



# CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

Stock code : 326

# CHINA STAR

2014 INTERIM REPORT



The board of directors (the "Board") 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 2014 together with comparative figures as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2014

	Notes	Six months ended 30th June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
<b>Continuing operations</b>			
Turnover	4	<b>601,674</b>	635,744
Cost of sales		<b>(281,218)</b>	(294,503)
Gross profit		<b>320,456</b>	341,241
Other revenue	5	<b>16,261</b>	5,061
Other income	6	<b>38</b>	1,082
Administrative expenses		<b>(194,465)</b>	(207,379)
Marketing, selling and distribution expenses		<b>(21,592)</b>	(15,457)
Other operating expenses		<b>(6,634)</b>	(41,293)
Gain on disposal of subsidiaries		<b>1,286</b>	-
Gain arising on change in fair value of financial assets classified as held for trading investments		<b>12,578</b>	6,471
Share-based payment expenses		<b>-</b>	(8,747)
Profit from operations		<b>127,928</b>	80,979
Finance costs	7	<b>(10,547)</b>	(21,881)
Share of results of joint ventures		<b>(642)</b>	33
Profit before tax	8	<b>116,739</b>	59,131
Income tax credit	9	<b>59</b>	193
Profit for the period from continuing operations		<b>116,798</b>	59,324
<b>Discontinued operation</b>			
(Loss)/profit for the period from discontinued operation	10	<b>(1,660)</b>	1,465
Profit for the period		<b>115,138</b>	60,789
Profit for the period attributable to:			
Owners of the Company		<b>114,790</b>	61,742
Non-controlling interests		<b>348</b>	(953)
		<b>115,138</b>	60,789

**CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)**

For the six months ended 30th June 2014

	Notes	Six months ended 30th June 2014 HK cents (Unaudited)	2013 HK cents (Unaudited)
<b>Earnings/(loss) per share</b>			
From continuing and discontinued operations			
Basic	//	<u><u>1.03</u></u>	<u><u>1.15</u></u>
Diluted	//	<u><u>1.03</u></u>	<u><u>0.87</u></u>
From continuing operations			
Basic	//	<u><u>1.04</u></u>	<u><u>1.12</u></u>
Diluted	//	<u><u>1.04</u></u>	<u><u>0.85</u></u>
From discontinued operation			
Basic	//	<u><u>(0.01)</u></u>	<u><u>0.03</u></u>
Diluted	//	<u><u>(0.01)</u></u>	<u><u>0.02</u></u>

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

Details of dividend and distribution are set out in note 12 to the condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the six months ended 30th June 2014*

	<b>Six months ended 30th June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Profit for the period	<u>115,138</u>	<u>60,789</u>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to condensed consolidated income statement:</i>		
Exchange differences arising on translation of foreign operations:		
Exchange differences arising during the period	46	(18)
Reclassification adjustments relating to foreign operations disposed of during the period	<u>(79)</u>	<u>–</u>
Other comprehensive loss for the period	<u>(33)</u>	<u>(18)</u>
Total comprehensive income for the period	<u><b>115,105</b></u>	<u><b>60,771</b></u>
Total comprehensive income for the period attributable to:		
Owners of the Company	114,737	61,728
Non-controlling interests	<u>368</u>	<u>(957)</u>
	<u><b>115,105</b></u>	<u><b>60,771</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30th June 2014

	Notes	At 30th June 2014 HK\$'000 (Unaudited)	At 31st December 2013 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	13	534,120	646,470
Interests in leasehold land		450,205	461,625
Investment property		6,190	6,190
Goodwill		–	3,030
Intangible assets	14	17,499	31,223
Interests in joint ventures		27,675	28,317
		<b>1,035,689</b>	<b>1,176,855</b>
<b>Current assets</b>			
Inventories		6,090	81,979
Stock of properties		563,742	563,742
Film rights		17,621	17,867
Films in progress		–	2,140
Trade receivables	15	169,310	278,918
Deposits, prepayments and other receivables	16	693,723	50,057
Loan receivables	17	400,000	–
Held for trading investments		40,799	57,576
Amount due from a joint venture		4	–
Amounts due from non-controlling interests		–	19
Prepaid tax		258	179
Cash and bank balances		263,571	390,241
		<b>2,155,118</b>	<b>1,442,718</b>
<b>Total assets</b>		<b>3,190,807</b>	<b>2,619,573</b>
<b>Capital and reserves</b>			
Share capital	18	144,397	65,673
Reserves		2,549,577	1,569,041
Equity attributable to owners of the Company		2,693,974	1,634,714
Non-controlling interests		–	(2,228)
<b>Total equity</b>		<b>2,693,974</b>	<b>1,632,486</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(CONTINUED)**

