



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2007

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 2007 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2007

	Notes	Six months ended 30th June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Turnover	4	70,030	56,042
Cost of sales		(43,043)	(33,125)
Gross profit		26,987	22,917
Other revenue	5	4,302	4,063
Other income	6	2,710	2,105
Administrative expenses		(27,067)	(17,581)
Marketing and distribution expenses		(561)	(9,009)
Share-based payment expenses		(14,631)	–
Net gain on disposals of financial assets at fair value through profit or loss		10,538	4,936
Fair value gain/(loss) on financial assets at fair value through profit or loss		6,752	(12,069)
Profit/(loss) from operations		9,030	(4,638)
Finance costs		(3,818)	(984)
Share of results of associates		33,227	(1,043)
Discount on acquisition of subsidiaries		15,498	–
Discount on acquisition of interest in associates		2,659	–
Loss on disposal of interest in subsidiaries		(45,471)	–
Gain on disposal of an associate		–	21,400
(Loss)/gain on deemed disposal of interest in associates		(35,873)	62,582
Impairment loss recognized in respect of goodwill arising on acquisition of associates		–	(6,300)
(Loss)/profit before taxation		(24,748)	71,017
Taxation	7	(15)	(28)
(Loss)/profit for the period		<u>(24,763)</u>	<u>70,989</u>
Attributable to:			
Equity holders of the Company		(24,754)	71,002
Minority interests		(9)	(13)
		<u>(24,763)</u>	<u>70,989</u>
(Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company during the period			
Basic	8	<u>(3.03 cents)</u>	<u>13.17 cents</u>
Diluted	8	<u>N/A</u>	<u>13.17 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2007

	<i>Notes</i>	30th June 2007	31st December 2006
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		275,858	9,630
Interests in leasehold land		541,109	5,807
Investment properties		40,880	40,880
Goodwill		59,203	59,203
Available-for-sale financial assets		88,200	42,700
Convertible notes receivable from an associate		634	–
Conversion options embedded in convertible notes receivable from an associate		645	–
Interests in associates		261,052	198,113
		<u>1,267,581</u>	<u>356,333</u>
Current assets			
Inventories		750	364
Convertible notes receivables		–	52,000
Film rights		58,926	97,427
Films in progress		34,169	29,469
Trade receivables	9	56,511	8,016
Deposits, prepayments and other receivables		50,734	45,161
Deposit for investment		–	40,000
Financial assets at fair value through profit or loss		8,216	64,560
Amounts due from associates		6,532	5,905
Prepaid tax		514	455
Cash and cash equivalents		107,031	89,347
		<u>323,383</u>	<u>432,704</u>
Total assets		<u>1,590,964</u>	<u>789,037</u>
Capital and reserve attributable to Company's equity holders			
Share capital		68,699	35,232
Reserves		919,639	659,595
		<u>988,338</u>	<u>694,827</u>
Minority interests		321,844	1,382
		<u>1,310,182</u>	<u>696,209</u>

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30th June 2007

		30th June	31st December
		2007	2006
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Bank borrowings – due after one year		9,775	10,948
Deferred taxation		88,106	1,888
		<u>97,881</u>	<u>12,836</u>
Current liabilities			
Trade payables	<i>10</i>	14,462	18,310
Amounts due to minority shareholders		39,999	–
Deposits received, accruals and other payables		66,122	39,561
Bank borrowings – due within one year		2,315	2,254
Unsecured Convertible notes payable		60,003	19,867
		<u>182,901</u>	<u>79,992</u>
Total equity and liabilities		<u>1,590,964</u>	<u>789,037</u>
Net current assets		<u>140,482</u>	<u>352,712</u>
Total assets less current liabilities		<u>1,408,063</u>	<u>709,045</u>

NOTES:

1. BASIS OF PREPARATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st December 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the “new HKFRSs”), which are effective for the Group’s accounting period beginning 1st January 2007. The adoption of the new HKFRSs had no material effect on the results of financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

Standards, amendments or interpretations issued but not yet effective

The Group has not applied the new standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC) – Int 12	Service Concession Arrangements ³

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

² Effective for financial period commencing on or after 1 March 2007

³ Effective for financial period commencing on or after 1 January 2008

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.

