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## CHINA STAR ENTERTAINMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 326)**

**(Warrant Code: 972/1056)**

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2011

The board of directors of China Star Entertainment Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2011 together with comparative figures as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th June 2011*

		<b>Six months ended 30th June</b>	
		<b>2011</b>	<b>2010</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
			<b>(Re-presented)</b>
Turnover	4	<b>470,930</b>	454,234
Cost of sales		<b>(165,862)</b>	(119,611)
Gross profit		<b>305,068</b>	334,623
Other revenue	5	<b>8,810</b>	9,267
Other income	6	<b>183</b>	27,345
Administrative expenses		<b>(217,527)</b>	(213,371)
Marketing and distribution expenses		<b>(6,541)</b>	(3,040)
Share-based payment expenses		–	(8,237)
(Loss)/gain arising on change in fair value of financial assets classified as held for trading		<b>(17,757)</b>	26,277
Gain arising on change in fair value of investment properties		–	4,090

	<i>Notes</i>	<b>Six months ended 30th June</b>	
		<b>2011</b>	<b>2010</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
			<b>(Re-presented)</b>
Impairment loss recognised in respect of goodwill		–	(8,975)
Impairment loss recognised in respect of intangible assets		<b>(73,830)</b>	<b>(197,973)</b>
Loss from operations		<b>(1,594)</b>	(29,994)
Finance costs	7	<b>(8,542)</b>	(8,642)
Share of profit/(loss) of associates		<b>431</b>	(16)
Share of profit of jointly controlled entities		<b>28</b>	–
Gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable		–	882
Loss before taxation	8	<b>(9,677)</b>	(37,770)
Taxation credit/(charge)	9	<b>7,239</b>	(32)
Loss for the period		<b>(2,438)</b>	<b>(37,802)</b>
Attributable to:			
Owners of the Company		<b>(27,992)</b>	(61,099)
Non-controlling interests		<b>25,554</b>	23,297
		<b>(2,438)</b>	<b>(37,802)</b>
<b>Loss per share</b>			
Basic and diluted	10	<b>HK cents(6.34)</b>	<b>HK cents(14.58)</b>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
*For the six months ended 30th June 2011*

	<b>Six months ended 30th June</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Loss for the period	<u>(2,438)</u>	<u>(37,802)</u>
<b>Other comprehensive income</b>		
Exchange differences arising on translation of foreign operations		
Exchange differences arising during the period	<b>168</b>	(355)
Reclassification adjustments upon disposal	<b>24</b>	–
	<u>192</u>	<u>(355)</u>
Other comprehensive income/(loss) for the period	<b>192</b>	(355)
Total comprehensive loss for the period	<b><u>(2,246)</u></b>	<b><u>(38,157)</u></b>
Total comprehensive income/(loss) attributable to:		
Owners of the Company	<b>(27,800)</b>	(61,454)
Non-controlling interests	<b>25,554</b>	23,297
	<b><u>(2,246)</u></b>	<b><u>(38,157)</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2011

	<b>At 30th June 2011</b>	<b>At 31st December 2010</b>
<i>Notes</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	<b>HK\$'000</b> <b>(Audited)</b>
<b>Non-current assets</b>		
Property, plant and equipment	670,996	721,381
Interests in leasehold land	523,222	464,731
Investment properties	–	73,580
Intangible assets	717,402	791,232
Interests in associates	8,416	7,985
Interests in jointly controlled entities	30,028	–
	<b>1,950,064</b>	<b>2,058,909</b>
<b>Current assets</b>		
Inventories	2,015	1,657
Stock of properties	550,000	–
Film rights	20,660	21,321
Films in progress	19,078	19,038
Trade receivables	78,014	69,337
Deposits, prepayments and other receivables	381,524	441,059
Held for trading investments	101,877	94,050
Amounts due from associates	14,755	13,714
Prepaid tax	96	180
Cash and bank balances	594,652	625,827
	<b>1,762,671</b>	<b>1,286,183</b>
<b>Total assets</b>	<b>3,712,735</b>	<b>3,345,092</b>
<b>Capital and reserves</b>		
Share capital	19,647	43,340
Reserves	2,659,374	2,259,435
	<b>2,679,021</b>	<b>2,302,775</b>
Equity attributable to owners of the Company	2,679,021	2,302,775
Non-controlling interests	302,735	277,181
	<b>2,981,756</b>	<b>2,579,956</b>

