 9	Reassessment of embedded derivatives (Note iv)

Note:

- (i) Effective for financial period commencing on or after 1st January 2007
- (ii) Effective for financial period commencing on or after 1st March 2006
- (iii) Effective for financial period commencing on or after 1st May 2006
- (iv) Effective for financial period commencing on or after 1st June 2006

The Group is still considering the potential impact of these new HKFRSs but is not yet in a position to determine whether the adoption of these new HKFRSs would have a significant impact on its results of operations and financial position.

2. 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 and results from operation by location of markets:

For the six months ended 30th June 2006:

	Hong Kong and Macau HK\$'000 (Unaudited)	People's Republic of China, excluding Taiwan ("PRC") HK\$'000 (Unaudited)	America and Europe HK\$'000 (Unaudited)	South-east Asia HK\$'000 (Unaudited)	Other HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Turnover	<u>34,923</u>	<u>8,783</u>	<u>657</u>	<u>10,817</u>	<u>862</u>	<u>56,042</u>
Segment results	<u>5,642</u>	<u>4,012</u>	<u>15</u>	<u>3,858</u>	<u>381</u>	<u>13,908</u>
Other revenue and income						11,104
Unallocated corporate expenses						<u>(29,650)</u>
Loss from operations						<u>(4,638)</u>

For the six months ended 30th June 2005:

	Hong Kong and Macau HK\$'000 (Unaudited)	PRC HK\$'000 (Unaudited)	America and Europe HK\$'000 (Unaudited)	South-east Asia HK\$'000 (Unaudited)	Other HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Turnover	<u>25,129</u>	<u>6,266</u>	<u>3,092</u>	<u>9,880</u>	<u>2,044</u>	<u>46,411</u>
Segment results	<u>746</u>	<u>(3,923)</u>	<u>2,827</u>	<u>3,599</u>	<u>1,262</u>	4,511
Other revenue and income						7,214
Unallocated corporate expenses						<u>(31,886)</u>
Loss from operations						<u>(20,161)</u>

3. OTHER REVENUE

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Dividend income received from listed shares	79	–
Interest income	1,369	1,113
Rental income	185	115
Management fee income received from associates	2,430	2,430
	<u>4,063</u>	<u>3,658</u>

4. LOSS FROM OPERATIONS

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss from operations has been arrived at after (crediting)/charging the following items:		
Amortisation of film rights (included in cost of sales)	30,834	27,343
Amortisation of leasehold land	132	225
Cost of inventories (included in cost of sales)	38	193
Depreciation of property, plant and equipment	4,627	4,824
Employee benefit expenses	7,010	8,603
Net foreign exchange loss	811	–
Gain on disposal of property, plant and equipment	(1,290)	(4)
Share-based payment expenses (included in administrative expenses)	–	12,721
Trade payables written off	–	(1,470)
	<u>–</u>	<u>–</u>

5. TAXATION

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The taxation charge is as follows:		
Taxation in other jurisdictions	<u>28</u>	<u>47</u>

No provision for Hong Kong Profits Tax has been made in the financial statements for both periods as the Company and its subsidiaries incurred tax losses for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to equity holders of the Company	<u>71,002</u>	<u>(26,458)</u>
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	<u>538,947</u>	<u>482,284</u>

Diluted earnings per share is equal to the basic earnings per share for the six months ended 30th June 2006 as the exercise price of the outstanding share options granted by the Company and the conversion price of the convertible loan notes outstanding were higher than the average market price of the shares of the Company, and the exercise of the outstanding share options and convertible loan notes would have an anti-dilutive effect to the basic earnings per share.

The computation of diluted loss per share for the six months ended 30th June 2005 did not assume the exercise of the Company's outstanding share options and convertible loan notes outstanding during the period since their exercise would reduce loss per share.

7. PROPERTY, PLANT AND EQUIPMENT, INTEREST IN LEASEHOLD LAND AND INVESTMENT PROPERTIES

During the period under review, the Group had addition to property, plant and equipment amounted to approximately HK\$1,605,000 (30th June 2005: HK\$300,000) and disposal of property, plant and equipment and interest in leasehold land at total carrying values of approximately HK\$5,600,000 (30th June 2005: nil).

The directors of the Company have considered the carrying amounts of the Group's investment properties are carried at fair values and have estimated that their carrying amounts did not differ significantly from the fair values as at 31st December 2005. Consequently, no change in the fair values of the investment properties has been recognized in the current period.

