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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2012

FINAL RESULTS

The board of directors (the “Board”) of China Star Entertainment Limited (the “Company”) presents the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2012 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2012

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Turnover	3	1,464,979	1,096,762
Cost of sales		(809,166)	(481,744)
Gross profit		655,813	615,018
Other revenue	4	18,415	18,972
Other income	5	377	1,421
Administrative expenses		(441,234)	(462,600)
Marketing, selling and distribution expenses		(51,582)	(16,059)
Loss arising on change in fair value of financial assets classified as held for trading		(16,260)	(68,837)
Impairment loss recognised in respect of intangible assets	11	(24,327)	(700,085)
Impairment loss recognised in respect of film rights		(1,605)	(619)
Impairment loss recognised in respect of films in progress		–	(15,928)

CONSOLIDATED INCOME STATEMENT (CONTINUED)*For the year ended 31st December 2012*

	<i>Notes</i>	2012 HK\$'000	2011 <i>HK\$'000</i>
Profit/(loss) from operations		139,597	(628,717)
Finance costs	6	(45,589)	(31,456)
Share of losses of jointly controlled entities		(17)	(1,344)
Share of losses of associates		–	(8)
		<hr/>	<hr/>
Profit/(loss) before tax	7	93,991	(661,525)
Taxation	8	535	7,419
		<hr/>	<hr/>
Profit/(loss) for the year		94,526	(654,106)
		<hr/>	<hr/>
Profit/(loss) for the year attributable to:			
Owners of the Company		53,360	(683,234)
Non-controlling interests		41,166	29,128
		<hr/>	<hr/>
		94,526	(654,106)
		<hr/>	<hr/>
Earnings/(loss) per share			
Basic	10	HK cents 0.92	HK cents (18.46)
		<hr/>	<hr/>
Diluted	10	HK cents 0.92	HK cents (18.46)
		<hr/>	<hr/>

Details of dividend and distribution are set out in note 9 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2012

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit/(loss) for the year	<u>94,526</u>	<u>(654,106)</u>
Other comprehensive income		
Exchange differences arising on translation of foreign operations	20	16
Reclassification adjustments relating to foreign operation disposed during the year	<u>-</u>	<u>24</u>
Other comprehensive income for the year	<u>20</u>	<u>40</u>
Total comprehensive income/(loss) for the year	<u>94,546</u>	<u>(654,066)</u>
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	53,381	(683,196)
Non-controlling interests	<u>41,165</u>	<u>29,130</u>
	<u>94,546</u>	<u>(654,066)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December 2012

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		547,062	637,702
Interests in leasehold land		484,492	507,359
Investment property		–	–
Goodwill		3,030	3,030
Intangible assets	11	75,176	100,729
Interests in jointly controlled entities		28,639	28,656
Interests in associates		2,377	7,977
		<hr/> 1,140,776	<hr/> 1,285,453
Current assets			
Inventories		53,345	38,639
Stock of properties		561,976	550,312
Film rights		18,156	19,761
Films in progress		3,190	3,150
Trade receivables	12	329,937	143,008
Deposits, prepayments and other receivables		42,822	396,386
Held for trading investments		30,189	50,797
Amounts due from associates		21,176	16,854
Prepaid tax		176	86
Cash and bank balances		578,863	903,094
		<hr/> 1,639,830	<hr/> 2,122,087
Total assets		<hr/> 2,780,606	<hr/> 3,407,540
Capital and reserves			
Share capital		16,859	19,647
Reserves		1,570,542	1,948,945
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,587,401	1,968,592
Non-controlling interests		(191)	306,317
		<hr/>	<hr/>
Total equity		<hr/> 1,587,210	<hr/> 2,274,909

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*At 31st December 2012*

	<i>Notes</i>	2012 HK\$'000	2011 <i>HK\$'000</i>
Non-current liabilities			
Bank borrowings		350,000	400,000
Obligations under finance leases		43	153
Convertible bonds		341,231	339,187
Deferred tax liabilities		83,714	84,253
		<hr/> 774,988 <hr/>	<hr/> 823,593 <hr/>
Current liabilities			
Bank borrowings		70,875	66,674
Obligations under finance leases		111	128
Trade payables	13	251,821	139,080
Deposits received, accruals and other payables		75,166	68,244
Tax payables		4	4
Amount due to an associate		20,279	34,906
Amount due to non-controlling interests		152	2
		<hr/> 418,408 <hr/>	<hr/> 309,038 <hr/>
Total liabilities		<hr/> 1,193,396 <hr/>	<hr/> 1,132,631 <hr/>
Total equity and liabilities		<hr/> 2,780,606 <hr/>	<hr/> 3,407,540 <hr/>
Net current assets		<hr/> 1,221,422 <hr/>	<hr/> 1,813,049 <hr/>
Total assets less current liabilities		<hr/> 2,362,198 <hr/>	<hr/> 3,098,502 <hr/>

NOTES:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, the following new and revised standards and interpretations (collectively referred to as the “new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning from 1st January 2012. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted.

Amendments to HKFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendments to HKFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation, whereby these entities can elect fair value as the deemed cost for assets and liabilities affected by severe hyperinflation in their first HKFRS financial statements. The amendments also remove the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. As the Group is not a first time adopter of HKFRSs, the amendments have no financial impact on the Group.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 *Disclosures – Transfers of Financial Assets* require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ¹
HKAS 19 (Revised)	Employee Benefits ²
HKAS 27 (Revised)	Separate Financial Statements ²
HKAS 28 (Revised)	Investments in Associates and Joint Ventures ²
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ³
HKFRS (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle Issued in June 2012 ²
HKFRS 1 (Amendments)	Government Loans ²
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁴
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangement ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities: Transition Guidance ²
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities ³
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1st July 2012

² Effective for annual periods beginning on or after 1st January 2013

³ Effective for annual periods beginning on or after 1st January 2014

⁴ Effective for annual periods beginning on or after 1st January 2015

The directors of the Company has commenced their assessments of the impact of the above new and revised HKFRSs, but it is not yet in a position to state whether these new and revised HKFRSs would have a material impact on the results and the financial position of the Group.

2. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the directors of the Company, being the chief operating decision-makers (the “CODM”), for the purpose of monitoring segment performance and allocating resources between segments and that are used to make strategic decisions.

The Group has five reportable segments – hotel and gaming service operations, gaming promotion operations, film distribution operations, property development operations and Chinese health products sales operations. The segmentations are based on the information about the operations of the Group that management uses to make decisions.

The Group’s reportable segments are strategic business units that operate different activities. They are managed separately because each business has different markets and requires different marketing strategies.

The principal products and services of each of these operations are as follows:

Hotel and gaming service operations	–	Provision of hotel services and gaming operation services and related gaming promotion business in Hotel Lan Kwai Fong Macau
Gaming promotion operations	–	Investing in operations which receive profit streams from the gaming promotion business
Film distribution operations	–	Production and distribution of motion pictures and television drama series and provision of other film related services
Property development operations	–	Investing and development of properties located in Macau
Chinese health products sales operations	–	Sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailers as well as Chinese clinical services

2. SEGMENT INFORMATION (CONTINUED)

(a) An analysis of the Group's revenue and results by operating segments

	Segment revenue		Segment results	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hotel and gaming service operations	1,316,553	998,027	192,827	107,143
Gaming promotion operations	15,544	68,669	(9,022)	(632,729)
Film distribution operations	683	1,602	(1,630)	(16,037)
Property development operations	–	–	(90)	(33)
Chinese health products sales operations	132,199	28,464	(968)	(278)
	<u>1,464,979</u>	<u>1,096,762</u>	<u>181,117</u>	<u>(541,934)</u>
Reconciliation from segment results to profit/(loss) before tax				
Unallocated corporate income			3,801	5,824
Loss arising on change in fair value of financial assets classified as held for trading			(16,260)	(68,837)
Unallocated corporate expenses			(74,667)	(56,578)
Profit/(loss) before tax			<u>93,991</u>	<u>(661,525)</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit/(loss) earned/(suffered) by each segment without allocation of central administration costs, partial finance costs, share of losses of associates and share of losses of jointly controlled entities under the heading of "unallocated corporate expenses", partial other revenue and other income under the heading of "unallocated corporate income" and loss arising on change in fair value of financial assets classified as held for trading. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

2. SEGMENT INFORMATION (CONTINUED)

(b) An analysis of the Group's financial position by operating segments

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
ASSETS		
Segment assets		
– Hotel and gaming service operations	1,594,464	1,399,990
– Gaming promotion operations	67,699	553,096
– Film distribution operations	35,187	36,410
– Property development operations	573,608	550,312
– Chinese health products sales operations	107,696	89,430
	<hr/>	<hr/>
Total segment assets	2,378,654	2,629,238
Unallocated assets	401,952	778,302
	<hr/>	<hr/>
	2,780,606	3,407,540
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Segment liabilities		
– Hotel and gaming service operations	665,547	600,686
– Gaming promotion operations	5	60
– Film distribution operations	7,478	7,511
– Property development operations	–	–
– Chinese health products sales operations	42,494	38,074
	<hr/>	<hr/>
Total segment liabilities	715,524	646,331
Unallocated liabilities	477,872	486,300
	<hr/>	<hr/>
	1,193,396	1,132,631
	<hr/> <hr/>	<hr/> <hr/>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments, other than interests in associates, interests in jointly controlled entities, partial deposit paid, prepayments and other receivables, held for trading investments, partial amounts due from associates, prepaid tax, partial cash and bank balances, partial property, plant and equipment and interests in leasehold land for central administrative purposes; and
- all liabilities are allocated to reportable segments, other than convertible bonds, partial obligations under finance leases, partial deposits received, accruals and other payables, deferred tax liabilities, tax payable and amount due to an associate.

2. SEGMENT INFORMATION (CONTINUED)

(c) Other segment information

	Hotel and gaming service operations		Gaming promotion operations		Film distribution operations		Property development operations		Chinese health products sales operations		Unallocated		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Amounts included in the measure of segment results or segment assets:														
OTHER INFORMATION														
Amortisation of film rights	-	-	-	-	-	1,441	-	-	-	-	-	-	-	1,441
Amortisation of intangible assets	-	-	-	-	-	-	-	-	1,226	217	-	-	1,226	217
Amortisation of interests in leasehold land	20,992	20,992	-	-	-	-	-	-	-	-	1,875	1,874	22,867	22,866
Depreciation of property, plant and equipment	93,413	101,986	-	-	-	-	-	-	1,090	199	2,055	1,915	96,558	104,100
Impairment loss recognised in respect of film rights	-	-	-	-	1,605	619	-	-	-	-	-	-	1,605	619
Impairment loss recognised in respect of films in progress	-	-	-	-	-	15,928	-	-	-	-	-	-	-	15,928
Impairment loss recognised in respect of trade receivables	-	-	-	-	200	394	-	-	-	-	-	-	200	394
Impairment loss recognised in respect of intangible asset	-	-	24,327	700,085	-	-	-	-	-	-	-	-	24,327	700,085
Loss on disposal of property, plant and equipment	504	257	-	-	-	-	-	-	1	-	5	8	510	265
Additions to non-current assets (other than financial instruments)	4,340	4,479	-	-	-	-	-	-	1,218	12,862	878	36,123	6,436	53,464
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:														
Interests in jointly controlled entities	-	-	-	-	-	-	-	-	-	-	28,639	28,656	28,639	28,656
Interests in associates	-	-	-	-	-	-	-	-	-	-	2,377	7,977	2,377	7,977
Interests income	2,147	1,022	972	-	1	7	132	-	13	4	3,740	5,750	7,005	6,783
Finance costs	15,078	16,784	-	-	-	-	-	-	465	86	30,046	14,586	45,589	31,456
Share of losses of jointly controlled entities	-	-	-	-	-	-	-	-	-	-	17	1,344	17	1,344
Share of losses of associates	-	-	-	-	-	-	-	-	-	-	-	8	-	8

