



## CHINA STAR INVESTMENT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0764)

**INTERIM  
REPORT  
2008**



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## Corporate Information

### Board of Directors

#### *Executive directors*

Mr. Heung Wah Keung (*Chairman*)  
Ms. Chen Ming Yin, Tiffany (*Vice Chairman*)

#### *Independent non-executive directors*

Mr. Tang Chak Lam, Gilbert  
Mr. Ho Wai Chi, Paul  
Mr. Lien Wai Hung

### Company Secretary

Mr. Chan Kin Wah, Billy

### Qualified Accountant

Mr. Chan Kin Wah, Billy

### Members of the Audit Committee

Mr. Tang Chak Lam, Gilbert  
Mr. Ho Wai Chi, Paul  
Mr. Lien Wai Hung

### Members of the Remuneration Committee

Ms. Chen Ming Yin, Tiffany  
Mr. Tang Chak Lam, Gilbert  
Mr. Lien Wai Hung

### Members of the Nomination Committee

Mr. Heung Wah Keung  
Mr. Tang Chak Lam, Gilbert  
Mr. Lien Wai Hung

### Members of the Finance Committee

Mr. Heung Wah Keung  
Mr. Ho Wai Chi, Paul

### Authorised Representatives

Mr. Heung Wah Keung  
Ms. Chen Ming Yin, Tiffany

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### Head Office and Principal Place of Business

Room 3408  
34/F, Shun Tak Centre, West Tower  
168-200 Connaught Road Central  
Hong Kong

### Principal Share Register and Transfer Office

The Bank of Bermuda Limited

### Hong Kong Branch Share Register and Transfer Office

Tricor Standard Limited

### Auditors

HLB Hodgson Impey Cheng  
Chartered Accountants  
Certified Public Accountants

### Principal Bankers

Hang Seng Bank Limited  
Bank of China (Hong Kong) Limited  
Seng Heng Bank Limited

### Stock Code

764

### Website

[www.chinastar.com](http://www.chinastar.com)

### E-mail Address

[enquiry@chinastar.com](mailto:enquiry@chinastar.com)

## Interim Results

The board of directors (the “Board”) of China Star Investment Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 together with the comparative figures for 2007 as follows:

### Condensed Consolidated Income Statement

	Notes	Six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
<b>Turnover</b>	3	<b>2,000</b>	29,191
<b>Cost of sales</b>		<b>—</b>	(24,465)
<b>Gross profit</b>		<b>2,000</b>	4,726
<b>Other revenue</b>	4	<b>2,605</b>	1,307
<b>Other income</b>	4	<b>—</b>	122,593
<b>Administrative expenses</b>		<b>(25,843)</b>	(29,344)
<b>Increase in fair value of investment properties</b>	11	<b>16,798</b>	—
<b>(Loss)/profit from operations</b>	5	<b>(4,440)</b>	99,282
<b>Finance costs</b>	6	<b>(12,821)</b>	(8,334)
<b>(Loss)/profit before taxation</b>		<b>(17,261)</b>	90,948
<b>Taxation</b>	7	<b>8,815</b>	—
<b>(Loss)/profit for the period</b>		<b>(8,446)</b>	90,948
<b>Attributable to:</b>			
Equity holders of the Company		<b>(8,446)</b>	90,948
<b>Dividend</b>	8	<b>—</b>	—
<b>(Loss)/earnings per share attributable to the equity holders of the Company during the period</b>			
— Basic	9	<b>(HK4.33 cents)</b>	HK12.05 cents
— Diluted	9	<b>(HK4.33 cents)</b>	HK11.96 cents

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

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

## Condensed Consolidated Balance Sheet

	Notes	At 30 June 2008 HK\$'000 (Unaudited)	At 31 December 2007 HK\$'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	21,817	6,000
Investment properties	11	978,785	887,450
Goodwill		40,382	39,456
Available-for-sale financial assets		172	172
		<b>1,041,156</b>	933,078
<b>Current assets</b>			
Inventories	12	34,771	32,783
Trade receivables	13	2,396	1,245
Deposits, prepayments and other receivables		221,479	31,830
Tax prepayments		—	12,120
Cash and cash equivalents		281,790	531,396
		<b>540,436</b>	609,374
<b>Total assets</b>		<b>1,581,592</b>	1,542,452
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	14	1,952	195,186
Reserves		1,076,021	850,894
		<b>1,077,973</b>	1,046,080
<b>Minority interests</b>		—	3,896
		<b>1,077,973</b>	1,049,976

## Condensed Consolidated Balance Sheet (Continued)

	Notes	At 30 June 2008 HK\$'000 (Unaudited)	At 31 December 2007 HK\$'000 (Audited)
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accruals and other payables		17,982	19,245
Receipts in advance and deposits received	15	64,544	47,041
Amount due to a related company	16	663	701
Secured bank loan — due within one year	17	34,792	27,533
Tax payable		731	22,969
		<b>118,712</b>	117,489
<b>Non-current liabilities</b>			
Secured bank loan — due after one year	17	302,717	301,485
Deferred taxation		82,190	73,502
		<b>384,907</b>	374,987
<b>Total equity and liabilities</b>		<b>1,581,592</b>	1,542,452
<b>Net current assets</b>		<b>421,724</b>	491,885
<b>Total assets less current liabilities</b>		<b>1,462,880</b>	1,424,963