	<b>At 30th June 2011 HK\$'000 (Unaudited)</b>	<b>At 31st December 2010 HK\$'000 (Audited)</b>
<b>Non-current liabilities</b>		
Bank borrowings – due after one year	<b>425,000</b>	450,000
Obligation under finance lease	<b>209</b>	201
Deferred tax liabilities	<b>80,888</b>	88,063
	<u><b>506,097</b></u>	<u>538,264</u>
<b>Current liabilities</b>		
Bank borrowings – due within one year	<b>50,000</b>	50,000
Obligation under finance lease	<b>110</b>	96
Trade payables	<b>21,969</b>	25,038
Deposits received, accruals and other payables	<b>70,828</b>	60,470
Amount due to an associate	<b>16,473</b>	25,766
Amounts due to non-controlling interests	<b>65,502</b>	65,502
	<u><b>224,882</b></u>	<u>226,872</u>
<b>Total liabilities</b>	<u><b>730,979</b></u>	<u>765,136</u>
<b>Total equity and liabilities</b>	<u><b>3,712,735</b></u>	<u>3,345,092</u>
<b>Net current assets</b>	<u><b>1,537,789</b></u>	<u>1,059,311</u>
<b>Total assets less current liabilities</b>	<u><b>3,487,853</b></u>	<u>3,118,220</u>

*Notes*

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## NOTES

### 1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group (the “Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Interim Financial Statements should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2010.

The Interim Financial Statements have been prepared under historical cost convention, except for certain financial instrument, which are measured at fair values.

Certain comparative figures of the previous period have been re-presented to conform with the current period’s presentation.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 31st December 2010, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and interpretations described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s accounting period beginning on 1st January 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised HKFRSs has no material effect on the Interim Financial Statements for the current or prior accounting period.

### 3. SEGMENT INFORMATION

The Group has identified the following operating segments:

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:

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

	Segment revenue		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
				(Re-presented)
Film distribution operations	1,431	937	244	439
Hotel and gaming service operations	420,590	369,491	50,671	46,112
Gaming promotion operations	48,909	83,806	(25,572)	(124,224)
	<u>470,930</u>	<u>454,234</u>	<u>25,343</u>	<u>(77,673)</u>

Reconciliation from segment results to loss before taxation

Unallocated corporate income	2,539	31,969
Change in fair value of financial assets classified as held for trading	(17,757)	26,277
Change in fair value of investment properties	–	4,090
Unallocated corporate expenses	(19,802)	(22,433)
Loss before taxation	<u>(9,677)</u>	<u>(37,770)</u>

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

Segment results represent the profit earned/(loss suffered) by each segment without allocation of central administration costs under heading of unallocated corporate expenses, change in fair value of financial assets classified as held for trading and investment properties, income tax expenses and unallocated corporate income. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

(b) **Geographical information**

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

	<b>Revenue from external customers</b>	
	<b>Six months ended 30th June</b>	
	<b>2011</b>	<b>2010</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Hong Kong	2	773
Macau	469,499	453,297
Worldwide other than Hong Kong and Macau	1,429	164
	<u>470,930</u>	<u>454,234</u>

**4. TURNOVER**

	<b>Six months ended 30th June</b>	
	<b>2011</b>	<b>2010</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Film distribution fee income	1,431	937
Hotel room income	29,737	24,827
Food and beverage sales	7,943	6,680
Service income from table gaming operations	376,794	334,679
Service income from slot machine operations	6,116	3,305
Receive profit streams from gaming promotion business	48,909	83,806
	<u>470,930</u>	<u>454,234</u>

**5. OTHER REVENUE**

	<b>Six months ended 30th June</b>	
	<b>2011</b>	<b>2010</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Bank interest income	2,660	230
Imputed interest income from convertible notes receivable	–	1,212
Management fee income	192	2,400
Other ancillary hotel revenue	5,951	5,395
Rental income	–	17
Others	7	13
	<u>8,810</u>	<u>9,267</u>



**6. OTHER INCOME**

	<b>Six months ended 30th June</b>	
	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Gain on early redemption of convertible notes receivable	–	26,983
Net foreign exchange gain	<b>183</b>	255
Others	–	107
	<u>183</u>	<u>27,345</u>

**7. FINANCE COSTS**

	<b>Six months ended 30th June</b>	
	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interest on bank borrowing wholly repayable within five years	<b>8,527</b>	8,627
Interest on finance lease	<b>15</b>	15
	<u>8,542</u>	<u>8,642</u>

