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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

Stock code: 326

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

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 2008 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2008

		Six months ended 30th June	
	Notes	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Continuing operations			
Turnover	4	95,834	56,157
Cost of sales		(15,844)	(38,561)
Gross profit		79,990	17,596
Other revenue	5	3,154	4,302
Other income	6	155	2,710
Administrative expenses		(32,975)	(16,233)
Marketing and distribution expenses		(247)	(561)
Share-based payment expenses		–	(14,631)
Net realised and unrealised gain on financial assets classified as held-for-trading		1,293	17,290
Profit from operations	7	51,370	10,473
Finance costs	8	(7,096)	(1,855)
Share of results of associates		(3,303)	33,227
Discount on acquisition of interest in associates		–	2,659
Gain on disposal of subsidiaries		476	–
Loss on deemed disposal of interest in an associate		(17,551)	(35,873)
Profit before taxation		23,896	8,631
Taxation	9	235	(15)
Profit for the period from continuing operations		24,131	8,616
Discontinued operations			
Loss for the period from discontinued operations	10	(12,531)	(33,379)
		11,600	(24,763)
Attributable to:			
Equity holders of the Company		17,865	(24,754)
Minority interests		(6,265)	(9)
		11,600	(24,763)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period			
From continuing and discontinued operations			
Basic	11	HK\$0.05	(HK\$0.30)
Diluted	11	HK\$0.05	(HK\$0.30)
From continuing operations			
Basic	11	HK\$0.06	HK\$0.11
Diluted	11	HK\$0.06	HK\$0.10

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

CHINA STAR ENTERTAINMENT LIMITED

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CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2008

	Notes	30th June 2008 HK\$'000 (Unaudited)	31st December 2007 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	13	6,244	7,138
Interests in leasehold land		5,560	5,642
Investment properties	14	51,100	51,100
Intangible asset	22	989,205	—
Goodwill		38,037	29,062
Available-for-sale financial assets		25,200	39,900
Convertible note receivable from an associate		—	667
Conversion option embedded in convertible notes receivable from an associate		—	222
Interests in associates	15	—	375,148
		1,115,346	508,879
Current assets			
Inventories		301	301
Film rights		40,269	50,797
Films in progress		21,828	24,948
Trade receivables	16	74,723	51,666
Deposits, prepayments and other receivables		30,121	36,790
Deposits for investments		—	400,000
Held-for-trading investments		24,300	16,600
Amounts due from associates		663	7,359
Prepaid tax		485	456
Cash and cash equivalents		23,967	22,735
		216,657	611,652
Assets classified as held for sale	21	1,396,666	1,187,072
		1,613,323	1,798,724
Total assets		2,728,669	2,307,603
Capital and reserves			
Share capital	17	22,212	140,305
Reserves		1,398,682	1,033,828
		1,420,894	1,174,133
Equity attributable to equity holders of the Company		1,420,894	1,174,133
Minority interests		1,197	1,328
Total equity		1,422,091	1,175,461

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CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30th June 2008

	Notes	30th June 2008 HK\$'000 (Unaudited)	31st December 2007 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings – due after one year	19	7,199	8,523
Deferred tax liabilities		15,059	3,466
Unsecured convertible notes	20	319,225	–
		341,483	11,989
Current liabilities			
Trade payables	18	14,946	17,621
Deposits received, accruals and other payables		58,805	66,018
Bank borrowings – due within one year	19	2,517	2,418
		76,268	86,057
Liabilities associated with assets classified as held for sale	21	888,827	1,034,096
		965,095	1,120,153
Total liabilities		1,306,578	1,132,142
Total equity and liabilities		2,728,669	2,307,603
Net current assets		648,228	678,571
Total assets less current liabilities		1,763,574	1,187,450

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

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2008

	Attributable to the equity holders of the Company												
	Share capital	Share premium	Contributed surplus	Exchange reserve	Special reserve	Share-based payment reserve	Convertible notes reserve	Financial assets revaluation reserve	Capital reduction reserve	Accumulated losses	Sub-total	Minority interests	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
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
Exchange alignment	-	-	-	1,969	-	-	-	-	-	-	1,969	-	1,969
Share of reserves of an associate	-	-	-	(105)	-	3,915	-	-	-	-	3,810	-	3,810
Fair value adjustment on available-for-sale financial assets	-	-	-	-	-	-	-	45,500	-	-	45,500	-	45,500
Loss for the period	-	-	-	-	-	-	-	-	-	(24,754)	(24,754)	(9)	(24,763)
Total recognised income and expenses for the period	-	-	-	1,864	-	3,915	-	45,500	-	(24,754)	26,525	(9)	26,516
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
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)
Disposal of interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	320,471	320,471
At 30th June 2007	68,699	1,114,050	186,624	5,587	(6,867)	48,483	25,127	35,700	316,008	(805,073)	988,338	321,844	1,310,182

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30th June 2008

	Attributable to the equity holders of the Company												
	Share capital	Share premium	Contributed surplus	Exchange reserve	Special reserve	Share-based payment reserve	Convertible notes reserve	Financial assets revaluation reserve	Capital reduction reserve	Retained earnings/ losses	Sub-total	Minority interests	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1st January 2008	140,305	1,356,450	186,624	10,540	(6,867)	55,292	1,247	(12,600)	316,008	(872,866)	1,174,133	1,328	1,175,461
Exchange alignment	-	-	-	390	-	-	-	-	-	-	390	-	390
Share of reserves of an associate	-	-	-	10,982	-	1,079	-	-	-	-	12,061	-	12,061
Fair value adjustment on available-for-sale financial assets	-	-	-	-	-	-	-	(18,751)	-	-	(18,751)	-	(18,751)
Transfer to liabilities associated with assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	6,262	6,262
Profit for the period	-	-	-	-	-	-	-	-	-	17,865	17,865	(6,265)	11,600
Total recognised income and expenses for the period	-	-	-	11,372	-	1,079	-	(18,751)	-	17,865	11,565	(3)	11,562
Disposal of subsidiaries	-	-	-	(348)	-	-	-	-	-	-	(348)	(128)	(476)
Capital reduction	(199,910)	-	199,910	-	-	-	-	-	-	-	-	-	-
Share premium cancellation (note)	-	(1,356,450)	1,356,450	-	-	-	-	-	-	-	-	-	-
Set off against accumulated losses (note)	-	-	(864,665)	-	-	-	-	-	-	864,665	-	-	-
Released on deemed disposal of an associate	-	-	-	-	-	(930)	(1,247)	-	-	-	(2,177)	-	(2,177)
Issue of convertible notes	-	-	-	-	-	-	71,691	-	-	-	71,691	-	71,691
Deferred tax	-	-	-	-	-	-	(11,829)	-	-	-	(11,829)	-	(11,829)
Share options lapsed	-	-	-	-	-	(1,394)	-	-	-	1,394	-	-	-
Issue of shares for acquisition of a subsidiary	11,817	2,363	-	-	-	-	-	-	-	-	14,180	-	14,180
Placing of new shares	70,000	98,000	-	-	-	-	-	-	-	-	168,000	-	168,000
Share issuing expenses	-	(4,321)	-	-	-	-	-	-	-	-	(4,321)	-	(4,321)
At 30th June 2008	22,212	96,042	878,319	21,564	(6,867)	54,047	59,862	(31,351)	316,008	11,058	1,420,894	1,197	1,422,091