3. SEGMENT INFORMATION

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

Geographical segments

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

For the six months ended 30th June 2007:

	Hong Kong and Macau <i>HK\$'000</i> (Unaudited)	The People's Republic of China excluding Hong Kong, Macau and Taiwan (The "PRC") <i>HK\$'000</i> (Unaudited)	South-East Asia <i>HK\$'000</i> (Unaudited)	Other <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Turnover	<u>20,426</u>	<u>-</u>	<u>922</u>	<u>48,682</u>	<u>70,030</u>
Segment results	<u>14,589</u>	<u>-</u>	<u>(283)</u>	<u>12,120</u>	<u>26,426</u>
Other revenue and income					<u>24,302</u>
Unallocated corporate expenses					<u>(41,698)</u>
Profit from operations					<u>9,030</u>

For the six months ended 30th June 2006:

	Hong Kong and Macau <i>HK\$'000</i> (Unaudited)	The PRC <i>HK\$'000</i> (Unaudited)	South-East Asia <i>HK\$'000</i> (Unaudited)	Other <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Turnover	<u>34,923</u>	<u>8,783</u>	<u>10,817</u>	<u>1,519</u>	<u>56,042</u>
Segment results	<u>5,642</u>	<u>4,012</u>	<u>3,858</u>	<u>396</u>	<u>13,908</u>
Other revenue and income					<u>11,104</u>
Unallocated corporate expenses					<u>(29,650)</u>
Loss from operations					<u>(4,638)</u>

4. TURNOVER

	Six months ended 30th June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Distribution fee income	4,695	51,923
Sales of film rights	48,672	–
Sales of video products	–	58
Service income	150	1,670
Production fee income	2,640	2,391
Hotel operation income	13,873	–
	<u>70,030</u>	<u>56,042</u>

5. OTHER REVENUE

	Six months ended 30th June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Dividend income	79	79
Interest income	1,673	1,369
Rental income	120	185
Management fee income received from associates	2,430	2,430
	<u>4,302</u>	<u>4,063</u>

6. OTHER INCOME

	Six months ended 30th June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Gain on disposal of property, plant and equipment	20	1,290
Gain on redemption of convertible notes	2,315	–
Gain on fair value change of convertible options	373	–
Other	2	815
	<u>2,710</u>	<u>2,105</u>

7. TAXATION

Six months ended 30th June	
2007	2006
<i>HK\$'000</i>	<i>HK\$'000</i>
(unaudited)	(unaudited)

The taxation charge comprises:

Taxation in other jurisdictions	<u>15</u>	<u>28</u>
---------------------------------	-----------	-----------

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

8. (LOSS)/EARNINGS PER SHARE

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

Six months ended 30th June	
2007	2006
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

(Loss)/earnings

(Loss)/profit attributable to equity holders of the Company	<u>(24,754)</u>	<u>71,002</u>
-------------------------------------------------------------	-----------------	---------------

2007	2006
<i>'000</i>	<i>'000</i>

Number of shares

Weighted average number of ordinary shares
for the purpose of calculating basic and diluted
(loss)/earnings per share

<u>816,503</u>	<u>538,947</u>
----------------	----------------

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

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 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.

9. TRADE RECEIVABLES

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

	30th June 2007 HK\$'000 (Unaudited)	31st December 2006 HK\$'000 (Audited)
Brilliant Arts Multi-Media Holding Limited ("Brilliant Arts") and its subsidiaries ("Brilliant Arts Group")		
0 to 30 days	34	–
31 to 60 days	–	–
61 to 90 days	–	–
91 to 180 days	–	–
Over 180 days	–	–
	<u>34</u>	<u>–</u>
Others		
0 to 30 days	46,828	683
31 to 60 days	3,317	575
61 to 90 days	751	826
91 to 180 days	213	373
Over 180 days	8,633	8,776
	<u>59,742</u>	11,233
Less: Impairment loss on trade receivables	<u>(3,265)</u>	<u>(3,217)</u>
	<u>56,477</u>	8,016
	<u>56,511</u>	<u>8,016</u>

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

10. TRADE PAYABLES

The aged analysis of the trade creditors is as follows:

	As at 30th June 2007 HK\$'000 (Unaudited)	As at 31st December 2006 HK\$'000 (Audited)
Brilliant Arts Group		
0 to 30 days	43	–
31 to 60 days	2,051	–
61 to 90 days	–	–
91 to 180 days	247	–
Over 180 days	427	–
	<hr/>	<hr/>
	2,768	–
	<hr/>	<hr/>
Others		
0 to 30 days	416	1,523
31 to 60 days	376	839
61 to 90 days	266	1,923
91 to 180 days	319	2,450
Over 180 days	10,317	11,575
	<hr/>	<hr/>
	11,694	18,310
	<hr/>	<hr/>
	14,462	18,310
	<hr/>	<hr/>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group recorded a turnover of HK\$70,030,000 for the six months ended 30th June 2007, a 25% increase from HK\$56,042,000 for the same period in the previous year. Of the total turnover amount, HK\$53,367,000 or 76% was generated from film distribution and sales of film rights, HK\$13,873,000 or 20% was generated from hotel operation and HK\$2,790,000 or 4% was generated from production services and other service income.

Profit from operations and loss attributable to equity holders of the Company for the six months ended 30th June 2007 amounted to approximately HK\$9,030,000 and HK\$24,754,000 respectively.

The Company had completed its acquisitions of 38.5% and 61.5% interest in the issued quota of Kingsway Hotel Limited (“KHL”) on 30th March 2007 and 30th May 2007 respectively and disposed of a 50% interest in KHL on 22nd June 2007. A discount on acquisition of HK\$15,498,000 was credited to the income statement as a result of the acquisitions of KHL and a loss on disposal of interest in subsidiaries of HK\$45,471,000 was charged to the income statement on the disposal of 50% of KHL. Besides, the Group had recognized a loss on deemed disposal of interest in associates of HK\$35,873,000 from the group headed by Riche Multi-Media (“Riche Group”).

Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2007.

Business Review

With effect from 30th March 2007, KHL become a subsidiary of the Group. The principal asset of KHL is Kingsway Hotel, a three star hotel with a total 383 guests rooms locate in Macau. As a result, the Group has consolidated KHL into the results of the Group for the period from 30th March 2007 to 30th June 2007. Turnover from hotel operation is recognized by the Group during this period. Kingsway Hotel ceased its operation starting from end of July 2007 and is currently under renovation to becoming a luxury boutique hotel.

This period, the Group had released only 1 new film in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. On 13th September 2006, One Hundred Years of Film Company Limited, China Star Pictures Limited and S&W Entertainment Limited (the “Venders”), all wholly-owned subsidiaries of the Company, the Company and Fortune Star Entertainment (HK) Limited (“Fortune Star”) entered into a deed pursuant to which Fortune Star has agreed to acquire from the Venders the perpetual and worldwide right, title and interest in 100 motion pictures at a total consideration of US\$18,000,000 (subject to adjustment). Part of the income had recorded in the income statement for the year ended 31st December 2006 and the balance recorded in the income statement during this period.

During the six months ended 30th June 2007, turnover and segment result for Hong Kong and Macau amounted to HK\$20,426,000 (2006: HK\$34,923,000) and HK\$14,589,000 (2006: HK\$5,642,000) respectively. The turnover mainly comprises post production fees income of films, film distribution and hotel operation in Macau.

Turnover and segment profit from elsewhere amounted to HK\$48,682,000 (2006: HK\$1,519,000) and HK\$12,120,000 (2006: HK\$396,000) respectively. It mainly represent the sales of film rights to Fortune Star during this period.

To stay competitive in the market, the Group has regularly review its costs structure in these years by exercised prudence measures on cost policies and reduced its headcount. As a result, administrative expenses keep at a reasonable basis. For the six months ended 30th June 2007, administrative expenses increased to HK\$27,067,000, a 54% increase from HK\$17,581,000 of the previous period because administrative expenses of HK\$10,808,000 were related to KHL's hotel operation.

Liquidity and Financial Resources

As at 30th June 2007, the Group had total assets of approximately HK\$1,590,964,000 and a net current assets of HK\$140,482,000 representing a current ratio of 1.8 (31st December 2006: 5.4). The Group had a total cash and bank balances of approximately HK\$107,031,000 (31st December 2006: HK\$89,347,000). As at 30th June 2007, the Group had total borrowings of HK\$12,090,000 comprising a bank mortgage loan 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 79 monthly instalments. The Group's gearing remained low during the year with total debts of HK\$12,090,000 against shareholders' funds of HK\$988,338,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 1% (31st December 2006: 5%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2007, the Group had no contingent liability.