8. INTERESTS IN ASSOCIATES

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Share of net assets (<i>note a</i>)	151,868	79,704
Goodwill (<i>note b</i>)	74,160	86,769
	<u>226,028</u>	<u>166,473</u>
Market value of listed shares	<u>369,753</u>	<u>463,533</u>

Notes:

(a) Share of net assets:

	HK\$'000
As at 1st January 2006	79,704
Share of losses of associates	(1,043)
Disposal of an associate (<i>note c</i>)	(3,600)
Gain on deemed disposal of 8.43% interest in Riche Multi-Media Holdings Limited ("Riche Multi-Media") (<i>note d</i>)	73,708
Further acquisition of 0.71% interest in Riche Multi-Media during the period (<i>note d</i>)	3,099
As at 30th June 2006	<u>151,868</u>

(b) Goodwill:

	HK\$'000
As at 1st January 2006	86,769
Deemed disposal of 8.43% interest in Riche Multi-Media (<i>note d</i>)	(11,126)
Impairment loss recognized for the period	(6,300)
Further acquisition of 0.71% interest in Riche Multi-Media during the period (<i>note d</i>)	4,817
As at 30th June 2006	<u>74,160</u>

8. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(c) Disposal of an associate:

On 15th March 2004, the shareholder of Golden Capital International Limited ("Golden Capital"), an associate of the Group, granted to the Group an option ("Option") to require Golden Capital's shareholder to purchase from the Group an aggregate of 356 shares of US\$1 each in the share capital of Golden Capital which represents the Group's entire shareholding in Golden Capital, at an aggregate consideration of HK\$25,000,000 ("Consideration"). The Group may exercise the Option in the event that the net profits after taxation but before extraordinary items as shown in the audited accounts ("Audited Accounts") of Golden Capital for year ended 31st December 2004 is less than HK\$14,600,000. Due to certain unforeseeable difficulties relating to the preparation of the Audited Accounts, the Group only received the Audited Accounts during the period under review.

As the net profits after taxation but before extraordinary items as shown in the Audited Accounts was less than HK\$14,600,000, the Group exercised the Option in April 2006 and the shareholder of Golden Capital repaid the Consideration to the Group by two installments within the same month.

(d) Interests in Riche Multi-Media:

During the period, Riche Multi-Media issued 1,330,321,745 ordinary shares of HK\$0.01 ("Riche Shares") at a price of HK\$0.20 each amounted to approximately HK\$266,064,000 as consideration in relation to an acquisition of a group of companies which major assets is the 96.7% equity interest in Beijing Jianguo Real Estate Development Co. Ltd. (the "JV Co."). JV Co. is the registered and beneficial owner of a property located at No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC. The Group's interest in Riche Multi-Media was diluted by 8.43% from 41.07% to 32.64% immediately upon the issuance of the Riche Shares.

Thereafter, the Group acquired a further 0.71% equity interest in Riche-Multi Media in the open market with a total consideration of approximately HK\$7,900,000. As a result, a goodwill of approximately HK\$4,817,000 was recorded and the Group's interest in Riche Multi-Media increased to 33.35% as at 30th June 2006.

9. CONVERTIBLE NOTES RECEIVABLES

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Convertible notes issued by third parties (<i>note a</i>)	42,000	52,000
Less: Impairment of convertible notes receivable (<i>note b</i>)	-	(10,000)
	<u>42,000</u>	<u>42,000</u>

- (a) On 15th March 2004 the Group entered into two subscription agreements with two shareholders ("Note Issuers") of Colima Enterprises Holdings Inc. ("Colima"), the holding company of Together Again Limited ("TAL"), pursuant to which the Group subscribed for two convertible notes of HK\$26,000,000 each ("the Convertible Notes") issued by the Note Issuers for an aggregate consideration of HK\$52,000,000. Each of the Convertible Notes bears interest at 1% per annum, secured by a charge on the relevant Note Issuers' entire equity interest in Colima and will mature on 36 months from the date of the relevant subscription agreements or the date of the listing of a proposed holding company of TAL on a recognised stock exchange, whichever is the earlier.

Each of the Convertible Notes carries the rights to convert the whole or any part of the outstanding principal amount of the Convertible Notes into shares in the relevant Note Issuer in accordance with the formula as set out in the relevant subscription agreement from 15th March 2005 to 14th March 2007 or the date of the listing of a proposed holding company of TAL on a recognised stock exchange, whichever is the earlier. If the Group exercises its rights to convert the full amount of the Convertible Notes into each of the shares in the Note Issuers, the Group will have approximately 99% direct equity interests in the Note Issuers and 99% indirect equity interest in the group headed by Colima respectively.

- (b) The directors of the Company has considered no impairment provision of convertible notes receivable is required. The carrying amounts of convertible notes receivables approximate to their fair value.

10. FILM RIGHTS

During the period under review, the Group had additions of film rights amounted to approximately HK\$37,264,000 (30th June 2005: HK\$29,411,000).

11. TRADE RECEIVABLES

The credit period granted to customers ranges from 30 to 90 days. The following is an ageing analysis of trade receivables at the reporting date:

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Riche Multi-Media and its subsidiaries (collectively the "Riche Group"):		
0 to 30 days	11	18
31 to 60 days	1	-
61 to 90 days	12	-
91 to 180 days	-	-
Over 180 days	-	-
	<u>24</u>	<u>18</u>
Others:		
0 to 30 days	3,777	1,148
31 to 60 days	1,690	4,471
61 to 90 days	613	300
91 to 180 days	2,605	393
Over 180 days	7,790	8,267
	<u>16,475</u>	<u>14,579</u>
	<u>16,499</u>	<u>14,597</u>

The carrying amounts of trade receivables approximate to their fair value.