Note:

At the special general meeting of the Company held on 8th May 2008, a special resolution was passed to approve the entire amount of approximately HK\$1,356,450,000 standing to the credit of the share premium account of the Company as at 31st December 2007 be cancelled and such credit amount arising from the share premium cancellation be transferred to the contributed surplus account of the Company, a sum of approximately HK\$864,665,000 in the contributed surplus account of the Company be applied to set off against the accumulated losses of the Company as at 31st December 2006 and the remaining credit balance in the contributed surplus account of the Company will be utilised by the board of directors of the Company in accordance with the bye-laws of the Company and all applicable laws.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2008

	Six months ended 30th June 2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Net cash generated from operating activities	3,398	12,702
Net cash used in investing activities	(206,469)	(289,878)
Net cash generated from financing activities	137,454	292,891
Net (decrease)/increase in cash and cash equivalents	(65,617)	15,715
Cash and cash equivalents at beginning of the period	57,321	89,347
Effect of foreign exchange rate changes	390	1,969
Cash and cash equivalents at the end of the period	<u>(7,906)</u>	<u>107,031</u>
Analysis of the balances of cash and cash equivalents:		
Cash and cash equivalents	23,967	107,031
Cash and cash equivalents included in non-current assets held for sale (note 21)		
– Cash and cash equivalents	947	–
– Bank overdraft	(32,820)	–
	<u>(7,906)</u>	<u>107,031</u>

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

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th 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 34 "Interim Financial Reporting" issued by the 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 31st December 2007.

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 preparation of the Interim Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 31st December 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("HK(IFRIC) – Int") issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs"), which are effective for the Group's accounting period beginning 1st January 2008.

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

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

² Effective for financial period commencing on or after 1st January 2008

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

The Group has not early applied the following new and revised Hong Kong Accounting Standards ("HKAS's") and Hong Kong Financial Reporting Standards ("HKFRS's") or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards or interpretations will have no material impact on the results and the financial position of the Group.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (revised)	Borrowing Costs ¹
HKAS 27 (revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations arising on Liquidation ¹
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

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

² Effective for financial period commencing on or after 1st July 2009

³ Effective for financial period commencing on or after 1st July 2008

⁴ Effective for financial period commencing on or after 1st October 2008

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

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 2008:

	Continuing operations						Discontinued operations	
	Hong Kong and Macau HK\$'000 (Unaudited)	The People's Republic of China excluding Hong Kong, Macau and Taiwan (The "PRC") HK\$'000 (Unaudited)	American and Europe HK\$'000 (Unaudited)	South-east Asia HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Hong Kong and Macau HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Turnover	91,405	1,120	-	3,192	117	95,834	-	95,834
Segment result	80,764	(1,215)	(62)	308	(52)	79,743	-	79,743
Unallocated revenue and income						4,602	248	4,850
Unallocated corporate expenses						(32,975)	(4,609)	(37,584)
Profit/(loss) from operations						51,370	(4,361)	47,009

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3. SEGMENT INFORMATION (Continued)

For the six months ended 30th June 2007:

	Continuing operations					Discontinued operations	
	Hong Kong and Macau HK\$'000 (Unaudited)	The PRC HK\$'000 (Unaudited)	South-east Asia HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Hong Kong and Macau HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Turnover	6,553	–	922	48,682	56,157	13,873	70,030
Segment result	5,198	–	(283)	12,120	17,035	9,391	26,426
Unallocated revenue and income					24,302	–	24,302
Unallocated corporate expenses					(30,864)	(10,834)	(41,698)
Profit/(loss) from operations					10,473	(1,443)	9,030

Business segments

For the six months ended 30th June 2008:

	Continuing operations				Discontinued operations	
	Film distribution HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Gaming and entertainment HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Hotel services HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Turnover	14,575	2,495	78,764	95,834	–	95,834
Segment result	(1,297)	2,276	78,764	79,743	–	79,743
Unallocated revenue and income				4,602	248	4,850
Unallocated corporate expenses				(32,975)	(4,609)	(37,584)
Profit/(loss) from operations				51,370	(4,361)	47,009

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3. SEGMENT INFORMATION (Continued)

For the six months ended 30th June 2007:

	Continuing operations			Discontinued operations	Consolidated HK\$'000 (Unaudited)
	Film distribution HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Hotel services HK\$'000 (Unaudited)	
Turnover	<u>53,367</u>	<u>2,790</u>	<u>56,157</u>	<u>13,873</u>	<u>70,030</u>
Segment result	<u>14,463</u>	<u>2,572</u>	17,035	9,391	26,426
Unallocated revenue and income			24,302	-	24,302
Unallocated corporate expenses			(30,864)	(10,834)	(41,698)
Profit/(loss) from operations			<u>10,473</u>	<u>(1,443)</u>	<u>9,030</u>

4. TURNOVER

	Continuing operations		Discontinued operations		Consolidated	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Distribution fee income	14,575	4,695	-	-	14,575	4,695
Sales of film rights	-	48,672	-	-	-	48,672
Service income	150	150	-	-	150	150
Production fee income	2,345	2,640	-	-	2,345	2,640
Gaming and entertainment	78,764	-	-	-	78,764	-
Hotel operation income	-	-	-	13,873	-	13,873
	<u>95,834</u>	<u>56,157</u>	<u>-</u>	<u>13,873</u>	<u>95,834</u>	<u>70,030</u>

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5. OTHER REVENUE

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Dividend income	-	79	-	-	-	79
Interest income	304	1,673	190	-	494	1,673
Rental income	120	120	-	-	120	120
Management fee income received from associates	2,430	2,430	-	-	2,430	2,430
Others	300	-	58	-	358	-
	3,154	4,302	248	-	3,402	4,302

6. OTHER INCOME

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gain on disposal of property, plant and equipment	1	20	-	-	1	20
Gain on redemption of convertible notes	-	2,315	-	-	-	2,315
Gain on fair value change of convertible option	-	373	-	-	-	373
Others	154	2	-	-	154	2
	155	2,710	-	-	155	2,710