**8. LOSS BEFORE TAXATION**

	<b>Six months ended 30th June</b>	
	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Loss before taxation has been arrived at after charging:		
Amortisation of film rights (included in cost of sales)	<b>1,161</b>	254
Amortisation of interests in leasehold land	<b>7,003</b>	9,109
Cost of inventories (included in cost of sales)	<b>3,626</b>	2,507
Depreciation of property, plant and equipment	<b>46,193</b>	46,752
Employee benefit expenses	<b>47,654</b>	48,658
Loss on disposal of property, plant and equipment	<b>90</b>	114
Operating lease rental in respect of rental premises	<b>715</b>	710
	<u>715</u>	<u>710</u>

## 9. TAXATION CREDIT/(CHARGE)

Six months ended 30th June	
2011	2010
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

The taxation credit/(charge) is as follow:

Current tax in other jurisdictions:

Over provision in prior periods

64	–
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Deferred tax:

Current period

7,175	(32)
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<u>7,239</u>	<u>(32)</u>
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No provision for Hong Kong Profits Tax has been made for both periods 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 Complementary Tax has been provided as assessable profit for the period was set off against the tax losses brought forward from previous years or was exempt for tax liability.

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

## 10. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

Six months ended 30th June	
2011	2010
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Loss attributable to owners of the Company for  
the purpose of basic and diluted loss per share

<u>(27,992)</u>	<u>(61,099)</u>
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<b>Six months ended 30th June</b>	
<b>2011</b>	2010
<b>'000</b>	<b>'000</b>
<b>(Unaudited)</b>	(Unaudited) (Restated)

**Number of shares**

Weighted average number of ordinary shares for the purposes of basic and diluted loss per share

<b>441,498</b>	<b>418,962</b>
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The weighted average number of ordinary shares for the six months ended 30th June 2011 and 30th June 2010 for the purpose of basis and diluted loss per share has been adjusted and restated respectively resulting from the capital reorganisation and the rights issue completed on 9th May 2011 and 29th June 2011 respectively.

The computation of diluted loss per share for both periods did not assume the subscription of the outstanding warrants and the exercise of the share options of the Company since their subscription/exercise would result in a decrease in loss per share and thus anti-dilutive.

**11. DIVIDEND**

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30th June 2011 and 30th June 2010.

**12. TRADE RECEIVABLES**

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

	<b>At 30th June 2011 HK\$'000 (Unaudited)</b>	<b>At 31st December 2010 HK\$'000 (Audited)</b>
0 to 30 days	<b>74,795</b>	64,152
31 to 60 days	<b>114</b>	609
61 to 90 days	<b>16</b>	–
91 to 180 days	<b>–</b>	–
Over 180 days	<b>4,246</b>	5,733
	<b>79,171</b>	70,494
Less: Impairment loss on trade receivables	<b>(1,157)</b>	(1,157)
	<b>78,014</b>	69,337

**13. TRADE PAYABLES**

The aging analysis of the trade payables is as follows:

	<b>At 30th June 2011 <i>HK\$'000</i> (Unaudited)</b>	<b>At 31st December 2010 <i>HK\$'000</i> (Audited)</b>
0 to 30 days	<b>10,035</b>	14,267
31 to 60 days	<b>1,925</b>	2,444
61 to 90 days	<b>11</b>	233
91 to 180 days	<b>689</b>	917
Over 180 days	<b>9,309</b>	7,177
	<hr/> <b>21,969</b> <hr/>	<hr/> 25,038 <hr/>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial review**

For the six months ended 30th June 2011, the Group's turnover increased by 4% to approximately HK\$470,930,000 as compared to HK\$454,234,000 for the same period in the previous year.

Loss from operations and loss for the period amounted to approximately HK\$1,594,000 and HK\$2,438,000 respectively as compared to HK\$29,994,000 and HK\$37,802,000 respectively for the last corresponding period, a decrease of 95% and 94% respectively.

The incur of a loss for the period was mainly attributable to impairment loss of HK\$73,830,000 (Six months ended 30th June 2010: HK\$197,973,000) recognised in respect of the intangible assets in the current period's result 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") and the decrease in loss as compared with the last corresponding period was mainly attributable to the decrease in the impairment losses recognised from Best Mind as at 30th June 2011. Best Mind is the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau.

The loss attributable to owners of the Company for the six months ended 30th June 2011 was HK\$27,992,000 representing a decrease of 54% from HK\$61,099,000 for the last corresponding period.