At 30th June 2014

	Notes	At 30th June 2014 HK\$'000 (Unaudited)	At 31st December 2013 HK\$'000 (Audited)
<b>Non-current liabilities</b>			
Bank borrowings	19	275,000	300,000
Amounts due to non-controlling interests		–	127,503
Obligations under finance leases		12	20
Convertible bonds	20	–	220,869
Deferred tax liabilities		80,888	82,746
		<b>355,900</b>	731,138
<b>Current liabilities</b>			
Bank borrowings	19	50,000	67,292
Obligations under finance leases		16	23
Trade payables	21	32,044	98,367
Deposits received, accruals and other payables		58,873	90,267
		<b>140,933</b>	255,949
<b>Total liabilities</b>		<b>496,833</b>	987,087
<b>Total equity and liabilities</b>		<b>3,190,807</b>	2,619,573
<b>Net current assets</b>		<b>2,014,185</b>	1,186,769
<b>Total assets less current liabilities</b>		<b>3,049,874</b>	2,363,624

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30th June 2014

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Contributed surplus	Exchange reserve	Statutory reserve	Share-based payment reserve	Convertible bonds reserve	Capital reduction reserve	Accumulated losses	Sub-total		
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1st January 2013	16,859	844,497	1,100,247	947	291	53,134	9,803	316,008	(754,385)	1,587,401	(191)	1,587,210
Profit/(loss) for the period	-	-	-	-	-	-	-	-	61,742	61,742	(953)	60,789
Other comprehensive loss for the period	-	-	-	(14)	-	-	-	-	-	(14)	(4)	(18)
Total comprehensive income/(loss) for the period	-	-	-	(14)	-	-	-	-	61,742	61,728	(957)	60,771
Non-controlling interest arising on acquisition	-	-	-	-	-	-	-	-	-	-	(5,926)	(5,926)
Issue of bonus shares	5,145	-	(5,145)	-	-	-	-	-	-	-	-	-
Issue of bonus convertible bonds	-	-	(28,471)	-	-	-	28,471	-	-	-	-	-
Conversion of bonus convertible bonds	9,006	-	-	-	-	(9,006)	-	-	-	-	-	-
Exercise of listed warrants	24	142	-	-	-	-	-	-	-	166	-	166
Placement of shares	4,000	52,000	-	-	-	-	-	-	-	56,000	-	56,000
Share issuing expenses	-	(580)	-	-	-	-	-	-	-	(580)	-	(580)
Recognition of equity-settled share-based payment	-	-	-	-	-	8,747	-	-	-	8,747	-	8,747
Share premium reduction	-	(896,059)	896,059	-	-	-	-	-	-	-	-	-
Special distribution (see note 12)	-	-	(217,996)	-	-	-	-	-	-	(217,996)	-	(217,996)
At 30th June 2013	35,034	-	1,744,694	933	291	61,881	29,268	316,008	(692,643)	1,495,466	(7,074)	1,488,392
At 1st January 2014	65,673	112,929	1,744,694	1,006	291	61,881	7,905	316,008	(675,673)	1,634,714	(2,228)	1,632,486
Profit for the period	-	-	-	-	-	-	-	-	114,790	114,790	348	115,138
Other comprehensive (loss)/income for the period	-	-	-	(53)	-	-	-	-	-	(53)	20	(33)
Total comprehensive (loss)/income for the period	-	-	-	(53)	-	-	-	-	114,790	114,737	368	115,105
Issue of new shares upon open offer	26,269	302,096	-	-	-	-	-	-	-	328,365	-	328,365
Issue of new bonus convertible bonds	-	-	-	-	-	-	943	-	-	943	-	943
Placement of shares	32,000	368,000	-	-	-	-	-	-	-	400,000	-	400,000
Conversion of convertible bonds	20,455	209,150	-	-	-	-	(8,338)	-	-	221,267	-	221,267
Released of deferred tax upon redemption of convertible bonds	-	-	-	-	-	-	622	-	-	622	-	622
Share issuing expenses	-	(5,904)	-	-	-	-	-	-	-	(5,904)	-	(5,904)
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	(770)	(770)	770	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	1,090	1,090
At 30th June 2014	144,397	986,271	1,744,694	953	291	61,881	1,132	316,008	(561,653)	2,693,974	-	2,693,974