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7. PROFIT FROM OPERATIONS

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Profit from operations has been arrived at after charging:						
Amortisation of film rights (included in cost of sales)	15,622	37,735	-	-	15,622	37,735
Amortisation of interests in leasehold land	82	82	-	3,033	82	3,115
Depreciation of property, plant and equipment	1,160	1,627	-	1,493	1,160	3,120
Net foreign exchange losses	377	78	-	-	377	78
Employee benefit expenses	7,919	7,027	1,675	2,990	9,594	10,017
Impairment loss on amount due from associates	14,975	-	-	-	14,975	-
Share-based payment expenses	-	14,631	-	-	-	14,631
	14,975		1,675		14,975	

8. FINANCE COSTS

	Six months ended 30th June					
	Continuing operations		Discontinued operations		Consolidated	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Effective interest expense on unsecured convertible notes	6,916	1,501	-	-	6,916	1,501
Interest on bank borrowings wholly repayable within five years	154	299	8,170	1,963	8,324	2,262
Interest on bank borrowings not wholly repayable within five years	26	48	-	-	26	48
Interest on other loan wholly repayable within five years	-	7	-	-	-	7
	7,096	1,855	8,170	1,963	15,266	3,818

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10. DISCONTINUED OPERATIONS (Continued)

The combined results of the discontinued operations included in the condensed consolidated income statement are set out as follows:

	Six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period from discontinued operations		
Turnover	-	13,873
Cost of sales	-	(4,482)
	<u> </u>	<u> </u>
Gross profit	-	9,391
Other revenue	248	-
Administrative expenses	(4,609)	(10,834)
	<u> </u>	<u> </u>
Loss from operations	(4,361)	(1,443)
Finance costs	(8,170)	(1,963)
Discount on acquisition of subsidiaries	-	15,498
Loss on disposal of subsidiaries	-	(45,471)
	<u> </u>	<u> </u>
Loss before taxation	(12,531)	(33,379)
Taxation	-	-
	<u> </u>	<u> </u>
Loss for the period from discontinued operations	<u>(12,531)</u>	<u>(33,379)</u>
Attributable to:		
Equity holders of Exceptional Gain	(6,269)	(33,379)
Minority interests	(6,262)	-
	<u> </u>	<u> </u>
	<u>(12,531)</u>	<u>(33,379)</u>

The cash flows of the discontinued operations included in the condensed consolidated cash flow statement are set out as follows:

Cash flows from discontinued operations

	Six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash (used in)/generated from operating activities	(33,288)	87,659
Net cash used in investing activities	(7)	(72,873)
Net cash used in financing activities	(33,170)	-
	<u> </u>	<u> </u>
Net cash (outflows)/inflows	<u>(66,465)</u>	<u>14,786</u>

The assets and liabilities attributable to the hotel business have been classified and accounted for at 30th June 2008 as a disposal group held for sale and are presented separately in the condensed consolidated balance sheet (see note 21).

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II. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

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

	Six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profit/(loss) attributable to equity holders of the Company for the purpose of basic and diluted earnings/(loss) per share	17,865	(24,754)
	2008	2007
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	388,860	81,650

The weighted average number of ordinary shares for the six months ended 30th June 2008 and 2007 for the purpose of basic and diluted earnings/(loss) per share has been adjusted to take into the effect of the share consolidation that became effective on 8th May 2008. Details of the share consolidation are set out in note 17(b) to the Interim Financial Statements.

The computation of diluted earnings/(loss) per share for the six months ended 30th June 2008 and 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 earnings/(loss) per share.

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11. EARNINGS/(LOSS) PER SHARE (Continued)

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to equity holders of the Company is based on the following data:

	Six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit/(loss) attributable to equity holders of the Company for the purpose of basic earnings/(loss) per share	17,865	(24,754)
Less: Loss for the period from discontinued operations	(6,269)	(33,379)
Earnings for the purpose of basic earnings per share from continuing operations	24,134	8,625
Effect of dilutive potential ordinary shares:		
– interest expense on unsecured convertible notes	6,916	970
– tax effect relating to interest expense on unsecured convertible notes	(905)	–
	30,145	9,595
	2008	2007
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	388,860	81,650
Adjustment for assumed exercise of share options	–	2,743
Adjustment for assumed exercise of unsecured convertible notes	128,000	10,117
	516,860	94,510

The weighted average number of ordinary shares for the six months ended 30th June 2008 and 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 8th May 2008. Details of the share consolidation are set out in note 17(b) to the Interim Financial Statements.

The computation of diluted earnings per share for the six months ended 30th June 2008 and 2007 did not assume the exercise of certain outstanding share options during the period since their exercise would have an anti-dilutive effect on earnings per share.

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11. EARNINGS/(LOSS) PER SHARE (Continued)

From discontinued operations

Basic and diluted loss per share for the discontinued operations is HK\$0.02 per share for the six months ended 30th June 2008 (Six months ended 30th June 2007: HK\$0.41), based on the loss for the period from the discontinued operations of HK\$6,269,000 (Six months ended 30th June 2007: HK\$33,379,000) and the denominators detailed as continuing and discontinued operations for basic earnings/(loss) per share.

12. DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30th June 2008 (Six months ended 30th June 2007: Nil)

13. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group spent approximately HK\$274,000 on the acquisition of property, plant and equipment.

14. INVESTMENT PROPERTIES

As at 30th June 2008, investment properties with carrying amount of approximately HK\$51,100,000 (31st December 2007: approximately HK\$51,100,000) have been pledged to secure bank facilities granted to the Group.

15. INTERESTS IN ASSOCIATES

	As at 30th June 2008 HK\$'000 (Unaudited)	As at 31st December 2007 HK\$'000 (Audited)
Share of net assets of associates (note a)	322,313	329,678
Goodwill (note b)	27,294	45,470
	349,607	375,148
Reclassification to non-current assets classified as held for sale (note 21)	(349,607)	-
	-	375,148
Market value of listed shares	-	150,353

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15. INTERESTS IN ASSOCIATES (continued)

Notes:

(a) Share of net assets of associates	HK\$'000
At 1st January 2008	329,678
Share of result of associates	(3,303)
Deemed disposal of an associate (note c)	(16,123)
Share of changes in reserves of an associate	12,061
	<hr/>
At 30th June 2008	322,313
	<hr/> <hr/>
(b) Goodwill	HK\$'000
At 1st January 2008	45,470
Deemed disposal of an associate (note c)	(18,176)
	<hr/>
At 30th June 2008	27,294
	<hr/> <hr/>
(c) Interest in Brilliant Arts	

As at 28th January 2008, Brilliant Arts Multi-Media Holding Limited ("Brilliant Arts") had issued 180,000,000 shares to an independent third party which increased the issued share capital of Brilliant Arts from 423,853,908 shares to 603,853,908 shares. As a result, the Group's interest in Brilliant Arts was diluted from 25.74% to 18.07%. Such dilution of interest resulted Brilliant Arts ceased to be an associate of the Group.

