



Interim Report 2007

中国星

**CHINA STAR ENTERTAINMENT LIMITED**

(Incorporated in Bermuda with limited liability)

Stock code: 326

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

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

All of the Group's operations are classed as continuing.

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30th June 2007

	Notes	<b>30th June 2007 HK\$'000 (Unaudited)</b>	31st December 2006 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	12	<b>275,858</b>	9,630
Interests in leasehold land	12	<b>541,109</b>	5,807
Investment properties	13	<b>40,880</b>	40,880
Goodwill		<b>59,203</b>	59,203
Available-for-sale financial assets		<b>88,200</b>	42,700
Convertible notes receivable from an associate	14	<b>634</b>	–
Conversion options embedded in convertible notes receivable from an associate	14	<b>645</b>	–
Interests in associates	15	<b>261,052</b>	198,113
		<b>1,267,581</b>	356,333
<b>Current assets</b>			
Inventories		<b>750</b>	364
Convertible notes receivables		<b>–</b>	52,000
Film rights		<b>58,926</b>	97,427
Films in progress		<b>34,169</b>	29,469
Trade receivables	16	<b>56,511</b>	8,016
Deposits, prepayments and other receivables		<b>50,734</b>	45,161
Deposit for investment		<b>–</b>	40,000
Financial assets at fair value through profit or loss		<b>8,216</b>	64,560
Amounts due from associates		<b>6,532</b>	5,905
Prepaid tax		<b>514</b>	455
Cash and cash equivalents		<b>107,031</b>	89,347
		<b>323,383</b>	432,704
<b>Total assets</b>		<b>1,590,964</b>	789,037
<b>Capital and reserve attributable to Company's equity holders</b>			
Share capital	17	<b>68,699</b>	35,232
Reserves		<b>919,639</b>	659,595
		<b>988,338</b>	694,827
Minority interests		<b>321,844</b>	1,382
		<b>1,310,182</b>	696,209

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

**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

As at 30th June 2007

	Notes	30th June 2007 HK\$'000 (Unaudited)	31st December 2006 HK\$'000 (Audited)
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	19	9,775	10,948
Deferred taxation		88,106	1,888
		<u>97,881</u>	<u>12,836</u>
<b>Current liabilities</b>			
Trade payables	18	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	19	2,315	2,254
Unsecured convertible notes payable	20	60,003	19,867
		<u>182,901</u>	<u>79,992</u>
<b>Total equity and liabilities</b>		<u><u>1,590,964</u></u>	<u><u>789,037</u></u>
<b>Net current assets</b>		<u><u>140,482</u></u>	<u><u>352,712</u></u>
<b>Total assets less current liabilities</b>		<u><u>1,408,063</u></u>	<u><u>709,045</u></u>

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the period ended 30th June 2007