12. SHARE CAPITAL

	Number of shares		Amount	
	30th June 2006 '000 (Unaudited)	31st December 2005 '000 (Audited)	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Ordinary shares of HK\$0.05 each				
Issued and fully paid:				
As at beginning of period	520,541	365,406	26,027	18,270
Exercise of share options	-	17,770	-	889
Issue of new shares (Note a)	104,105	137,365	5,205	6,868
	<u>624,646</u>	<u>520,541</u>	<u>31,232</u>	<u>26,027</u>

12. SHARE CAPITAL (continued)

Note:

- (a) 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 of the Company 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\$33,300,000 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.

13. TRADE PAYABLES

The following is an ageing analysis of trade payables at the reporting date:

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
The Riche Group:		
0 to 30 days	19	—
31 to 60 days	4	—
61 to 90 days	—	—
91 to 180 days	199	—
Over 180 days	—	—
	<u>222</u>	<u>—</u>
Others:		
0 to 30 days	246	2,680
31 to 60 days	191	836
61 to 90 days	1,176	1,368
91 to 180 days	1,861	3,123
Over 180 days	11,279	10,885
	<u>14,753</u>	<u>18,892</u>
	<u>14,975</u>	<u>18,892</u>

The carrying amounts of trade payables approximate to their fair value.

14. BANK BORROWINGS

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Secured bank loans	<u>14,364</u>	<u>25,390</u>
The maturity of the above borrowings is as follows:		
Within one year	2,266	12,197
More than one year but not exceeding two years	2,305	2,252
More than two years but not exceeding five years	7,761	7,538
More than five years	<u>2,032</u>	<u>3,403</u>
	14,364	25,390
Less: Amount due within one year shown under current liabilities	<u>(2,266)</u>	<u>(12,197)</u>
Amount due after one year	<u><u>12,098</u></u>	<u><u>13,193</u></u>

Secured bank loans comprised an instalment loan and a mortgage loan which bear interest at commercial rates. The instalment loan is secured by a first legal charge over all copyrights on a film produced by the Group in the beginning of 2005. The mortgage loan are secured by the Group's investment properties in Hong Kong with carrying value of HK\$38,000,000 as at 30th June 2006. The instalment loan is repayable by total 18 monthly instalments and the mortgage loan is repayable in instalments over a period of ten years.

15. UNSECURED CONVERTIBLE LOAN NOTES

The unsecured convertible loan notes (the "Note") bear interest at 4% per annum which will be payable semi-annually in arrears was originally matured on 30th June 2004. On 14th June 2004, the Company and the noteholder entered into a supplemental deed, pursuant to which the Company and the noteholder agreed to extend the maturity date of the Note from 30th June 2004 to 30th June 2007. The Note carries the right to convert the principal amount of the Note into shares ("Shares") of HK\$0.05 each in the share capital of the Company at a conversion price of HK\$5.83 per Share (after adjustments). From 14th June 2004 to the 14 business day immediately preceding 30th June 2007, the noteholder can convert the outstanding principal amount of the Note into Shares.

The fair values of the liability component and the equity conversion component were determined at issuance of the Note.

The fair value of the liability component, included in borrowings of the Group, was calculated using a market interest rate. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity named as convertible loan notes reserve.

15. UNSECURED CONVERTIBLE LOAN NOTES (continued)

The Note recognized in the balance sheet is calculated as follows:

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Face value of the Note issued on 14th June 2004	20,000	20,000
Equity component	(566)	(566)
Liability component on initial recognition at 14th June 2005	19,434	19,434
Interest expenses	397	800
Interest paid	(397)	(800)
Liability component as at end of period	19,434	19,434

16. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the period, the Group entered into the following transactions with the Riche Group:

	Notes	Six months ended 30th June 2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Nature of transactions			
– Loan interest income	(i)	100	68
– Interest on convertible notes receivable	(i)	–	100
– Production fee income	(ii)	85	527
– Distribution income	(iii)	–	5,000
– Sub-licensing expenses	(ii)	(200)	–

Notes:

- (i) On 19th April 2005, the convertible notes of HK\$33,800,000 issued by the Group were matured. The Group did not exercise the right to convert the outstanding principal amount of HK\$33,800,000 into share capital of Riche Multi-Media and Riche Multi-Media repaid HK\$33,800,000 to the Group. On the same date, the Company granted a one year term loan of HK\$33,800,000 to Riche Multi-Media. The loan was unsecured, bore interest at 1% per annum and repayable on 19th April 2006. Upon the maturity of the term loan, Riche Multi-Media repaid the principal and the accrued interest thereon as at that date.
- (ii) The amounts were determined at prices agreed between the parties.
- (iii) During the six months ended 30th June, 2005, the Group granted to the Riche Group exclusive distribution rights (excluding the theatrical rights) at a total consideration of approximately HK\$1,600,000 and theatrical rights at a total licence fee of approximately HK\$3,400,000 respectively pursuant to the territory supply agreement which had been expired on 8th April 2005 and the relevant territory distribution agreements.

