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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 2009**

#### **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 2009 as follows:

#### **CONSOLIDATED INCOME STATEMENT**

*For the year ended 31st December 2009*

	<i>Notes</i>	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Turnover	3	<b>543,429</b>	227,747
Cost of sales		<b>(34,556)</b>	(19,471)
Gross profit		<b>508,873</b>	208,276
Other revenue	4	<b>10,104</b>	7,920
Other income	5	<b>55,088</b>	43,987
Administrative expenses		<b>(300,355)</b>	(80,141)
Marketing and distribution expenses		<b>(9,514)</b>	(671)
Share-based payment expenses		<b>(8,039)</b>	(7,463)
Gain/(loss) arising on change in fair value of financial assets classified as held for trading		<b>15,622</b>	(14,877)
Gain/(loss) arising on change in fair value of investment properties		<b>19,652</b>	(11,930)
Impairment loss recognised in respect of goodwill		<b>(40,278)</b>	(13,646)
Impairment loss recognised in respect of film rights		<b>–</b>	(9,760)

## CONSOLIDATED INCOME STATEMENT (Continued)

For the year ended 31st December 2009

		<b>2009</b>	2008
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit from operations		<b>251,153</b>	121,695
Finance costs		<b>(22,272)</b>	(31,522)
Share of losses of associates		<b>(14)</b>	(3,303)
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable		<b>(31,565)</b>	–
Loss on disposal of subsidiaries		<b>(30,059)</b>	(6,170)
Loss on deemed disposal of interests in associates		–	(17,551)
		<hr/>	<hr/>
Profit before taxation	6	<b>167,243</b>	63,149
Taxation (charge)/credit	7	<b>(2,848)</b>	2,441
		<hr/>	<hr/>
Profit for the year		<b>164,395</b>	65,590
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Owners of the Company		<b>204,388</b>	90,604
Non-controlling interests		<b>(39,993)</b>	(25,014)
		<hr/>	<hr/>
		<b>164,395</b>	65,590
		<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share</b>			
Basic	9	<b>HK\$0.22</b>	HK\$0.14
		<hr/> <hr/>	<hr/> <hr/>
Diluted	9	<b>HK\$0.20</b>	HK\$0.14
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2009

	<b>2009</b> <b>HK\$'000</b>	2008 <i>HK\$'000</i>
Profit for the year	<u>164,395</u>	<u>65,590</u>
<b>Other comprehensive income</b>		
Disposal of subsidiaries	–	(11,141)
Winding up of subsidiaries	–	(476)
Exchange differences arising on translation of foreign operations	<b>39</b>	(146)
Share of other comprehensive income of associates	–	10,982
Fair value adjustment on available-for-sale financial assets	<u>9,800</u>	<u>(32,235)</u>
Other comprehensive income for the year	<u>9,839</u>	<u>(33,016)</u>
Total comprehensive income for the year	<u><b>174,234</b></u>	<u>32,574</u>
Total comprehensive income attributable to:		
Owners of the Company	<b>214,227</b>	58,899
Non-controlling interests	<u>(39,993)</u>	<u>(26,325)</u>
	<u><b>174,234</b></u>	<u>32,574</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31st December 2009*

	<i>Notes</i>	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		773,254	494,983
Interests in leasehold land		484,333	502,524
Investment properties		61,310	49,930
Goodwill		8,975	24,391
Intangible assets		989,205	989,205
Available for sale financial assets		–	16,800
Convertible notes receivable		20,015	–
Interests in associates		–	–
		<b>2,337,092</b>	2,077,833
<b>Current assets</b>			
Inventories		1,091	399
Film rights		22,914	29,753
Films in progress		19,238	18,379
Trade receivables	10	105,428	68,770
Deposits, prepayments and other receivables		396,968	61,077
Conversion options embedded in convertible notes receivable		10,908	–
Held for trading investments		97,641	25,713
Loan to a minority shareholder		–	183,750
Amounts due from associates		16,435	–
Prepaid tax		1,100	632
Cash and bank balances		173,188	138,145
		<b>844,911</b>	526,618
Assets classified as held for sale		8,272	716
		<b>853,183</b>	527,334
<b>Total assets</b>		<b>3,190,275</b>	2,605,167