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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:

	As at 30th June 2008 HK\$'000 (Unaudited)	As at 31st December 2007 HK\$'000 (Audited)
Brilliant Arts and its subsidiaries (the "Brilliant Arts Group")		
0 to 30 days	—	12
Others		
0 to 30 days	25,001	885
31 to 60 days	1,509	2,784
61 to 90 days	102	224
91 to 180 days	1,547	151
Over 180 days	50,598	51,644
	78,757	55,688
Less: Impairment loss on trade receivables	(4,034)	(4,034)
	74,723	51,654
	74,723	51,666

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17. SHARE CAPITAL

	Number of shares		Amount	
	As at 30th June 2008 '000 (Unaudited)	As at 31st December 2007 '000 (Audited)	As at 30th June 2008 HK\$'000 (Unaudited)	As at 31st December 2007 HK\$'000 (Audited)
Ordinary shares of HK\$0.05 each				
Authorised:				
At beginning of period	20,000,000	20,000,000	1,000,000	1,000,000
Share consolidation (note b)	(18,000,000)	—	—	—
Capital reduction (note b)	—	—	(900,000)	—
At end of period	<u>2,000,000</u>	<u>20,000,000</u>	<u>100,000</u>	<u>1,000,000</u>
Issued and fully paid:				
At beginning of period	2,806,097	704,646	140,305	35,232
Share consolidation (note b)	(3,998,187)	—	—	—
Capital reduction (note b)	—	—	(199,910)	—
Issue of shares for acquisition of an subsidiary (note 22(b))	236,333	—	11,817	—
Placing of shares (notes a, c & d)	1,400,000	646,695	70,000	32,335
Rights issue (note e)	—	843,769	—	42,188
Exercise of share options (note f)	—	78,285	—	3,914
Conversion of convertible bonds (note g)	—	532,702	—	26,636
At end of period	<u>444,243</u>	<u>2,806,097</u>	<u>22,212</u>	<u>140,305</u>

Notes:

- (a) On 24th January 2008, the Company allotted and issued 1,400,000,000 shares of the Company by way of placing to independent investors at a price of HK\$0.12 per share. The net proceeds of approximately HK\$163,679,000 were used for the acquisition of Best Mind International Inc. ("Best Mind").

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INTERIM REPORT 2008

17. SHARE CAPITAL (continued)

Notes: (continued)

- (b) At the special general meeting of the Company held on 8th May 2008, a special resolution was passed to approve the following changes to the capital of the Company (the "Capital Reorganisation"):
- (i) Share consolidation: every ten existing shares of HK\$0.05 each in the issued and unissued share capital of the Company be consolidated into one share of HK\$0.50 each (the "Consolidated Share");
 - (ii) Capital reduction: the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK\$0.45 on each issued Consolidated Share in the share capital of the Company such that the nominal value of all issued Consolidated Shares will be reduced from HK\$0.50 to HK\$0.05 each; and
 - (iii) the nominal value of all the Consolidated Shares in the authorised share capital of the Company be reduced from HK\$0.50 each to HK\$0.05 each, resulting in the reduction of the authorised share capital from HK\$1,000,000,000 divided into 2,000,000,000 Consolidated Shares to HK\$100,000,000 divided into 2,000,000,000 share of HK\$0.05 each,

the Capital Reorganisation was effected on 9th May 2008.

- (c) On 17th April 2007 and 30th May 2007, the Company allotted and issued 124,900,000 shares and 81,100,000 shares respectively by way of placing to independent investors at a price of HK\$0.37 per share. The net proceeds of approximately HK\$74,000,000 were used for general working capital of the Group.
- (d) On 25th June 2007, the Company allotted and issued an aggregate of 165,905,000 shares by way of placing to independent investors at a price of HK\$0.40 per share. The net proceeds of approximately HK\$64,600,000 were used for general working capital of the Group.
- (e) On 17th October 2007, the Company issued 843,769,024 new shares of HK\$0.05 each by way of a rights issue on the basis of one rights share for every two shares held on 15th October 2007 at a subscription price of HK\$0.20 per share. The net proceeds of approximately HK\$164,800,000 were used for the acquisition of Best Mind.
- (f) For the year ended 31st December 2007, 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, an aggregate of 5,900,000 shares at an exercise price of HK\$0.42 per share and an aggregate of 12,600,000 shares at an exercise price of HK\$0.277 per share respectively. The net proceeds from the exercise of option rights amounted to approximately HK\$21,374,000.
- (g) On 18th May 2007, the Company issued zero coupon convertible bonds in the principle amount of HK\$168,500,000 at an initial conversion price of HK\$0.32 per share. These convertible bonds were fully converted into ordinary shares during the year ended 31st December 2007.

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18. TRADE PAYABLES

The aged analysis of the trade creditors is as follows:

	As at 30th June 2008 HK\$'000 (Unaudited)	As at 31st December 2007 HK\$'000 (Audited)
0 to 30 days	368	2,980
31 to 60 days	519	1,174
61 to 90 days	105	5
91 to 180 days	1,999	167
Over 180 days	11,955	13,295
	<u>14,946</u>	<u>17,621</u>

19. BANK BORROWINGS

	As at 30th June 2008 HK\$'000 (Unaudited)	As at 31st December 2007 HK\$'000 (Audited)
Secured bank loans	<u>9,716</u>	<u>10,941</u>

The maturity of the above borrowings is as follows:

Within one year	2,517	2,418
Between one and two years	2,592	2,528
Between two and five years	4,443	5,681
After five years	164	314
	9,716	10,941
Less: Amount due within one year shown under current liabilities	<u>(2,517)</u>	<u>(2,418)</u>
Amount due after one year	<u>7,199</u>	<u>8,523</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\$51,100,000 (31st December 2007: HK\$51,100,000). The mortgage loan is repayable in instalments over a period of ten years.

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20. UNSECURED CONVERTIBLE NOTES

On 18th March 2008, the Company issued unsecured convertible notes in the principal amount of HK\$384,000,000 ("Convertible Notes") to Lucky State Group Limited ("Noteholder") as part of consideration for the acquisition of the entire equity interest in Best Mind. The Convertible Notes are interest bearing at 5% per annum and will be matured on 17th March 2018. The Noteholder may convert the whole or part (in multiples of HK\$1,000,000) of the Convertible Notes into shares of the Company at an initial conversion price of HK\$0.30 per share (subject to adjustment) from the date either the guarantee profit from Mr. Ng Cheuk Fai, the guarantor and beneficial owner of the Noteholder, is achieved or the shortfall is received from the Noteholder to 17th March 2018.