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

## Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2008

	Attributable to equity holders of the Company										
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Share-based payment reserve HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Contributed surplus HK\$'000 (Unaudited)	Special reserve HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	(Accumulated losses)/ Retained profits HK\$'000 (Unaudited)	Sub-total HK\$'000 (Unaudited)	Minority interests HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2007	64,843	380,626	–	19,844	80,103	(19,955)	7,201	(133,026)	399,636	3,896	403,532
Issuance of new shares	28,531	105,161	–	–	–	–	–	–	133,692	–	133,692
Exercise of share options	3,240	15,827	(3,840)	–	–	–	–	–	15,227	–	15,227
Share-based payment expenses	–	–	13,688	–	–	–	–	–	13,688	–	13,688
Exchange differences arising from translation of overseas operations not recognised in the income statement	–	–	–	–	–	–	(369)	–	(369)	–	(369)
Profit for the period	–	–	–	–	–	–	–	90,948	90,948	–	90,948
<b>At 30 June 2007</b>	<b>96,614</b>	<b>501,614</b>	<b>9,848</b>	<b>19,844</b>	<b>80,103</b>	<b>(19,955)</b>	<b>6,832</b>	<b>(42,078)</b>	<b>652,822</b>	<b>3,896</b>	<b>656,718</b>
At 1 January 2008	195,186	813,058	28,442	19,844	80,103	(19,955)	36,734	(107,332)	1,046,080	3,896	1,049,976
Exercise of share options	1	–	–	–	–	–	–	–	1	–	1
Capital reorganisation (note 14)											
– capital reduction	(193,235)	–	–	–	193,235	–	–	–	–	–	–
– share premium cancellation	–	(813,058)	–	–	813,058	–	–	–	–	–	–
– set off accumulated losses against contributed surplus	–	–	–	–	(518,374)	–	–	518,374	–	–	–
Share-based payment expenses	–	–	3,608	–	–	–	–	–	3,608	–	3,608
Acquisition of remaining interest in a subsidiary	–	–	–	–	–	–	–	–	–	(3,896)	(3,896)
Exchange differences arising from translation of overseas operations not recognised in the income statement	–	–	–	–	–	–	36,730	–	36,730	–	36,730
Loss for the period	–	–	–	–	–	–	–	(8,446)	(8,446)	–	(8,446)
<b>At 30 June 2008</b>	<b>1,952</b>	<b>–</b>	<b>32,050</b>	<b>19,844</b>	<b>568,022</b>	<b>(19,955)</b>	<b>73,464</b>	<b>402,596</b>	<b>1,077,973</b>	<b>–</b>	<b>1,077,973</b>

## Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
<b>Net cash used in operating activities</b>	<b>(188,770)</b>	(17,269)
<b>Net cash used in investing activities</b>	<b>(24,283)</b>	(4,895)
<b>Net cash (used in)/generated from financing activities</b>	<b>(50,208)</b>	163,354
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(263,261)</b>	141,190
Effect on foreign exchange rate	13,655	(369)
<b>Cash and cash equivalents at beginning of period</b>	<b>531,396</b>	63,140
<b>Cash and cash equivalents at end of period</b>	<b>281,790</b>	203,961
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	281,790	203,961

## Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2008

### 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 Hong Kong Limited.

The Interim Financial Statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2007.

The Interim Financial Statements have been prepared on the historical cost basis except for investment properties, 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 31 December 2007.

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 1 January 2008.

#### **Standards, amendments or interpretations issued and effective**

HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions <sup>1</sup>
HK(IFRIC) — Int 12	Service Concession Arrangements <sup>2</sup>
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

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

<sup>2</sup> Effective for financial period commencing on or after 1 January 2008

The adoption of the new HKFRSs had no material effect on the preparation and presentation of the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 2. Summary of significant accounting policies (Continued)

#### **Standards, amendments or interpretations issued but not yet effective**

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

HKFRS 2 (Amendment)	Share-based Payment — Vesting Condition and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combination <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HK(IFRIC) — Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

The Group is still considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 3. Segment information

#### (a) Business segments

	Six months ended 30 June 2008			
	Sub-licensing HK\$'000 (Unaudited)	Sales of financial assets HK\$'000 (Unaudited)	Property investment HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Turnover	2,000	—	—	2,000
Segment results	2,000	—	16,798	18,798
Unallocated corporate income				2,605
Unallocated corporate expenses				(25,843)
Loss from operations				(4,440)
Finance costs				(12,821)
Loss before taxation				(17,261)
Taxation				8,815
Loss for the period				(8,446)

	Six months ended 30 June 2007			
	Sub-licensing HK\$'000 (Unaudited)	Sales of financial assets HK\$'000 (Unaudited)	Property investment HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Turnover	—	27,575	1,616	29,191
Segment results	—	18,867	1,496	20,363
Unallocated corporate income				108,263
Unallocated corporate expenses				(29,344)
Profit from operations				99,282
Finance costs				(8,334)
Profit before taxation				90,948
Taxation				—
Profit for the period				90,948

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 3. Segment information (Continued)

#### (b) Geographical segments – Turnover

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Hong Kong and Macau	2,000	27,575
The People's Republic of China (the "PRC")	—	1,616
	<b>2,000</b>	<b>29,191</b>

### 4. Other revenue and other income

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
<b>Other revenue</b>		
Interest income on bank deposits	2,578	1,276
Dividend income from financial assets at fair value through profit or loss	—	30
Sundry income	27	1
	<b>2,605</b>	<b>1,307</b>
<b>Other income</b>		
Increase in fair value of financial assets at fair value through profit or loss	—	15,637
Loan interest waived	—	106,956
	<b>—</b>	<b>122,593</b>

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 5. (Loss)/profit from operations

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
<b>(Loss)/profit from operations has been arrived at after charging:</b>		
Depreciation of property, plant and equipment	1,806	708
Loss on disposal of property, plant and equipment	3	—
Share-based payment expenses in respect of consultancy services	985	5,109
Staff costs including directors' emoluments:		
— Salaries and other allowances	5,806	4,299
— Contributions to retirement benefits scheme	69	60
— Share-based payment expenses	2,623	8,579

### 6. Finance costs

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Interest expenses on borrowings wholly repayable within five years:		
— secured bank loan	12,821	8,334

### 7. Taxation

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Tax credit	13,854	—
Deferred tax charge	(5,039)	—
	8,815	—

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 7. Taxation (Continued)

An objection was lodged by Ocean Shore Licensing Limited (“OSLL”), a wholly-owned subsidiary of the Company, against the estimated assessments for the years of assessment from 1994/1995 to 2000/2001 in relation to the offshore claims of sub-licensing income. Provision for taxation of HK\$22,238,000 had been made in the Company’s audited consolidated financial statements. In February 2008, OSLL reached a compromise settlement on the estimated assessments with the Inland Revenue Department for settling the outstanding tax in an aggregate amount of HK\$12,021,000, which included a surcharge of HK\$3,637,000. Therefore, a tax credit of HK\$13,854,000 was recognised during the six months ended 30 June 2008.