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 31st December 2009

	<i>Notes</i>	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>Capital and reserves</b>			
Share capital		22,965	26,612
Reserves		2,052,157	1,392,099
		<b>2,075,122</b>	1,418,711
Equity attributable to owners of the Company			284,264
Non-controlling interests		<b>244,271</b>	284,264
<b>Total equity</b>		<b>2,319,393</b>	1,702,975
<b>Non-current liabilities</b>			
Bank borrowings – due after one year		178,275	280,906
Obligation under finance lease		305	–
Convertible notes		–	138,390
Deferred tax liabilities		86,682	88,317
		<b>265,262</b>	507,613
<b>Current liabilities</b>			
Bank overdraft		178,764	174,826
Bank borrowings – due within one year		232,631	102,561
Obligation under finance lease		96	–
Trade payables	11	21,426	7,083
Deposits received, accruals and other payables		132,201	69,271
Amounts due to minority shareholders		40,502	40,502
Tax payable		–	336
		<b>605,620</b>	394,579
<b>Total liabilities</b>		<b>870,882</b>	902,192
<b>Total equity and liabilities</b>		<b>3,190,275</b>	2,605,167
<b>Net current assets</b>		<b>247,563</b>	132,755
<b>Total assets less current liabilities</b>		<b>2,584,655</b>	2,210,588

*Notes:*

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

In the current year, the Group has applied the following new and revised Hong Kong Accounting Standards (“HKASs”), amendments or interpretations (the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 1st January 2009.

HKFRS (Amendments)	Improvement to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for the annual periods beginning on or after 1 July 2009
HKFRS (Amendment)	Improvement to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKFRS 1 & HKAS 27 (Amendments)	Amendment to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations arising on Liquidation
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers

Except as described below, the adoption of the new HKFRSs had no material impact on the consolidated financial statements of the Group for the current and prior accounting period.

**HKFRS 7 (Amendments) “Improving Disclosures about Financial Instruments”**

HKFRS 7 (Amendments) require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. The Group has taken advantage of the transition provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

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

### HKFRS 8 “Operating Segments”

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Details of application of HKFRS 8 are set out in note 2.

### HKAS 1 (Revised) “Presentation of Financial Statements”

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduced the statement of comprehensive income, it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

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

HKFRS (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs in 2008 <sup>1</sup>
HKFRS (Amendments)	Improvement to HKFRSs issued in 2009 <sup>2</sup>
HKFRS 1 (Amendments)	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters <sup>3</sup>
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopter <sup>3</sup>
HKFRS 2 (Amendments)	Amendments to HKFRS 2 Share-based Payments – Group Cash-settled Share-based Payment Transactions <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HKAS 24 (Revised)	Related party Disclosures <sup>6</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendments)	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues <sup>4</sup>
HKAS 39 (Amendments)	Eligible Hedged Items <sup>1</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement <sup>6</sup>
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>5</sup>

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

- <sup>1</sup> Effective for annual periods beginning on or after 1st July 2009
- <sup>2</sup> Effective for annual periods beginning on or after 1st July 2009 and 1st January 2010, as appropriate.
- <sup>3</sup> Effective for annual periods beginning on or after 1st January 2010
- <sup>4</sup> Effective for annual periods beginning on or after 1st February 2010
- <sup>5</sup> Effective for annual periods beginning on or after 1st July 2010
- <sup>6</sup> Effective for annual periods beginning on or after 1st January 2011
- <sup>7</sup> Effective for annual periods beginning on or after 1st January 2013

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary.

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The Group is in the process of making an assessment of the impact of these new HKFRSs and anticipates that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group and the Company.

## **2. SEGMENT INFORMATION**

The Group has adopted HKFRS 8 “Operating Segments” with effect from 1st January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”), which is a group of executive directors of the Company, for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 “Segment Reporting”) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments. In the past, the Group’s primary reporting format was business segment.

For film distribution operations, the CODM regularly analyses film distribution revenue on the basis of individual film. For segment reporting under HKFRS 8, financial information of these films has been aggregated into a single operating segment named “film distribution operations”.



## 2. SEGMENT INFORMATION (Continued)

For hotel and gaming service operations, the CODM regularly reviews the performance of Hotel Lan Kwai Fong Macau on the basis of revenue generated by it. For segment reporting under HKFRS 8, financial information of this hotel has been aggregated into a single operating segment named “hotel and gaming service operations”.

For gaming promotion operations, the CODM regularly reviews the investment in the operation which receives profit streams from the gaming promotion business. For segment reporting under HKFRS 8, financial information of this operation has been aggregated into a single operating segment named “gaming promotion operations”.

Accordingly, the application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

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

- |                                     |   |   |
|-------------------------------------|---|---|
| Film distribution operations        | – | Production and distribution of motion pictures and television drama series and provision of other film related services |
| Hotel and gaming service operations | – | Provision of hotel services and gaming operation services in Hotel Lan Kwai Fong Macau                                  |
| Gaming promotion operations         | – | Investing in operations which receive profit streams from the gaming promotion business                                 |

Segment information about these businesses is presented below:

## 2. SEGMENT INFORMATION (Continued)

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

	Segment revenue		Segment results	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Film distribution operations	26,580	24,420	(11,738)	(19,128)
Hotel and gaming service operations	222,043	–	(76,635)	–
Gaming promotion operations	294,806	203,327	292,710	201,604
	<u>543,429</u>	<u>227,747</u>	<u>204,337</u>	<u>182,476</u>
Reconciliation from segment results to profit before taxation				
Unallocated corporate income			65,192	51,907
Change in fair value of investment properties			19,652	(11,930)
Change in fair value of financial assets classified as held for trading			15,622	(14,877)
Impairment loss recognised in respect of goodwill			(24,862)	–
Unallocated corporate expenses			(112,698)	(144,427)
Profit before taxation			<u>167,243</u>	<u>63,149</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2008: nil).

Segment results represent the profit earned by each segment without allocation of central administration costs, change on fair value of investment in trading securities and investment properties and income tax expenses. 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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
<b>ASSETS</b>		
Segment assets		
– Film distribution operations	73,621	158,738
– Hotel and gaming service operations	1,354,038	1,195,964
– Gaming promotion operations	1,022,182	1,018,529
	<hr/>	<hr/>
Total segment assets	2,449,841	2,373,231
Unallocated assets	740,434	231,936
	<hr/>	<hr/>
	<b>3,190,275</b>	<b>2,605,167</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES</b>		
Segment liabilities		
– Film distribution operations	42,552	123,307
– Hotel and gaming service operations	735,732	543,371
– Gaming promotion operations	10	5
	<hr/>	<hr/>
Total segment liabilities	778,294	666,683
Unallocated liabilities	92,588	235,509
	<hr/>	<hr/>
	<b>870,882</b>	<b>902,192</b>
	<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, investment properties, available for sale financial assets, convertible notes receivable, deposits for investment, conversion options embedded in convertible notes receivable, held for trading investments, prepaid tax, cash and bank balances and assets classified as held for sale.
- all liabilities are allocated to reportable segments, other than convertible notes, deferred tax liabilities and tax payable.

## 2. SEGMENT INFORMATION (Continued)

### (c) Other segment information

	Film distribution operations		Hotel and gaming service operations		Gaming promotion operations		Unallocated		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>OTHER INFORMATION</b>										
Amortisation of film rights	20,590	18,593	-	-	-	-	-	-	20,590	18,593
Amortisation of interests in leasehold land	80	129	7,599	90	-	-	-	-	7,679	219
Depreciation of property, plant and equipment	1,048	2,139	37,110	453	-	-	-	-	38,158	2,592
Impairment loss recognised in respect of film rights	-	9,760	-	-	-	-	-	-	-	9,760
Impairment loss recognised in respect of goodwill	15,416	13,646	-	-	-	-	24,862	-	40,278	13,646

### REVENUE FROM MAJOR PRODUCTS AND SERVICES

	2009 HK\$'000	2008 HK\$'000
Film distribution fee income	20,073	19,140
Film production service income	6,009	4,914
Other film related service income	498	366
Hotel room income	18,611	-
Food and beverage sales	3,972	-
Service income from table gaming operations	197,027	-
Service income from slot machine operations	2,433	-
Receive profit streams from gaming promotion business	294,806	203,327
	<b>543,429</b>	<b>227,747</b>

## 2. SEGMENT INFORMATION (Continued)

### (d) Geographical information

The following table provides an analysis of the Group's sales by location of markets:

	Revenue from external customers		Non-current assets*	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Hong Kong	24,779	17,330	66,112	89,192
Macau	516,849	203,327	2,250,965	1,971,841
Worldwide other than Hong Kong and Macau	1,801	7,090	–	–
	<u>543,429</u>	<u>227,747</u>	<u>2,317,077</u>	<u>2,061,033</u>

\* Non-current assets excluding available for sale financial assets and convertible notes receivables.

## 3. TURNOVER

	2009 HK\$'000	2008 HK\$'000
Film distribution fee income	20,073	19,140
Film production service income	6,009	4,914
Sales of video products	–	1
Service income	498	365
Hotel room income	18,611	–
Food and beverage sales	3,972	–
Service income from table gaming operations	197,027	–
Service income from slot machine operations	2,433	–
Receive profit streams from gaming promotion business	294,806	203,327
	<u>543,429</u>	<u>227,747</u>

## 4. OTHER REVENUE

	2009 HK\$'000	2008 HK\$'000
Bank interest income	345	1,456
Imputed interest income from convertible notes receivable	2,488	40
Rental income	456	312
Management fee income	4,430	4,860
Other ancillary hotel revenue	2,385	–
Other interest income	–	1
Dividend income	–	1,251
	<u>10,104</u>	<u>7,920</u>

**5. OTHER INCOME**

	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reversal of impairment loss on trade receivables and other receivables	<b>119</b>	95
Reversal of impairment loss on amount due from former associates	<b>25,179</b>	–
Gain on redemption of convertible notes	<b>17,254</b>	39,000
Gain on disposal of property, plant and equipment	<b>9,760</b>	–
Net foreign exchange gain	<b>151</b>	–
Others	<b>2,625</b>	4,892
	<u><b>55,088</b></u>	<u>43,987</u>

**6. PROFIT BEFORE TAXATION**

Profit before taxation has been arrived at after charging:

	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of film rights (included in cost of sales)	<b>20,590</b>	18,593
Auditors' remuneration	<b>928</b>	610
Cost of inventories (included in cost of sales)	<b>2,821</b>	1
Depreciation of property, plant and equipment	<b>38,158</b>	2,592
Amortisation of interests in leasehold land	<b>7,679</b>	219
Net foreign exchange losses	–	279
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivables	<b>31,565</b>	–
Operating lease rental in respect of rented premises	<b>2,314</b>	2,447
Employee benefit expenses	<b>77,651</b>	32,774
Impairment loss on amount due from associates	–	25,179
	<u><b>200,085</b></u>	<u>102,594</u>

**7. TAXATION (CHARGE)/CREDIT**

	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
The taxation (charge)/credit is as follow:		
Current tax in other jurisdictions:		
Provision for the year	–	(3)
Over provision in prior years	<b>128</b>	–
	<u><b>128</b></u>	<u>(3)</u>
Deferred tax:		
Current year	<b>(2,976)</b>	2,444
	<u><b>(2,848)</b></u>	<u>2,441</u>

**7. TAXATION (CHARGE)/CREDIT (Continued)**

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 Macau Complimentary Income Tax has been provided as there was no assessable profits for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

**8. DIVIDENDS**

Dividends recognised as distributions during the year:

	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
2008 final paid – HK\$0.02 per share on 1,039,509,368 shares	<b>20,790</b>	–

The directors of the Company do not propose the payment of dividend for the year ended 31st December 2009. The directors of the Company proposed a final dividend of HK\$0.02 per share for the year ended 31st December 2008.

**9. EARNINGS PER SHARE**

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

	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings attributable to equity holders of the Company for the purpose of basic earnings per share	<b>204,388</b>	90,604
Add: Interest on convertible notes (net of tax)	<b>1,616</b>	–
Earnings attributable to equity holders of the Company for the purpose of diluted earnings per share	<b>206,004</b>	90,604

## 9. EARNINGS PER SHARE (Continued)

	2009	2008 (restated)
<b>Number of shares</b>		
Weight average number of ordinary shares for the purpose of basic earnings per share	921,483,735	628,292,689
Effect of dilutive potential ordinary shares:		
Share options	9,369,800	–
Convertible notes	117,260,274	–
	<u>1,048,113,809</u>	<u>628,292,689</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,048,113,809</u>	<u>628,292,689</u>

The weighted average number of ordinary shares for the year ended 31st December 2009 and 31st December 2008 for the purpose of basic and diluted earnings per share has been adjusted and restated respectively resulting from the open offer and bonus issue completed on 26th February 2009 and capital reorganisation effective on 4th May 2009. The computation of diluted earnings per share did not assume the conversion of the outstanding convertible notes and the exercise of the outstanding share options of the Company since their conversion or exercise would result in an increase in earnings per share and thus anti-dilutive for the year ended 31st December 2008.

## 10. TRADE RECEIVABLES

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

	<b>The Group</b>	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	86,269	22,721
31 to 60 days	7,763	339
61 to 90 days	4,518	136
91 to 180 days	1,817	73
Over 180 days	6,225	46,862
	<u>106,592</u>	<u>70,131</u>
Less: Impairment loss on trade receivables	(1,164)	(1,361)
	<u>105,428</u>	<u>68,770</u>
Aging of trade receivables which are past due but not impaired:		
61 – 90 days	4,518	136
Over 90 days	6,878	45,574
	<u>11,396</u>	<u>45,710</u>
Total	<u>11,396</u>	<u>45,710</u>



## 10. TRADE RECEIVABLES (Continued)

Movement of impairment loss on trade receivables:

	The Group	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
At 1st January	1,361	4,034
Impairment loss recognised	30	23
Written off	(227)	(2,601)
Reversal of impairment loss	–	(95)
	<hr/>	<hr/>
At 31st December	<b>1,164</b>	<b>1,361</b>

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$11,396,000 (2008: HK\$45,710,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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 reporting date. Accordingly, the directors of the Company considered provision for impairment in values be made in respect of trade receivables to their recoverable values and believe that there is no further credit provision required in excess of the provision for impairment.

## 11. TRADE PAYABLES

The aging analysis of the trade creditors is as follow:

	The Group	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 to 30 days	6,247	650
31 to 60 days	3,614	48
61 to 90 days	101	17
91 to 180 days	1,845	632
Over 180 days	9,619	5,736
	<hr/>	<hr/>
	<b>21,426</b>	<b>7,083</b>

## 12. COMPARATIVES

As a result of the application of new HKFRSs, presentation of the financial statements has been changed and certain comparative figures have been adjusted to conform with the current year's presentation.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Review**

For the year ended 31st December 2009, the Group's turnover increased by 139% to approximately HK\$543,429,000 (2008: HK\$227,747,000).

Profit from operations and profit for the year amounted to approximately HK\$251,153,000 and HK\$164,395,000 respectively as compared to HK\$121,695,000 and HK\$65,590,000 respectively for last year.

The profit attributable to owners of the Company for the year ended 31st December 2009 was HK\$204,388,000, representing a 126% improvement over HK\$90,604,000 in the last year.

### **Dividend**

The directors do not recommend the payment of a final dividend for the year ended 31st December 2009. The directors recommended a final dividend of HK\$0.02 per share for the year ended 31st December 2008.

### **Business Review**

This year, as Hotel Lan Kwai Fong Macau ("Lan Kwai Fong", formally known as Hotel Kingsway), a major investment of the Group had its grand opening in August 2009, it started to contribute revenue to the Group during the year. Lan Kwai Fong presents 200 rooms and suites with 112 deluxe rooms, 82 grand suites, 4 exclusive suites and 2 luxuriously appointed LKF apartments. Casino located in Lan Kwai Fong (the "Casino LKF") situates in the first and 18th floor. Located on 18th floor is the sky casino with red carpet suite features eight VIP rooms with unique decoration. Lan Kwai Fong also operates dining restaurants, a flower shop, retail shops and a spa.

Of the total turnover for the year, HK\$222,043,000 or 41% was generated from hotel and gaming service operations, HK\$294,806,000 or 54% was generated from gaming promotion operations and HK\$26,580,000 or 5% was generated from film distribution operations.

#### *Hotel and Gaming Service Operations*

Hotel and gaming service operations included the hotel operation in 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 which was recorded in an indirect subsidiary of the Group, Classic Management & Services Company Limited ("Classic").

Revenue in hotel and gaming service operations mainly comprised of hotel room sales of HK\$18,611,000, food and beverage sales of HK\$3,972,000 and service income of HK\$197,027,000 and HK\$2,433,000 from table gaming and slot machines respectively. Hotel and gaming service operations recorded an aggregate segment loss of approximately HK\$76,635,000. For the year ended 31st December 2009, Lan Kwai Fong had operations for only around 5 months but had to expense for the whole year's administrative expenses, the grand opening expenses and pre-operating expenses, it then attributed a segment loss for the year.

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 share certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines in Casino LKF. As at 31 December 2009, Casino LKF operated a total of 87 tables, targeting both for the VIP market and the mass market. It also operated a total of 104 slot machines.

#### *Gaming Promotion Operations*

The Group's investment in Best Mind International Inc. ("Best Mind") has continued to share strong profit 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 Group had shared revenue and segment profit of approximately HK\$294,806,000 (2008: HK\$203,327,000) and HK\$292,710,000 (2008: HK\$201,604,000) from the gaming promotion business.

#### *Film Distribution Operations*

Film distribution operations includes production and distribution of motion pictures and television drama series and provision of other film related services. The Group had released only 3 new films in the market in response to the weak market condition of the entertainment industry in these years. In year 2009, turnover for film distribution operations amounted to HK\$26,580,000 (2008: HK\$24,420,000) and its segment loss amounted to HK\$11,738,000 (2008: HK\$19,128,000) respectively. In response to the weak market condition, the Group had impaired the goodwill of HK\$15,416,000 (2008: HK\$13,646,000) for the cash generating unit of film distribution business as at 31st December 2009.

#### *Administrative Expenses*

For the year ended 31st December 2009, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK\$254,518,000, a 229% increase from HK\$77,330,000 as compared to the last corresponding year. The increase was mainly attributable to the operations of the hotel and gaming service operations during the year. Employee benefit expenses increased from HK\$32,774,000 to HK\$77,651,000 with respect to the increase in the number of employees in Lan Kwai Fong after its grand opening in August 2009.

## Liquidity and Financial Resources

As at 31st December 2009, the Group had total assets of approximately HK\$3,190,275,000 and a net current assets of HK\$247,563,000, representing a current ratio of 1.4 (2008: 1.3). The Group had cash and cash balances of approximately HK\$173,188,000 (2008: HK\$138,145,000). As at 31st December 2009, the Group had total borrowings of HK\$590,071,000 comprising a bank mortgage loan of HK\$5,906,000, a secured bank overdraft of HK\$178,764,000, a secured bank term loan of HK\$275,000,000 (“Term Loan I”), a secure bank term loan of HK\$60,000,000 (“Term Loan II”), an unsecured bank term loan of HK\$70,000,000 (“Term Loan III”) and obligation under finance lease of HK\$401,000. The bank mortgage loan is secured by the Group’s investment properties with carrying value of HK\$61,310,000, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 49 monthly instalments. The bank overdraft facility, Term loan I and Term Loan II are secured by the Group’s leasehold land, buildings and construction in progress with an aggregate carrying values of approximately HK\$761,223,000 (2008: HK\$991,034,000). The bank overdraft facility is interest bearing at 1% per annum below the bank’s best lending rate, repayable on demand and reviewed by the bank annually. Term Loan I is interest bearing at 2.0% per annum below the bank’s best lending rate, repayable by 18 equal consecutive quarterly installments of HK\$25,000,000 each commencing from the 9th month after the date of the first loan drawdown. Term Loan II and Term Loan III are interest bearing at 2.2% and 3% per annum respectively over 1-month HIBOR, repayable by 12 equal consecutive monthly installments of HK\$10,000,000 each commencing from the first month after the date of drawdown. As at 31st December 2009, Hotel LKF, a subsidiary of the Company had banking facilities amounting to HK\$535,600,000 which were utilised to the extent of HK\$513,764,000. The Group’s gearing remained low during the year with total debts of HK\$590,071,000 against owners’ equity of HK\$2,075,122,000. This represents a gearing ratio, calculated in the basis of the Group’s total borrowings over owners’ equity of 28%.

As the majority of the Group’s transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December 2009, the Group had no contingent liability.

On 8th December 2008, the Company announced that it proposed to subscribe zero coupon convertible notes in principal amount of HK\$60,000,000 to be issued by China Star Film Group Limited (formerly known as Golife Concepts Holdings Limited) (“CS Film Group”) in five tranches of HK\$12,000,000 each due on the tenth anniversary of the date of issue for such tranche (“Subscription”). HK\$60,000,000 convertible notes were issued by CS Film Group to the Company on 29th January 2009.

At the same date, the Company also announced that 1,064,486,080 offer shares of the Company at a subscription price of HK\$0.05 each on the basis of two offer shares for every shares held on 23rd January 2009 with bonus issue on the basis of three bonus shares for every one offer shares taken up under the open offer of the Company. The estimated net proceeds of not less than approximately HK\$42,000,000 were intended to be used for the Subscription. The offer shares and the bonus shares were allotted and issued on 26th February 2009.

On 29th January 2009, the authorised share capital of the Company increased from HK\$100,000,000 divided into 2,000,000,000 shares of HK\$0.05 each to HK\$500,000,000 divided into 10,000,000,000 shares of HK\$0.05 each.

On 26th February 2009, the Board announced that the Company intended to put forward to the shareholders of the Company for their approval a proposal involving capital reorganisation (“Capital Reorganisation”) of the Company comprising (i) share consolidation that every 20 issued and unissued shares of HK\$0.05 each be consolidated into 1 consolidated share of HK\$1.00 each of the Company (“Consolidated Shares”); (ii) capital reduction that the issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.99 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Shares will be reduced from HK\$1.00 to HK\$0.01 and the credit arising from the reduction of issued share capital of the Company be credited to the contributed surplus account of the Company; and (iii) share subdivision that each of the authorised but unissued Consolidated Shares of HK\$1.00 each be subdivided into 100 new shares of HK\$0.01 each. The Capital Reorganisation was completed on 4th May 2009.

On 11th March 2009, the Company entered into a loan agreement with China Star Investment Holdings Limited (“China Star Investment”) pursuant to which China Star Investment agreed to grant an unsecured loan facility of up to HK\$200,000,000 to the Company. HK\$200,000,000 (the “Loan Advance”) was drawn on 29th April 2009. Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are the common executive directors and have beneficial interests in the Company and China Star Investment as at the date of the agreement.

On 12th May 2009, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 800,000,000 new shares of the Company to independent investors at a price of HK\$0.20 per share. 800,000,000 new shares were allotted and issued on 11th June 2009 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 5th June 2009. The net proceeds of approximately HK\$158,000,000 were used to finance the hotel operations and for general working capital of the Group.

On 16th July 2009, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 207,900,000 new shares of the Company to independent investors at a price of HK\$0.22 per share. 207,900,000 new shares were allotted and issued on 29th July 2009 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 29th June 2009. The net proceeds of approximately HK\$45,238,000 were used for the general working capital of the Group.

On 23rd July 2009, the Company entered into a subscription agreement with China Star Investment pursuant to which the Company has agreed to issue and China Star Investment has agreed to subscribe for the convertible notes (the “China Star Investment Convertible Notes”) in the principal amount of HK\$200,000,000 to be issued by the Company. The subscription price should be satisfied by setting off against the Loan Advance. The China Star Investment Convertible Notes were unsecured, interest bearing at prime rate of The Hong Kong and Shanghai Banking Corporation Limited and carry the right to convert into shares of the Company at an initial conversion price of HK\$0.20 per share (subject to adjustment) during the conversion period from the date of issue to the third anniversary from date of issue. The China Star Investment Convertible Notes were subscribed by China Star Investment on 21st September 2009. During the year ended 31st December 2009, the China Star Investment Convertible Notes were fully converted into 1,000,000,000 shares of the Company at the conversion price of HK\$0.20 per share. China Star Investment become a substantial shareholder of the Company.

During the year ended 31st December 2009, certain option holders exercised their option rights to subscribe for an aggregate of 49,087,000 shares of the Company at an exercise price of HK\$0.268 per share. The net proceeds from the exercise of option rights amounted to approximately HK\$13,155,000. Subsequent to the balance sheet date, a total of 52,790,000 options were exercised at an exercise price of HK\$0.180 per share to convert into 52,790,000 shares of the Company on 8th January 2010 with net proceeds of HK\$9,502,000.

Subsequent to the balance sheet date, the Company entered into a placing agreement on 4th January 2010 with a placing agent to place on a fully underwritten basis an aggregate 540,000,000 new shares of the Company to independent investors at a price of HK\$0.14 per share. 540,000,000 new shares were allotted and issued on 11th February 2010 under the specific mandate granted to the directors of the Company at the special general meeting of the Company held on 8th February 2010. The net proceeds of approximately HK\$75,400,000 were intended to be used for the Group’s investment projects in Macau and general working capital of the Group.

On 26th April 2010, the directors of the Company proposed, subject to the satisfaction of certain conditions, to make the proposed bonus issue of warrants (“Warrants”) by the Company to subscribe for new shares of the Company at an initial subscription price of HK\$0.193 per new share (subject to adjustment) to the qualifying shareholders whose names appear on the register of members on the basis of one Warrant for every five shares held on the record date as announced by the Company.



## **Material Acquisition**

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 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 indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, 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”). Details of the transaction were set out in the Company’s circular dated 17th August 2009. The transaction has been approved in a special general meeting of the Company held on 3rd September 2009. The acquisition has not yet completed up to the reporting date.

## **Material Disposals**

### *Disposal of equipments of China Star Production Services Limited*

On 4th December 2008, the Company announced that China Star Production services Limited, a wholly owned subsidiary of the Company entered into a memorandum of agreement with Hong Kong Movie City Company Limited to dispose a number of system/unit used for post production process to the final cut of films for a total consideration of HK\$11,200,000. This disposal constituted a discloseable transaction for the Company under the Listing Rules. These assets were classified as assets held for sale as at 31st December 2008 and the disposal was then completed on 30th April 2009.

### *Disposal of Bingo Chance Limited*

On 8th June 2009, the Group entered into a sale and purchase agreement to dispose 100% equity interest in Bingo Chance Limited at a consideration of HK\$22,960,000. The major assets in Bingo Chance Limited were its investment in 700,000,000 shares in Daido Group Limited which were classified as available-for-sale financial assets by the Group. The Group recorded a loss on disposal of approximately HK\$29,602,000.

## **Employees**

As at 31st December 2009, the Group employed 526 staffs (2008: 93 staffs). 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, housing allowance and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

## **Prospect**

During the year, the gaming promotion business continues its dominant contribution and provides stable cash income to the Group. The Group believes that the Macau gaming and entertainment business would growth internationally when its infrastructural development becomes more matured. One of our major investments, Lan Kwai Fong had its grand opening on 2nd August 2009 which has attracted wide attention of the hotel and casino market. It has successfully established the boutique hotel image which was enhanced and proven by being awarded as winner of “5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China”. The performance of Lan Kwai Fong is encouraging and shows trend of improvement. The Group believes that Lan Kwai Fong can continue to provide stable revenue and cash income to the Group. The performance of our businesses in Macau encouraged and strengthened the Group’s confidence in the prospect and development in Macau. On 29th April 2009, the Group has entered into a sale and purchase agreement to purchase the Macau Land. It is intended that luxury residential apartments be developed on the Macau Land for sale. The development costs of the Macau Land are intended to be financed by proceeds from pre-sale of the apartments and bank borrowings.

In the past few years, the Group had succeeded in deploying diversified business strategy and hence improved both the earning ability and financial position of the Group. Looking ahead, the Group will continue to streamline its business operations which can enables the Group to operate in a much cost effective manner and concentrate its resources on investments opportunity with good potential of revenue growth and a positive impact on the Group’s return in the long run.

## **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 year ended 31st December 2009.

## **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 of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules for the year ended 31st December 2009, 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 2009 is set out in the Corporate Governance Report to be included in the Company's 2009 annual report which will be sent to the shareholders of the Company on or before 30th April 2010.

#### **AUDIT COMMITTEE AND REVIEW OF ACCOUNTS**

The audit committee of the Company comprises 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 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 2009.

#### **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 2009. The Model Code also applies to other specified senior management of the Group.

#### **PUBLICATION OF ANNUAL REPORT**

The Company's 2009 annual report will be despatched to the shareholders of the Company on or before 30th April 2010 and will be published on the Stock Exchange's website and the Company's website.

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

Hong Kong, 26th April 2010

*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. Leung Hok Man.*