16. MATERIAL RELATED PARTY TRANSACTIONS (continued)

- (b) During the period, the Group entered into the following transactions with TAL and its subsidiaries (the "TAL Group"):-

Nature of transactions	Six months ended 30th June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Management fee income received and receivable	2,430	2,340
Services charges paid and payable	5,752	2,760
Artists promotion charges paid and payable	3,318	2,919

Notes:

- (i) The amounts were determined at prices agreed between the parties.
- (ii) Ms. Chen is a director of the Company and TAL.
- (c) During the six months ended 30th June 2005, the Company issued 76,600,000 Shares to the directors and their associates.
- (d) During both periods, Mr. Heung and Ms. Chen provided personal guarantees to a bank to secure banking facilities granted to the Group. No fee was paid to them by the Group.
- (e) Amounts due from associates are unsecured, interest free and recoverable on demand.
- (f) Key management personnel compensation

Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employees is as follows:-

Nature of transactions	Six months ended 30th June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Salaries and other short-term benefits	2,694	2,964
Retirement benefit costs	30	30
Share-based payment	-	1,859

17. COMMITMENTS

Operating lease commitment:

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

As at the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Within one year	1,506	1,059
In the second to fifth year, inclusive	1,556	–
	<u>3,062</u>	<u>1,059</u>

18. EVENTS AFTER BALANCE SHEET DATE

- (a) On 6th June 2006, the Company had conditionally agreed to place 80,000,000 new Shares to independent investors as to 31,800,000 Shares, 42,410,000 Shares and 5,790,000 Shares to PMA Asian Opportunities Fund, Diversified Asian Strategies Fund and Asian Diversified Total Return Limited Duration Company respectively at a price of HK\$0.365 per Share, representing a discount of 6.4% to the closing price of the Shares on 6th June 2006. Net proceeds of approximately HK\$29,000,000 were intended to be used for the proposed acquisition of a hotel in Macau. The issue of new Shares was approved by the shareholders of the Company at a special general meeting held on 5th July 2006 and the placing was completed on 7th July 2006.
- (b) On 13th June 2006, the Company had entered into agreements with the relevant vendors, Harvest Metro Corporation, Top Region Assets Limited and Mr. Chan Chak Mo in relation to the acquisition (the "Acquisitions") of the entire issued share capital of Triumph Up Investments Limited and Great Chain Limited which indirectly hold in aggregate appropriately 61.5% interest in the issued share capital of Kingsway Hotel Limited for an aggregate consideration of HK\$490,000,000. The principal asset of Kingsway Hotel Limited is Kingsway Hotel, a three star hotel with a total 383 guests rooms located in Macau. The Acquisitions constitute a very substantial acquisition 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 on 29th September 2006.

Financing for the Acquisitions is expected to come from convertible bonds to be issued by the Company and with the balance from internal resources, although the exact terms of the convertible bonds to be issued have not yet been finalized. The details are set out in the Company's announcement dated 15th June 2006 and the Company's circular dated 8th September 2006.

18. EVENTS AFTER BALANCE SHEET DATE (continued)

- (c) On 3rd August 2006, Classical Statue Limited, a wholly-owned subsidiary of the Company entered into a sales and purchase agreement with Vision Harvest Limited, an investment holding company wholly-owned by the Mr. To Shu Fai (the "Guarantor"), pursuant to which the Group would acquire 20.55% of the issued share capital of Daido Group Limited, at an aggregate consideration of HK\$52,500,000 in cash. The details are set out in the Company's announcement dated 9th August 2006.
- (d) On 17th August 2006, China Star Laser Disc Company Limited, a wholly-owned subsidiary of the Company entered into an unconditional agreements to sell certain property of the Group to an independent third party, at a total consideration of HK\$8,080,000.
- (e) On 13th September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the "Vendors"), all wholly-owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited (the "Purchaser") entered into a deed pursuant to which Purchaser has agreed to acquire from the Vendors the perpetual and worldwide right, title and interest in 100 motion pictures ("Film Library") at a total consideration of US\$18,000,000 (subject to adjustment). The Film Library is recorded as film rights classified under current assets as at 30th June 2006. The Group is estimated to record a net profits of approximately HK\$35,000,000 from the disposal.

The disposal constitutes a major transaction 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 convened by the Company. The details are set out in the Company's announcement dated 14th September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group recorded a turnover of HK\$56,042,000 for the six months ended 30th June 2006, a 21% increase from HK\$46,411,000 for the same period in the previous year. Of the total turnover amount, HK\$52,167,000 or 93% was generated from film distribution, the remaining 7% was generated from video distribution and other production services.