On 19th January 2007, the Company entered into three subscription agreements with Improvemany International Limited, Better Talent Limited and Aceyard Investments Limited (the "Subscribers"), whereby the Subscribers have conditionally agreed to subscribe and pay for the zero coupon unsecured convertible bonds due 2012 ("Firm Bonds") of an aggregate principal face value amount of HK\$168,500,000 to be issued by the Company at an issue price of 95% of the face value. The initial conversion price of the Firm Bonds is HK\$0.32 per conversion Share (subject to adjustments). The net proceeds of approximately HK\$159,000,000 had been used for the acquisition of KHL. The Firm Bonds were issued on 18th May 2007. During the period ended 30th June 2007, HK\$64,000,000 Firm Bonds were converted into 200,000,000 Shares at the conversion price of HK\$0.32 per Share and HK\$10,000,000 Firm Bonds were converted into 31,746,031 Shares at the conversion price of HK\$0.315 per Share (after adjustment) respectively. The balance of HK\$94,500,000 Firm Bonds were converted into 300,955,410 Shares at the conversion price of HK\$0.314 per Share (after adjustment) subsequent to the balance sheet date.

On 12th March 2007, Classical Statue Limited (“Classical”), a wholly-owned subsidiary of the Company entered into a subscription agreement with Brilliant Arts, a company whose shares are listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited, whereby Classical had conditionally agreed to subscribe for the zero coupon convertible bonds in principal amount of HK\$25,000,000 due 2012 (“Convertible Bonds”) to be issued by Brilliant Arts at an issue price of HK\$22,500,000. The conversion price of the Convertible Bonds is initially HK\$0.33 per shares of Brilliant Arts (subject to adjustments). The Convertible Bonds has been issued on 25th May 2007. On 15th June 2007, 72,727,272 shares of Brilliant Arts, representing 29.17% of the issued share capital of Brilliant Arts were allotted and issued as a result of the conversion of HK\$24,000,000 Convertible Bonds. Brilliant Arts becomes an associate of the Company with effect from 15th June 2007.

On 28th March 2007, the Company entered into a loan agreement with a finance company with Money Lender License for a term loan of HK\$55,000,000 (“Loan”) for the period from 28th March 2007 to 18th April 2007 at interest rate of 3% per annum over the prime rate quoted by The Hong Kong and Shanghai Corporation Limited to finance the completion of the acquisition of KHL. The Loan was repaid on 18th April 2007.

On 29th March 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 124,900,000 new Shares to independent investors at a price of HK\$0.37 per Share (“Tranche I Placing”). 124,900,000 new Shares was issued for the Tranche I Placing on 17th April 2007 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 23rd June 2006. The net proceeds of approximately HK\$44,800,000 was intended to be used for general working capital of the Group.

On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 81,100,000 new Shares to independent investors at a price of HK\$0.37 per Share (“Tranche II Placing”). The issue of 81,100,000 new Shares was approved by the shareholders of the Company at a special general meeting held on 18th May 2007. The net proceeds of approximately HK\$29,200,000 was used for general working capital of the Group.

On 4th June 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 165,905,000 new Shares to independent investors at a price of HK\$0.40 per Share. 165,905,000 new Shares was issued on 25th June 2007 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 18th May 2007. The net proceeds of approximately HK\$64,600,000 was intended to be used for general working capital of the Group.

During this period, certain option holders exercised their option rights to subscribe for an aggregate of 32,985,000 Shares at an exercise price of HK\$0.242 per Share, an aggregated 26,800,000 Shares at an exercise price of HK\$0.277 per Share and an aggregate of 5,900,000 Shares at an exercise price of HK\$0.42 per Share respectively. The net proceeds from the exercise of option rights amounted to approximately HK\$17,884,000. Subsequent to the balance sheet date, 12,600,000 options are exercised and converted into 12,600,000 Shares at an exercise price of HK\$0.277 and net proceeds from the exercise of option rights amounted to approximately HK\$3,490,000.

Subsequent to the balance sheet date, on 20th July 2007, a license bank in Macau has agreed to grant a term loan of HK\$450,000,000 and overdraft facility of HK\$200,000,000 to KHL, a subsidiary of the Company. The term loan and overdraft facility were secured by a first legal charge on the properties held by Kingsway Hotel, interest bearing at 2% per annum and 1% per annum below the bank's best lending rate respectively. The term loan has to be repaid by 18 equal consecutive quarterly installments of HK\$25,000,000 each and the first principal repayment will commence on the 9th month after the date of first loan drawdown. The overdraft facility is repayable on demand. HK\$400,000,000 term loan has been drawdown at the end of July 2007 of which HK\$200,000,000 has been used by the Group to financed the Acquisition (as defined herein).

On 30th August 2007, the Company announced that not less than 843,769,024 rights Shares and not more than 940,393,799 rights Shares at a subscription price of HK\$0.20 each will be issued by the Company on the basis of one right Shares for every two Shares held on 18th September 2007. The estimated net proceeds of approximately HK\$162,600,000 was intended to be used for the Acquisition (as defined herein).

On 5th September 2007, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 274,790,000 new Shares to independent investors at a price of HK\$0.21 per Share. 274,790,000 new Shares will be issued under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 29th June 2007. The net proceeds of approximately HK\$56,200,000 will be used for partial payment of the Acquisition (as defined herein).

On the same date, the Company entered into another placing agreement with the placing agent and had conditionally agreed to place on a best effort basis up to a maximum of 5,000,000,000 new Shares to independent investors at a price of HK\$0.21 per Share ("Tranche II Placing"). The Tranche II Placing is subject to the approval of the shareholders of the Company at a special general meeting to be convened. The net proceeds of approximately HK\$1,023,500,000 will be used by the Group to fund the consideration for future acquisition of gaming businesses in Macau.

Associates

Riche Multi-Media Holdings Limited ("Riche Multi-Media")

As at 30th June 2007, the Group had approximately 28.6% equity interest in Riche Multi-Media. Riche Group are principally engaged in the distribution of films, sub-licencing of film rights and sale of financial assets and property investment. As at 30th June 2007, Riche Group had net assets of approximately HK\$659,134,000. Turnover and net profit of Riche Group for the six month ended 30th June, 2007 were approximately HK\$29,191,000 and HK\$90,948,000 respectively. Accordingly, the Group had shared a net profit of approximately HK\$26,014,000 for the six months ended 30th June 2007. Taking into account the loss on deemed disposal of interest in associates of HK\$35,873,000 and discount on acquisition of interest in associates of HK\$2,659,000 from the following transactions, the Group had recorded an aggregate result of loss of approximately HK\$7,200,000 from Riche Group.

On 19th March 2007, Classical entered into a placing and subscription agreement with a placing agent and Riche Multi-Media. Pursuant to the placing and subscription agreement, Classical has agreed to place 1,296,860,000 existing shares of Riche Multi-Media (“Riche Shares”) to not less than six independent investors at a price of HK\$0.04 per Riche Share and conditionally agreed to subscribe for 1,296,860,000 new Riche Shares at a price of HK\$0.04 per Riche Share. The Group’s interest in Riche Multi-Media decreased from 34.43% to 28.69% immediately after the completion of the placing and subscription. Due to the exercise of share options of Riche Multi-Media of 324,000,000 Riche Shares by certain option holders on 17th May 2007 and the placing of 155,620,000 new Riche Shares on 31st May 2007, the Group’s interest in Riche Multi-Media was further decreased to 23.11%. On 22nd May 2007, 10 Riche Shares were consolidated into 1 new Riche Share and the interest in Riche Multi-Media remained at 23.11%. Thereafter, the Group acquired 5.49% equity interest in Riche Multi-Media in the open market and increased its interest in Riche Multi-Media to 28.6% as at 30th June 2007.

Together Again Limited

As at 30th June 2007, the Group held 49% equity interest in the group headed by Together Again Limited (“TAL Group”), a company incorporated in British Virgin Islands with limited liability and it indirectly holds 85% equity interest in China Entertainment Group, Inc., a U.S. public company traded on the Over-The-Counter Bulletin Board. TAL Group is principally engaged in the provision of artist management services.

As at 30th June 2007, TAL Group had net assets of HK\$6,927,000. Turnover and loss of TAL Group for the six months ended 30th June 2007 were HK\$2,238,000 and HK\$2,081,000, respectively. Accordingly, the Group had shared a loss of HK\$1,016,000 for the six months ended 30th June, 2007.

Brilliant Arts Multi-Media Holding Limited

As at 30th June 2007, the Group had approximately 29.17% equity interest in Brilliant Arts. Brilliant Arts Group are principally engaged in the provision of film production services, production of television movies, investment in film productions and worldwide film distribution. As at 30th June 2007, Brilliant Arts Group had net assets of approximately HK\$40,607,000. The Group had shared a net profit of approximately HK\$8,229,000 for the period from 15th June 2007 to 30th June 2007.