	Attributable to equity holders of the Company												
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Contributed surplus HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Special reserve HK\$'000 (Unaudited)	Share-based payment reserve HK\$'000 (Unaudited)	Convertible notes reserve HK\$'000 (Unaudited)	Financial assets reserve HK\$'000 (Unaudited)	Capital reduction HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Sub-total HK\$'000 (Unaudited)	Minority interests HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1st January 2006	26,027	853,810	186,624	388	-	31,898	566	-	316,008	(817,765)	597,556	1,432	598,988
Exchange alignment	-	-	-	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
At 30th June 2006	<u>31,232</u>	<u>881,796</u>	<u>186,624</u>	<u>1,261</u>	<u>-</u>	<u>31,898</u>	<u>566</u>	<u>-</u>	<u>316,008</u>	<u>(746,763)</u>	<u>702,622</u>	<u>1,427</u>	<u>704,049</u>
At 1st January 2007	35,232	906,988	186,624	3,723	(6,867)	43,238	566	(9,800)	316,008	(780,885)	694,827	1,382	696,209
Placing of new shares	18,596	123,986	-	-	-	-	-	-	-	-	142,582	-	142,582
Share issuing expenses	-	(3,824)	-	-	-	-	-	-	-	-	(3,824)	-	(3,824)
Share-based payment expenses	-	-	-	-	-	14,631	-	-	-	-	14,631	-	14,631
Share of reserves of an associate	-	-	-	(105)	-	3,915	-	-	-	-	3,810	-	3,810
Exercise of share options	3,284	27,901	-	-	-	(13,301)	-	-	-	-	17,884	-	17,884
Redemption of convertible notes	-	-	-	-	-	-	(566)	-	-	566	-	-	-
Issue of convertible notes	-	-	-	-	-	-	54,307	-	-	-	54,307	-	54,307
Conversion of convertible notes	11,587	58,999	-	-	-	-	(23,850)	-	-	-	46,736	-	46,736
Deferred tax	-	-	-	-	-	-	(5,330)	-	-	-	(5,330)	-	(5,330)
Fair value adjustment on available-for-sale financial assets	-	-	-	-	-	-	-	45,500	-	-	45,500	-	45,500
Disposal of interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	320,471	320,471
Exchange alignment	-	-	-	1,969	-	-	-	-	-	-	1,969	-	1,969
Loss for the period	-	-	-	-	-	-	-	-	-	(24,754)	(24,754)	(9)	(24,763)
At 30th June 2007	<u>68,699</u>	<u>1,114,050</u>	<u>186,624</u>	<u>5,587</u>	<u>(6,867)</u>	<u>48,483</u>	<u>25,127</u>	<u>35,700</u>	<u>316,008</u>	<u>(805,073)</u>	<u>988,338</u>	<u>321,844</u>	<u>1,310,182</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30th June 2007*

	<b>Six months ended 30th June</b>	
	<b>2007</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2006</b> <i>HK\$'000</i> (Unaudited)
Net cash generated from operating activities	<b>12,702</b>	8,034
Net cash (used in)/generated from investing activities	<b>(289,878)</b>	10,282
Net cash generated from financing activities	<b>292,891</b>	21,181
Net increase in cash and cash equivalents	<b>15,715</b>	39,497
Cash and cash equivalents at beginning of the period	<b>89,347</b>	31,500
Effect of foreign exchange rate change	<b>1,969</b>	873
Cash and cash equivalents at the end of the period	<b>107,031</b>	71,870
<b>Analysis of the balances of cash and cash equivalents:</b>		
Cash and bank balances	<b>107,031</b>	71,870

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 2007***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 <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>3</sup>

<sup>1</sup> Effective for financial period commencing on or after 1 January 2009

<sup>2</sup> Effective for financial period commencing on or after 1 March 2007

<sup>3</sup> 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 HK\$'000 (Unaudited)	The People's Republic of China excluding Hong Kong, Macau and Taiwan (The "PRC") HK\$'000 (Unaudited)	South-East Asia HK\$'000 (Unaudited)	Other HK\$'000 (Unaudited)	Consolidated HK\$'000 (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					24,302
Unallocated corporate expenses					<u>(41,698)</u>
Profit from operations					<u>9,030</u>

**3. SEGMENT INFORMATION (continued)**

For the six months ended 30th June 2006:

	Hong Kong and Macau HK\$'000 (Unaudited)	The PRC 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>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>	13,908
Other revenue and income					11,104
Unallocated corporate expenses					<u>(29,650)</u>
Loss from operations					<u>(4,638)</u>

**4. TURNOVER**

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

**5. OTHER REVENUE**

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

**6. OTHER INCOME**

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

**7. PROFIT/(LOSS) FROM OPERATIONS**

	<b>Six months ended 30th June</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Profit/(loss) from operations has been arrived at after charging/(crediting):		
Amortisation of film rights (included in cost of sales)	<b>37,735</b>	30,834
Amortisation of interests in leasehold land	<b>3,115</b>	132
Cost of inventories (included in cost of sales)	–	38
Depreciation of property, plant and equipment	<b>3,120</b>	4,627
Net foreign exchange losses	<b>78</b>	811
Gain on disposal of property, plant and equipment	<b>(20)</b>	(1,290)
Employee benefit expenses	<b>10,017</b>	7,010
Share-based payment expenses	<b>14,631</b>	–
	<b>14,631</b>	–

**8. DISPOSAL OF INTEREST IN SUBSIDIARIES**

During the period under review, the Group disposed 50% of its equity interests in Kingsway Hotel Limited ("KHL") together with the relevant sale loans of approximately HK\$40,000,000 to third parties at an aggregate consideration of HK\$315,000,000. The fair value of the 50% net assets in KHL at the date of disposal was approximately HK\$320,471,000. As a result of the disposal, the Group recognised a loss of HK\$45,471,000 in the condensed consolidated income statement.