Apart from the tax credit, no provision for Hong Kong Profits Tax has been made for the period since the Group has no estimated assessable profits or its estimated assessable profit is wholly absorbed by the estimated tax loss brought forward (six months ended 30 June 2007: Nil).

No provision for the PRC Enterprise Income Tax was made for the period as the Company’s subsidiaries in the PRC did not have taxable income (six months ended 30 June 2007: Nil).

Deferred tax charge of HK\$5,039,000 was arisen from the increase in the fair value of investment properties recognised for the period (six months ended 30 June 2007: Nil).

### 8. Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil).

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 9. (Loss)/earnings per share

	<b>Six months ended 30 June</b>	
	<b>2008</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2007 <i>HK\$'000</i> (Unaudited)
(Loss)/profit attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	<b>(8,446)</b>	90,948
	<b>Number of ordinary shares</b>	
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<b>195,186</b>	754,792
Effect of dilutive potential ordinary shares:		
Share options	—	5,639
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<b>195,186</b>	760,431

The weighted average number of ordinary shares for the six months ended 30 June 2007 for the purpose of basic and diluted earnings per share has been adjusted to take into the effect of the share consolidation that became effective on 2 May 2008.

Diluted loss per share for the period ended 30 June 2008 was same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the exercise of the Company's outstanding share options existed during the period would result a decrease in loss per share and thus anti-dilutive.

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 10. Property, Plant and Equipment

	<i>HK\$'000</i> (Unaudited)
<b>Cost:</b>	
At 1 January 2008	9,850
Additions	17,361
Disposals	(7)
Exchange alignments	304
<b>At 30 June 2008</b>	<b>27,508</b>
<b>Accumulated depreciation:</b>	
At 1 January 2008	3,850
Charge for the period	1,806
Elimination on disposals	(4)
Exchange alignments	39
<b>At 30 June 2008</b>	<b>5,691</b>
<b>Net book value:</b>	
<b>At 30 June 2008</b>	<b>21,817</b>

### 11. Investment Properties

	<i>HK\$'000</i> (Unaudited)
At 1 January 2008	887,450
Additions	28,129
Increase in fair value	16,798
Exchange alignment	46,408
<b>At 30 June 2008</b>	<b>978,785</b>

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 11. Investment Properties (Continued)

The fair value of the Group's investment properties at 30 June 2008 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited is a member of the Hong Kong Institutes of Valuers, has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

At 30 June 2008, certain of the Group's investment properties with an aggregate carrying amount of HK\$940,134,000 have been pledged to secure banking facilities granted to the Group (note 17 to the Interim Financial Statements).

### 12. Inventories

Inventories at 30 June 2008 solely comprised of certain units of apartments held by Beijing Jianguo Real Estate Development Company Limited ("BJ Jianguo"), a wholly-owned subsidiary of the Company, of which sales and purchase agreements were entered into and full considerations have been received by BJ Jianguo (note 15 to the Interim Financial Statements). However, the transfer of legal titles of these units of apartments has not been completed at the date of the Interim Financial Statements.

### 13. Trade Receivables

The following is an aged analysis of trade receivables at the balance sheet date:

	<b>At 30 June 2008 HK\$'000 (Unaudited)</b>	At 31 December 2007 HK\$'000 (Audited)
0 – 30 days	2,000	215
31 – 60 days	—	429
61 – 90 days	—	107
Over 90 days	396	503
	<b>2,396</b>	1,254
Less: Impairment loss recognised in respect of trade receivables	—	(9)
	<b>2,396</b>	1,245

The Group allows an average credit period of 90 days to its customers. The carrying amounts of trade receivables approximate to their fair values.

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 14. Share Capital

	Number of ordinary shares '000	Share capital HK\$'000
<b>Ordinary shares of HK\$0.01 each (2007: HK\$0.10 each)</b>		
<i>Authorised:</i>		
At 1 January 2008	6,000,000	600,000
Capital reorganisation		
– share consolidation ( <i>note ii a</i> )	(5,400,000)	–
– capital reduction ( <i>note ii b</i> )	–	(594,000)
<b>At 30 June 2008</b>	<b>600,000</b>	<b>6,000</b>
<i>Issued and fully paid:</i>		
At 1 January 2008	1,951,860	195,186
Exercise of share options ( <i>note i</i> )	10	1
Capital reorganisation		
– share consolidation ( <i>note ii a</i> )	(1,756,674)	–
– capital reduction ( <i>note ii b</i> )	–	(193,235)
<b>At 30 June 2008</b>	<b>195,196</b>	<b>1,952</b>

*Notes:*

- (i) On 8 April 2008, 10,009 ordinary shares of HK\$0.10 each were issued upon exercise of share options.
- (ii) On 30 April 2008, the shareholders approved the following changes to the capital of the Company ("Capital Reorganisation"):
  - (a) share consolidation: that every ten issued and unissued existing ordinary shares of HK\$0.10 each in the share capital of the Company be consolidated into one ordinary share of HK\$1.00 each ("Consolidated Shares") in the share capital of the Company;
  - (b) capital reduction: that the issued Consolidated Shares be reduced by cancelling the paid-up capital thereof to the extent of HK\$0.99 of each issued Consolidated Shares and reducing the nominal value of all the Consolidated Shares comprising the authorised share capital of the Company from HK\$1.00 each to HK\$0.01 each; and

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 14. Share Capital (Continued)

Notes: (continued)

(ii) (continued)

- (c) share premium cancellation: that the entire amount of HK\$813,058,000 standing to the credit of the share premium account of the Company as at 31 December 2007 be cancelled and such credit amount arising from the share premium cancellation be applied to the contributed surplus account of the Company where it will be utilised by the Board in accordance with bye-laws of the Company and all applicable laws, including to eliminate the accumulated losses of the Company of HK\$518,374,000 as at 31 December 2006 entirely.