The profit attributable to equity holders of the Company for the six months ended 30th June 2006 was HK\$71,002,000, representing a 368% improvement over loss of HK\$26,458,000 in the last corresponding period.

During the period under review, the Group had recognized a gain on deemed disposal of interest in an associate of HK\$62,582,000 from Riche Multi-Media and a gain on disposal of an associate of HK\$21,400,000 from Golden Capital International Limited. The improvement in current period's result mainly attributable to these gain and better performance in film distribution segment. This period, the Group had released 6 new films in the market which was same as last corresponding period, including popular films like "The Shopaholic" and "Election II". In response to the weak market condition of the entertainment industry, 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.

Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2006 (2005: nil).

Business Review

During the six months ended 30th June 2006, turnover and segment profit from Hong Kong and Macau amounted to HK\$34,923,000 (2005: HK\$25,129,000) and HK\$5,642,000 (2005: HK\$746,000) respectively. The achievement in the performance in the market was mainly attributable to the cautious selection in film production and the tight control on marketing and distribution expenses. The marketing and distribution expenses for the six months ended 30th June 2006 was HK\$9,009,000, representing a 31% decrease from HK\$12,964,000 for the last corresponding period.

Turnover and segment profit from the PRC amounted to HK\$8,783,000 (2005: HK\$6,266,000) and HK\$4,012,000 (2005: loss of HK\$3,923,000) respectively. The Group has sub-licensed China theatrical rights to other distributor for a fixed amount of distribution fees, thus securing the revenue and margin received by the Group.

Turnover and segment profit from South-east Asia amounted to HK\$10,817,000 (2005: HK\$9,880,000) and HK\$3,858,000 (2005: HK\$3,599,000) respectively. The performance of South-east Asia market has stable increment.

Turnover and segment profit from America and Europe amounted to HK\$657,000 (2005: HK\$3,092,000) and HK\$15,000 (2005: HK\$2,827,000) respectively. The decrease in turnover and segment profit was attributed to the costs of certain films sub-licensed in last period had been fully amortized.

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 level. For the six months ended 30th June 2006, administrative expenses decreased to HK\$17,581,000, a 8% decrease from HK\$19,165,000 (excluding share-based payment expenses of HK\$12,721,000) for the same period in the previous year.

Liquidity and Financial Resources

As at 30th June 2006, the Group had total assets of approximately HK\$816,220,000 and a net current assets of HK\$364,658,000, representing a current ratio of 4.6 (31st December 2005: 4.0). The Group had a total cash and bank balances of approximately HK\$71,870,000 (31st December 2005: HK\$31,500,000). As at 30th June 2006, the Group had total borrowings of HK\$33,798,000 comprising a bank mortgage loan of HK\$14,277,000 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 91 monthly instalments; an instalment loan from a bank of HK\$87,000 which was secured by a first legal charge over all copyrights on the Group's film, Himalaya Singh, interest bearing at 6.531% per annum and repayable by July 2006; and unsecured convertible loan notes of HK\$20,000,000 (including equity component of HK\$566,000) which is bearing interest at 4% per annum and will mature on 30th June 2007. The convertible loan notes carry the right to convert into shares of HK\$0.05 each in the share capital of the Company ("Shares") at the conversion price of HK\$5.83 per Share as at 30th June 2006. The Group's gearing remained low during the period with total debts of HK\$33,798,000 against shareholders' funds of HK\$702,622,000. 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 was considered necessary. As at 30th June 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\$33,300,000 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\$29,000,000 was intended to be used by the Group for the proposed acquisition of a hotel in Macau.

Associates

Riche Multi-Media

As at 30th June 2006, the Group had approximately 33.35% equity interest in Riche Multi-Media. The Riche Group are principally engaged in film distribution, sub-licensing of film rights and investments in securities. As at 30th June 2006, the Riche Group had net assets of approximately HK\$432,534,000. Turnover and net loss of the Riche Group for the six months ended 30th June 2006 were approximately HK\$12,762,000 and HK\$1,140,000 respectively. Accordingly, the Group had shared a net loss of approximately HK\$94,000 for the six months ended 30th June 2006 and a gain on deemed disposal of interest in an associate of HK\$62,582,000 from the following transaction.

During the period, the Riche Group entered into a conditional sale and purchase agreement with Northbay Investments Holdings Limited ("Northbay"), pursuant to which the Riche Group would acquire (i) 100% of the issued share capital of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and (ii) the debts owned by Shinhan-Golden to Northbay, at an aggregate consideration of HK\$266,064,350 (the "Northbay Acquisition"). The consideration was satisfied by the allotment and issue of 1,330,321,745 shares of Riche Multi-Media at a price of HK\$0.20 per share. Shinhan-Golden's major asset is the 96.7% equity interest in Beijing Jianquo Real Estate Development Co. Ltd. (the "JV Co."). JV Co. is the registered and beneficial owner of a property (the "Property") located at No. 9, Gongyuan Xijie, Dongcheng District, Beijing, the PRC. The Northbay Acquisition was completed on 21st June 2006 and 1,330,321,745 shares of Riche Multi-Media had been issued on the same day. The equity interest in the Riche Group was diluted from 41.07% to 32.64% and a gain on deemed disposal was recognized. Thereafter, the Group acquired a further 0.71% equity interest in Riche Multi-Media in the open market with a total consideration of approximately HK\$7,900,000. As a result, the Group's equity interest in Riche Multi-Media increased to 33.35% as at 30th June 2006.

Together Again Limited

As at 30th June 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.

The Group shared a loss of HK\$949,000 for the six months ended 30th June 2006 and an impairment loss recognized in respect of goodwill arising on acquisition of an associate of approximately HK\$6,300,000.

Acquisition of Daido Group Limited ("Daido")

On 3rd August 2006, Classical Statue Limited, a wholly-owned subsidiary of the Company 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. Daido has become an associate of the Company.

Daido and its subsidiaries carries on the business of properties investment and provision of cold storage warehousing including relevant logistic services. 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.

Acquisition of Kingsway Hotel

On 13th June 2006, the Company had entered into agreements in relation to the acquisition (the "Acquisitions") of the entire issued share capital of Triumph Up Investments Limited and Great Chain Limited which indirectly hold in aggregate appropriately 61.5% interest in the issued share capital of Kingsway Hotel Limited for an aggregate consideration of HK\$490,000,000. The principal asset of Kingsway Hotel Limited is Kingsway Hotel, a three star hotel with a total 383 guests rooms located in Macau. The Acquisitions constitute a very substantial acquisition 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 on 29th September 2006.

Financing for the Acquisitions is expected to come from convertible bonds to be issued by the Company and with the balance from internal resources, although the exact terms of the convertible bonds to be issued have not yet been finalized.

Signing of a Non-binding Letter of Intent

On 15th September 2005, the Company entered into a non-binding letter of intent with Mr. Phua Wei Seng, an independent third party, for the acquisition by the Company of an equity interest in a company involved in Macau gaming business. Pursuant to the non-binding letter of intent, a refundable deposit of HK\$20,000,000 was placed by the Company with Mr. Phua Wei Seng. If the proposed transaction does not materialise or fails to complete by 14th December 2005, the deposit would be returned to the Company. The parties to the letter of intent had agreed to extend the date to 11th September 2006. As at 11th September 2006, the Company decided not to proceed with the proposed acquisition, the refundable deposit of HK\$20,000,000 had refunded to the Company on 11th September 2006 without interest.

Disposal of Property

On 17th August 2006, China Star Laser Disc Company Limited, a wholly-owned subsidiary of the Company sold one of its property at net book value of approximately HK\$8,124,000 at a consideration of HK\$8,080,000 and made an insignificant loss of approximately HK\$44,000 .

Disposal of Film Library

On 13th September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the "Vendors"), all wholly-owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited ("Purchaser") entered into a deed pursuant to which the Purchaser has agreed to acquire from the Vendors the perpetual and worldwide right, title and interest in 100 motion pictures ("Film Library") at a total consideration of US\$18,000,000 (subject to adjustment). Compared to the net book values as stated in the books and records of the Group as at 31st August 2006, the estimated net profit arising from the disposal is approximately HK\$35,000,000.

The disposal constitutes a major transaction 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 convened by the Company.

Employees

As at 30th June 2006, the Group employed 46 staffs (30th June 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, mandatory provident fund, medical schemes and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

Prospect

The first half of 2006 is challenging for the Group. In last year, the Group had focus to control the budget and quality of film production and at the same time has actively diversified into other business opportunities. The significant improvement in the performance of the Group for the six months ended 30th June 2006 has proved that the Group is in the right direction. The Acquisitions of Kingsway Hotel in Macau and investment in Grand Waldo Complex in Macau through its investment in Daido are expected to bring positive growth to the Group in the long term. These investments are good opportunity for the Group to participate in the growing hospitality business in Macau and expected to stabilize the future income of the Group. The disposal of the Film Library has once again proved the Group's excellent achievement in the film industry and will enhance the liquidity and financial position of the Group.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2006, the interests of the directors and their associates in the shares and the underlying shares of the Company and its associated corporations, as recorded in the register ("Register of Interests") maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Interests in ordinary shares of the Company

Name of director	Capacity	Number of shares held	Approximate percentage of interests held
Mr. Heung	Beneficial owner/ interest of spouse/ interest of controlled corporation	108,239,410*	17.33
Ms. Chen	Beneficial owner/ interest of spouse/ interest of controlled corporation	108,239,410*	17.33
Ms. Li Yuk Sheung	Beneficial owner	16	0.00

All interests stated above represent long positions.