### **Dividend**

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30th June 2011.

### **Business Review**

Of the total turnover amount for the period, HK\$420,590,000 or 89% was generated from hotel and gaming service operations, HK\$48,909,000 or 10% was generated from gaming promotion operations and HK\$1,431,000 or 1% was generated from film distribution operations.

#### *Hotel and Gaming Service Operations*

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"). Lan Kwai Fong presents a total of 200 guest rooms, casino situated in the ground, first and 18th floor, restaurants, flower shop, retail shop and a spa.

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 30th June 2011, Casino LKF operated a total of 78 tables, targeting both for the VIP market and the mass market. It also operated a total of 121 slot machines.

Revenue in the hotel and gaming service operations mainly comprised of hotel room income of HK\$29,737,000 (Six months ended 30th June 2010: HK\$24,827,000), food and beverage sales of HK\$7,943,000 (Six months ended 30th June 2010: HK\$6,680,000), service income from table gaming operations of HK\$376,794,000 (2010: HK\$334,679,000) and service income from slot machine operations of HK\$6,116,000 (Six months ended 30th June 2010: HK\$3,305,000). Hotel and gaming service operations recorded an aggregate segment profit of approximately HK\$50,671,000 (Six months ended 30th June 2010: HK\$46,112,000). This period, the performance of Lan Kwai Fong was encouraging. The average monthly revenue from the hotel and gaming service operations was approximately HK\$70,098,000 which represented 14% increase from HK\$61,582,000 for the last corresponding period, mainly reflecting 13% increase in monthly service income from table gaming of HK\$62,799,000 as compared to HK\$55,780,000 for the last corresponding period. The hotel occupancy rate also increased from 63% in first half of 2010 to 76% in first half of 2011. During these two years, Lan Kwai Fong has successfully established its brand name and had attracted new customers and repeated customers by providing its unique and clean environment and highly personalised service from well-trained and dedicated staffs.

#### *Gaming Promotion Operations*

The Group had shared revenue and segment loss of approximately HK\$48,909,000 (Six months ended 30th June 2010: HK\$83,806,000) and HK\$25,572,000 (Six months ended 30th June 2010: HK\$124,224,000) from the gaming promotion operations, a decrease of 42% and 79% respectively.

Although Macau’s casino gaming industry earned record revenue in these few months, 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 decreased the expected cash inflow from this operation and thus impairment loss in respect of the intangible assets of HK\$73,830,000 (Six months ended 30th June 2010: HK\$197,973,000) was recognised.

#### *Film Distribution Operations*

Film distribution operations includes production and distribution of motion pictures and television drama series and provision of other film related services. During the six months ended 30th June 2011, turnover and its segment profit for film distribution operations amounted to HK\$1,431,000 and HK\$244,000 respectively as compared to HK\$937,000 and HK\$439,000 respectively for the last corresponding period.

### *Geographical segments*

For the geographical segments, as revenue from hotel and gaming service operations and gaming promotion operations are all sourced in Macau, almost 100% turnover of the Group during this period were come from Macau.

### *Administrative Expenses*

For the six months ended 30th June 2011, administrative expenses (net of amortisation of interests in leasehold land and depreciation of property, plant and equipment) amounted to HK\$164,331,000, a 4% increase from HK\$157,510,000 as compared to the last corresponding period. Employee benefit expenses decreased 2% from HK\$48,658,000 to HK\$47,654,000.

### **Liquidity and Financial Resources**

As at 30th June 2011, the Group had total assets of approximately HK\$3,712,735,000 and net current assets of HK\$1,537,789,000, representing a current ratio of 7.8 (31st December 2010: 5.7). The Group had cash and bank balances of approximately HK\$594,652,000 (31st December 2010: HK\$625,827,000). As at 30th June 2011, the Group had total borrowings of HK\$475,319,000 which comprised a secured bank term loan with remaining balance of HK\$475,000,000 (the "Term Loan") and obligation under finance lease of HK\$319,000. The Term Loan is interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank, repayable by 19 equal consecutive quarterly installments of HK\$12,500,000 each commencing from the third month after the date of the first loan drawdown and a final repayment for the remaining balance. As at 30th June 2011, Hotel LKF had banking facilities amounting to HK\$536,000,000 which were utilized to the extent of HK\$500,000,000. The Group's gearing remained low during the period with total debts of HK\$475,319,000 against owners' equity of HK\$2,679,021,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 18% (31st December 2010: 22%).

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 30th June 2011, the Group had no contingent liability.

On 11th August 2010, the Company raised net proceeds of approximately HK\$141,460,000 by the issue of 1,444,643,184 rights shares, of which approximately HK\$100,460,000 were originally intended to be used for reducing the Group's bank borrowings and approximately HK\$41,000,000 were intended to be used for financing hotel operation of the Group or general working capital of the Group. The Company announced on 9th February 2011 that it had restructured the outstanding bank borrowings with better terms and longer repayment period with the bank. In view of the Acquisition (as defined herein), the Company intended to change the use of proceeds of the rights issue and applied the net proceeds of approximately HK\$100,460,000 to satisfy part of the total consideration for the Acquisition. The remaining balance of HK\$41,000,000 had been used for financing hotel operation of the Group and general working capital of the Group as intended.

On 14th January 2011, the Company entered into a placing agreement with a placing agent to place on a best effort basis up to 577,855,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.07 per share. 577,855,000 new shares was issued on 27th January 2011 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 30th June 2010. The net proceeds of approximately HK\$39,930,000 were used as part of the consideration for the Acquisition (as defined below).

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 carry the right to convert into shares of the Company at an initial conversion price of HK\$0.80 per share (subject to adjustment) after the Capital Reorganisation (as defined herein) 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 will be used for financing the Acquisition (as defined below), the development of the Sites (as defined below) 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 Eternity. According to the provisions of the instruments dated 7th July 2011 constituting the convertible bonds, the directors of the Company considered that an adjustment to the conversion price would be required as a result of the completion of the Rights Issue (as defined herein) and bonus issue of 2011 Warrants (as defined herein) on 29th June 2011. As a result, the conversion price has been adjusted from HK\$0.80 per share to HK\$0.44 per share with effect from 7th July 2011.

On 9th February 2011, the board of directors of the Company 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 (a) share consolidation that every 10 issued and unissued existing shares of HK\$0.01 each be consolidated into 1 consolidated share of HK\$0.10 each of the Company (“Consolidated Shares”); (b) capital reduction that (i) the issued share capital of the Company be reduced by the cancellation of the paid-up capital of the Company to the extent of HK\$0.09 on each of the then issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.10 to HK\$0.01; (ii) the authorised share capital of the Company be reduced by reducing the nominal value of all Consolidated Shares from HK\$0.10 each to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$500,000,000 divided into 5,000,000,000 Consolidated Shares to HK\$50,000,000 divided into 5,000,000,000 new shares of HK\$0.01 each; and (iii) the credit arising from the reduction of issued share capital of the Company be transferred to the contributed surplus account of the Company; and (c) capital increase that the authorised share capital of the Company be increased from HK\$50,000,000 divided into 5,000,000,000 new shares of HK\$0.01 each to HK\$500,000,000 divided into 50,000,000,000 new shares of HK\$0.01 each. The Capital Reorganisation was completed on 9th May 2011.



On 18th April 2011, the Company announced that conditional upon, inter alia, the Capital Reorganisation becoming effective, it proposed to raise not less than approximately HK\$368,380,000 but not more than approximately HK\$421,030,000 before expenses by way of rights issue (the “Rights Issue”) of not less than 1,473,536,625 rights shares and not more than 1,684,106,889 rights shares at a subscription price of HK\$0.25 each on the basis of three rights shares for every one share held on 7th June 2011 with bonus warrants (the “2011 Warrants”) on the basis of one bonus warrant for every five rights shares taken up under the Rights Issue. Each 2011 Warrant will entitle the holders to subscribe one share of the Company at a subscription price of HK\$0.25 per share (subject to adjustment) during the period of 18 months from the date of issue of the 2011 Warrants. 1,473,540,870 rights shares and 2011 Warrants of HK\$73,677,043.50 were issued on 29th June 2011. The estimated net proceeds from the Rights Issue were approximately HK\$363,530,000, of which approximately HK\$360,000,000 were intended to be used to fund the financial needs for developing the Sites (as defined herein) and/or the remaining for general working capital of the Group. The estimated net proceeds from the 2011 Warrants of approximately HK\$73,680,000 were intended to be used for general working capital of the Group.

### **Material Acquisitions**

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 and a substantial shareholder 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, through a Macau company, Splendid Construction and Investment Company Limited (formerly known as Legstrong Construction and Investment Company Limited) (the “Macau Co”), 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 da 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 “Circular”). The transaction has been approved in a special general meeting of the Company held on 3rd September 2009. The longstop date of the agreement had extended to 31st December 2010 and further extended to 31st December 2011. As set out in the Circular, 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. It is anticipated that the Macau Government will need further time for its consideration and deliberations of the conceptual planning proposals to finalise the plan. As the conditions have not been satisfied or waived, the transaction has not yet completed up to the reporting date.

On 8th December 2010, China Star Entertainment (BVI) Limited ("CSBVI"), a wholly owned subsidiary of the Company, KH Investment Holdings Limited ("KH Investment") and China Star Film Group Limited (the "JV Company") entered into a joint venture agreement (the "JV Agreement") relating to the formation of the JV Company, which is principally engaged in production and distribution of films. Pursuant to the JV Agreement, the JV Company agreed to issue and allot 30 shares and 29 shares of the JV Company at a price of HK\$1,000,000 per share to CSBVI and KH Investment respectively. CSBVI and KH Investment will beneficially interested in 50% each of the JV Company after the completion of the JV Agreement. The 59 shares of the JV Company were issued and allotted on 7th January 2011.

On 23rd December 2010, Triumph Top Limited, a wholly owned subsidiary of the Company (the "Purchaser"), the Company, Sociedade de Turismo e Diversoes de Macau, S.A. (the "Vendor") and Mr. Heung Wah Keung, a director of the Company entered into a conditional agreement pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the property leasehold right held by the Vendor under the leasehold granted by the Macau Government over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites") (and the inherent transfer to the Purchaser of the legal titles of the Sites) at a consideration of HK\$550 million (the "Acquisition"). The Acquisition constituted a very substantial acquisition and a connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and was approved by the independent shareholders of the Company in a special general meeting held on 7th June 2011. The Acquisition was completed on 10th June 2011. The Group intends to develop the Sites into commercial and office units and residential apartments for sale and the street level of the Sites into an area consisting of restaurants, bars, nightclubs and art galleries in order to create travel in the surrounding area of Lan Kwai Fong.

## **Employees**

As at 30th June 2011, the Group employed 573 staffs (31st December 2010: 556 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, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

## **Prospect**

The Group is optimistic about the prospect and future development of Macau and thus continues to pursue its strategy of growing its business in Macau.

The Group expects the performance of the hotel and gaming service operations in Lan Kwai Fong to be stable growth given we have positioned us to be an boutique hotel with excellent services and guest satisfaction. Following the completion of acquisition of the Sites in June 2011, the Group starts to prepare its development plan in develop it into commercial and office units and residential apartment for sale. 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 recognised and solid experience in renovation of Lan Kwai Fong, the Group is confident that the development of the Sites will be another success project of the Group. The development of the Sites not only directly contribute revenue to the Group but also provide synergy with Lan Kwai Fong.

During the second half of the year, the Group will focus on development of the Sites, closely monitor the market development of the table gaming in Macau and improve the efficiency of Lan Kwai Fong's operations in order to control its costs and increase the headcount and income of Lan Kwai Fong.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30th June 2011, 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.

## **ADOPTION OF THE MODEL CODE**

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 during the six months ended 30th June 2011. The Model Code also applies to other specified senior management of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2011.

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

The audit committee of the Company as at 30th June 2011 was comprising Messrs. Hung Cho Sing, Ho Wai Chi, Paul, Leung Hok Man and Tang Chak Lam, Gilbert, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

The main function of the Audit Committee is to assist the Board to oversee the financial reporting system, risk management and internal control procedures and the internal and external audit functions. The Audit Committee annually assesses the appointment of the external auditor, taking into account the quality and rigor of the audit, the quality of the audit service provided, the audit firm's quality control procedures, relationships between the external auditors and the Company, and the independence of the external auditors.

The unaudited condensed consolidated interim financial statements for the six months ended 30th June 2011 have been reviewed by the audit committee of the Company.

## **PUBLICATION OF INTERIM REPORT**

The Company's 2011 interim report will be despatched to the shareholders of the Company and published on the website of Hong Kong Exchanges and Clearing Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.chinastar.com.hk](http://www.chinastar.com.hk) or [www.irasia.com/listco/hk/chinastar](http://www.irasia.com/listco/hk/chinastar)) in due course.

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

Hong Kong, 30th August 2011

*As at the date of this announcement, the executive directors of the company are Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Ms. Li Yuk Sheung; the independent non-executive directors of the company are Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul, Mr. Leung Hok Man and Mr. Tang Chak Lam, Gilbert.*