Disposal of Exceptional Gain Profits Limited and Kingsway Hotel Limited

On 1st August 2007, the Company entered into an agreement with Legend Rich Limited, a wholly-owned subsidiary of Riche Multi-Media, an associate of the Group, and Riche Multi-Media relating to the sale of 100% of the issued share capital of Exceptional Gain Profits Limited (“Exceptional Gain”) and the relevant sale loan for an aggregate consideration of HK\$447,000,000 (the “Disposal”). Exceptional Gain is an investment holding vehicle which indirectly holds 50% interest in KHL. Following the completion of the Disposal, KHL will cease to be a subsidiary of the Group. The directors of the Company (the “Directors”) believe that the Disposal will provide an opportunity to the Group and Riche Multi-Media to allocate their resources effectively and to avoid duplication of resources as Riche Multi-Media already possessed appropriate expertise and resources in hotel and property management and the value of Kingsway Hotel will be better realized and reflected in Riche Multi-Media as the Disposal will enable Riche Multi-Media to build up its own branding in hotel and hospitality industry and in turn will have a positive impact on the Group’s return on investment in Riche Multi-Media.

Acquisition of Best Mind International Inc.

On 16th August 2007, the Company had entered into an acquisition agreement (the “Acquisition Agreement”) in relation to the acquisition (the “Acquisition”) of 51% issued share capital of Best Mind International Inc. (“Best Mind”) at a total consideration of HK\$538,000,000 to be satisfied as to HK\$300,000,000 in cash, HK\$196,000,000 by the issue of 5% unsecured convertible note to be issued by the Company at the initial conversion price of HK\$0.30 per Share and the balance of HK\$42,000,000 by the allotment and issue of 140,000,000 Shares credited as fully paid. Pursuant to the Acquisition Agreement, the Company has the right to acquire the remaining 49% issued share capital of Best Mind at a total consideration of HK\$516,900,000 to be satisfied as to HK\$300,000,000 in cash, HK\$188,000,000 by the issue of 5% unsecured convertible note to be issued by the Company at the initial conversion price of HK\$0.30 per Share and the balance of HK\$28,900,000 by the allotment and issue of 96,333,333 Shares credited as fully paid.

Best Mind has entered into profit agreement with Ocho Sociedade Unipessoal Limitada (“Ocho”), a Macau company engaged in the gaming promotion business, to acquire 0.4% of the rolling turnover generated by Ocho and/or its customers at one of the VIP gaming rooms operated by Ocho at the Grand Lisboa Casino in Macau.

After the completion of the Acquisition, Best Mind becomes a subsidiary of the Group. In view of the recent booming economy of Macau and the prospects of Macau’s gaming business, the Directors believe that the Acquisition will broaden the Group’s revenue sources and provide a stable income stream to the Group. Please refer to the Company’s announcement dated 30th August 2007 for details of the Acquisition.

Employees

As at 30th June 2007, the Group employed 248 staffs (2006: 46 staffs), including 203 staffs employed by KHL. The directors believe that the quality of its employees is the single most important factor in sustaining the Group’s reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

Prospect

The film industry is a highly risk business and requires a huge in-flow of capital. To diversify such risk and for long-term growth, the Group has therefore actively diversified its business that can generate a steady source of income. Looking ahead, the Group will continue its strength in the production of high quality films and at the same time diversify in our new operation, gaming business. After the relaxation of the rules governing China travelers launched a few years ago, Macau absorbed a great number of tourists from China and every aspect reflected that Macau’s economy is in strong growth, particularly the casino business and the tourism industry. The proposed acquisition of Best Mind expect to broaden the Group’s revenue sources and provide a stable income stream to the Group, given the recent booming economy of Macau and the prospects of Macau’s gaming business. Currently, the Group is in various preliminary negotiations with different parties regarding the proposed acquisitions of certain entertainment and leisure businesses, including gaming, in Macau. The Group will sourced any possible investments with a positive impact on the Group’s return in the long run.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules for the six months ended 30th June 2007, 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. Since the Company has recently established its own website, the above requirement regard to provide such information on website cannot be met accordingly. However, the terms of reference of the two committees are available on request and will be posted on our website before the end of this year.

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 2007. The Model Code also applies to other specified senior management of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30th June 2007.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at 30th June 2007 was comprising Messrs. Hung Cho Sing, Ho Wai Chi, Paul and Leung Hok Man, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

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

The unaudited condensed consolidated interim financial statements for the six months ended 30th June 2007 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 announcement, the executive directors of the Company are Mr. Heung Wah Keung (Chairman), Ms. Chen Ming Yin, Tiffany (Vice Chairman) and Ms. Li Yuk Sheung; the independent non-executive directors of the Company are Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Company (www.chinastar.com.hk or www.irasia.com/listco/hk/chinastar) and Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) under the section "Latest Listed Company Information". The 2007 interim report will be dispatched to shareholders of the Company and available on the above websites in due course.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 24th September 2007