The Convertible Notes contain two components, liability and equity elements. The fair value of the liability component, included in long-term borrowings, was calculated using discounted cash flow method with reference to a market interest rate for an equivalent non-convertible note. The remaining balance represented the equity conversion component, is included in shareholders' equity named as convertible notes reserve.

	<i>HK\$'000</i>
Proceeds of issue	384,000
Equity component	<u>(71,691)</u>
Liability component at date of issue	312,309
Interest charged	<u>6,916</u>
Liability component at 30th June 2008	<u><u>319,225</u></u>

The effective interest rate on the liability component of the Convertible Notes is approximately 7.75%.

21. NON-CURRENT ASSETS HELD FOR SALE

On 13th May 2008, China Star Entertainment (BVI) Limited, a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Glenstone Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is a substantial shareholder of the Company. Pursuant to the agreement, the Group conditional agreed to dispose the entire issued share capital of Classical Statue Limited ("CSL") with a total consideration of HK\$330,567,000 in cash (the "Disposal"). CSL's major assets are the 58,310,612 shares of China Star Investment, representing 29.9% of the issued share capital of China Star Investment, 109,090,908 shares of Brilliant Arts, representing 8.68% of the issued share capital of Brilliant Arts and a convertible note receivable from Brilliant Arts with principal face value of HK\$1,000,000 as at the balance sheet date. Details of which were set out in the Company's announcements and circular dated 15th May 2008 and 24th June 2008 respectively. The Disposal was completed on 18th August 2008.

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21. NON-CURRENT ASSETS HELD FOR SALE (continued)

The major classes of assets and liabilities classified as held for sale comprising CSL and the hotel operations as described in note 10 to the Interim Financial Statements at the balance sheet date are as follows:

	As at 30th June 2008 HK\$'000 (Unaudited)	As at 31st December 2007 HK\$'000 (Audited)
Property, plant and equipment	3,766	3,758
Interests in leasehold land	517,568	517,568
Construction in progress	274,196	274,196
Interest in an associate	349,607	—
Available-for-sale financial assets	10,582	—
Convertible note receivable from an associate	698	—
Conversion option embedded in convertible notes receivable from an associate	222	—
Inventories	213	213
Trade receivables	1,473	1,462
Deposits, prepayments and other receivables	41,394	12,773
Loan to a minority shareholder	196,000	196,000
Cash and cash equivalents	947	181,102
	<hr/>	<hr/>
Assets classified as held for sale	1,396,666	1,187,072
	<hr/>	<hr/>
Bank overdraft	32,820	146,516
Trade payables	2,147	2,150
Accruals and other payables	3,717	4,170
Amounts due to minority shareholders	40,502	40,502
Tax payables	754	609
Deferred taxation	80,888	80,888
Bank borrowings	425,000	450,000
Minority interests	302,999	309,261
	<hr/>	<hr/>
Liabilities associated with assets classified as held for sale	888,827	1,034,096
	<hr/>	<hr/>
Net assets classified as held for sale	507,839	152,976
	<hr/> <hr/>	<hr/> <hr/>

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22. ACQUISITION OF SUBSIDIARIES

On 18th March 2008, the Group acquired entire equity interest in Best Mind at a total consideration of HK\$1,054,900,000 (the "Acquisition"), which were satisfied by HK\$600,000,000 in cash, HK\$384,000,000 by the issue of the Convertible Notes and HK\$70,900,000 by the allotment and issue of 236,333,333 shares credited as fully paid.

Best Mind entered into a profit agreement with Ocho Sociedade Unipessoal Limitada ("Ocho"), a Macau company engaged in the gaming promotion business, to share 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.

Details of net assets acquired and goodwill are as follows:

	Carrying amount before the Acquisition <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair value <i>HK\$'000</i>
Net assets acquired:			
Intangible asset (<i>note a</i>)	–	989,205	989,205
Cash at bank and in hand	1	–	1
Trade receivables	5	–	5
Other payables	(6)	–	(6)
	<hr/>	<hr/>	<hr/>
Net assets acquired	–	989,205	989,205
Goodwill	<hr/>	<hr/>	8,975
			<hr/>
Total consideration at fair value			<hr/> 998,180 <hr/>
Total consideration at fair value satisfied by:			
Cash consideration paid			200,000
Deposits for investments			400,000
Issue of shares at fair value (<i>note b</i>)			14,180
Issue of the Convertible Notes			384,000
			<hr/>
			998,180 <hr/>
Net cash outflow arising from the Acquisition:			
Cash consideration paid			200,000
Cash at bank and in hand acquired			(1)
			<hr/>
Net cash outflow on the Acquisition			199,999 <hr/>

CHINA STAR ENTERTAINMENT LIMITED

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22. ACQUISITION OF SUBSIDIARIES (continued)

Notes:

- a) The intangible asset represents the right in sharing of profit streams from junket business at one of the casino's VIP room in Macau for an indefinite period of time. The fair value of the intangible asset of approximately HK\$989,205,000 has been arrived at with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers, by using discounted cash flow method.
- b) As part of the consideration for the Acquisition, 236,333,333 ordinary shares of the Company with par value of HK\$0.05 each were issued. The fair value of the ordinary shares of the Company, determined by using the published price of HK\$0.06 per share available at the date of the Acquisition, amounted to approximately HK\$14,180,000.

During the six months ended 30th June 2008, Best Mind contributed profit of approximately HK\$78,764,000 to the Group since the Acquisition.

If the Acquisition had been completed on 1st January 2008, total restated group turnover for the current interim period would have been approximately HK\$149,118,000 and restated profit for the current interim period would have been approximately HK\$68,190,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the Acquisition been completed on 1st January 2008, nor is it intended to be a projection of future results.

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23. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period under review, the Group entered into the following transactions with Together Again Limited and its subsidiaries:

	For the six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Management fee income received or receivable	2,430	2,430

The amounts were determined at prices agreed between parties.

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

	For the six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Production fee income	-	2
Distribution fee	-	205

The amounts were determined at prices agreed between parties.

24. 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 2008, the Group had commitments for total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30th June 2008	As at 31st December 2007
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Within one year	1,423	1,566
In the second to fifth years, inclusive	421	1,016
	1,844	2,582

25. APPROVAL OF INTERIM FINANCIAL STATEMENT

The Interim Financial Statements were approved and authorised for issue by the board of directors of the Company on 23rd September 2008.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30th June 2008, the Group's turnover from continuing operations increased by 71% to approximately HK\$95,834,000 as compared to HK\$56,157,000 for the same period in the previous year. Of the total turnover amount, HK\$14,575,000 or 15% was generated from film distribution and sale of film rights, HK\$78,764,000 or 82% was generated from gaming and entertainment business and HK\$2,495,000 or 3% was generated from film post-production services and other service income.

Profit from operations and profit for the six months ended 30th June 2008 from continuing operations amounted to approximately HK\$51,370,000 and HK\$24,131,000 respectively as compared to HK\$10,473,000 and HK\$8,616,000 respectively for the same period in the previous year. The significant improvement in overall results was mainly due to increase in turnover derived from sharing of profit streams from investments in gaming and entertainment business in Macau. The effect on net profit was partially offset by loss on deemed disposal of interest in an associate of HK\$17,551,000 and an impairment loss on amount due from associates of HK\$14,975,000 included in administrative expenses.

Loss for the period from discontinued operations amounted to approximately HK\$12,531,000 as compared to HK\$33,379,000 for the same period in the previous year. Kingsway Hotel Limited ("KHL") became a subsidiary of the Group and the results being consolidated into the results of the Group with effect from 30th March 2007. The principal asset of KHL is Kingsway Hotel, a three star hotel located in Macau. Kingsway Hotel ceased its operation from end of July 2007 and is currently under renovation to becoming a luxury boutique hotel. On 1st August 2007, the Company entered into an agreement ("Proposed Disposal") to dispose all its interest in Exceptional Gain Profits Limited ("Exceptional Gain") to China Star Investment Holdings Limited (formerly known as Riche Multi-Media Holdings Limited) ("China Star Investment"). The principal asset in Exceptional Gain is its interest in KHL. The Proposed Disposal has been approved by the shareholders of the Company at a special general meeting of the Company held on 24th October 2007 and is expected to complete in October 2008. Accordingly, all the results of the group headed by Exceptional Gain which comprised the hotel operations were classified as discontinued operations and all its corresponding results for the six months ended 30th June 2007 were reclassified to conform with the current period's presentation.

The profit attributable to equity holders of the Company for the six months ended 30th June 2008 was HK\$17,865,000, representing a 172% improvement over loss of HK\$24,754,000 in the last corresponding period.

Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2008.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review

This period, the Group has successfully completed the acquisition of 100% equity interest in Best Mind International Inc. ("Best Mind"), the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. The sound performance of Best Mind has exceeded our expectation as the Group had shared approximately HK\$78,764,000 from the gaming and entertainment business, a 42% higher than the guarantee profit of approximately HK\$55,385,000 for the same period as provided by Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner of Ocho.

For the film distribution business, the Group had released only 2 new films in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. During the six months ended 30th June 2008, turnover for film distribution division amounted to HK\$14,575,000 (2007: HK\$53,367,000) and its segment result amounted to loss of HK\$1,297,000 (2007: profit of HK\$14,463,000) respectively. The decrease in turnover was mainly attributable to partial income from sale of film rights of 100 titles in our film library was recorded in the last corresponding period. The segment loss was attributable to sales of certain old titles at lower prices during the period.

For the geographical segment, turnover for Hong Kong and Macau segment amounted to HK\$91,405,000 or 95% of the total turnover as compared to HK\$6,553,000 or 12% of total turnover for the last corresponding period. Segment result amounted to HK\$80,764,000 as compared to HK\$5,198,000 for the last corresponding period. The huge increase in turnover and segment profit in the current period for Hong Kong and Macau segment was a result of revenue derived from sharing of profit streams from investments in gaming and entertainment business in Macau during the period.

For the six months ended 30th June 2008, administrative expenses (net of amortisation and depreciation on property, plant and equipment) amounted to HK\$31,733,000, a 118% increase from HK\$14,524,000 as compared to the corresponding period in last year. The increase was mainly attributable to a 13% increase in employee benefit expenses from HK\$7,027,000 to HK\$7,919,000 with response to the inflation in the period and an impairment loss on amount due from associates of HK\$14,975,000 was recorded during the period under review.

Finance costs for the six months ended 30th June 2008 amounted to HK\$7,096,000, an 283% increase from HK\$1,855,000 as compared to the last corresponding period. The substantial increase in finance costs was attributable to the issue of an aggregate principal amount of HK\$384,000,000 unsecured convertible notes ("Convertible Notes") as part of the consideration for the acquisition of Best Mind. In accordance with Hong Kong Accounting Standard 39 issued by the Hong Kong Institute of Certified Public Accountants, interest expenses of HK\$6,916,000 for the Convertible Notes were calculated using the prevailing market interest rate of similar instruments of 7.75% per annum, instead of the actual coupon rate of 5% per annum.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Financial Resources

As at 30th June 2008, the Group had total assets of approximately HK\$2,728,669,000 and a net current assets of HK\$648,228,000, representing a current ratio of 1.7 (31st December 2007: 1.6). The Group had a total cash and bank balances of approximately HK\$23,967,000 (31st December 2007: HK\$22,735,000). As at 30th June 2008, the Group had total borrowings of HK\$328,941,000 comprising a bank mortgage loan of HK\$9,716,000 which was secured by the Group's investment properties, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 67 monthly instalments; and the Convertible Notes of HK\$319,225,000 (liabilities component of principal amount of HK\$384,000,000). The Group's gearing remained reasonable during the period with total debts of HK\$328,941,000 against shareholders' funds of HK\$1,420,894,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 0.23. As at 30th June 2008, KHL, a non wholly owned subsidiary of the Group had total banking facilities amounted to HK\$625,000,000 which were utilised to the extent of HK\$457,820,000, comprising a bank loan of HK\$425,000,000 and a bank overdraft of HK\$32,820,000. These bank borrowings were classified as liabilities of hotel business associated with assets classified as held for sale in the balance sheet.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2008, the Group had no contingent liability.

On 11th December 2007, the Company entered into a placing agreement with a placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 1,400,000,000 new Shares to independent investors at a price of HK\$0.12 per Share. 1,400,000,000 new Shares was issued on 29th February 2008 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 24th January 2008. The net proceeds of approximately HK\$163,679,000 were intended to be used for the acquisition of Best Mind.

On 18th March 2008, the Company had issued 236,333,333 new Shares at a price of HK\$0.3 per Share as part of the consideration upon completion for the acquisition of Best Mind.