The Capital Reorganisation took effect on 2 May 2008.

### 15. Receipts in Advance and Deposits Received

	<b>At 30 June 2008 HK\$'000 (Unaudited)</b>	At 31 December 2007 HK\$'000 (Audited)
Deposits received	<b>16,362</b>	484
Receipts in advance	<b>48,182</b>	46,557
	<b>64,544</b>	47,041

At 30 June 2008, receipts in advance represented the full amounts of considerations received from sales of certain units of apartments as set out in note 12 to the Interim Financial Statements. Since the transfer of legal titles of these units of apartments has not yet been completed at the date of the Interim Financial Statements, no revenue was recognised during the period.

### 16. Amount Due to a Related Company

	<b>At 30 June 2008 HK\$'000 (Unaudited)</b>	At 31 December 2007 HK\$'000 (Audited)
China Star Entertainment Limited	<b>663</b>	701

The amount due to China Star Entertainment Limited is unsecured, non-interest bearing and has no fixed terms of repayment.

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 17. Secured Bank Loan

The secured bank loan bears interest rates at 7.354% per annum and is secured by certain of the Group's investment properties in the PRC with fair value of approximately HK\$940,134,000 (note 11 to the Interim Financial Statements), the Group's bank deposits with balance of approximately HK\$26,059,000 and a corporate guarantee given by the Company.

During the period, the Group repaid bank loan amounting to approximately HK\$11,368,000 (2007: HK\$ Nil).

### 18. Lease Commitments

#### As lessee

At 30 June 2008, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	<b>At 30 June 2008 HK\$'000 (Unaudited)</b>	At 31 December 2007 HK\$'000 (Audited)
Within one year	<b>1,227</b>	1,856
In the second to fifth year inclusive	<b>—</b>	341
	<b>1,227</b>	2,197

Operating lease payments represented rentals payable by the Group for its office premises. Leases are mainly negotiated for an average term of two years and rentals are fixed for an average of two years.

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 18. Lease Commitments (Continued)

#### As lessor

At 30 June 2008, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of the Group's investment properties, which fall due as follows:

	<b>At 30 June 2008 HK\$'000 (Unaudited)</b>	At 31 December 2007 HK\$'000 (Audited)
Within one year	—	2,700

At the balance sheet date, the Group did not have any lease commitments.

### 19. Commitments

- (a) At 30 June 2008, the Group had the following material commitments contracted but not provided for in the Interim Financial Statements:

	<b>At 30 June 2008 HK\$'000 (Unaudited)</b>	At 31 December 2007 HK\$'000 (Audited)
Acquisition of 100% interest in the issued share capital of Exceptional Gain Profits Limited and a sale loan	<b>447,000</b>	447,000
Acquisition of 100% interest in the issued share capital of Rich Daily Group Limited	<b>504,000</b>	—
Renovation work in respect of the Group's investment properties	<b>29,011</b>	28,750

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 19. Commitments (Continued)

- (b) Pursuant to the undertaking letters issued by the owners of 上海昇平文化發展有限公司 (“上海昇平”) during the year ended 31 December 2003, they will transfer their ownership in the registered capital of 上海昇平 to the Group at a price to be determined by the valuers in the PRC when the laws in the PRC allow foreign investors to own more than 51% in the registered capital of 上海昇平.
- (c) Pursuant to a facility agreement dated 11 May 2007 entered into between Rich Joy Investments Limited, a wholly-owned subsidiary of the Company, and Best Season Holdings Corp. (“Best Season”), a 75% owned subsidiary of the Company, Rich Joy Investments Limited has agreed to grant Best Season a revolving facility of up to HK\$200,000,000 for the purpose of its business and working capital requirements. At the date of the Interim Financial Statements, Best Season had not drawn down the revolving facility.

### 20. Material Related Party Transactions

Save as disclosed elsewhere in the Interim Financial Statements, during the period, the Group had entered into the following material related party transactions.

- (a) During the period, the Group had the following material transaction with related party which is carried out on normal commercial terms and in the ordinary course of the Group's business:

Name of company	Nature of transaction	Six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
China Star Entertainment Limited	Salaries paid on behalf	660	600

## Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2008

### 20. Material Related Party Transactions (Continued)

- (b) Compensation for key management personnel

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

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and other allowances	1,890	1,760
Contribution to retirement benefits scheme	12	12
Share-based payment expenses	349	2,492

### 21. Subsequent Events

- (a) On 29 May 2008, the Group and China Star Entertainment Limited entered into a deed of variation pursuant to which the parties mutually agreed to further extend the long stop date in the conditional sale and purchase agreement dated 1 August 2007 relating to the proposed acquisition of a 100% interest in the issued share capital of Exceptional Gain Profits Limited and a sale loan from 30 May 2008 to 31 July 2008.
- (b) On 31 July 2008, the Group and China Star Entertainment Limited entered into a deed of variation pursuant to which the parties mutually agreed to further extend the long stop date in the conditional sale and purchase agreement dated 1 August 2007 relating to the proposed acquisition of a 100% interest in the issued share capital of Exceptional Gain Profits Limited and a sale loan from 31 July 2008 to 31 October 2008.
- (c) On 29 August 2008, the proposed acquisition of the entire issued share capital of Rich Daily Group Limited by Riche (BVI) Limited, a wholly-owned subsidiary of the Company, from Well Will Investment Limited was completed. On the same date, the Company issued two convertible notes in an aggregate principal amount of HK\$144,000,000 with an initial conversion price of HK\$1.60 per conversion share to Well Will Investment Limited in settling part of the consideration.

### 22. Approval of Interim Financial Statements

The Interim Financial Statements were approved and authorised for issue by the Board on 23 September 2008.