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***For the six months ended 30th June 2014*

	<b>Six months ended 30th June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Net cash generated from operating activities</b>	<b>112,810</b>	224,948
<b>Net cash used in investing activities</b>	<b>(923,475)</b>	(107,919)
<b>Net cash generated from/(used in) financing activities</b>	<b>683,949</b>	(210,480)
<b>Decrease in cash and cash equivalents</b>	<b>(126,716)</b>	(93,451)
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>390,241</b>	578,863
<b>Effect of foreign exchange rate changes</b>	<b>46</b>	(44)
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>263,571</b>	485,368
Cash and bank balances	<u>263,571</u>	<u>485,368</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***For the six months ended 30th June 2014***I. 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 provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in 2013 annual financial statement.

The Interim Financial Statements have been prepared on the historical cost basis except for certain property and financial instrument that are measured at fair values at the end of the reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Interim Financial Statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in 2013 annual financial statements, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and interpretations (collectively referred to as the "new and revised HKFRSs") described below.

In the current period, the Group has applied, for the first time, the following new and revised HKFRSs issued by the HKICPA, which are effective for the Group's financial period beginning from 1st January 2014. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HK(IFRIC) – Int 21	Levies

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

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the current accounting period.

### 3. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resources allocation and assessment of segment performance between segments and that are used to make strategic 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.

Particulars of the Group's reportable segments for continuing and discontinued operations are summarised as follows:

#### Continuing operations

- |                                      |   |
|--------------------------------------|---|
| Hotel and gaming services operations | – Provision of hotel services, food and beverage operation services, 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 Hong Kong and Macau  |

#### Discontinued operation

- |                         |   |
|-------------------------|---|
| Nam Pei Hong 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 |
|-------------------------|---|

The segment information of Nam Pei Hong operations is disclosed in note 10 to the condensed consolidated financial statements.

### 3. SEGMENT INFORMATION (Continued)

#### (a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

##### Continuing operations

	Segment revenue		Segment results	
	Six months ended 30th June 2014	2013	Six months ended 30th June 2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hotel and gaming services operations	597,992	631,745	128,149	136,630
Gaming promotion operations	2,464	3,688	(4,710)	(37,949)
Film distribution operations	1,135	311	153	213
Property development operations	83	–	(1,714)	(1,538)
	<u>601,674</u>	<u>635,744</u>	<u>121,878</u>	<u>97,356</u>
Reconciliation from segment results to profit before tax from continuing operations				
Unallocated corporate income			9,101	533
Gain on disposal of subsidiaries			1,286	–
Gain arising on change in fair value of financial assets classified as held for trading investments			12,578	6,471
Unallocated corporate expenses			(28,104)	(45,229)
Profit before tax			<u>116,739</u>	<u>59,131</u>

Segment revenue reported above represents revenue generated from external customers. There was no inter-segment sales in both periods.

Segment results represent the profit/(loss) earned/(suffered) by each segment without allocation of central administrative expenses, partial finance costs, share-based payment expenses and share of results of joint ventures under the heading of "unallocated corporate expenses", partial other revenue and other income under the heading of "unallocated corporate income", gain on disposal of subsidiaries and gain arising on change in fair value of financial assets classified as held for trading investments. This is the measure reported to the CODM for the purposes of resources allocation and assessment of segment performance.

#### (b) 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.

## 4. TURNOVER

	<b>Six months ended 30th June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Continuing operations</b>		
Film distribution fee income	1,135	311
Hotel rooms income	56,666	53,414
Food and beverage sales	19,244	15,878
Services income from mass market table gaming operations	465,637	482,711
Services income from VIP rooms table gaming operations	47,702	73,929
Services income from slot machines operations	8,743	5,813
Receive profit streams from gaming promotion business	2,464	3,688
Gross rental income	83	–
	<u>601,674</u>	<u>635,744</u>
	<u>601,674</u>	<u>635,744</u>
	<b>For the period from</b>	<b>Six months</b>
	<b>1st January 2014 to</b>	<b>ended</b>
	<b>respective date of</b>	<b>30th June 2013</b>
	<b>disposal of subsidiaries</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<u>79,510</u>	<u>77,386</u>
	<u>79,510</u>	<u>77,386</u>
	<b>Discontinued operation</b>	
Sales of health products		

## 5. OTHER REVENUE

	<b>Six months ended 30th June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Continuing operations</b>		
Bank interest income	1,473	1,339
Loan interest income	8,086	–
Management fee income	280	678
Other ancillary hotel revenue	6,422	3,044
	<u>16,261</u>	<u>5,061</u>
	<u>16,261</u>	<u>5,061</u>
	<b>For the period from</b>	<b>Six months</b>
	<b>1st January 2014 to</b>	<b>ended</b>
	<b>respective date of</b>	<b>30th June 2013</b>
	<b>disposal of subsidiaries</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<u>2</u>	<u>5</u>
	<u>2</u>	<u>5</u>
	<b>Discontinued operation</b>	
Bank interest income		



**8. PROFIT BEFORE TAX**

**Six months ended 30th June**  
**2014** 2013  
**HK\$'000** **HK\$'000**  
**(Unaudited)** **(Unaudited)**

**Continuing operations**

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

Amortisation of film rights (included in cost of sales)	<b>246</b>	–
Amortisation of interests in leasehold land	<b>11,420</b>	11,433
Cost of inventories sold (included in cost of sales)	<b>7,157</b>	6,862
Depreciation of property, plant and equipment	<b>39,888</b>	45,738
Employee benefit expenses	<b>73,333</b>	74,508
Gain on disposal of subsidiaries	<b>(1,286)</b>	–
Gain on disposal of financial assets classified as held for trading investments	<b>(18,799)</b>	–
Impairment loss recognised in respect of films in progress (included in other operating expenses)	<b>40</b>	–
Impairment loss recognised in respect of intangible assets (included in other operating expenses)	<b>6,594</b>	41,036
Loss on disposal of property, plant and equipment	<b>5</b>	55
Loss on fair value change of investment property (included in other operating expenses)	–	257
Loss/(gain) arising on change in fair value of financial assets classified as held for trading investments	<b>6,221</b>	(6,471)
Net foreign exchange loss/(gain)	<b>163</b>	(131)
Operating lease rental in respect of premises	<b>2,174</b>	2,145
Share-based payment expenses in respect of consultancy services	–	3,361
Gross rental income from investment property	<b>(83)</b>	–
Less: Direct operating expenses incurred for investment property that did not generate rental income during the period	<b>26</b>	–
	<b>(57)</b>	–

**For the period from**  
**1st January 2014 to**  
**respective date of**  
**disposal of subsidiaries**  
**HK\$'000**  
**(Unaudited)**

Six months  
 ended  
 30th June 2013  
 HK\$'000  
 (Unaudited)

**Discontinued operation**

(Loss)/profit before tax has been arrived at after charging/(crediting):

Amortisation of intangible assets	<b>543</b>	613
Cost of inventories sold (included in cost of sales)	<b>52,746</b>	48,272
Depreciation of property, plant and equipment	<b>697</b>	599
Employee benefit expenses	<b>8,196</b>	8,110
Loss on disposal of property, plant and equipment	–	31
Net foreign exchange loss/(gain)	<b>61</b>	(50)
Operating lease rental in respect of premises	<b>6,914</b>	8,327

**9. INCOME TAX CREDIT**

	<b>Six months ended 30th June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Continuing operations</b>		
Deferred tax:		
Current period	<b>59</b>	193
	<b>=====</b>	<b>=====</b>
	<b>For the period from</b>	
	<b>1st January 2014 to</b>	Six months
	<b>respective date of</b>	ended
	<b>disposal of subsidiaries</b>	30th June 2013
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Discontinued operation</b>		
Deferred tax:		
Current period	<b>90</b>	101
	<b>=====</b>	<b>=====</b>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods. The subsidiaries located in the People's Republic of China ("PRC") are subject to PRC Enterprise Income Tax at 25% for both periods. Macau subsidiaries are subject to Macau Complementary Tax at the maximum progressive rate of 12% on the estimated assessable profit for both periods. 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 periods as the Group has no assessable profits arising in Hong Kong or taxable profits were wholly absorbed by estimated tax losses brought forward.