2. SEGMENT INFORMATION (CONTINUED)

(d) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hotel and gaming service operations		
Customer A	999,336	867,536
Customer B (<i>Note</i>)	215,116	N/A

No other customers contributed 10% or more to the Group's revenue for both 2012 and 2011.

Note: Revenue derived from Customer B did not contribute over 10% of the total sales of the Group during the year ended 31st December 2011.

(e) Geographical information

The Group's revenue from external customers is mainly derived from its operations in Macau, and non-current assets of the Group are mainly located in Macau.

Certain comparative figures have been represented to conform with the change of resources allocation in the current year.

3. TURNOVER

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Film distribution fee income	683	1,602
Hotel room income	94,436	64,955
Food and beverage sales	26,092	16,769
Service income from VIP gaming operations	184,330	307,178
Service income from mass table gaming operations	798,755	548,390
Service income from slot machine operations	16,251	11,968
Receive profit streams from gaming promotion business	15,544	68,669
Gaming promotion fees	196,689	48,767
Sales of Chinese health products	132,199	28,464
	<u>1,464,979</u>	<u>1,096,762</u>

4. OTHER REVENUE

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Bank interest income	7,005	6,783
Management fee income	2,330	1,845
Other ancillary hotel revenue	9,080	10,344
	<u>18,415</u>	<u>18,972</u>

5. OTHER INCOME

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Net foreign exchange gain	310	504
Others	67	917
	<u>377</u>	<u>1,421</u>

6. FINANCE COSTS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Interests on:		
Bank borrowings – wholly repayable within five years	15,507	16,843
Finance leases	32	31
Imputed interest on convertible bonds	30,044	14,582
Other finance cost	6	–
	<u>45,589</u>	<u>31,456</u>

7. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Amortisation of film rights (included in cost of sales)	–	1,441
Amortisation of interests in leasehold land	22,867	22,866
Amortisation of intangible assets	1,226	217
Auditors' remuneration	1,216	1,190
Cost of inventories (included in cost of sales)	93,659	25,682
Depreciation of property, plant and equipment	96,558	104,100
Employee benefit expenses	145,682	109,123
Impairment loss recognised in respect of film rights	1,605	619
Impairment loss recognised in respect of films in progress	–	15,928
Impairment loss recognised in respect of trade receivables	200	394
Impairment loss recognised in respect of intangible assets	24,327	700,085
Loss on disposal of property, plant and equipment	510	265
Loss on disposal of financial assets classified as held for trading	328	2,490
Loss arising on change in fair value of financial assets classified as held for trading	15,932	66,347
Operating lease rental in respect of premises	<u>16,255</u>	<u>6,366</u>

8. TAXATION

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
<i>The taxation credit is as follow:</i>		
Current tax:		
Macau Complementary Tax	(4)	(4)
PRC Enterprise Income Tax	—	(3)
	<u>(4)</u>	<u>(7)</u>
Over provision in prior year:		
Other jurisdictions	—	62
	<u>—</u>	<u>62</u>
Deferred tax :		
Current year	539	7,364
	<u>539</u>	<u>7,364</u>
Total taxation credit for the year	<u><u>535</u></u>	<u><u>7,419</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years. Macau subsidiaries are subject to Macau Complementary Tax at 12% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax has been made for both years as the Company and its subsidiaries have no assessable profits arising in Hong Kong or taxable profits were wholly absorbed by estimated tax losses brought forward.

No provision for PRC Enterprise Income Tax has been made for the year ended 31st December 2012 as the Company and its subsidiaries have no assessable profits arising in PRC.

9. DIVIDEND AND DISTRIBUTION

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
<i>Dividend</i>		
Dividend paid during the year:		
Special dividend paid in 2011		
– HK 3.3 cents per share on 1,964,721,160 shares	–	64,836
	<u> </u>	<u> </u>

No final dividend was paid or proposed during 2012 and 2011, nor has any dividend been proposed by the Board subsequent to the end of the reporting period.

Distribution

Subsequent to the end of the reporting period, the Board proposed a special distribution to be made out of the contributed surplus account of the Company of HK4 cents per share and is subject to approval by the shareholders at a special general meeting to be held and convened by the Company.

10. EARNINGS/(LOSS) PER SHARE

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
<i>Earnings/(loss)</i>		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share (profit/(loss) for the year attributable to owners of the Company)	<u>53,360</u>	<u>(683,234)</u>
	2012 '000	2011 '000 (Restated)
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	<u>5,815,724</u>	<u>3,701,305</u>

The computations of basic and diluted earnings/(loss) per share is based on the earnings/(loss) for the year attributable to owners of the Company, and the weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share as adjusted to reflect the effect of bonus issue for the issue of bonus shares by the Company on the basis of two bonus share for every one existing share held on 6th December 2012 and completed on 9th January 2013.