* These shares are held as to 18,395,000 shares by Mr. Heung, as to 9,429,410 shares by Ms. Chen (the spouse of Mr. Heung), as to 61,905,000 shares by Porterstone (a company wholly-owned by Ms. Chen) and as to 18,510,000 shares by Dorest (a company wholly-owned by Glenstone Investments Limited which is in turn controlled as to 60% by Porterstone and as to 40% by Mr. Heung).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

(ii) Rights to acquire shares in the Company

As at 30th June 2006, the directors of the Company had interests in share options to subscribe for shares in the Company granted as follows:

Name of director	Exercisable period*	Exercise price per share HK\$	Number of underlying shares comprised in the outstanding share options			Approximate percentage of interests held
			Direct interest	Deemed interest	Total	
Mr. Heung	21.11.1996 – 20.11.2006	60.510	337,135	337,134	674,269	
	28.03.2000 – 27.03.2010	16.783	461,061	461,062	922,123	
	02.06.2000 – 01.06.2010	8.134	208,753	208,753	417,506	
	16.07.2002 – 15.07.2012	1.716	110,723	110,723	221,446	
	17.07.2003 – 16.07.2013	0.564	228,500	228,500	457,000	
			<u>1,346,172</u>	<u>1,346,172[#]</u>	<u>2,692,344</u>	<u>0.43</u>
Ms. Chen	21.11.1996 – 20.11.2006	60.510	337,134	337,135	674,269	
	28.03.2000 – 27.03.2010	16.783	461,062	461,061	922,123	
	02.06.2000 – 01.06.2010	8.134	208,753	208,753	417,506	
	16.07.2002 – 15.07.2012	1.716	110,723	110,723	221,446	
	17.07.2003 – 16.07.2013	0.564	228,500	228,500	457,000	
			<u>1,346,172</u>	<u>1,346,172[#]</u>	<u>2,692,344</u>	<u>0.43</u>
Ms. Li Yuk Sheung	16.07.2002 – 15.07.2012	1.716	1,109,557	–	1,109,557	
	17.07.2003 – 16.07.2013	0.564	2,285,000	–	2,285,000	
			<u>3,394,557</u>	<u>–</u>	<u>3,394,557</u>	<u>0.54⁺</u>

All interests stated above represent long positions.

These share options are held by Ms. Chen, the spouse of Mr. Heung. Mr. Heung is therefore deemed to be interested in these share options.

+ These share options are held by Mr. Heung. Ms. Chen is therefore deemed to be interested in these share options.

^ As at 30th June 2006, the percentage of interests held by such director was 1.49% as recorded in the Register of Interests, which was calculated based on 228,519,396 issued shares of the Company on 17th July 2003 (the date of the latest notice filed by such director before 30th June 2006).

* The exercisable period commenced on the date of grant of the relevant share options.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Other than as set out above, as at 30th June 2006, none of the directors or chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register of Interests or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or the spouse or children under 18 years of age of such director, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

Pursuant to a resolution passed at the annual general meeting of the Company held on 27th May 2002, the share option scheme adopted by the Company on 23rd October 1996 (the "Old Option Scheme") was terminated and a new share option scheme (the "New Option Scheme") was adopted.

As the Old Option Scheme was terminated on 27th May 2002, no further share options can be granted under the Old Option Scheme thereafter. However, all outstanding share options granted under the Old Option Scheme prior to the said termination shall remain valid and exercisable in accordance with the provisions of the Old Option Scheme.

Apart from the New Option Scheme, the Company has no other share option scheme in place.

SHARE OPTION SCHEME (continued)

Details of share options outstanding as at 30th June 2006 were as follows:

Category of Participants	Name of scheme	Exercisable period***	Exercise price per share HK\$	Number of share options				
				Outstanding as at 01.01.2006	Grant during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30.06.2006
Substantial shareholders and directors of the Company*	Old Option Scheme	21.11.1996 – 20.11.2006	60.510	674,269	–	–	–	674,269
		28.03.2000 – 27.03.2010	16.783	922,123	–	–	–	922,123
		02.06.2000 – 01.06.2010	8.134	417,506	–	–	–	417,506
	New Option Scheme	16.07.2002 – 15.07.2012	1.716	221,446	–	–	–	221,446
		17.07.2003 – 16.07.2013	0.564	457,000	–	–	–	457,000
					<u>2,692,344</u>	–	–	–
Director of the Company**	New Option Scheme	16.07.2002 – 15.07.2012	1.716	1,109,557	–	–	–	1,109,557
		17.07.2003 – 16.07.2013	0.564	2,285,000	–	–	–	2,285,000
				<u>3,394,557</u>	–	–	–	<u>3,394,557</u>
Employees of the Group	Old Option Scheme	05.01.1999 – 04.01.2009	5.011	44	–	–	–	44
		28.03.2000 – 27.03.2010	16.783	240,099	–	–	–	240,099
		02.06.2000 – 01.06.2010	8.134	417,508	–	–	–	417,508
	New Option Scheme	16.07.2002 – 15.07.2012	1.716	2,219,114	–	–	–	2,219,114
		17.07.2003 – 16.07.2013	0.564	2,285,000	–	–	–	2,285,000
		13.12.2004 – 12.12.2014	0.520	6,000,000	–	–	–	6,000,000
		04.02.2005 – 03.02.2015	0.538	28,110,000	–	–	–	28,110,000
	30.12.2005 – 29.12.2015	0.242	18,005,000	–	–	–	18,005,000	
				<u>57,276,765</u>	–	–	–	<u>57,276,765</u>
	Other participants	New Option Scheme	16.07.2002 – 15.07.2012	1.716	4,438,228	–	–	–
17.07.2003 – 16.07.2013			0.564	7,055,000	–	–	–	7,055,000
13.12.2004 – 12.12.2014			0.520	11,820,000	–	–	–	11,820,000
04.02.2005 – 03.02.2015			0.538	10,205,000	–	–	–	10,205,000
30.12.2005 – 29.12.2015			0.242	33,995,000	–	–	–	33,995,000
					<u>67,513,228</u>	–	–	–
			<u>130,876,894</u>	–	–	–	<u>130,876,894</u>	

* Represented the share options held by Mr. Heung and Ms. Chen, the substantial shareholders and directors of the Company.

** Represented the share options held by Ms. Li Yuk Sheung, a director of the Company.

*** The exercisable period commenced on the date of grant of the relevant share options.

No share option was cancelled during the six months ended 30th June 2006.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2006, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of Shares held	Approximate percentage of interests held
Porterstone	Beneficial owner	61,905,000	
	Interest of controlled corporation	<u>18,510,000*</u>	
		<u>80,415,000</u>	<u>12.87</u>
PMA Capital Management Limited	Investment manager	<u>80,000,000**</u>	<u>12.81</u>
Diversified Asian Strategies Fund	Beneficial owner	<u>42,410,000</u>	<u>6.79</u>
PMA Asian Opportunities Fund	Beneficial owner	<u>31,800,000</u>	<u>5.09</u>

All interests stated above represent long positions.

* These shares are held by Dorest, a wholly-owned subsidiary of Glenstone Investments Limited which is in turn beneficially owned as to 60% by Porterstone.

** These shares are held as to 42,410,000 shares by Diversified Asian Strategies Fund, as to 31,800,000 shares by PMA Asian Opportunities Fund and as to 5,790,000 shares by Asian Diversified Total Return Limited Duration Company. PMA Capital Management Limited manages these three funds on a discretionary basis.

Other than as disclosed above, the Company had not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital as at 30th June 2006.

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 2006, except for the following deviations:

1. Code Provision A.4.1

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.

2. Code Provisions B.1.4 and C.3.4

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.

The Company has not yet established its own website until July 2006, therefore, for the six months ended 30th June 2006, the above requirement regard to provide such information on website cannot be met accordingly. However, the terms of reference of these two committees are available on request.

The terms of reference of and the information on the remuneration committee and the audit committee will soon be included in the website of these Company in accordance with the code provisions B.1.4 and C.3.4 of 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 2006. The Model Code also applies to other specified senior management of the Group.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference in accordance with the code provision B.1.1 on 31st August 2005. The remuneration committee comprises two independent non-executive directors, namely Mr. Hung Cho Sing and Mr. Fung Ho Sum, and an executive director, namely Ms. Chen Ming Yin, Tiffany. Ms. Chen Ming Yin, Tiffany is the chairman of the remuneration committee. The remuneration committee is principally responsible for formulating and making recommendation to the board of directors of the Company on the Group's policy and structure for all remuneration of the directors of the Company and senior management of the Group. The terms of reference of the remuneration committee shall make available to the public on request and will soon be included in the website of the Company.

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 2006.

AUDIT COMMITTEE

The audit committee of the Company as at 30th June 2006 was comprising Messrs. Hung Cho Sing, Ho Wai Chi, Paul and Fung Ho Sum, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

The principal duties of the audit committee are to review with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including reviews of interim and annual financial statements.

The unaudited condensed consolidated interim financial statements for the six months ended 30th June 2006 have been reviewed by the audit committee of the Company as well as the Group's external auditors in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

The terms of reference of the audit committee shall make available to the public on request and will soon be included in the website of the Company.

BOARD OF DIRECTORS

As at the date of this report, 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. Fung Ho Sum.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 26th September 2006

HLB

國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

**INDEPENDENT REVIEW REPORT TO
THE BOARD OF DIRECTOR OF
CHINA STAR ENTERTAINMENT LIMITED**

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by Company to review the interim financial report set out on pages 1 to 19.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited required the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standards 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statements of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verifications of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June 2006.

HLB Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

Hong Kong, 26th September 2006

31st Floor Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong