



CHINA STAR FILM GROUP LIMITED

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

(Stock Code: 8172)

Interim Report

2010



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors (the “Directors”) of China Star Film Group Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this report misleading.

UNAUDITED INTERIM RESULTS

The board of directors (the “Board”) of China Star Film Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010, together with the comparative unaudited figures for 2009 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended		For the six months ended	
		30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000 (Restated)	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000 (Restated)
Continuing operations					
Turnover	4	9,676	1,691	12,603	8,203
Cost of sales		(7,566)	(759)	(9,697)	(4,558)
Gross profit		2,110	932	2,906	3,645
Other revenue and income	5	65,957	159	66,311	221
Selling and distribution costs		—	(41)	—	(351)
Administrative expenses		(9,573)	(4,572)	(13,922)	(15,356)
Other operating expenses	6	(108,906)	—	(108,906)	(1,766)
Finance costs	7	(2,155)	(2,284)	(5,640)	(3,326)
Loss before tax	8	(52,567)	(5,806)	(59,251)	(16,933)
Tax credit	9	235	—	235	—
Loss for the period from continuing operations		(52,332)	(5,806)	(59,016)	(16,933)

	Notes	For the three months ended		For the six months ended	
		30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000 (Restated)	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000 (Restated)
Discontinued operations	10				
(Loss)/profit for the period from discontinued operations		(5,993)	19,329	1,916	19,329
(Loss)/profit attributable to owners of the Company		(58,325)	13,523	(57,100)	2,396
Dividend					
– Special dividend		40,232	–	40,232	–
(Loss)/earnings per share	11				
From continuing and discontinued operations					
– Basic and diluted		HK(17.40) cents	HK107.31 cents	HK(18.90) cents	HK22.31 cents
From continuing operations					
– Basic and diluted		HK(15.61) cents	HK(46.07) cents	HK(19.53) cents	HK(157.65) cents
From discontinued operations					
– Basic and diluted		HK(1.79) cents	HK153.38 cents	HK0.63 cent	HK179.96 cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

	For the three months ended		For the six months ended	
	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000
(Loss)/profit for the period	(58,325)	13,523	(57,100)	2,396
Other comprehensive expense for the period				
Exchange differences on translation of foreign operations during the period	(3,151)	621	(6,068)	621
Total comprehensive (loss)/ income for the period	(61,476)	14,144	(63,168)	3,017
Total comprehensive (loss)/ income attributable to owners of the Company	(61,476)	14,144	(63,168)	3,017

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,343	8,027
Investment properties		—	118,619
Intangible assets		7,958	7,958
Total non-current assets		9,301	134,604
CURRENT ASSETS			
Trade receivables	13	1,228	186,716
Deposits, prepayments and other receivables		9,882	13,411
Financial assets at fair value through profit or loss		—	1
Properties held for sale		—	29,033
Cash and bank balances		80,241	230,463
Total current assets		91,351	459,624
CURRENT LIABILITIES			
Trade payables	14	197	197
Accruals, deposit received and other payables		29,555	124,225
Interest-bearing bank and other borrowings		—	130
Amount due to a shareholder		—	155,535
Receipts in advance		2,201	42,428
Tax payable		88	15,303
Total current liabilities		32,041	337,818
Net current assets		59,310	121,806
Total assets less current liabilities		68,611	256,410

	<i>Notes</i>	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Promissory note		—	31,831
Convertible loan notes	15	4,600	17,596
Deferred taxation		—	31,603
Total non-current liabilities		4,600	81,030
Net assets		64,011	175,380
EQUITY			
Issued capital	17	3,352	6,763
Reserves		60,659	168,617
		64,011	175,380

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Convertible loan notes reserves (Unaudited) HK\$'000	Share-based payments reserve (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	(Accumulated losses)/ retained earnings (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2009, as previous stated	16,446	135,062	–	12,693	98	–	(206,559)	(42,260)
Effect of change in accounting policies	–	–	–	–	–	–	(2,390)	(2,390)
At 1 January 2009, as restated	16,446	135,062	–	12,693	98	–	(208,949)	(44,650)
Redemption of convertible loan notes	–	–	–	(9,639)	–	–	1,789	(7,850)
Issue of convertible loan notes	–	–	–	185,081	–	–	–	185,081
Capital reduction	(22,564)	–	22,564	–	–	–	–	–
Issue of shares	6,812	8,020	–	–	–	–	–	14,832
Share issue expenses	–	(43)	–	–	–	–	–	(43)
Exchange difference arising on translating foreign operations	–	–	–	–	–	621	–	621
Net profit for the period	–	–	–	–	–	–	2,396	2,396
Total comprehensive income for the period	–	–	–	–	–	621	2,396	3,017
At 30 June 2009	694	143,039	22,564	188,135	98	621	(204,764)	150,387
At 1 January 2010	6,763	195,484	22,564	127,648	1,370	(537)	(177,912)	175,380
Extension period of convertible loan notes	–	–	–	508	–	–	–	508
Capital reduction	(5,411)	–	5,411	–	–	–	–	–
Placing new shares, net	2,000	57,350	–	–	–	–	–	59,350
Capital reorganisation	–	(252,834)	40,551	–	–	–	212,283	–
Dividend paid	–	–	(40,232)	–	–	–	–	(40,232)
Redemption of convertible loan notes	–	–	–	(150,448)	–	–	48,483	(101,965)
Deferred tax released on redemption of convertible loan notes	–	–	–	24,192	–	–	–	24,192
Recognition of equity-settled share-based payment	–	–	–	–	3,341	–	–	3,341
Release of exchange reserve from the disposal of a subsidiary	–	–	–	–	–	6,605	–	6,605
Exchange difference arising on translating foreign operations	–	–	–	–	–	(6,068)	–	(6,068)
Net loss for the period	–	–	–	–	–	–	(57,100)	(57,100)
Total comprehensive loss for the period	–	–	–	–	–	(6,068)	(57,100)	(63,168)
At 30 June 2010	3,352	–	28,294	1,900	4,711	–	25,754	64,011

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended
30 June

	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net cash used in operating activities	(5,145)	(120,185)
Net cash (used in)/from investing activities	(2,116)	44,160
Net cash (used in)/from financing activities	(136,893)	169,742
Net (decrease)/increase in cash and cash equivalents	(144,154)	93,717
Cash and cash equivalents at beginning of period	230,463	5,766
Effect of foreign exchange rate changes	(6,068)	—
Cash and cash equivalents at end of period	80,241	99,483
Analysis of balances of cash and cash equivalents		
Cash and bank balances	80,241	103,120
Bank overdrafts	—	(3,637)
	80,241	99,483

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

China Star Film Group Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company’s shares have been listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 3407, 34/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The Company’s principal activity has not changed during the period and consisted of investment holding. The principal activity of its subsidiaries is property investment, provision of artists management services, film production and film distribution and investment in jointly controlled entity which is principally engaged in the distribution of high-end apparel and accessories. On 8 February 2010, the Company entered into a conditional sale and purchase agreement pursuant to which the Company has conditionally agreed to sell its entire interests in Mega Shell Services Limited together with the debt owned by Mega Shell Services Limited to the Company to an independent third party. The principal activity of Mega Shell Services Limited and its subsidiaries is property investment. As such, the property investment is classified as discontinued operations for financial statement purpose.

2. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), including the Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the unaudited condensed consolidated financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”). They have been prepared under the historical cost convention.

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in annual financial statements for the year ended 31 December 2009.

In the six months ended 30 June 2010, the Group has applied, for the first time, a number of revised HKFRSs issued by HKICPA, which are effective for financial year beginning on 1 January 2010. The adoption of these new HKFRSs had no material effect on how the results and financial positions of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in May 2010 ¹
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32	Classification of Right Issue ²
HK(IFIC) Int 14 (Amendments)	Prepayments of a minimum funding requirement ⁴
HK(IFIC) Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010, 1 January 2011 and 1 July 2011 as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

All significant transactions and balances within the Group have been eliminated on consolidation.

The unaudited condensed consolidated financial statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

3. Segment information

Segment information is presented by way of two formats: a) the primary segment reporting format by business segments; and b) the secondary reporting format by geographical segments.

a. Business Segment

For management purposes, the Group is currently organised into four operating divisions, namely, distribution, artist management, film production and service apartment operations. These divisions are the basis on which the Group reports its primary segment information.

Distribution: Distribution of high-end apparel and accessories
 Artist Management: Service income from provision of artist management
 Film Production: Income from provision of film right
 Service Apartment Operations: Property rental income

	Continuing operations								Discontinued operations					
	Distribution		Artist Management		Film Production		Sub-Total		Service Apartment Operation		Total			
	For the six months ended		For the six months ended		For the six months ended		For the six months ended		For the six months ended		For the six months ended			
	30 Jun		30 Jun		30 Jun		30 Jun		30 Jun		30 Jun			
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009			
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
Turnover	-	8,203	12,603	-	-	-	-	12,603	8,203	-	3,620	12,603	11,823	
Capital expenditure	-	-	-	-	-	-	-	-	-	1,980	20,557	1,980	20,557	
Unallocated capital expenditure								286	-			286	-	
								286	-			2,266	20,557	
	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
Segment assets	264	531	11,973	12,353	79,383	9,753	91,600	22,637	-	498,535	81,600	521,172		
Unallocated assets							9,052	73,056			9,052	73,056		
Total assets							100,652	95,693			100,652	594,228		

b. Geographical Segment

	Continuing operations								Discontinued operations			
	Hong Kong		The PRC		USA		Sub-Total		The PRC		Total	
	For the six months ended 30 Jun		For the six months ended 30 Jun		For the six months ended 30 Jun		For the six months ended 30 Jun		For the six months ended 30 Jun		For the six months ended 30 Jun	
	2010 (Unaudited) HK\$'000	2009 (Audited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Audited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Audited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Audited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Audited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Audited) HK\$'000
Turnover	795	8,203	11,615	–	193	–	12,603	8,203	–	3,620	12,603	11,823
Capital expenditure	286	–	–	–	–	–	286	–	1,980	20,557	2,266	20,557
	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
Non-current assets	9,301	9,265	–	–	–	–	9,301	9,265	–	125,339	9,301	134,604

4. Turnover

	For the three months ended 30 June		For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Continuing operations				
Distribution of high-end apparel and accessories	–	1,691	–	8,203
Artists management services	9,676	–	12,603	–
	9,676	1,691	12,603	8,203
Discontinued operations				
Rental income	–	3,620	–	3,620
	9,676	5,311	12,603	11,823

5. Other revenue and income

	For the three months ended 30 June		For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Continuing operations				
Bank interest income	19	18	30	18
Gain on disposal of property, plant and equipment	82	18	89	66
Gain on disposal of a subsidiary	64,568	—	64,568	—
Management services income	324	5	648	15
Sundries income	964	118	976	122
	65,957	159	66,311	221
Discontinued operations				
Bank interest income	1	510	91	510
Discount on acquisition	—	27,666	—	27,666
Sundries income	1,861	93	1,866	93
	1,862	28,269	1,957	28,269
	67,819	28,428	68,268	28,490

6. Other operating expenses

	For the three months ended 30 June		For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Loss on disposal of derivative financial instruments	—	—	—	347
Loss on early redemption of promissory note	64,252	—	64,252	—
Loss on early redemption of convertible loan notes	44,654	—	44,654	1,419
	108,906	—	108,906	1,766

7. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Continuing operations				
Effective interest expenses on convertible loan notes	667	2,175	1,717	3,030
Effective interest expenses on promissory note	1,486	—	3,916	—
Interest on bank loans and overdrafts wholly repayable within five years	—	95	1	273
Interest on finance leases	2	14	6	23
	2,155	2,284	5,640	3,326
Discontinued operations				
Interest on bank loans and overdrafts wholly repayable within five years	—	4,898	—	4,898
	—	4,898	—	4,898
	2,155	7,182	5,640	8,224

8. Loss before tax

	For the three months ended 30 June		For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Continuing operations				
Cost of inventories sold	—	759	—	4,558
Depreciation	101	254	189	400
Minimum lease payments under operating leases on land and building	464	1,212	507	5,242
Staff costs including directors' remuneration (including in administrative cost only)	944	1,088	1,998	3,974
Exchange loss, net	—	—	—	960
	1,509	3,313	2,694	15,134
Discontinued operations				
Depreciation	807	1,543	1,658	1,543
Minimum lease payments under operating leases on land and building	13	20	32	20
Staff costs including directors' remuneration (including in administrative cost only)	646	977	844	977
	1,466	2,540	2,534	2,540

9. Tax credit

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward during the period (2009: Nil). Taxes on profit assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during both periods.

	For the three months ended 30 June		For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Continuing operations				
Deferred tax	235	—	235	—
	235	—	235	—
Discontinued operations				
Deferred tax	(3,545)	—	(3,545)	—
	(3,545)	—	(3,545)	—
	(3,310)	—	(3,310)	—

10. Discontinued operations

The results of the businesses of property investment for the period from 1 January 2010 to the date of disposal, which have been included in the unaudited condensed consolidated income statement, were as follows:

	For the three months ended		For the six months ended	
	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000 (Restated)	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000 (Restated)
Turnover	–	3,620	–	3,620
Cost of sales	–	(1,334)	–	(1,334)
Gross profit	–	2,286	–	2,286
Other revenue and income	1,862	603	1,957	603
Discount on acquisition	–	27,666	–	27,666
Gain arising on change in fair values of investment properties	–	–	11,816	–
Administrative expenses	(4,310)	(6,328)	(8,312)	(6,328)
Finance costs	–	(4,898)	–	(4,898)
(Loss)/profit before tax	(2,448)	19,329	5,461	19,329
Tax	(3,545)	–	(3,545)	–
(Loss)/profit for the period	(5,993)	19,329	1,916	19,329

11. (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the loss attributable to owners of the Company for the three months ended 30 June 2010 of approximately HK\$58.3 million (2009: profit attributable to owners of the Company of approximately HK\$13.5 million) and loss attributable to owners of the Company for the six months ended 30 June 2010 of approximately HK\$57.1 million (2009: profit attributable to owners of the Company of approximately HK\$2.4 million) and the weighted average of 335,266,054 shares in issue during the three months ended 30 June 2010 (2009: 12,602,234 shares, as adjusted for share consolidation) and the weighted average of 302,116,882 shares in issue during the six months ended 30 June 2010 (2009: 10,741,001 shares, as adjusted for share consolidation). The comparative figure of basic (loss)/earnings per share for the three months and six months ended 30 June 2009 had been re-calculated to reflect the share consolidation taken place on 6 April 2009 and 18 January 2010 respectively.

The diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share as the exercise of share options and conversion of all outstanding convertible loan notes would have anti-dilutive effects.

12. Property, plant and equipment

	<i>HK\$'000</i>
At 1 January 2010	8,027
Additions	2,266
Disposal	(309)
Disposal of a subsidiary	(11,087)
Depreciation for the period	(1,846)
Written back on disposal	247
Written back on disposal of a subsidiary	4,045
At 30 June 2010	1,343

13. Trade receivables

An aged analysis of the trade receivables is as follows:

	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
0 – 90 days	902	186,716
91 – 180 days	326	—
181 – 365 days	—	—
Over 365 days	—	—
	1,228	186,716

14. Trade payables

An aged analysis of the trade payables is as follows:

	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
0 – 90 days	—	197
91 – 180 days	—	—
181 – 365 days	197	—
Over 365 days	—	—
	197	197

15. Convertible loan notes

	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
Liability component at 1 January	17,596	33,731
Conversion during the period	—	18,122
Extention period	(1,331)	—
Redemption during the period	(13,382)	(38,459)
Interest expense	1,717	4,318
Interest paid	—	(116)
Liability component at 30 June	4,600	17,596

16. Disposal of a subsidiary

On 28 May 2010, the Company completed the disposal of its 100% interest in Mega Shell Services Limited, its subsidiaries, and Mega Shell Sale Loan at aggregate consideration of RMB119,570,000 (or approximately HK\$136,029,000).