The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

10. EARNINGS/(LOSS) PER SHARE (CONTINUED)

The computation of earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their conversion would result in increase in earnings per share for the year ended 31st December 2012.

The computation of diluted loss per share does not assume the conversion and exercise of the Company's outstanding convertible bonds and warrants (warrant code: 1056) since their conversion and exercise would result in decrease in loss per share for the year ended 31st December 2011.

The computation of diluted loss per share does not assume the exercise of the Company's warrants (warrant code: 972) because the subscription price of warrants was higher than the average market price of the Company's shares for the year ended 31st December 2011.

The computation of diluted earnings/(loss) per share does not assume the exercise of the Company's share options because the exercise prices of share options were higher than the average market price of the Company's shares for the years ended 31st December 2012 and 2011.

11. INTANGIBLE ASSETS

As at 31st December 2012, the directors of the Company have assessed the recoverable amount of intangible assets by reference to the valuation report issued by Grant Sherman Appraisal Limited, a firm of independent qualified professional valuers which valued the rights in sharing of profit streams pursuant to the respective junket representative agreement using the discounted cash flow method and determined that intangible assets associated with it was impaired by approximately HK\$24,327,000 (2011: HK\$700,085,000).

12. TRADE RECEIVABLES

The Group's trade receivables arose from (i) hotel and gaming service, (ii) gaming promotion, (iii) film distribution and (iv) Chinese health products sales for the year.

	The Group	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables from:		
– Hotel and gaming service	323,711	135,963
– Gaming promotion	544	1,332
– Film distribution	3,947	3,692
– Chinese health products sales	3,330	3,539
	<hr/>	<hr/>
	331,532	144,526
Less: Allowance for doubtful debts	(1,595)	(1,518)
	<hr/>	<hr/>
	329,937	143,008
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE RECEIVABLES (CONTINUED)

The following is an aging analysis of trade receivables, presented based on the invoice date and net of allowance for doubtful debts:

	The Group	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
0 to 30 days	326,074	138,166
31 to 60 days	1,138	912
61 to 90 days	702	1,580
Over 90 days	2,023	2,350
	<u>329,937</u>	<u>143,008</u>

The average credit period granted to customers ranges from 30 to 90 days.

At 31st December 2012, trade receivables with the amounts of approximately HK\$322,634,000 (2011: HK\$134,429,000) is due from the Group's two largest customers. There are no other customers who represent more than 5% of the total balance of trade receivables.

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
At 1st January	1,518	1,157
Impairment loss recognised	200	394
Foreign exchange translation gain/(loss)	8	(31)
Amounts written off as uncollectible	(131)	(2)
At 31st December	<u>1,595</u>	<u>1,518</u>

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of HK\$200,000 (2011: HK\$394,000) which are past due at the end of the reporting period. The allowance for doubtful debts recognised because there has been a significant change in credit quality and the amounts are considered irrecoverable.

Trade receivables disclosed above include amounts (see below for aging analysis) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

12. TRADE RECEIVABLES (CONTINUED)

The following is an aging analysis of trade receivables which are past due but not impaired:

	The Group	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Over 90 days	<u>2,023</u>	<u>2,350</u>

In determining the recoverability of trade receivables, the directors of the Company consider any change in the credit quality of the trade receivables from the date credit were initially granted up to the end of the reporting period.

13. TRADE PAYABLES

The Group's trade payables arose from (i) hotel and gaming service, (ii) film distribution and (iii) Chinese health products sales for the year.

	The Group	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade payables from:		
– Hotel and gaming service	233,972	122,545
– Film distribution	4,275	4,107
– Chinese health products sales	13,574	12,428
	<u>251,821</u>	<u>139,080</u>

The following is an aging analysis of trade payables, based on the invoice date:

	The Group	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
0 to 30 days	230,385	128,025
31 to 60 days	5,358	3,855
61 to 90 days	2,659	1,765
Over 90 days	13,419	5,435
	<u>251,821</u>	<u>139,080</u>

The average credit period granted by suppliers ranges from 30 to 90 days.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st December 2012, the Group's turnover increased by 34% to approximately HK\$1,464,979,000 (2011: HK\$1,096,762,000).

Profit from operations and profit for the year amounted to approximately HK\$139,597,000 and HK\$94,526,000 respectively as compared to loss from operations and loss for the year of HK\$628,717,000 and HK\$654,106,000 respectively for last year. The turnaround of the current year's profit was mainly attributable to the decrease in impairment loss of HK\$24,327,000 as compared to the last corresponding period of HK\$700,085,000 recognised in respect of the intangible assets with regard to the decrease in sharing of profit streams from investments in gaming and entertainment business in Macau from Best Mind International Inc. ("Best Mind"). Best Mind is the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the gaming promoters at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau.

The profit attributable to owners of the Company for the year ended 31st December 2012 was HK\$53,360,000, representing a 108% increase over loss of HK\$683,234,000 in the last year.

DIVIDEND AND DISTRIBUTION

The Board do not recommend the payment of a final dividend for the year ended 31st December 2012. The Board declared and paid a special dividend of HK3.3 cents per share to the shareholders of the Company whose names appear on the register of members of the Company on 17th November 2011.

The Board proposed a special distribution to be made out of the contributed surplus account of the Company of HK4 cents per share and is subject to approval by the shareholders at a special general meeting to be held and convened by the Company.

BUSINESS REVIEW

The Group has five reportable segments – (1) hotel and gaming service operations; (2) gaming promotion operations; (3) film distribution operations; (4) property development operations; and (5) Chinese health products sales operations.