國衛會計師事務所  
**Hodgson Impey Cheng**

Chartered Accountants  
Certified Public Accountants

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

**INDEPENDENT REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF  
CHINA STAR INVESTMENT HOLDINGS LIMITED  
(Formerly known as RICHE MULTI-MEDIA HOLDINGS LIMITED)**

*(Incorporated in Bermuda with limited liability)*

**Introduction**

We have reviewed the interim financial information set out on pages 3 to 22, which comprise the condensed consolidated balance sheet of China Star Investment Holdings Limited and its subsidiaries as of 30 June 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and certain explanatory notes. The Main Board Listing 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 engagements, 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 condensed consolidated financial statements consists of making inquiries, 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 is 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, 23 September 2008

## Management Discussion and Analysis

### Financial Review

During the six months ended 30 June 2008, the Group recorded a revenue of HK\$2,000,000, a 93% decrease from HK\$29,191,000 for the same period of the previous year. The significant decrease in revenue was attributable to (i) the Group was not able to secure quality films at reasonable prices for distribution due to the sluggish market conditions; (ii) in view of the volatility in equity market remained high, the Group sold all of its financial assets in the second half of 2007 and did not carried out any trading in financial assets in the six months ended 30 June 2008; and (iii) the lease in respect of the ground floor of the Group's investment properties to a restaurant operator was terminated due to hygienic reason.

The loss for the six months ended 30 June 2008 amounted to HK\$8,446,000, whereas the Group recorded a profit of HK\$90,948,000 in the previous period. The deterioration was due to the Group recognised an one-off gain of HK\$106,956,000 arising from the loan interest waived by China Merchants Bank in the six months ended 30 June 2007.

The turnover of HK\$2,000,000 was generated from the sale of the Group's film library. As the cost of the film library had been fully amortised and/or impaired in previous years, no cost of sales was recorded and the gross profit margin was 100%.

Other revenue increased from HK\$1,307,000 in the six months ended 30 June 2007 to HK\$2,605,000 in the six months ended 30 June 2008. The increase was attributed to an increase in interest income on bank deposits resulted from the increase in the average monthly balance of the Group's cash and cash equivalents.

During the six months ended 30 June 2008, no other income was recorded by the Group. Other income for the six months ended 30 June 2007 represented an increase in fair value of financial assets at fair value through profit or loss of HK\$15,637,000 and an one-off gain arising from the loan interest waived of HK\$106,956,000.

## Management Discussion and Analysis (Continued)

### Financial Review (Continued)

Administrative expenses (net of depreciation) amounted to HK\$24,037,000 for the six months ended 30 June 2008, a 16% decrease from HK\$28,636,000 for the same period of the previous year. The decrease was mainly attributed to a HK\$10,080,000 decrease in share-based payment expenses in respect of share options granted to employees and consultants, which was partially offset by a HK\$1,516,000 increase in salaries and contribution to retirement benefits scheme and the surcharge of HK\$3,637,000 paid to Inland Revenue Department in relation to the compromise settlement on the Group's offshore income claims.

For the six months ended 30 June 2008, finance costs amounted to HK\$12,821,000, a 54% increase compared to HK\$8,334,000 for the six months ended 30 June 2007. The increase was attributable to the increase in the average monthly balance of loan facility resulted from the payments of renovation costs in respect of the Group's investment properties.

The headcount of the Group increased from 53 at 30 June 2007 to 90 at 30 June 2008. Total staff costs (including directors' remuneration) amounted to HK\$8,498,000 in the six months ended 30 June 2008, a 34% decrease as compared to HK\$12,938,000 for the six months ended 30 June 2007. The decrease was attributable to a HK\$5,956,000 decrease in share-based payment expenses in respect of share options granted to employees, which was partially offset by a HK\$1,516,000 increase in salaries and contribution to retirement benefits scheme as the Group increased its headcount to cope with the commencement of the operation of Shama Luxe Chang An in late June 2008. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement benefits scheme, staff benefits include medical scheme, share options and year-end performance bonus. An analysis of headcount and total staff

## Management Discussion and Analysis (Continued)

### Financial Review (Continued)

costs of the Group for the six months ended 30 June 2008 and 2007 is as follows:

	Six months ended 30 June	
	2008	2007
Total staff costs in HK\$		
— Salaries and contributions to retirement benefits scheme		
— Hong Kong and Macau	<b>3,565,000</b>	3,913,000
— the PRC	<b>2,310,000</b>	446,000
— Share-based payment expenses		
— Hong Kong and Macau	<b>2,388,000</b>	7,746,000
— the PRC	<b>235,000</b>	833,000
	<b>8,498,000</b>	12,938,000
Headcount		
— Hong Kong and Macau	<b>22</b>	20
— the PRC	<b>68</b>	33
	<b>90</b>	53

During the six months ended 30 June 2008, the Group funded its operations through a combination of equity attributable to the Company's equity holders, secured RMB term loan facility and amount due to China Star Entertainment Limited. Equity attributable to the Company's equity holders at 30 June 2008 amounted to HK\$1,077,973,000 (31 December 2007: HK\$1,046,080,000).

At 30 June 2008, the cash and cash equivalents of the Group amounted to HK\$281,790,000 (31 December 2007: HK\$531,396,000), of which HK\$26,059,000 is pledged to a bank for securing the secured RMB term loan facility. The decrease in cash and cash equivalents of the Group was mainly attributable to the payment of refundable deposits of HK\$200,000,000 to Well Will Investment Limited in relation to the proposed acquisition of a 100% equity interest in Rich Daily Group Limited as announced by the Company on 4 March 2008. At 30 June 2008, the Group's current ratio was 4.55 (31 December 2007: 5.19).

## Management Discussion and Analysis (Continued)

### Financial Review (Continued)

At 30 June 2008, the total borrowings of the Group amounted to HK\$338,172,000 (31 December 2007: HK\$329,719,000), comprising the secured RMB term loan facility of HK\$337,509,000 which is secured by certain of the Group's investment properties, a corporate guarantee given by the Company and bank deposits of HK\$26,059,000, interest bearing at 95% of the interest rate prescribed by the People's Bank of China for loan period of five years and repayable by seven half-yearly instalments within three years; and the amount due to China Star Entertainment Limited of HK\$663,000, which is unsecured, interest-free and has no fixed terms of repayment. The Group expresses its gearing ratio as a percentage of total borrowings over equity attributable to the Company's equity holders. At 30 June 2008, the Group's gearing ratio was 31.37% (31 December 2007: 31.52%).

The fair value of the Group's investment properties increased from HK\$887,450,000 at 31 December 2007 to HK\$978,785,000 at 30 June 2008. The increase was attributable to the additions to investment properties of HK\$28,129,000, the increase in fair value of investment properties of HK\$16,798,000 and the exchange alignment of HK\$46,408,000 arising from the appreciation of Renminbi. At 30 June 2008, certain of the Group's investment properties with a fair value of HK\$940,134,000 was pledged to the bank to secure the secured RMB term loan facility granted to the Group.

During the six months ended 30 June 2008, the Group acquired the remaining 3.3% interest in the registered capital of Beijing Jianguo Real Estate Development Co. Ltd. from Beijing Urban Development Group Co. Ltd. at a net consideration of RMB84,000 (equivalent to HK\$105,000), after deducting an amount of RMB4,150,000 (equivalent to HK\$4,718,000) paid to Beijing Urban Development Group Co. Ltd. in 1997 by the ex-owner. The directors believe that the acquisition of the remaining 3.3% interest provides the Group with a better protection on its interest in Beijing Jianguo Real Estate Development Co. Ltd. and a greater flexibility in managing Shama Luxe Chang An.

During the six months ended 30 June 2008, the Company issued 10,009 new shares of HK\$0.10 each at an exercise price of HK\$0.1146 per share in April 2008 pursuant to the exercise of share options granted to an employee.

## Management Discussion and Analysis (Continued)

### Financial Review (Continued)

On 19 March 2008, the board of directors proposed the following changes to the capital of the Company (the “Capital Reorganisation”):

- (a) share consolidation: that every ten issued and unissued existing ordinary shares of HK\$0.10 each in the share capital of the Company be consolidated into one ordinary share of HK\$1.00 each (the “Consolidated Share”) in the share capital of the Company;
- (b) capital reduction: that the issued Consolidated Shares be reduced by cancelling from the paid-up capital thereof to the extent of HK\$0.99 of each issued Consolidated Share and reducing the nominal value of all the Consolidated Shares comprising the authorised share capital of the Company from HK\$1.00 each to HK\$0.01 each; and
- (c) share premium cancellation: that the entire amount of HK\$813,058,000 standing to the credit of the share premium account of the Company at 31 December 2007 be cancelled and such credit amount arising from the share premium cancellation be applied to the contributed surplus account of the Company where it will be utilised by the board of directors in accordance with bye-laws of the Company and all applicable laws, including to eliminate the accumulated losses of the Company of HK\$518,374,000 at 31 December 2006 entirely.

The Capital Reorganisation reduces the overall transaction and handling costs for dealing in the Company’s shares and allows the Company to declare dividends to its shareholders at an earlier opportunity than generating profits to offset the Company’s accumulated losses. The Capital Reorganisation was approved by shareholders on 30 April 2008 and took effect on 2 May 2008.

At 30 June 2008, the Group had the following material commitments contracted but not provided for in the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008:

- (a) capital expenditures of HK\$29,011,000 in respect of the renovation works of the Group’s investment properties;
- (b) a commitment of HK\$447,000,000 in respect of the proposed acquisition of a 100% interest in Exceptional Gain Profits Limited and a sale loan from China Star Entertainment Limited, a substantial shareholder;

## Management Discussion and Analysis (Continued)

### Financial Review (Continued)

- (c) a commitment of HK\$504,000,000 in respect of the proposed acquisition of a 100% interest in the issued share capital of Rich Daily Group Limited from Well Will Investment Limited;
- (d) a commitment in respect of acquiring the registered capital of 上海昇平文化發展有限公司 from its owners at a price to be determined by the valuers in Mainland China when the laws in Mainland China allow foreign investors to own more than 51% interest in the registered capital of 上海昇平文化發展有限公司; and
- (e) a revolving facility of up to HK\$200,000,000 granted to Best Season Holdings Corp. ("Best Season"), a 75% own subsidiary of the Group.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi, the exchange risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by the Group.

At 30 June 2008, the Group had no material contingent liabilities.

### Operations Review

During the six months ended 30 June 2008, the Hong Kong films market remained sluggish and the demand for Hong Kong made movies in the Mainland China remained weak. The number of films produced by local producers decreased from 24 in the six months ended 30 June 2007 to 23 in the six months ended 30 June 2008. As a result, the Group was not able to secure quality films at reasonable prices for distribution. However, the Group has concluded an agreement to sell its film library for HK\$2,000,000 during the period under review.

## Management Discussion and Analysis (Continued)

### Operations Review (Continued)

The renovation of Shama Luxe Chang An has been completed. Shama Luxe Chang An presents 208 sophisticated residence with one to three bedroom layouts and duplex suites, a vast clubhouse with sports, recreation and children's facilities and a large private garden. The soft opening of Shama Luxe Chang An commences in late June 2008. Before and during the period of the Olympic Games, the Chinese government carried out a tightening visa policy, resulting in many long-term overseas tenants who have long-term demand for serviced apartment having to return to their countries for visa renewals, which affects both the long-term and short-term leasing. During the six months ended 30 June 2008, Shama Luxe Chang An has signed short-term leases with an aggregate contract value over RMB10,000,000 for the "Olympic Month – August 2008". The directors believe that the signing of long-term leases will be gradually caught up following the relaxation of tightening visa policy after the closure of the Olympic Games.

To diversify its revenue sources and further improve its profitability, on 28 February 2008, the Group entered into a conditional sale and purchase agreement with Well Will Investment Limited and Mr. Ng Cheuk Fai relating to the proposed acquisition of a 100% of the issued share capital of Rich Daily Group Limited from Well Will Investment Limited at an initial consideration of HK\$504,000,000 (subject to adjustment). Rich Daily Group Limited is a management services provider to the concierge department of a gaming promoter. The monthly service fee earned by Rich Daily Group Limited is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoter. The initial consideration will be settled by the Group paying HK\$360,000,000 in cash and issuing of convertible bonds in an aggregate principle amount of HK\$144,000,000, with an initial conversion price of HK\$1.60 per conversion share. The proposed acquisition constitutes a very substantial acquisition for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and was approved by the shareholders on 27 June 2008. The proposed transaction was completed on 29 August 2008.

Best Season has been established to invest in, manage and conduct branding for real estate and/or related properties in Macau. As the Group has recently expanded its operations into hotel operation and the provision of management services to concierge department of gaming promoter in Macau, the business development of Best Season has temporarily been suspended in order to concentrate the Group's resources on the newly expanded businesses. As a result, no contribution was made from Best Season in the six months ended 30 June 2008.

## Management Discussion and Analysis (Continued)

### Operations Review (Continued)

Due to additional time is required for the bank to release and change of security provided in relation to Kingsway Hotel Limited, the proposed acquisition of a 50% interest in Kingsway Hotel Limited has not yet been completed as at the date of this report and the long stop date of the proposed acquisition has been further extended to 31 October 2008. As reported by the vendor, the Kingsway Hotel is currently under renovation to transform itself into a luxury boutique hotel. Upon the completion of the renovation, the Kingsway Hotel presents 200 rooms and a casino, with 27 VIP gaming tables and 43 mass-market gaming tables.

### Future Prospects

With the commencement of Shama Luxe Chang An in late June 2008 and the completion of the proposed acquisition of a 100% interest in Rich Daily Group Limited took place in August 2008, revenue generated from these two investments will be recorded in the second half of 2008. The directors believe that these two investments will enable the Group to broaden its revenue base and improve its profitability.

### Dividend

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil).

### Change of Company's Name

On 19 March 2008, the board of directors proposed to change the Company's name from "Riche Multi-Media Holdings Limited" to "China Star Investment Holdings Limited" and upon the change of the Company's name becomes effective, the new Chinese name "中國星投資有限公司" will be adopted to replace "豐采多媒體集團有限公司" for identification purposes only. The directors believe that the change of the Company's name would provide a better reflection of the existing business of the Group as the name "Riche Multi-Media Holdings Limited" has over the years been synonymous with film distribution and multi-media business.

The proposed change of the Company's name was approved by the shareholders on 30 April 2008 and took effective on 25 June 2008.

## Management Discussion and Analysis (Continued)

### Change of Substantial Shareholder

On 13 May 2008, China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of China Star Entertainment Limited, entered into a conditional sale and purchase agreement with Glenstone Investments Limited (“Glenstone”) in relation to the acquisition of a 100% interest in the issued share capital of Classical Statue Limited, a substantial shareholder holding 29.90% interest in the issued share capital of the Company, by Glenstone. Glenstone is a company beneficially owned as to 60% by Ms. Chen Ming Yin, Tiffany and as to 40% by Mr. Heung Wah Keung, both of them are executive directors of the Company.

The acquisition of a 100% interest in the issued share capital of Classical Statue Limited by Glenstone was completed on 18 August 2008.

### Additional Information Required by the Listing Rules

#### Directors’ Interests in Shares and Underlying Shares

At 30 June 2008, the interests of certain directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

*Long positions – ordinary shares of HK\$0.01 each of the Company*

Directors	Note	Capacity	Interest in shares	Percentage of the issued share capital of the Company
Mr. Heung Wah Keung	1	Interest of controlled corporation	58,360,612	29.90%
Ms. Chen Ming Yin, Tiffany	1	Interest of controlled corporation	58,360,612	29.90%

## **Additional Information Required by the Listing Rules** *(Continued)*

### **Directors' Interests in Shares and Underlying Shares** *(Continued)*

*Long positions – ordinary shares of HK\$0.01 each of the Company (Continued)*

*Note:*

1. Glenstone is owned as to 60% by Porterstone Limited and as to 40% by Mr. Heung Wah Keung. Porterstone Limited is wholly owned by Ms. Chen Ming Yin, Tiffany.

Other than the holdings disclosed above, none of the directors and their associates, had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 30 June 2008.

### **Arrangements to Purchase Acquire Shares or Debentures**

At no time during the six months ended 30 June 2008 was the Company or any of its subsidiaries or its fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Additional Information Required by the Listing Rules (Continued)

### Share Option Scheme

The Company adopted its share option scheme on 21 January 2002. The principal terms of the share option scheme were disclosed in the Company's 2007 annual report. Details of movements in the Company's share options during the six months ended 30 June 2008 are set out as follows:

Category of participants	Date of grant	Exercise price per share		Exercise period	Number of share options				
		before the Capital Reorganisation	after the Capital Reorganisation		Outstanding at 1 January 2008	Granted during the period	Exercised during the period	Adjustment for the Capital Reorganisation	Outstanding at 30 June 2008
		HK\$	HK\$		(Note 1)			(Note 2)	
Employees	8 March 2002	2.615	26.15	8 March 2002 to 7 March 2012	18,893,258	–	–	(17,003,932)	1,889,326
Employees	13 December 2004	1.951	19.51	13 December 2004 to 12 December 2014	27,415,112	–	–	(24,673,601)	2,741,511
Employees and consultants	22 March 2007	0.473	4.73	22 March 2007 to 21 March 2017	15,035,056	–	–	(13,531,550)	1,503,506
Employees and consultants	31 May 2007	0.704	7.04	31 May 2007 to 30 May 2017	78,684,455	–	–	(70,816,009)	7,868,446
Employees and consultants	11 July 2007	0.634	6.34	11 July 2007 to 10 July 2009	97,983,415	–	–	(88,185,073)	9,798,342
Employees and consultants	20 March 2008	0.1146	1.146	20 March 2008 to 19 March 2010	–	127,440,000	(10,009)	(114,686,992)	12,742,999
					238,011,296	127,440,000	(10,009)	(328,897,157)	36,544,130

#### Notes:

1. The exercise period commenced on the date of grant.
2. The number of share options has been adjusted for the Capital Reorganisation that took effect on 2 May 2008.
3. The closing price of the Company's share on 2 April 2008, the date on which the share options were exercised, was HK\$1.02 (adjusted for the Capital Reorganisation). The weighted average closing price of the Company's shares immediately before the date on which the share options were exercised was HK\$1.044 (adjusted for the Capital Reorganisation).

## Additional Information Required by the Listing Rules (Continued)

### Share Option Scheme (Continued)

The fair value of the share options granted on 20 March 2008 is HK\$0.28314 each (adjusted for the Capital Reorganisation). The Binominal Option Pricing Model has been used to estimate the fair value of the share options. Expected volatility is based on the annualised historical volatility of the Company as of the grant date. It is assumed that employees and consultants will exercise the share options if the share price reaches one and a half times of the exercise price. Annual staff forfeiture rate of the share options is assumed to be 0%. The inputs to the model are as follows:

Grant date share price	HK\$1.11 *
Exercise price	HK\$1.146 *
Expected volatility	95.35%
Option life	2 years
Dividend yield	0%

\*: *Adjusted for the Capital Reorganisation*

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate.

## Additional Information Required by the Listing Rules (Continued)

### Substantial Shareholders

At 30 June 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

*Long positions — ordinary shares of HK\$0.01 each of the Company*

Name	Notes	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the issued capital of the Company
China Star Entertainment Limited	1 & 5	Interest of controlled corporation	58,360,612	44,700,000	103,060,612	52.80%
China Star Entertainment (BVI) Limited	1 & 5	Interest of controlled corporation	58,360,612	—	58,360,612	29.90%
Classical Statute Limited	1 & 5	Beneficial owner	58,360,612	—	58,360,612	29.90%
Mr. Ng Cheuk Fai	2	Interest of controlled corporation	—	90,000,000	90,000,000	46.11%
Well Will Investment Limited	2	Beneficial owner	—	90,000,000	90,000,000	46.11%
Ms. Chen Ming Yin, Tiffany	3	Interest of controlled corporation	58,360,612	—	58,360,612	29.90%
Porterstone Limited	3	Interest of controlled corporation	58,360,612	—	58,360,612	29.90%
Mr. Heung Wah Keung	3	Interest of controlled corporation	58,360,612	—	58,360,612	29.90%
Glenstone	3	Beneficial owner	58,360,612	—	58,360,612	29.90%
Mr. Nan Andrew Sherrill	4	Interest of controlled corporation	12,941,217	—	12,941,217	6.63%

## Additional Information Required by the Listing Rules (Continued)

### Substantial Shareholders (Continued)

Long positions – ordinary shares of HK\$0.01 each of the Company (Continued)

Name	Notes	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the issued capital of the Company
Asia Vest Partners Limited	4	Interest of controlled corporation	12,941,217	–	12,941,217	6.63%
Asia Vest Partners VII Limited	4	Interest of controlled corporation	12,941,217	–	12,941,217	6.63%
Asia Vest Partners X Limited	4	Interest of controlled corporation	12,941,217	–	12,941,217	6.63%
Northbay Investments Holdings Limited	4	Beneficial owner	12,941,217	–	12,941,217	6.63%

#### Notes:

- 58,360,612 shares are beneficially owned by Classical Statue Limited. Classical Statue Limited is a wholly-owned subsidiary of China Star Entertainment (BVI) Limited. China Star Entertainment (BVI) Limited is a wholly-owned subsidiary of China Star Entertainment Limited ("China Star"). China Star and China Star Entertainment (BVI) Limited are deemed to be interested in the shares owned by Classical Statue Limited.
- Well Will Investment Limited is wholly owned by Mr. Ng Cheuk Fai.
- Glenstone is owned as to 60% by Porterstone Limited and as to 40% by Mr. Heung Wah Keung. Porterstone Limited is wholly owned by Ms. Chen Ming Yin, Tiffany.
- 12,941,217 shares are beneficially owned by Northbay Investments Holdings Limited. 35.5% and 64.5% of the entire shareholding of Northbay Investments Holdings Limited are respectively owned by Asia Vest Partners VII Limited and Asia Vest Partners X Limited, and both of them are indirectly wholly owned by Mr. Andrew Nan Sherrill through Asia Vest Partners Limited.
- Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Mr. Ho Wai Chi, Paul are directors of the Company and China Star. Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are also directors of China Star Entertainment (BVI) Limited and Classical Statue Limited.

## **Additional Information Required by the Listing Rules** *(Continued)*

### **Substantial Shareholders** *(Continued)*

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company at 30 June 2008.

### **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 30 June 2008.

### **Compliance with the Code on Corporate Governance Practices**

The Company had complied with all applicable code provision of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2008, except for code provision A.4.1.

Code provision A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election. However, all the non-executive directors of the Company 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. At each annual general meeting, one-third of the directors for the time being, (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this code provision.

### **Compliance with the Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2008. The Model Code also applies to other specified senior management of the Group.

## **Additional Information Required by the Listing Rules** *(Continued)*

### **Review of Financial Information**

The audit committee has reviewed the 2008 interim report and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008 and agreed to the accounting principles and practices adopted by the Company. In addition, the Company's external auditors have reviewed the unaudited condensed consolidated interim financial statements 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.

### **Acknowledgement**

On behalf of the Board, I would like to express my gratitude and appreciation to my fellow directors, the management and staff for their dedication, loyalty and contribution. In addition, I would like to thank our shareholders for their continuous support.

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

Hong Kong, 23 September 2008