The net assets of Mega Shell Services Limited and its subsidiaries at the date of disposal:

	<i>HK\$'000</i>
Property, plant and equipment	7,043
Investment properties	130,436
Prepayment and other receivable	1,436
Property held for sales	29,033
Cash and Bank Balances	31,904
Other payable and accruals	(69,773)
C/A China Star Film Group Limited	(10,916)
Receipt in advance	(39,288)
Tax payable	(15,215)
Deferred taxation	(10,720)
Net assets of Mega Group	53,940
Sale loan — C/A China Star Film Group Limited	10,916
Released of translation reserves	6,605
	71,461
Gain on disposal of Mega Group	64,568
Total cash consideration	136,029
Net Cash inflow in respect of the disposal of subsidiaries	
Cash consideration	136,029
Cash and cash equivalents disposed of	(31,904)
	104,125

17. Share capital

	Number of shares	HK\$'000
<i>Authorised:</i>		
At 1 January 2010 and 30 June 2010, ordinary shares of HK\$0.01 each	3,000,000,000	30,000
<i>Issued and fully paid:</i>		
At 1 January 2010, ordinary shares of HK\$0.05 each	676,330,271	6,763
Placing of new shares	200,000,000	2,000
Share Consolidation (5 into 1)	(541,064,217)	(5,411)
At 30 June 2010, ordinary share of HK\$0.01 each	335,266,054	3,352

18. Operating lease arrangement

The Group leases office premises under operating lease arrangement. Leases for office premises are negotiated for the term in 2 years.

At the financial position date, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
Within one year	1,041,600	—
In the second to fifth years, inclusive	607,600	—
	1,649,200	—

19. Commitments

In addition to the operating lease commitments detailed in note 18 above, the Group did not have any significant capital commitments at 30 June 2010 (2009: Nil).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

General

During the period under review, the Group is principally engaged in property investment, provision of artists management services, film production and film distribution and investment in jointly controlled entity which is principally engaged in the distribution of high-end apparel and accessories. Following the disposal of a subsidiary, Mega Shell Services Limited of which its principal activity is property investment, the operation relating to property investment is classified as discontinued operations for financial statements purpose.

Business Review

On 8 February 2010, the Company entered into a disposal agreement (the “**Disposal Agreement**”) with Keen Modern Limited (“**Keen Modern**”) pursuant to which the Company has conditionally agreed to sell and Keen Modern has conditionally agreed to purchase the entire issued share capital of Mega Shell Services Limited (“**Mega Shell**”) and the aggregate outstanding shareholders’ loans owing by Mega Shell to the Company for the disposal price of approximately RMB119.57 million (or approximately HK\$136.07 million) (the “**Disposal**”). The major assets of Mega Shell is the investment properties located at Beijing, the PRC. The Disposal constituted a very substantial disposal on the part of the Company under the Chapter 19 of the GEM Listing Rules and is therefore subject to the shareholders’ approval requirement at the special general meeting. A circular containing the details of the Disposal had been despatched to the shareholders on 5 May 2010. As disclosed in the circular, the Board proposed to repay a majority of its redeemable borrowings of approximately HK\$260 million before the completion of the Disposal and HK\$155.54 million upon the completion of the Disposal. The Board considered that the repayment of the redeemable borrowings on or before the completion of the Disposal is fair and reasonable on the grounds that (i) it improves the Company’s financial position and reduces gearing ratio for future business development; (ii) it is rational and reasonable for the repayment of the redeemable borrowings to the lender, who financed the acquisition of the investment properties located at Beijing, the PRC in April 2009, following the realisation of such investment properties by the Group; (iii) the potential massive dilution effect on the shareholding of the

Company is eliminated by repaying the outstanding redeemable borrowings; and (iv) it enables the compliance of Rule 19.82 of the GEM Listing Rules by the Company. The Disposal was approved by the shareholders' at the special general meeting held on 24 May 2010 and has been completed on 28 May 2010. Redeemable borrowings amounted to HK\$260 million and HK\$155.54 million had been repaid on 25 May 2010 and 28 May 2010 respectively.

Financial Review

For continued operations, revenue of the Group was HK\$12.6 million for the six months ended 30 June 2010 (2009: HK\$8.2 million, as restated), representing an increase of approximately 53.6% as compared with the period ended 30 June 2009. The revenue of the period under review was solely generated from the operation of artist management.

Other revenue and income amounted to approximately HK\$66.3 million, representing an increase of 29,905% over the same period last year. Such increase was mainly contributed by a gain on disposal of Mega Shell completed in May 2010.

Administrative expenses decreased by 9.3% to approximately HK\$13.9 million from HK\$15.4 million in prior year. Such decrease was mainly contributed by the scale down of the operations in the segment of the distribution of high-end apparel and accessories and the stringent cost control policy adopted by the management.

Other operating expenses amounted to approximately HK\$108.9 million, representing an increase of 6,066.8% over the same period last year. Such increase was mainly attributed to the early redemption of convertible loan notes and promissory note issued by the Company.

Finance costs increased by 69.6% to approximately HK\$5.6 million from HK\$3.3 million in prior year. Such increase was mainly attributed to the increase in effective interest expenses on convertible loan notes and promissory note.

Following the disposal of Mega Shell of which its principal activities is property investment, the operation relating to property investment is classified as discontinued operations for financial statements purpose. The profit of the discontinued operations is approximately HK\$1.9 million.

Loss attributable to owners of the Company was HK\$57.1 million (2009: profit attributable to owners of the Company of HK\$2.4 million). The deterioration in results was mainly attributed to the increase in other operating expenses of approximately HK\$107.1 million during the period under review as compared to the corresponding period in 2009.

Future Plans

Despite the overall economic climate around the globe have become improved recently, the management remains cautiously in the development of its existing business by keeping track of their performance from time to time. The management will also take a number of measures to control the overall cost to enhance the operation efficiency of the Group. On the other hand, the Group will continue to seek for new investment opportunities in other areas in order to secure a stable source of revenue and diversify the earnings base of the Group.

On 16 July 2010, Premium Dignity Investment Limited (the “**Purchaser**”), a wholly-owned subsidiary of the Company and independent third parties (the “**Vendors**”) entered into a sale and purchase agreement (the “**Acquisition Agreement**”), pursuant to which the Purchaser agreed to acquire from the Vendors the entire issued share capital of Infrared Engineering & Consultants Limited (the “**Target Company**”) and the aggregate outstanding shareholders’ loans owing by the Target Company to the Vendors at the date of completion for a consideration of HK\$14.5 million (the “**Purchase Price**”). The Purchase Price shall be satisfied by the Company issuing 59,183,672 new shares at issue price of HK\$0.245 per new share under the general mandate. Completion shall take place on the third business day (or such other date to be agreed by parties to the Acquisition Agreement) upon the fulfillment of all conditions set out in the Acquisition Agreement. Upon completion, the Target Company will become a wholly-owned subsidiary of the Company. The Target Company is principally engaged in providing infrared thermal imaging and thermography solutions and consultancy services. The acquisition constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules. At the date of this report, the transaction has not yet been completed.

Liquidity and Financial Resources

At 30 June 2010, the Group had total assets of approximately HK\$100.7 million (2009: HK\$594.2 million), including cash and bank balances of approximately HK\$80.2 million (2009: HK\$230.5 million). The decrease in cash and bank balances was mainly attributed to the repayment of redeemable borrowings during the period under review.

During the period under review, the Group financed its operation with internally generated cash flows, the proceeds from placing of new shares and proceeds from the disposal of a wholly-owned subsidiary.

On 7 December 2009, the Company entered into a placing agreement with the placing agent, pursuant to which, the Company has conditionally agreed to place, through the placing agent, 200,000,000 placing shares by tranches provided that the number of placing shares for each tranche was in integral multiples of 50,000,000, on a fully written basis, to not fewer than six places at a price of HK\$0.30 per placing share. A circular containing the details of the placing had been despatched to the shareholders on 23 December 2009. The placing had been approved by the shareholders at the special general meeting held on 15 January 2010. Each of the first and second tranche placing of 100,000,000 placing shares was completed on 25 January 2010 and 5 February 2010 respectively.

At 30 June 2010, the total borrowings of the Group amounted to HK\$7.0 million (2009: 211.6 million), comprising:

- (a) the liability component of HK\$4.1 million in respect of the convertible loan notes with a principal amount of HK\$6.2 million issued to Mr. Cheung Pui Kay which is unsecured, interest free and maturing in September 2013; and
- (b) the liability component of HK\$0.5 million in respect of the convertible loan notes with a principal amount of HK\$0.8 million issued to Pearl Ocean Investments Limited which is unsecured, interest free and maturing in September 2013.

The gearing ratio, expressed as percentage of total liabilities over total assets, was 36.4% (2009: 70.5%). The improvement in gearing ratio was contributed by the repayment of redeemable borrowings during the period.

At 30 June 2010, the Group did not have any charge on its assets.

Treasury Policies

The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

Commitments

At 30 June 2010, the Group had operating lease commitments of approximately HK\$1.64 million in respect of office property (2009: Nil).

Contingent Liabilities

At 30 June 2010, the Group had no contingent liabilities (2009: Nil).

Material Acquisitions and disposal of subsidiaries and affiliated companies

Save as the disposal and the proposed acquisition disclosed in the “Management Discussion and Analysis” section, the Group had no other material acquisitions and disposal of subsidiaries and affiliated companies during the period under review.

Employee Information

At 30 June 2010, the Group had 11 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

Share Consolidation and Capital Reorganisation

Pursuant to the resolutions passed on 15 January 2010, capital reorganisation (the “First Capital Reorganisation”) has been effected by way of comprising (i) share consolidation that every five shares of HK\$0.01 each in the issued share capital of the Company be consolidated into one consolidated share of HK\$0.05 each (“Consolidated Shares”) (ii) capital reduction that the par value of all issued Consolidated Shares from HK\$0.05 each to HK\$0.01 each by canceling the paid-up capital to the extent of HK\$0.04 on each issued Consolidated Share; (iii) the transfer of the credit of HK\$5,410,642.16 arising from the capital reduction of all issued Consolidated Shares to the contributed surplus account of the Company for the purpose to offset against the accumulated losses permitted by the laws of Bermuda and the bye-laws. The First Capital Reorganisation has been completed on 18 January 2010.

On 19 April 2010, a circular was despatched to the shareholders of the Company relating to capital reorganisation (the “Second Capital Reorganisation”) that (i) the proposed reduction of the entire amount standing the credit of the share premium account of the Company; (ii) the proposed transfer the entire amount standing to the credit of the share premium account of the Company to the contributed surplus account of the Company; (iii) the proposed application of the amount of HK\$212,283,009.22 from the contributed surplus account of the Company to offset against the accumulated losses of the Company. The Second Capital Reorganisation is conditional upon the shareholders’ approval and compliance with the relevant procedures and requirements under the GEM Listing Rules and Bermuda laws. The completion of the Second Capital Reorganisation will facilitate the payment of dividends as and when the Board considers it appropriate. The Second Capital Reorganisation has been completed on 20 May 2010.

Special Dividend

As disclosed in the Company's circular dated 5 May 2010, the Board proposed a special dividend (the "Proposed Special Dividend") of HK\$40,231,926 to the shareholders of the Company on a pro rata basis. HK\$0.12 per share will therefore be distributed to the shareholders of the Company based on 335,266,054 shares in issue as of the latest practicable date of the circular. The distribution of the Proposed Special Dividend is conditional upon the shareholders' approval on the Proposed Special Dividend, the Disposal and the transactions contemplated thereunder at the special general meeting convened by the Company on 24 May 2010 and the completion of the Second Capital Reorganisation. The Board considered that it is a good opportunity for the Company to award the return of the Company to the shareholders. The Proposed Special Dividend was approved by the shareholders at the special general meeting and distributed on 25 May 2010.

Change of Company Name

On 14 June 2010, the Company proposed that the name of the Company be changed from "China Star Film Group Limited" to "KH Investment Holdings Limited" and upon the change of name have becoming effective, the new Chinese name "嘉匯投資控股有限公司" will be adopted to replace "中國星電影集團有限公司" for identification purposes only. The proposed change of Company name is subject to (a) the passing of a special resolution by the shareholders at the special general meeting; and (b) the Registrar of Companies in Bermuda granting approval for the proposed change in name of the Company. A circular containing the details of the proposed change of Company name was despatched to the shareholders on 21 June 2010. The proposed change of the Company name was approved by the shareholders' at the special general meeting held on 14 July 2010 and the Company is carrying out the necessary registration and/or filing procedures in respect of the change of Company name with the Registrar of Companies in Bermuda and the Registrar of Companies in Hong Kong respectively. At the date of this report, the change of Company name has not yet been completed.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2010, the interests and short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO); or which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long Positions in the ordinary shares of HK\$0.01 each of the Company

Name of director	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the Company's issued share capital
Mr. Lai Hok Lim (<i>Note 1</i>)	1,248,000	2,100,000	3,348,000	1.00%
Mr. Wong Chi Chiu (<i>Note 2</i>)	–	3,350,000	3,350,000	1.00%

Notes:

- Mr. Lai Hok Lim, an executive Director, is deemed to be interested in 2,100,000 shares which would fall to be issued upon exercise of the 2,100,000 share options. Adding the 1,248,000 shares owned in his personal capacity, Mr. Lai Hok Lim is deemed to be interested in 3,348,000 shares.
- Mr. Wong Chi Chiu, an executive Director, is deemed to be interested in 3,350,000 shares which would fall to be issued upon exercise of the 3,350,000 share options.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Scheme”) on 6 March 2002. The principal terms of the Scheme have been set out in the Note 38 to the financial statements in the annual report of the Company for the year ended 31 December 2009.

Details of the Company’s share options granted under the Scheme are as follows:

Date of grant	Category of eligible persons	Exercise price	Exercise period	Outstanding at 1/1/2010	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding at 30/6/2010
3/9/2009	Employees	HK\$0.455 (Note 1)	3/9/2009 to 2/9/2010	1,248,000 (Note 1)	–	–	–	–	1,248,000 (Note 1)
	Consultants	HK\$0.455 (Note 1)	3/9/2009 to 2/9/2010	3,344,000 (Note 1)	–	–	–	–	3,344,000 (Note 1)
13/11/2009	Employees	HK\$0.500 (Note 1)	13/11/2009 to 12/11/2010	1,248,000 (Note 1)	–	–	–	–	1,248,000 (Note 1)
18/5/2010	Consultants	HK\$0.202	18/5/2010 to 17/5/2011	–	8,400,000	–	–	–	8,400,000
2/6/2010	Directors	HK\$0.325	2/6/2010 to 1/6/2011	–	5,450,000	–	–	–	5,450,000
	Employees	HK\$0.325	2/6/2010 to 1/6/2011	–	2,100,000	–	–	–	2,100,000
	Consultants	HK\$0.325	2/6/2010 to 1/6/2011	–	23,900,000	–	–	–	23,900,000
				5,840,000	39,850,000	–	–	–	45,690,000

Note:

- (1) The exercise prices and number of share options have been adjusted due to the completion of the share consolidation on 18 January 2010.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at 30 June 2010, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2010, 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:

Long position in ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the Company's issued share capital
Galaxy Asset Management (H.K) Limited	Beneficial owner	49,690,000	—	49,690,000	14.82%
UBS AG	Beneficial owner	30,330,000	—	30,330,000	9.05%
Ruan Yuan	Beneficial owner	23,000,000	—	23,000,000	6.86%
Deutsche Bank Aktiengesellschaft	Beneficial owner	16,760,000	—	16,760,000	5.00%

Save as disclosed above, at 30 June 2010, the Company has not been notified by any persons (other than the directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

COMPETING INTEREST

At 30 June 2010, none of the Directors nor the management shareholders and substantial shareholders, or their respective associates had an interest in any business which competes or may compete with the business of the Group pursuant to Rule 11.04 of the GEM Listing Rules.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2010.

CORPORATE GOVERNANCE

Save as disclosed below, the Company complied with provisions set out in Appendix 15 of the Code of Corporate Governance Practices of the GEM Listing Rules for the six months ended 30 June 2010.

a. **Chairman and Chief Executive Officer**

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman and chief executive officer of the Company have been performed by Mr. Lai Hok Lim, who is also an executive Director. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.

b. **Terms of non-executive Directors**

Under the code provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. The term of office for non-executive directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the directors for the time being, (or if their number is not a multiple of three,

the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this code provision.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2010, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all the Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company.

AUDIT COMMITTEE

The audit committee has three members comprising three independent non-executive Directors, namely Mr. Yip Tai Him (Chairman of the audit committee), Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng.

The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and interim report and to provide advice and comment thereon to the board of Directors. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

The audit committee has reviewed the draft of this report and the Company's condensed consolidated financial statements for the six months ended 30 June 2010 and has provided advice and comments thereon.

By Order of the Board
Lai Hok Lim
Chairman

Hong Kong, 6 August 2010

As at the date hereof, the Board comprises two executive Directors, namely Mr. Lai Hok Lim and Mr. Wong Chi Chiu; and three independent non-executive Directors, namely Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Ms. Chio Chong Meng.