On 9th May 2008, the Company completed a capital reorganisation comprising (i) share consolidation that every 10 issued and unissued Shares be consolidated into 1 consolidated share of the Company ("Consolidated Shares"); (ii) capital reduction that the nominal value of all issued and unissued Consolidated Shares be reduced from HK\$0.50 each to HK\$0.05 each; and (iii) share premium cancellation that the entire amount of HK\$1,356,449,856.32 in the share premium account of the Company as at 31st December 2007 be cancelled and credit to the contributed surplus account of the Company, a sum of approximately HK\$864,665,000 in the contributed surplus of the Company be applied to set off against the accumulated losses of the Company as at 31st December 2006.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Associates

China Star Investment Holdings Limited

As at 30th June 2008, the Group had approximately 29.9% equity interest in China Star Investment. China Star Investment and its subsidiaries ("China Star Investment Group") are principally engaged in the distribution of films, sub-licensing of film rights and sale of financial assets and property investment. As at 30th June 2008, China Star Investment Group had net assets of approximately HK\$1,077,973,000. Turnover and net loss of China Star Investment Group for the six months ended 30th June 2008 were approximately HK\$2,000,000 and HK\$8,446,000 respectively. Accordingly, the Group had shared a net loss of approximately HK\$2,525,000 for the six months ended 30th June 2008.

Brilliant Arts Multi-Media Holding Limited

The Group had approximately 25.74% equity interest in Brilliant Arts and its subsidiaries ("Brilliant Arts Group") as at 31st December 2007. Brilliant Arts Group is principally engaged in the provision of film production services, production of television movies, investment in film productions and worldwide film distribution. On 28th January 2008, Brilliant Arts issued 180,000,000 shares as consideration for the acquisition of Grandeur Concord Limited and the equity interest held by the Company was diluted to approximately 18.07% and thus ceased to become an associate of the Group. As at 30th June 2008, the Group interested in approximately 8.68% equity interest in Brilliant Arts.

Together Again Limited

As at 30th June 2008, 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 2008, TAL Group had net liabilities of HK\$2,634,000. Turnover and loss of TAL Group for the six month ended 30th June 2008 were HK\$1,435,000 and HK\$4,627,000, respectively. Accordingly, the Group shared a loss of HK\$nil for the six months ended 30th June 2008.

On 3rd July 2008, China Entertainment Group, Inc. was disposed to its ex-shareholder with zero assets and liabilities.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Material Acquisition

Best Mind International Inc.

On 18th March 2008, the Company had completed the acquisition of 100% issued share capital of Best Mind at an aggregate consideration of HK\$1,054,900,000 satisfied as to HK\$600,000,000 in cash, HK\$384,000,000 by the issue of the Convertible Notes at an initial conversion price of HK\$0.30 per Share and the balance of HK\$70,900,000 by the allotment and issue of 236,333,333 Shares credited as fully paid. Best Mind became a subsidiary of the Group and started to contribute cash profit to the Group.

Best Mind had entered into a profit agreement with 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. Mr. Ng Cheuk Fai, the guarantor in the acquisition agreement and the beneficial owner of Ocho, has guaranteed to Best Mind that the profit to be received by Best Mind shall not be less than HK\$264,000,000 and HK\$120,000,000 during the period from 17th August 2007 to 31st December 2008 and the period from 1st January 2009 to 16th August 2009 respectively. During the period under review, the Group had recorded revenue of HK\$78,764,000 from the gaming and entertainment related business.

Material Disposals

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 China Star Investment, and China Star Investment relating to the sale of 100% of the issued share capital of Exceptional Gain and the relevant sale loan for an aggregate consideration of HK\$447,000,000. Exceptional Gain is an investment holding vehicle which holds 50% interest in KHL. Following the completion of the Proposed Disposal, KHL will cease to be a subsidiary of the Group. As stated in the circular of the Company dated 9th October 2007, the Group is estimated to recognise a gain on disposal of approximately HK\$71,992,000 if assuming the Proposed Disposal would be completed on 30th June 2007. This gain will differ upon actual completion of the Proposed Disposal. The Proposed Disposal is expected to complete in October 2008. As such, the results of Exceptional Gain and KHL were recorded under discontinued operations and all the assets and liabilities of them were classified as assets classified as held for sale and the liabilities associated with assets were classified as held for sale.

Classical Statue Limited ("CSL"), China Star Investment Holdings Limited and Brilliant Arts Multi-Media Holding Limited

On 13th May 2008, the Company's wholly owned subsidiary, China Star Entertainment (BVI) Limited entered into a sale and purchase agreement with Glenstone Investments Limited, a substantial shareholder of the Company to dispose the entire issued share capital of CSL for a cash consideration of HK\$330,567,000. CSL's major assets are the 58,360,612 shares of China Star Investment, representing 29.90% of the issued share capital of China Star Investment at date of agreement; 109,090,908 shares in Brilliant Arts, representing approximately 8.68% of the issued share capital of Brilliant Arts at date of agreement; and a convertible bond receivable from Brilliant Arts with principal face value of HK\$1,000,000.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Material Disposals (Continued)

Classical Statue Limited ("CSL"), China Star Investment Holdings Limited and Brilliant Arts Multi-Media Holding Limited (Continued)

Assuming the disposal had been completed on 31st December 2007, the Group would estimate to recognise a loss on disposal of approximately HK\$78,670,000. This loss will differ upon actual completion of the disposal.

As such, all the assets and liabilities of CSL, China Star Investment and Brilliant Arts were classified as assets classified as held for sale and the liabilities associated with these assets were classified as held for sale.

The disposal has completed on 18th August 2008.

Employees

As at 30th June 2008, the Group employed 78 staffs (2007: 248 staffs), including 30 staffs (2007: 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

During the period under review, the Group has successfully diversified its business into the gaming and entertainment business and broadens the Group's revenue sources and provides stable cash income to the Group. The performance of this new business is encouraging. Despite the recent tightening of travel restrictions for Mainland Chinese travelers to visit Macau may have impact on Macau's gaming revenue growth over the next few months, the Group remains optimistic in the potential growth of China and Macau in the medium and long term growth. The Group believes that travel restrictions would be short term and the Macau gaming and entertainment business would growth internationally when its infrastructural development becomes more matured.

Besides, the Group will continue its strength in the production of high quality films with stringent control and cautious measure on capital investment and efficient management.

Looking ahead, the Group will streamline its business operations which can enable the Group to operate in a much cost effective manner, such as the disposal of CSL and concentrate its resources on investment opportunity with good potential of revenue growth and a positive impact on the Group's return in the long run.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2008, 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 ("Mr. Heung")	Beneficial owner/ interest of spouse/ interest of controlled corporation	107,931,911*	24.29
Ms. Chen Ming Yin, Tiffany ("Ms. Chen")	Beneficial owner/ interest of spouse/ interest of controlled corporation	107,931,911*	24.29
Ms. Li Yuk Sheung	Beneficial owner	1	0.00

All interests stated above represent long positions.