Of the total turnover amount for the year, HK\$1,316,553,000 or 90% was generated from hotel and gaming service operations, HK\$15,544,000 or 1% was generated from gaming promotion operations, HK\$683,000 or 0% was generated from film distribution operations, nil or 0% was generated from property development operations and HK\$132,199,000 or 9% was generated from Chinese health products sales operations.

Hotel and Gaming Service Operatons

Hotel and gaming service operations included the hotel operation in Hotel Lan Kwai Fong Macau (“Lan Kwai Fong”) which was recorded in an indirect subsidiary of the Group, Hotel Lan Kwai Fong (Macau) Limited (“Hotel LKF”) and services provided to the casino situated in Lan Kwai Fong (the “Casino LKF”) which was recorded in an indirect subsidiary of the Group, Classic Management & Services Company Limited (“Classic”) and the marketing promotional services provided by Best Mind to Casino LKF. Lan Kwai Fong presents a total of approximately 200 guest rooms, casino situated in the ground, first and 18th floor, restaurants, flower shop, retail shop, spa and medical clinic.

During the year, the Group acquired the remaining equity interests in Hotel LKF and Classic. Afterwards, they changed from 50% indirect subsidiaries to wholly owned subsidiaries of the Group.

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. (“SJM”). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will shared certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines in Casino LKF. As at 31st December 2012, Casino LKF operated a total of 84 tables, targeting both for the VIP market and the mass market. It also operated a total of 121 slot machines.

The Group had shared revenue and segment profit of approximately HK\$1,316,553,000 (2011: HK\$998,027,000) and HK\$192,827,000 (2011: HK\$107,143,000) from the hotel and gaming service operations, an increase of 32% and 80% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel room income of HK\$94,436,000 (2011: HK\$64,955,000), food and beverage sales of HK\$26,092,000 (2011: HK\$16,769,000), services income received from mass table gaming, VIP table gaming and slot machines of HK\$798,755,000 (2011: HK\$548,390,000), HK\$184,330,000 (2011: HK\$307,178,000) and HK\$16,251,000 (2011: HK\$11,968,000) respectively and gaming promotion fees of HK\$196,689,000 (2011: HK\$48,767,000). This year, the performance of Lan Kwai Fong was also encouraging. The average monthly revenue from the hotel and gaming service operations increased to approximately HK\$109,713,000 per month from HK\$83,169,000 per month in 2011,

mainly reflecting 46% increase in monthly service income from mass table gaming to HK\$66,563,000 per month in 2012 from HK\$45,699,000 per month in 2011, which was partly offset by 40% decrease in monthly service income from VIP table gaming to HK\$15,361,000 per month in 2012 from HK\$25,598,000 per month in 2011. The gaming promotion fees increased because it was directly related to the revenue from mass table gaming.

Gaming Promotion Operations

The Group had shared revenue and segment loss of approximately HK\$15,544,000 (2011: HK\$68,669,000) and HK\$9,022,000 (2011: HK\$632,729,000) from the gaming promotion operations, decrease of 77% and 99% respectively.

Since the end of the last year, the growth in revenue from casino VIP room slow down and even declined in July 2012. Besides, the competition in gaming industry continues to be intense. One of the characteristic of the VIP gaming is that the majority of the business volume is highly volatile. The publishing on 10th August 2009 by the Macau government in its official gazette an amendment to an executive regulation that would enable the Financial Secretary to set a cap for promoter commission in Macau and its implementation from December 2009 had resulted in Ocho lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers. The decrease in revenue sharing also impact and decrease the expected cash inflow from this operation and thus impairment loss in respect of the intangible assets of HK\$24,327,000 (2011: HK\$700,085,000) was recognised. After the substantial impairment recognised in the year ended 31st December 2011, the market situation and decrease in gaming revenue are comparatively stable this year and thus the impairment loss recognised in respect of intangible assets was substantially decreased.

Film Distribution Operations

Film distribution operations included production and distribution of motion pictures and television drama series and provision of other film related services. During the year, the Group did not distributed any new film and new productions are in planning stage.

In year 2012, turnover for film distribution operations amounted to HK\$683,000 (2011: HK\$1,602,000) and its segment loss amounted to HK\$1,630,000 (2011: HK\$16,037,000). The segment loss was mainly attributable to impairment loss recognised in respect of film rights of HK\$1,605,000 in the year. The impairment loss recognised in respect of film rights and films in progress in the year 2011 was HK\$619,000 and HK\$15,928,000 respectively.

Property Development Operations

Property development operations included sales of properties located in Macau after the completion of the acquisition of the property leasehold right over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the “Sites”). The Sites will developed into commercial units and residential apartments for sale.

The Group did not recorded any revenue for years 2012 and 2011 and shared segment loss of approximately HK\$90,000 (2011: HK\$33,000) from the property development operations since the development plan of the Sites is in the process of seeking approval from the relevant authority.

Chinese Health Products Sales Operations

Chinese health products sales operations included sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailers as well as Chinese clinical services after the completion of the acquisition of group headed by NPH Holdings Limited (“NPH”) on 28th October 2011. One of the subsidiary of NPH, Nam Pei Hong Sum Yung Drugs Company Limited (“Nam Pei Hong”) has engaged in the business of trading and retail of “Sum Yung” and dried seafood products since 1977 and the brand name of “Nam Pei Hong” is highly recognised in Hong Kong and Southern Mainland China.

In year 2012, revenue for the Chinese health products sales operations amounted to HK\$132,199,000 and its segment loss amounted to approximately HK\$968,000 (after deducting amortisation of intangible assets in aggregate of HK\$1,226,000 in respect of trademark and customer relationship of HK\$735,000 and HK\$491,000 respectively). From 28th October 2011 (completion date of acquisition of NPH) to 31st December 2011, the Group had shared revenue and segment loss of approximately HK\$28,464,000 and HK\$278,000 (after deducting amortisation of intangible assets in aggregate of HK\$217,000 in respect of trademark and customer relationship of HK\$130,000 and HK\$87,000 respectively) from the Chinese health products sales operations.

Geographical segments

For the geographical segments, turnover of the Group during the year were mainly come from Macau as revenue from hotel and gaming service operations, gaming promotion operations and property development operations are all sourced in Macau.

Administration Expenses

For the year ended 31st December 2012, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK\$321,809,000, a 4% decrease from HK\$335,634,000 as compared to the last corresponding year. The decrease was mainly attributable to the decrease in casino management fees paid by Lan Kwai Fong, which were partly offset by the increase in staffs costs and overhead expenses in the hotel and gaming service operations during the year. Such management fees decreased because it was based on a fixed percentage of service income from VIP table gaming that had decreased by 40% in year 2012. Employee benefit expenses increased by 34% to HK\$145,682,000 from HK\$109,123,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2012, the Group had total assets of approximately HK\$2,780,606,000 and a net current assets of HK\$1,221,422,000, representing a current ratio of 3.9 (2011: 6.9). The Group had cash and bank balances of approximately HK\$578,863,000 (2011: HK\$903,094,000). As at 31st December 2012, the Group had total borrowings of HK\$762,260,000 which comprised a secured bank term loan with remaining balance of HK\$400,000,000 (the "Term Loan"), unsecured bank loans in aggregate amount of HK\$20,875,000, an outstanding convertible bonds with liabilities component of HK\$341,231,000 and obligations under finance lease of HK\$154,000. The Term Loan was interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank, repayable by remaining of 11 equal consecutive quarterly installments of HK\$12,500,000 each and a final repayment for the remaining balance of HK\$262,500,000. The unsecured bank loans comprised import trade loans (the "Import Loans") of HK\$14,929,000 and two unsecured bank loans of HK\$3,946,000 (the "Loan I") and HK\$2,000,000 (the "Loan II") granted under the Special Loan Guarantee Scheme of the Government of HKSAR (the "Government Loans"). The Import loans were interest bearing at 2% per annum over one month HIBOR, repayable on demand and guaranteed by an ex-shareholder of a subsidiary of the Company. The Loan I was interest bearing at 2.5% per annum over one month HIBOR and repayable by remaining of 37 equal consecutive monthly installments of approximately HK\$105,000 per month and a final repayment for the remaining balance. The Loan II was interest bearing at 2.5% per annum over one month HIBOR and repayable by remaining of 20 equal consecutive monthly installments of HK\$100,000 each. The Government Loans are 80% guaranteed by the Government of HKSAR and 100% guaranteed by an ex-shareholder of a subsidiary of the Company. The outstanding convertible bonds were unsecured, interest bearing at coupon rate of 8% per annum and will mature on 6th July 2016. The convertible bonds carry the right to convert into shares of the Company at an adjusted conversion price of HK\$0.12 per share as of 31st December 2012. As at 31st December 2012, the Group had banking facilities amounting to HK\$558,000,000 which were utilised to the extent of HK\$526,929,000. The Group's gearing was low during the year with total debts of HK\$762,260,000 against owners' equity of HK\$1,587,401,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 48% (2011: 41%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca, United States Dollars and Renminbi, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December 2012, the Group had no contingent liability.

On 21st January 2011, the Company and Eternity Investment Limited ("Eternity") entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for convertible bonds in the maximum principal amount of HK\$650 million in two tranches at their face value. The convertible bonds are unsecured, interest bearing at 8% per annum and carried the right to convert into shares at an initial conversion price of HK\$0.80 (subject to adjustment) and will mature on the fifth anniversary from the date of issue. The estimated maximum net proceeds from the issue of the convertible bonds of approximately HK\$649.5 million would be used for financing the acquisition of the property leasehold rights of the Sites, the development of the Sites and/or the general working capital of the Group. On 7th July 2011, first tranche convertible bonds in the principal amount of HK\$350 million were issued to a company procured by Eternity. As at 31st December 2012, the adjusted conversion price of the convertible bonds is HK\$0.12 per share. As at 29th June 2012, the Company and Eternity entered into a supplemental agreement pursuant to which both parties agreed to extend the completion date of the second tranche subscription in the principal amount of HK\$300 million from 30th June 2012 to 31st December 2013.

On 4th June 2012, the Company announced that a conditional cash offer (the "Offer") would be made by Get Nice Securities Limited on behalf of the Company to repurchase up to 982,830,877 shares for cancellation at a price of HK\$0.35 per share. The Offer would be available for acceptance in respect of shares held by the shareholders of the Company. As at that date, except for those undertaking parties (the "Undertaking Parties") that agreed not to accept the Offer, the consideration for the Offer would be approximately HK\$276,520,000 (assuming none of the share options, warrants and convertible bonds of the Company were exercised or converted on or before closing of the Offer) and HK\$343,990,000 (assuming all of the share options, warrants and convertible bonds of the Company were exercised or converted on or before closing of the Offer, except for those Undertaking Parties that had agreed not to exercise or converted their share options, warrants and convertible bonds before closing of the Offer). The Offer was approved by the independent shareholders of the Company at a special general meeting of the Company held on 25th October 2012 (the "SGM"). Upon closing of the Offer on 9th November 2012, a total of 624,235,579 shares were repurchased and cancelled by the Company and total consideration paid by the Company for the Offer was approximately HK\$218,482,000.