## 9. TAXATION

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

The taxation charge comprises:

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

## 10. (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:

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

### (Loss)/earnings

(Loss)/profit attributable to equity holders of the Company	<u>(24,754)</u>	<u>71,002</u>
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<b>2007</b>	2006
<b>'000</b>	'000

### 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>
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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.

## 11. Dividend

The directors of the Company did not recommend the payment of any interim dividend for the six months ended 30th June 2007 (Six months ended 30th June 2006: Nil).

## 12. PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND

During the period under review, additions of property, plant and equipment of approximately HK\$269,348,000 and interest in leasehold land of approximately HK\$538,417,000 were majority pertained to acquisition of the entire equity interest of KHL.

## 13. INVESTMENT PROPERTIES

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 2006.

## 14. CONVERTIBLE NOTES RECEIVABLE FROM AN ASSOCIATE/CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE NOTES RECEIVABLE FROM AN ASSOCIATE

The convertible note is held by Classical Statue Limited ("CSL"), a wholly-owned subsidiary of the Company.

During the period under review, CSL entered into an agreement to subscribe a convertible note ("Brilliant Arts CN") with an aggregate principal amount of HK\$25,000,000 from Brilliant Arts Multi-Media Holding Limited (formerly known as "Milkyway Image Holdings Limited") ("Brilliant Arts"). Brilliant Arts has its shares listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Brilliant Arts CN carries zero coupon and will mature on 24th May 2012. The initial conversion price is HK\$0.33 per share (subject to adjustments). Unless previously converted or lapsed, Brilliant Arts will redeem the Brilliant Arts CN on 24th May 2012 at the redemption amount which is 100% of the principal amount of outstanding Brilliant Arts CN.

The Group has measured the Brilliant Arts CN in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement". The debt element of the Brilliant Arts CN were measured initially at fair value and subsequently at amortised cost and classified as convertible note receivable from an associate. The conversion options element of Brilliant Arts CN were measured initially and subsequently at fair value in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" and classified as conversion options embedded in convertible notes receivable from an associate.

On 15th June 2007, the Company exercised its conversion rights and principal amount of HK\$24,000,000 Brilliant Arts CN were converted into 72,727,272 shares of Brilliant Arts, which represents 29.17% issued share capital of Brilliant Arts. Brilliant Arts become an associate of the Company and details were set out in note 15 to the condensed consolidated financial statements.

For the period ended 30th June 2007, the Group recognized fair value gain of approximately HK\$373,000 for conversion options element of the remaining Brilliant Arts CN in the condensed consolidated income statement.

## 15. INTERESTS IN ASSOCIATES

	<b>As at 30th June 2007 HK\$'000 (Unaudited)</b>	As at 31st December 2006 HK\$'000 (Audited)
Share of net assets of associates ( <i>note a</i> )	<b>203,777</b>	143,346
Goodwill ( <i>note b</i> )	<b>57,275</b>	54,767
	<b><u>261,052</u></b>	<u>198,113</u>
Market value of listed shares	<b><u>189,083</u></b>	<u>317,016</u>

Notes:

**(a) Share of net assets**

	HK\$'000
At 1st January 2007	143,346
Share of results of associates	33,227
Decrease in share of net assets on deemed disposal of 11.32% interest in Riche Multi-Media Holdings Limited ("Riche Multi-Media") ( <i>note d</i> )	(17,867)
Further acquisition of 5.49% interest in Riche Multi-Media in the period ( <i>note d</i> )	37,645
Acquisition of 29.17% equity interest in Brilliant Arts ( <i>note c</i> )	3,616
Share of reserves of an associate	3,810
	<u>203,777</u>
At 30th June 2007	<u><u>203,777</u></u>