* These shares are held as to 5,459,250 shares by Mr. Heung, as to 3,171,661 shares by Ms. Chen (the spouse of Mr. Heung), as to 96,536,500 shares by Porterstone Limited ("Porterstone") (a company wholly-owned by Ms. Chen) and as to 2,764,500 shares by Dorest Company Limited ("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).

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

(ii) Rights to acquire shares in the Company

As at 30th June 2008, 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	154.59	50,054	50,054	100,108	
	02.06.2000 – 01.06.2010	74.92	22,663	22,663	45,326	
	16.07.2002 – 15.07.2012	15.81	12,021	12,021	24,042	
	17.07.2003 – 16.07.2013	5.20	24,806	24,806	49,612	
			<u>109,544</u>	<u>109,544[#]</u>	<u>219,088</u>	<u>0.05</u>
Ms. Chen	28.03.2000 – 27.03.2010	154.59	50,054	50,054	100,108	
	02.06.2000 – 01.06.2010	74.92	22,663	22,663	45,326	
	16.07.2002 – 15.07.2012	15.81	12,021	12,021	24,042	
	17.07.2003 – 16.07.2013	5.20	24,806	24,806	49,612	
			<u>109,544</u>	<u>109,544⁺</u>	<u>219,088</u>	<u>0.05</u>
Ms. Li Yuk Sheung	16.07.2002 – 15.07.2012	15.81	120,457	–	120,457	
	17.07.2003 – 16.07.2013	5.20	248,068	–	248,068	
			<u>368,525</u>	<u>–</u>	<u>368,525</u>	<u>0.08</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.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

Other than as set out above, as at 30th June 2008, 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.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

SHARE OPTION SCHEME (Continued)

Details of share options outstanding as at 30th June 2008 were as follows:

Category of Participants	Name of scheme	Exercisable period*	Exercise price per share [#] HK\$	Number of share options			Outstanding as at 30.06.2008
				Outstanding as at 01.01.2008	Lapsed during the period	Adjustment during the period [#]	
Substantial shareholders and directors of the Company [*]	Old Option Scheme	28.03.2000 – 27.03.2010	154.59	1,001,088	–	(900,980)	100,108
		02.06.2000 – 01.06.2010	74.92	453,258	–	(407,932)	45,326
	New Option Scheme	16.07.2002 – 15.07.2012	15.81	240,410	–	(216,368)	24,042
		17.07.2003 – 16.07.2013	5.20	496,136	–	(446,524)	49,612
				<u>2,190,892</u>	–	<u>(1,971,804)</u>	<u>219,088</u>
Director of the Company ^Δ	New Option Scheme	16.07.2002 – 15.07.2012	15.81	1,204,574	–	(1,084,117)	120,457
		17.07.2003 – 16.07.2013	5.20	2,480,677	–	(2,232,609)	248,068
				<u>3,685,251</u>	–	<u>(3,316,726)</u>	<u>368,525</u>
Employees of the Group	Old Option Scheme	05.01.1999 – 04.01.2009	46.16	47	–	(43)	4
		28.03.2000 – 27.03.2010	154.59	260,661	–	(234,594)	26,067
		02.06.2000 – 01.06.2010	74.92	453,262	–	(407,936)	45,326
	New Option Scheme	16.07.2002 – 15.07.2012	15.81	2,409,149	–	(2,168,234)	240,915
		17.07.2003 – 16.07.2013	5.20	2,480,677	–	(2,232,609)	248,068
		13.12.2004 – 12.12.2014	4.79	6,513,812	–	(5,862,430)	651,382
		04.02.2005 – 03.02.2015	4.96	25,957,542	(4,559,668)	(19,258,086)	2,139,788
		30.12.2005 – 29.12.2015	2.23	7,181,477	–	(6,463,329)	718,148
		21.11.2006 – 20.11.2016	2.55	13,027,624	–	(11,724,862)	1,302,762
		25.05.2007 – 24.05.2017	3.87	23,542,003	–	(21,187,803)	2,354,200
		27.06.2007 – 26.06.2017	3.85	15,676,575	–	(14,108,918)	1,567,657
		23.10.2007 – 22.10.2017	1.83	66,170,000	–	(59,553,000)	6,617,000
					<u>163,672,829</u>	<u>(4,559,668)</u>	<u>(143,201,844)</u>
Other participants	New Option Scheme	16.07.2002 – 15.07.2012	15.81	4,818,296	–	(4,336,468)	481,828
		17.07.2003 – 16.07.2013	5.20	7,659,156	–	(6,893,240)	765,916
		13.12.2004 – 12.12.2014	4.79	12,832,210	–	(11,548,990)	1,283,220
		04.02.2005 – 03.02.2015	4.96	15,638,576	–	(14,074,719)	1,563,857
		30.12.2005 – 29.12.2015	2.23	13,461,879	–	(12,115,692)	1,346,187
		21.11.2006 – 20.11.2016	2.55	9,770,718	–	(8,793,646)	977,072
		25.05.2007 – 24.05.2017	3.87	33,301,864	–	(29,971,678)	3,330,186
		27.06.2007 – 26.06.2017	3.85	11,127,762	–	(10,014,986)	1,112,776
		23.10.2007 – 22.10.2017	1.83	46,530,000	–	(41,877,000)	4,653,000
					<u>155,140,461</u>	–	<u>(139,626,419)</u>
			<u>324,689,433</u>	<u>(4,559,668)</u>	<u>(288,116,793)</u>	<u>32,012,972</u>	

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

Δ 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.

The exercise prices and number of options which remained outstanding during the period have been adjusted due to the completion of share consolidation during the period.

No share option was granted, exercised, expired or cancelled during the six months ended 30th June 2008.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2008, 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	96,536,500	–	96,536,500	
	Interest of controlled corporation	2,764,500	–	2,764,500*	
		<u>99,301,000</u>	<u>–</u>	<u>99,301,000</u>	<u>22.35</u>
Ng Cheuk Fai	Interest of controlled corporation	<u>23,633,333</u>	<u>127,999,999</u>	<u>151,633,332#</u>	<u>34.13</u>

All interests stated above represent long positions.

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

These shares and underlying shares are held by Lucky State Group Limited, a company wholly-owned by Mr. Ng Cheuk Fai.

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 2008.

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 2008, except for the following deviation:

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.

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008

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 2008. 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 2008.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at 30th June 2008 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 2008 have been reviewed by the audit committee 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, 23rd September 2008

CHINA STAR ENTERTAINMENT LIMITED

INTERIM REPORT 2008



國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31st Floor
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The Landmark
11 Pedder Street
Central
Hong Kong

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 27, which comprises the condensed consolidated balance sheet of China Star Entertainment Limited as of 30th 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 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 is not prepared, in all material respects, in accordance with HKAS 34.

HLB Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

Hong Kong, 23rd September 2008