Pursuant to a mandate granted by the shareholders of the Company at the SGM, the Board resolved to implement a bonus issue (the “Bonus Issue”) for the issue of bonus shares by the Company on the basis of two bonus shares (the “Bonus Shares”) for every one existing share held on 6th December 2012 with an option to elect to receive bonus convertible bonds (the “Bonus CBs”) in lieu of all or part of their entitlement to the Bonus Shares in order to comply with Rule 8.08(1) (a) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). Upon completion of the Bonus Issue on 9th January 2013, the Company has issued 514,463,056 Bonus Shares and Bonus CBs in an aggregate amount of HK\$28,471,249.34 which are convertible into 2,847,124,934 new shares at subscription price of HK\$0.01 per share (subject to adjustment in accordance with the deed poll of the Bonus CBs).

During the year ended 31st December 2012, 345,432,177 new shares were issued upon conversion of the warrants of the Company, of which 82,266 shares, 340,226,148 shares and 5,123,763 shares were converted at the subscription prices of HK\$0.835 per share, HK\$0.207 per share and HK\$0.069 per share respectively. The net proceeds from the conversion of the warrants of the Company amounted to approximately HK\$70,849,000 were used as general working capital of the Group. On 2nd January 2013, further 2,407,201 new shares were issued on the conversion of the warrants of the Company at the subscription price of HK\$0.069 per share. Thereafter, the Company has no more outstanding warrants.

No share options or convertible bonds of the Company were exercised during the year ended 31st December 2012. On 14th January 2013, the Company had granted 203,000,000 share options to subscribe for an aggregate of 203,000,000 ordinary shares of HK\$0.01 each at exercise price of HK\$0.163 per share to certain eligible participants.

Subsequent to the statement date, 900,000,000 new shares and 100,000 new shares were issued and allotted upon the exercise of the conversion rights of HK\$9,000,000 Bonus CBs and HK\$1,000 Bonus CBs at the subscription price of HK\$0.01 per share on 16th January 2013 and 14th March 2013 respectively.

On 10th January 2013, the Company entered into a placing agreement with a placing agent to place on a best effort basis up to 400,000,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.14 per share. 400,000,000 new shares was issued on 30th January 2013 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 28th June 2012. The net proceeds of approximately HK\$55,300,000 were intended to apply for property investment in Hong Kong.

MATERIAL ACQUISITIONS

On 11th January 2012, Exceptional Gain Profits Limited (Exceptional Gain”), a wholly owned subsidiary of the Company and SJM – Investment Limited (“SJM-I”) entered into agreements pursuant to which SJM-I has agreed to sell or procure the sale of, and Exceptional Gain has conditionally agreed to purchase, 1% issued quotas in Hotel LKF and 1% equity interest in the issued share capital of Charm Faith Holdings Limited (“Charm Faith”), a company beneficially owned 1% issued quotas of Classic, at a total consideration of HK\$13,000,007.80. The agreements were completed on 31st January 2012 and the Company became interested in 51% equity interest in Hotel LKF, Charm Faith and Classic.

On 15th February 2012, China Star Entertainment (BVI) Limited (“CSBVI”), a wholly owned subsidiary of the Company and Mr. Heung Wah Keung (“Mr. Heung”) entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and CSBVI has conditionally agreed to purchase the 100% of the entire issued share capital of Most Famous Enterprises Limited (“Most Famous”) and a sale loan amounted to approximately HK\$277,420,000 at total consideration of HK\$618,000,000 (the “LKF Acquisition”). The major assets of Most Famous are its 49% equity interests in Hotel LKF and 49% interest in Charm Faith. The LKF Acquisition constituted a very substantial acquisition and a connected transaction of the Company under the Listing Rules and was approved by the independent shareholders of the Company in a special general meeting held on 16th July 2012. The LKF Acquisition was completed on 17th July 2012. As the Company has already owned 51% equity interest in each of Hotel LKF, Charm Faith and Classic as at the date of this agreement, Most Famous, Hotel LKF, Charm Faith and Classic became wholly owned subsidiaries of the Company upon completion of the LKF Acquisition.

On 1st February 2013, Star Hope Investments Limited, a wholly owned subsidiary of the Company (the “Purchaser”) and Wing Shan Int’l Limited (the “Vendor”) entered into a sale and purchase agreement pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell 1 share of HK\$1.00 in the entire issued share capital of Well Full Limited (the “Target Co”) and a sale loan amounted to approximately HK\$29,603,055 at a total consideration of HK\$93,700,000. The major assets of the Target Co are a property located at Cockloft Floor and the Ground Floor of Nos. 1 and 3 Mercer Street, Hong Kong (the “Property”), bank deposits of HK\$9,220,000 and Renminbi bonds of RMB5,400,000 (equivalent to approximately HK\$6,750,000). The acquisition was completed on 28th February 2013 and the Target Co became wholly owned subsidiary of the Company. The Board intends to develop the Property into the flagship store of retail chain of Nam Pei Hong in Hong Kong.

Termination of the Proposed Acquisition of the Entire Share Capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited and the Sale Loan

On 29th April 2009, Bestjump Holdings Limited (“Bestjump”), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany (“Ms. Chen”), an executive director of the Company entered into a sale and purchase agreement (the “2009 Sale and Purchase Agreement”) pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the “Targeted Companies”) and outstanding loans in an aggregate amount of HK\$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK\$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited, through a Macau company, Legstrong Construction and Investment Company Limited (the “Macau Co”), indirectly owned 100% beneficial interest in a lot of land named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the “Macau Land”). The transaction was approved in a special general meeting of the Company held on 3rd September 2009. The longstop date of the agreement had further extended to 31st December 2012.

One of the conditions to completion is the publication by the Macau Government of a master zoning guideline for the “C” area of Nam Van Lakes Zone and the results of a new amendment to the land grant under which the Macau Co holds the Macau Land from the Macau Government executed on 14th August 2001 to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government. In the third quarter of 2010, the Macau Government invited Macau citizens as part of this process to submit their conceptual planning proposals for the Nam Van area with a view to optimising the benefits to the city’s infrastructures as a whole. Afterwards, the Macau Government has not yet issued any update on the master zoning guideline. On 15th February 2012, Bestjump and Ms. Chen entered into a deed of termination to terminate the 2009 Sale and Purchase Agreement. Given that (a) it did not appear that the master zoning guideline for the Macau Land would be issued anytime soon by the Macau Government; and (b) the ultimate target of the LKF Acquisition was the 49% equity interest in Hotel LKF which had been operating with positive earnings before interest, tax and depreciation, the parties had decided to terminate the 2009 Sale and Purchase Agreement in order to release the Group’s internal resource for the LKF Acquisition.

EMPLOYEES

As at 31st December 2012, the Group employed 744 staffs (2011: 726 staffs) with employee benefit expenses of HK\$145,682,000 (2011: HK\$109,123,000). 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, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

PROSPECT

Hotel and gaming service operations in Lan Kwai Fong are proved to be a successful investment of the Group given its contribution of profit and cash to the Group. It has successfully positioned to be a boutique hotel with excellent services and guest satisfaction. Given the moderate size of Lan Kwai Fong, we can enjoy the benefit of fast response to the changing market conditions in the Macau casino market. Mass table gaming operations are more profitable than VIP gaming operations and thus Casino LKF has spent resources to expand its market share in the mass table gaming operations and targeted the high end customers in the mass table gaming and was continued to be successful during this year, particularly the 2nd half of the year 2012. The growth in revenue from VIP table gaming operations in Macau was slow down since the end of last year and even set back in July 2012, the strategy in Casino LKF was proved to be effective. After the completion of the LKF Acquisition on 17th July 2012, the Group owned 100% interests in Lan Kwai Fong and can solidify its profitability and capture the full potential growth in the hotel and gaming service operations.

The development of the Sites will be the Group's medium to long term core investments. It will not only directly contribute revenue to the Group but also provide synergy with Lan Kwai Fong. The Group continues its preparation for the Sites and the development plan is currently under the approval of the Macau government. Given the superb location of the Sites which is adjacent to Lan Kwai Fong, Macao Polytechnic Institute, Forum de Macao and Golden Lotus Square and is a couple blocks away from Macau Fisherman's Wharf and Sands Casino and the recognized and solid experience in renovation of Lan Kwai Fong, the Group is confident that the development project will be another success investment of the Group.

At the end of 2011, the Group had acquired Nam Pei Hong in view of the increasing awareness in health. Given the aging of population of Hong Kong, demand for health care products, especially Chinese medicine, "Sum Yung" and dried seafood in Hong Kong has grown steadily in recent years. Afterwards, the Board has been seeking suitable retail shops to expand the business of Nam Pei Hong and strengthen the retail network of Nam Pei Hong. In the beginning of 2013, the Board has acquired 100% equity interest in Well Full Limited which major assets is holding the Property located in Cockloft Floor and the Ground Floor of Nos. 1 and 3 Mercer Street, Hong Kong and the Board intends to develop the Property into the flagship store of retail chain of Nam

Pei Hong in Hong Kong. With self owned retail shops, Nam Pei Hong can decrease its rental expenses and thus keep its overheads under control. In the near future, the Board will continue to seek suitable retail shops to expand the business of Nam Pei Hong with budgeted overheads.

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

With the approval by the independent shareholders at the SGM, the Company has implemented the Offer to repurchase for cancellation up to 887,901,665 issued ordinary shares of HK\$0.01 each held by the shareholders of the Company. In relation to the Offer, the Undertaking Parties had given undertakings not to accept the Offer. Following the close of the Offer on 9th November 2012, a total of 624,235,579 issued ordinary shares of HK\$0.01 each were repurchased and cancelled by the Company in November 2012. For details of the result of the Offer, please refer to the announcement dated 9th November 2012.

Save as aforesaid, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the listed securities of the Company for the year ended 31st December 2012.

CORPORATE GOVERNANCE PRACTICES

The Board is responsible for ensuring high standards of corporate governance are maintained and for accounting to shareholders. The Company has applied the principles and complied with all the applicable code provisions laid down in the Code on Corporate Governance Practices and the revised and renamed Corporate Governance Code as set out in Appendix 14 to the Listing Rules (both hereinafter referred to as the "Code") during the period from 1st January 2012 to 31st March 2012 and from 1st April 2012 to 31st December 2012 respectively, 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.

The information on the Company's compliance of the Code and deviation from certain code provisions of the Code for the year ended 31st December 2012 is set out in the Corporate Governance Report to be included in the Company's 2012 annual report which will be sent to the shareholders of the Company on or before 30th April 2013.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company comprises Messrs. Hung Cho Sing, Ho Wai Chi, Paul and Tang Chak Lam, Gilbert, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the Group's consolidated financial statements for the year ended 31st December 2012.

ADOPTION OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (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 throughout the year ended 31st December 2012. The Model Code also applies to other specified senior management of the Group.

PUBLICATION OF ANNUAL REPORT

The Company's 2012 annual report will be despatched to the shareholders of the Company on or before 30th April 2013 and will be published on the website of The Stock Exchange of Hong Kong Limited and the Company's website.

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

Hong Kong, 26th March 2013

As at the date hereof, the executive directors of the Company are Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung and the independent non-executive directors are Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert.