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CHINA STAR INVESTMENT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

AUDITED CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008 AND RESUMPTION OF TRADING

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

Reference is made to the announcement of the Company dated 10 December 2008 in relation to, among other things a very substantial disposal, a very substantial acquisition involving subscription of consideration shares, a very substantial acquisition involving subscription of convertible bond, a major transaction involving provision of guarantee, a major transaction involving an advance to an entity and a potential very substantial acquisition involving subscription of settlement convertible bond.

The Circular containing further details of the above transactions will be despatched to the shareholders of the Company on 23 January 2009 in accordance with the Listing Rules.

As the Circular contains the audited consolidated financial statements of the Group for the nine months ended 30 September 2008, the Board hereby presents the audited consolidated results of the Group for the nine months ended 30 September 2008 to provide the market with updated financial information of the Group.

The full text of the audited consolidated financial statements of the Group for the nine months ended 30 September 2008 is contained in Appendix I to the Circular.

Trading in the shares of the Company has been suspended from 10:00 a.m. on 22 January 2009 pending the release of this announcement. The Company has made an application to The Stock Exchange of Hong Kong Limited to resume trading in the shares of the Company with effect from 9:30 a.m. on 23 January 2009.

This announcement is made pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Reference is made to the announcement of China Star Investment Holdings Limited (the “Company”) dated 10 December 2008 in relation to, among other things, a very substantial disposal, a very substantial acquisition involving subscription of consideration shares, a very substantial acquisition involving subscription of convertible bond, a major transaction involving provision of guarantee, a major transaction involving an advance to an entity and a potential very substantial acquisition involving subscription of settlement convertible bond.

A circular (the “Circular”) containing further details of the above transactions will be despatched to the shareholders of the Company on 23 January 2009 in accordance with the Listing Rules.

As the Circular contains the audited consolidated financial statements of the Company together and its subsidiaries (the “Group”) for the nine months ended 30 September 2008, the board (the “Board”) of directors (the “Directors”) of the Company hereby presents the audited consolidated results of the Group for the nine months ended 30 September 2008 to provide the market with updated financial information of the Group.

The full text of the audited consolidated financial statements of the Group for the nine months ended 30 September 2008 is contained in Appendix I to the Circular.

AUDITED CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008

Consolidated Income Statement

	Nine months ended	
	30 September	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	Audited	Unaudited
Turnover	23,006	10,994
Cost of sales	(1,594)	(429)
Gross profit	21,412	10,565
Other revenue	3,402	2,147
Other income	—	106,956
Fair value changes of investment properties	(66,751)	—
Administrative costs	(39,307)	(59,734)
Impairment loss recognised in respect of goodwill	(142,347)	—
(Loss)/profit from operations	(223,591)	59,934
Finance costs	(19,705)	(13,718)
(Loss)/profit before taxation	(243,296)	46,216
Taxation	33,311	—
(Loss)/profit for the period	(209,985)	46,216
Attributable to:		
Equity holders of the Company	(209,985)	46,216
(Loss)/earnings per share attributable to equity holders of the Company		
— Basic	HK(107.58) cents	HK51.00 cents
— Diluted	N/A	N/A

Consolidated Balance Sheet

	As at 30 September 2008 <i>HK\$'000</i> Audited	As at 31 December 2007 <i>HK\$'000</i> Audited
ASSETS		
Non-current assets		
Property, plant and equipment	22,743	6,000
Investment properties	905,393	887,450
Goodwill	—	39,456
Intangible assets	456,857	—
Club membership	172	172
	<u>1,385,165</u>	<u>933,078</u>
Current assets		
Inventories	34,771	32,783
Trade receivables	7,357	1,245
Deposits, prepayments and other receivables	23,012	31,830
Tax prepayments	—	12,120
Cash and cash equivalents	104,553	531,396
	<u>169,693</u>	<u>609,374</u>
Total assets	<u><u>1,554,858</u></u>	<u><u>1,542,452</u></u>
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	1,952	195,186
Reserves	909,174	850,894
	<u>911,126</u>	<u>1,046,080</u>
Minority interests	—	3,896
Total equity	<u>911,126</u>	<u>1,049,976</u>
LIABILITIES		
Current liabilities		
Accruals and other payables	50,854	19,245
Receipts in advance	49,151	47,041
Amounts due to related companies	660	701
Secured bank loans — due within one year	23,246	27,533
Tax payables	1,300	22,969
	<u>125,211</u>	<u>117,489</u>
Non-current liabilities		
Secured bank loans — due after one year	297,033	301,485
Convertible notes	102,685	—
Deferred taxation	118,803	73,502
	<u>518,521</u>	<u>374,987</u>
Total equity and liabilities	<u><u>1,554,858</u></u>	<u><u>1,542,452</u></u>
Net current assets	<u><u>44,482</u></u>	<u><u>491,885</u></u>
Total assets less current liabilities	<u><u>1,429,647</u></u>	<u><u>1,424,963</u></u>

Consolidated Cash Flow Statement

	For the nine months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
	Audited	Unaudited
OPERATING ACTIVITIES		
(Loss)/profit before taxation	(243,296)	46,216
Adjustments for:		
Interest income	(3,368)	(2,069)
Dividend income	—	(78)
Waiver of secured bank loan interest	—	(106,956)
Fair value changes of investment properties	66,751	—
Finance costs	19,705	13,718
Depreciation of property, plant and equipment	3,430	852
Impairment loss recognised in respect of goodwill	142,347	—
Loss on disposals of property, plant and equipment	3	3
Share-based payment expenses	3,608	32,282
	<hr/>	<hr/>
Operating cash flows before movement in working capital	(10,820)	(16,032)
Increase in inventories	(1,988)	(1,693)
Decrease/(increase) in trade receivables	(6,112)	96
(Increase)/decrease in deposits, prepayments and other receivables	8,818	(372,502)
Fair value changes of financial assets at fair value through profit or loss	—	18,889
Increase in accruals and other payables	31,609	10,694
Increase in receipts in advance	2,110	2,204
Decrease in amounts due to related companies	(41)	(6)
	<hr/>	<hr/>
Cash generated from/(used in) operations	23,576	(358,350)
Tax refund/(paid)	3,736	(3,471)
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	27,312	(361,821)
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	For the nine months ended 30 September	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	Audited	Unaudited
INVESTING ACTIVITIES		
Interest received	3,368	2,069
Dividend income	—	78
Proceeds from disposals of financial assets at fair value through profit or loss	—	81
Effect from acquisition of subsidiaries	(364,821)	—
Additions to investment properties	(38,286)	(61,744)
Purchase of property, plant and equipment	(19,910)	(8,482)
Net cash used in investing activities	<u>(419,649)</u>	<u>(67,998)</u>
FINANCING ACTIVITIES		
Interest paid	(19,473)	(13,718)
Issuance of new shares and exercise of share option	1	367,199
Repayment of a secured bank loan	(28,420)	57,601
Net cash (used in)/generated from financing activities	<u>(47,892)</u>	<u>411,082</u>
Net decrease in cash and cash equivalents	(440,229)	(18,737)
Effect of foreign exchange rate changes	13,386	(8,968)
Cash and cash equivalents at the beginning of the period	<u>531,396</u>	<u>63,140</u>
Cash and cash equivalent at the end of the period	<u><u>104,553</u></u>	<u><u>35,435</u></u>
Cash and bank balances	<u><u>104,553</u></u>	<u><u>35,435</u></u>

Management Discussion and Analysis

During the nine months ended 30 September 2008, the Group recorded a turnover of HK\$23,006,000, an 109% increase as compared to HK\$10,994,000 in the nine months ended 30 September 2007. The increase was mainly attributable to a HK\$15,011,000 increase in rental income resulted from the commencement of operations of the Shama Luxe Chang An in June 2008, a service fee income of HK\$4,742,000 generated from the newly expanded provision of management services business and a HK\$2,000,000 generated from the sale of the Group's film library, which were partly offset by the decrease in sales of financial assets.

During the nine months ended 30 September 2008, rental income of HK\$16,033,000 was generated from a number of short-term leases in the "Olympic Month – August 2008". As the Mainland Chinese Government carried out a tightening visa policy before and after the period of Olympic Games resulting in many long-term overseas tenants, who have long-term demand for serviced apartments, had to return to their countries for visa renewals, the Group's ability to sign long-term leases has been adversely affected.

Cost of sales for the nine months ended 30 September 2008 amounted to HK\$1,594,000, which was wholly related to property investment. The gross profit margin for property investment improved from 81% in the nine months ended 30 September 2007 to 91% in the nine months ended 30 September 2008 as the Group was able to charge a high rental rate in the "Olympic Month – August 2008". The gross profit margin for the sale of the Group's film library was 100% as the cost of the film library had been fully amortised and/or impaired in previous years. The gross profit margin for service fee income was also 100% as the Group was not required to incur any direct expenses in generating such income.

Other revenue increased from HK\$2,147,000 in the nine months ended 30 September 2007 to HK\$3,402,000 in the nine months ended 30 September 2008. The increase was mainly attributed to the increase in interest on bank deposits resulted from the increase in the average monthly balances of the Group's cash and bank.

Other income for the nine months ended 30 September 2007 amounted to HK\$106,956,000, representing the one-off gain arising from the loan interest waived by China Merchants Bank. No such income was recorded in the nine months ended 30 September 2008.

In view of the recent downturn in the Mainland China property market, the Group recognised a decrease in fair value of the Group's investment properties of HK\$66,751,000 in the nine months ended 30 September 2008 with reference to the valuation performed by the independent qualified professional valuers valuing the Group's investment properties at HK\$905,393,000 as at 30 September 2008.

As at 30 September 2008, the Group reassessed the recoverable amounts of the cash generating units allocated to the goodwill arising from the acquisitions of Shinhan-Golden Faith International Development Limited and Rich Daily Group Limited with reference to the valuations performed by an independent professional valuer and determined that the goodwill was fully impaired. As a result, an impairment loss of HK\$142,347,000 was recognised in the nine months ended 30 September 2008.

Administrative costs (net of depreciation, impairment losses and loss on disposal of property, plant and equipment) decreased from HK\$58,879,000 in the nine months ended 30 September 2007 to HK\$35,874,000 in the nine months ended 30 September 2008. The decrease was mainly attributable to a HK\$28,674,000 decrease in share-based payment expenses in relation to the share options granted to the Group's employees and consultants, which was partly offset by a HK\$1,689,000 increase in salaries and contribution to retirement benefits scheme.

Finance costs for the nine months ended 30 September 2008 amounted to HK\$19,705,000, a 44% increase as compared to HK\$13,718,000 in the nine months ended 30 September 2007. The increase was attributable to the increase in the average balances of the RMB bank loan resulted from the payments of renovation costs in respect of the Group's investment properties.

During the nine months ended 30 September 2008, the Group and Inland Revenue Department reached a compromise settlement of HK\$12,021,000, which included a surcharge of HK\$3,637,000, for settling a tax dispute over the offshore claims of sub-licensing income. As a provision for taxation of HK\$22,238,000 had been made in the Company's audited consolidated financial statements, a tax credit of HK\$13,854,000 was recognised. In addition, a tax credit of HK\$20,026,000 was arisen from the transfer of deferred tax to income statement in relation to the recognition of the decrease in the fair value of the Group's investment properties in the nine months ended 30 September 2008. These tax credits were partly offset by the current tax charge of HK\$569,000.

Net profit for the nine months 30 September 2007 amounted to HK\$46,216,000, whereas a net loss of HK\$209,985,000 was posted in the nine months 30 September 2008. The deterioration was mainly attributed to the recognition of the decrease in fair value of the Group's investment properties of HK\$66,751,000 and the impairment loss in respect of goodwill of HK\$142,347,000 in the nine months ended 30 September 2008. This deterioration was partly offset by the tax credit as explained above. The Group's results was further deteriorated by the one-off gain arising from the loan interest waived by China Merchants Bank of HK\$106,956,000 recognised in the nine months ended 30 September 2007, whereas no such gain was recorded in the nine months ended 30 September 2008.

During the nine months ended 30 September 2008, the Group funded its operations from cash generated from operations, cash advanced from China Star Entertainment Limited ("China Star") and its subsidiaries, bank borrowings and convertible notes.

As at 30 September 2008, the cash and bank balances of the Group amounted to HK\$104,553,000, of which HK\$28,679,000 was pledged to a bank for securing the RMB bank loan, the total borrowings of the Group amounted to HK\$423,624,000, comprising the RMB bank loan of HK\$320,279,000 which was secured by the Group's investment properties, a corporate guarantee given by the Company and the bank deposits of HK\$28,679,000, interest bearing at 110% of the interest rate prescribed by the People's Bank of China for loan period of five years and repayable within three years; the advances from China Star and its subsidiaries of HK\$660,000 which were unsecured, interest-free and had no fixed terms of repayment; and the liability component of the convertible notes issued to Well Will Investment Limited of HK\$102,685,000 which was unsecured, interest bearing at 5% per annum and maturing on 28 August 2018. The gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 46%.

As at 30 September 2008, certain of the Group's investment properties with a fair value of HK\$856,170,000 and the bank deposits of HK\$28,679,000 was pledged to the bank to secure the RMB bank loan granted to the Group.

The net current assets of the Group amounted to HK\$44,482,000 as at 30 September 2008. The current ratio of the Group as at 30 September 2008 was 1.36.

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 was approved by the shareholders on 27 June 2008 and completed on 29 August 2008.

On 29 May 2008, the Group acquired the remaining 3.3% interest in the registered capital of 北京莎瑪房地產開發有限公司 (formerly known as 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 Shinhan-Golden Faith International Development Limited.

On 19 March 2008, the Board 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 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 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 was approved by the shareholders at the special general meeting of the Company held on 30 April 2008 and took effect on 2 May 2008.

In April 2008, 10,009 ordinary shares of HK\$0.10 each in the share capital of the Company were allotted and issued at an exercise price of HK\$0.1146 per share pursuant to the exercise of share options granted to an employee of the Group.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Reminbi, the exchange rate risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes were used by the Group for the nine months ended 30 September 2008.

As at 30 September 2008, a writ of summons was filed by an owner of an apartment unit of the Group's investment properties against 北京莎瑪房地產開發有限公司 for property infringement claiming a compensation of RMB600,000 (or approximately HK\$682,000). Subsequent to 30 September 2008, The Second Intermediate People Court of Beijing ruled to dismiss the claim.

As at 30 September 2008, the Group employed 90 staff. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include medical scheme and share options.

RESUMPTION OF TRADING

Trading in the shares of the Company has been suspended from 10:00 a.m. on 22 January 2009 pending the release of this announcement. The Company has made an application to The Stock Exchange of Hong Kong Limited to resume trading in the shares of the Company with effect from 9:30 a.m. on 23 January 2009.

By Order of the Board
China Star Investment Holdings Limited
Heung Wah Keung
Chairman

Hong Kong, 22 January 2009

As at the date of this announcement, the executive Directors are Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany; and the independent non-executive Directors are Mr. Tang Chak Lam, Gilbert, Mr. Ho Wai Chi, Paul and Mr. Lien Wai Hung.