**(b) Goodwill**

	HK\$'000
At 1st January 2007	54,767
Decrease in goodwill on deemed disposal of 11.32% interest in Riche Multi-Media ( <i>note d</i> )	(18,006)
Goodwill arising on acquisition of 29.17% equity interest in Brilliant Arts ( <i>note c</i> )	20,514
	<u>57,275</u>
At 30th June 2007	<u><u>57,275</u></u>

**15. INTERESTS IN ASSOCIATES (continued)****(c) Acquisition of an associate**

On 15th June 2007, the Company exercised its conversion rights and principal amount of HK\$24,000,000 of Brilliant Arts CN were converted into 72,727,272 shares of Brilliant Arts, which represents 29.17% issued share capital of Brilliant Arts. Brilliant Arts becomes an associate of the Company.

**(d) Interests in Riche Multi-Media**

During the period under review, Riche Multi-Media issued total number of 317,706,000 new shares of Riche Multi-Media (after considering the effect of consolidation of 10 shares into 1 new share of Riche Multi-Media) through placing to the Company, independent third parties and share option holders of Riche Multi-Media. As a result, the Group's interest in Riche Multi-Media was diluted by 11.32% from 34.43% to 23.11%. Thereafter, the Group further acquired 5.49% equity interest in Riche Multi-Media in the open market at a total consideration of approximately HK\$34,986,000. As a result, discount on acquisition of HK\$2,659,000 was recorded in the income statement and the Group's interest in Riche Multi-Media increased to 28.60% as at 30th June 2007.

**16. TRADE RECEIVABLES**

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

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

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

## 17. SHARE CAPITAL

	Number of shares		Amount	
	As at 30th June 2007 '000 (Unaudited)	As at 31st December 2006 '000 (Audited)	As at 30th June 2007 HK\$'000 (Unaudited)	As at 31st December 2006 HK\$'000 (Audited)
Ordinary shares of HK\$0.05 each ("Shares")				
<b>Authorised:</b>	<b>20,000,000</b>	20,000,000	<b>1,000,000</b>	1,000,000
<b>Issued and fully paid:</b>				
At beginning of period	704,646	520,541	35,232	26,027
Exercise of share options (Note c)	65,685	–	3,284	–
Conversion of convertible notes (Note 20)	231,746	–	11,587	–
Placing of new shares (Notes a & b)	371,905	184,105	18,596	9,205
At end of period	<b>1,373,982</b>	704,646	<b>68,699</b>	35,232

## Notes:

- (a) On 29th March 2007, the Company entered into placing agreements with a placing agent. Pursuant to the placing agreements, the Company agreed to place an aggregate of 206,000,000 Shares to independent investors at a price of HK\$0.37 per Share. 124,900,000 Shares and 81,100,000 Shares were allotted and issued on 17th April 2007 and 30th May 2007 respectively. The net proceeds of approximately HK\$74,000,000 were intended to be used for general working capital of the Group.
- (b) On 4th June 2007, the Company entered into a placing agreement with a placing agent. Pursuant to the placing agreement, the Company agreed to place an aggregate of 165,905,000 Shares to independent investors at a price of HK\$0.40 per Share and the Shares were subsequently allotted and issued on 25th June 2007. The net proceeds of approximately HK\$64,600,000 were intended to be used for general working capital of the Group.
- (c) During the 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 of 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.

**18. TRADE PAYABLES**

The aged analysis of the trade creditors is as follows:

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

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

**19. BANK BORROWINGS**

	<b>As at 30th June 2007 HK\$'000 (Unaudited)</b>	As at 31st December 2006 HK\$'000 (Audited)
Secured bank loans	<b><u>12,090</u></b>	<u>13,202</u>
The maturity of the above borrowings is as follows:		
Within one year	<b>2,315</b>	2,254
Between one and two years	<b>2,446</b>	2,380
Between two and five years	<b>6,865</b>	7,966
Over five years	<b><u>464</u></b>	<u>602</u>
	<b>12,090</b>	13,202
Less: Amount due within one year shown under current liabilities	<b><u>(2,315)</u></b>	<u>(2,254)</u>
Amount due after one year	<b><u>9,775</u></b>	<u>10,948</u>

Secured bank loans comprise a mortgage loan which bears interest at commercial rates. The mortgage loan is secured by the Group's investment properties with carrying value of approximately HK\$40,880,000 (31st December 2006: HK\$40,880,000). The mortgage loan is repayable by 79 monthly instalments.

## 20. UNSECURED CONVERTIBLE NOTES PAYABLES

During the period under review, the Company issued convertible notes in the principal amount HK\$168,500,000 at an issue price of 95% of fair value. The fair value of the liability component at date of issue is approximately HK\$105,768,000. The convertible notes are zero coupon, unsecured and will be matured on 17th May 2012. The convertible notes are denominated in Hong Kong dollars. The initial conversion price is HK\$0.32 per Share and subject to anti-dilutive adjustments. The effective interest rate of the liability component is 9.75% per annum.

Unless previously converted by the convertible note holder, the Company will redeem the convertible notes on the maturity date at the principal amount of the convertible notes then outstanding.

The fair value of the liability component of the convertible notes payable, determined based on the present value of the estimated future cash outflows discounted at the effective interest rates of 9.75% per annum at the balance sheet, was approximate to their corresponding carrying amount.

During the period, convertible notes of HK\$74,000,000 were converted into 231,746,000 Shares.

Subsequent to the balance sheet date, the remaining principal balance of the convertible notes of HK\$94,500,000 were converted into 300,955,410 Shares.

The comparative figure in 2006 of HK\$19,867,000 represented the liability component of an unsecured convertible loan notes of principal value of HK\$20,000,000 bearing interest at 4% per annum which was matured and repaid on 30th June 2007.

## 21. ACQUISITION OF SUBSIDIARIES

On 30th March 2007, the Group acquired 38.5% interest in KHL and related sales loan (the "Initial Acquisition") at a consideration of approximately HK\$231,777,000. The principal assets of KHL were Kingsway Hotel which located in Macau. The fair value of the net assets of KHL which attributable to the Group and the related sale loan as at the date of the completion of the the Initial Acquisition were approximately HK\$310,733,000 and a negative goodwill of approximately HK\$78,956,000 was recognised.

On 30th May 2007, the Group further acquired 61.5% interest in KHL and related sales loan (the "Second Acquisition") through acquisitions of the entire interest in Triumph Up Investments Limited and its subsidiaries and Great Chain Limited and its subsidiaries, at a consideration of approximately HK\$490,000,000. The fair value of the net assets of KHL which attributable to the Group and the related sales loan as at the date of completion of the Second Acquisition were approximately HK\$426,542,000 and goodwill of approximately HK\$63,458,000 was recognised.

Following the Initial Acquisition and the Second Acquisition, the Group recognised a net negative goodwill of approximately HK\$15,498,000. Such negative goodwill was directly recognised as income in the condensed consolidated income statement for the six months ended 30th June 2007.

**22. MATERIAL RELATED PARTY TRANSACTIONS**

- (a) During the period under review, the Group entered into the following transactions with Riche Multi-Media and its subsidiaries ("Riche Group") Riche Group:

	<b>For the six months ended 30th June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Loan interest income	-	100
Production fee income	-	85
Sub-licensing expenses	-	(200)
	<u>          </u>	<u>          </u>

The amounts were determined at prices agreed between parties.

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

	<b>For the six months ended 30th June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Management fee income received and receivable	<b>2,430</b>	2,430
Services charges paid and payable	-	5,752
Artists promotion charges paid and payable	-	3,318
	<u>          </u>	<u>          </u>

The amounts were determined at prices agreed between parties.

- (c) During the period under review, the Group entered into the following transactions with Brilliant Arts Group:

	<b>For the six months ended 30th June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Production fee income	<b>2</b>	-
Distribution fee	<b>205</b>	-
	<u>          </u>	<u>          </u>

The amounts were determined at prices agreed between parties.

### 23. LEASE COMMITMENTS

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

As at 30th June 2007, the Group had commitments for total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>As at 30th June 2007 HK\$'000 (unaudited)</b>	As at 31st December 2006 HK\$'000 (audited)
Within one year	<b>1,193</b>	940
In the second to fifth years, inclusive	<b>622</b>	1,089
	<b><u>1,815</u></b>	<b><u>2,029</u></b>

### 24. SUBSEQUENT EVENTS

On 24th July 2007, CSL had entered into a top-up placing agreement. Pursuant to the top-up placing agreement, CSL agreed to place an aggregate of 173,000,000 shares of Riche Multi-Media to third parties independent of Riche Multi-Media and its connected persons at a price of HK\$0.83 per Share. Details of this transaction were set out in the Company's announcement dated 25th July 2007.

On 1st August 2007, the Company entered into a sales and purchase agreement with Riche Multi-Media and Legend Rich Limited, a wholly-owned subsidiary of Riche Multi-Media, to sell 100% of the issued share capital of Exceptional Gain Profits Limited, a wholly-owned subsidiary of the Company, at an aggregate consideration of HK\$447,000,000. Details of this transaction were set out in the Company's announcement dated 8th August 2007.

On 16th August 2007, the Company entered into an acquisition agreement with an independent third party. Pursuant to the acquisition agreement, the Company has conditionally agreed to acquire 51% of the entire issued share capital of Best Mind International Inc. ("Best Mind"), free from any option, charge, lien, equity, encumbrance, right of pre-emption or any other third party rights whatsoever and together with all rights attached to them at the date of completion or subsequently becoming attached to them, at a total consideration of HK\$538,000,000, which will be satisfied as to HK\$300,000,000 in cash, HK\$196,000,000 by the issue of a 5% per annum interest bearing unsecured convertible note in the principal amount of HK\$196,000,000 due 2017 and the balance of HK\$42,000,000 by allotment and issue of 140,000,000 Shares, credited as fully paid. Details of this transaction were set out in the Company's announcement dated 31st August 2007.

On 5th September 2007, the Company and the placing agent entered into placing agreements, whereby the Company has conditionally agreed to place, through the placing agent on a fully underwritten basis of 274,790,000 Shares to independent investors at a price of HK\$0.21 per Share and on a best effort basis up to a maximum of 5,000,000,000 Shares respectively. Details of this transaction were set out in the Company's announcement dated 7th September 2007.

On 30th August 2007, the Company announced to raise approximately HK\$168,754,000 before expenses by way of a rights issue of not less than 843,769,799 rights Shares and not more than 940,393,799 rights Shares at HK0.20 each on the basis of one rights Share for every two existing Shares held on 18th September 2007. Details of this transaction were set out in the Company's announcement dated 30th August 2007.

### 25. APPROVAL OF INTERIM FINANCIAL STATEMENT

The Interim Financial Statements were approved and authorised for issue by the Board on 24th September 2007.

## 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 "Vendors"), 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 Vendors 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 finance 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.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2007, 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 Wah Keung	Beneficial owner/ interest of spouse/ interest of controlled corporation	243,699,410*	17.74
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	243,699,410*	17.74
Ms. Li Yuk Sheung	Beneficial owner	16	0.00

All interests stated above represent long positions.

\* These shares are held as to 36,395,000 shares by Mr. Heung, as to 21,144,410 shares by Ms. Chen (the spouse of Mr. Heung), as to 167,650,000 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 2007, 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	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>1,009,037</u>	<u>1,009,038<sup>#</sup></u>	<u>2,018,075</u>	<u>0.14</u>
Ms. Chen	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>1,009,038</u>	<u>1,009,037<sup>+</sup></u>	<u>2,018,075</u>	<u>0.14</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>1.49</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.

\* 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 2007, 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 2007 were as follows:

Category of Participants	Name of scheme	Exercisable period***	Exercise price per share HK\$	Number of share options						
				Outstanding as at 01.01.2007	Grant during the period	Exercised during the period	Transfer between category	Outstanding as at 30.06.2007		
Substantial shareholders and directors of the Company*	Old Option Scheme	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>2,018,075</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,018,075</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>–</u>	<u>–</u>	<u>–</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	–	–	(4,200,000)	23,910,000		
		30.12.2005 – 29.12.2015	0.242	18,005,000	–	(11,390,000)	–	6,615,000		
		21.11.2006 – 20.11.2016	0.277	40,000,000	–	(16,000,000)	(6,000,000)	18,000,000		
		25.05.2007 – 24.05.2017	0.420	–	27,585,000	(5,900,000)	–	21,685,000		
27.06.2007 – 26.06.2017	0.418	–	14,440,000	–	–	14,440,000				
				<u>97,276,765</u>	<u>42,025,000</u>	<u>(33,290,000)</u>	<u>(10,200,000)</u>	<u>95,811,765</u>		
Other participants	New Option Scheme	16.07.2002 – 15.07.2012	1.716	4,438,228	–	–	–	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	–	–	4,200,000	14,405,000		
		30.12.2005 – 29.12.2015	0.242	33,995,000	–	(21,595,000)	–	12,400,000		
		21.11.2006 – 20.11.2016	0.277	20,400,000	–	(10,800,000)	6,000,000	15,600,000		
		25.05.2007 – 24.05.2017	0.420	–	30,675,000	–	–	30,675,000		
		27.06.2007 – 26.06.2017	0.418	–	10,250,000	–	–	10,250,000		
						<u>87,913,228</u>	<u>40,925,000</u>	<u>(32,395,000)</u>	<u>10,200,000</u>	<u>106,643,228</u>
						<u>190,602,625</u>	<u>82,950,000</u>	<u>(65,685,000)</u>	<u>–</u>	<u>207,867,625</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 or lapsed during the six months ended 30th June 2007.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June 2007, 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:

### (i) Interests in shares of the Company

Name	Capacity	Number of Shares held	Number of Underlying Shares held	Total	Approximate percentage of interests held
Porterstone	Beneficial owner/ interest of controlled corporation	186,160,000	–	186,160,000*	13.54
ITC Corporation Limited	Interest of controlled corporation	31,746,031	300,955,414	332,701,445	27.67
ITC Investment Holdings Limited	Interest of controlled corporation	31,746,031	300,955,414	332,701,445	27.67
Mankar Assets Limited	Interest of controlled corporation	31,746,031	300,955,414	332,701,445	27.67
Famex Investment Limited	Interest of controlled corporation	31,746,031	300,955,414	332,701,445	27.67
Hanny Holdings Limited	Interest of controlled corporation	31,746,031	300,955,414	332,701,445	27.67
Hanny Magnetics (B.V.I.) Limited	Interest of controlled corporation	31,746,031	300,955,414	332,701,445	27.67
Improvemany International Limited	Beneficial owner	31,746,031	300,955,414	332,701,445	27.67

All interests stated above represent long positions.

\* These shares are held as to 167,650,000 shares by Porterstone and as to 18,510,000 shares by Dorest, a wholly-owned subsidiary of Glenstone Investments Limited which is in turn beneficially owned as to 60% by Porterstone.

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 2007.

## 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 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. Leung Hok Man.

By Order of the Board  
**Heung Wah Keung**  
*Chairman*

Hong Kong, 24th September 2007



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Chartered Accountants  
Certified Public Accountants

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

*(Incorporated in Bermuda with limited liability)*

**INTRODUCTION**

We have reviewed the interim financial information set out on pages 1 to 20, which comprises the condensed consolidated balance sheet of China Star Entertainment Limited as of 30th June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review 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.

**SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information are not prepared, in all material respects, in accordance with HKAS 34 "Interim Financial Reporting".

**HLB Hodgson Impey Cheng**

Chartered Accountants  
Certified Public Accountants

Hong Kong, 24th September 2007