No provision for Macau Complementary Tax has been made for both periods as the Group has no assessable profits arising in Macau.

No provision for PRC Enterprise Income Tax has been made for both periods as the Group has no assessable profits arising in PRC.

## 10. DISCONTINUED OPERATION

### Nam Pei Hong operations

On 11th June 2014, the Group entered into a sale and purchase agreement to dispose of non wholly owned subsidiaries, Ace Season Holdings Limited and its subsidiaries ("Ace Season"), which carried out the Nam Pei Hong operations. The disposal of Nam Pei Hong operations is consistent with the Group's long-term policy to focus its activities on the Group's other business. The disposal was completed on 11th June 2014, on which date the control of Nam Pei Hong operations passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the loss on disposal, are disclosed in note 28(b) to the condensed consolidated financial statements.

The (loss)/profit for the period from discontinued operation is analysed as follows:

	<b>For the period from 1st January 2014 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)</b>	Six months ended 30th June 2013 HK\$'000 (Unaudited)
Profit of Nam Pei Hong operations for the period	<b>6</b>	1,465
Loss on disposal of Nam Pei Hong operations (see note 28(b))	<b>(1,666)</b>	-
	<b><u>(1,660)</u></b>	<b><u>1,465</u></b>

The result of the Nam Pei Hong operations for the period from 1st January 2014 to respective date of disposal of subsidiaries, which have been included in the condensed consolidated income statement, were as follows:

	Notes	<b>For the period from 1st January 2014 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)</b>	Six months ended 30th June 2013 HK\$'000 (Unaudited)
Turnover	4	<b>79,510</b>	77,386
Cost of sales		<b><u>(56,464)</u></b>	<u>(51,958)</u>
Gross profit		<b>23,046</b>	25,428
Other revenue	5	<b>2</b>	5
Other income	6	<b>2</b>	55
Administrative expenses		<b>(4,084)</b>	(4,281)
Marketing, selling and distribution expenses		<b><u>(18,893)</u></b>	<u>(19,615)</u>
Profit from operations		<b>73</b>	1,592
Finance costs	7	<b><u>(157)</u></b>	<u>(228)</u>
(Loss)/profit before tax	8	<b>(84)</b>	1,364
Income tax credit	9	<b>90</b>	101
Profit for the period		<b><u>6</u></b>	<b><u>1,465</u></b>

**10. DISCONTINUED OPERATION (Continued)**

Cash flow from discontinued operation was as follows:

	<b>For the period from 1st January 2014 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)</b>	Six months ended 30th June 2013 HK\$'000 (Unaudited)
Net cash inflows/(outflows) from operating activities	<b>12,929</b>	(2,996)
Net cash outflows from investing activities	<b>(2,689)</b>	(115)
Net cash outflows from financing activities	<b>(4,045)</b>	(6,454)
	<b><u>6,195</u></b>	<b><u>(9,565)</u></b>

**11. EARNINGS/(LOSS) PER SHARE****From continuing and discontinued operations**

The computations of basic and diluted earnings per share from continuing and discontinued operations attributable to owners of the Company are based on the following data:

	<b>Six months ended 30th June 2014 HK\$'000 (Unaudited)</b>	2013 HK\$'000 (Unaudited)
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	<b>114,790</b>	61,742
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds, net of income tax	<b>-</b>	15,054
Earnings for the purpose of diluted earnings per share	<b><u>114,790</u></b>	<b><u>76,796</u></b>

**11. EARNINGS/(LOSS) PER SHARE (Continued)****From continuing and discontinued operations (Continued)**

	<b>Six months ended 30th June</b>	
	<b>2014</b>	2013
	<b>'000</b>	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>11,165,013</b>	5,386,450
Effect of dilutive potential ordinary shares:		
– Share options	–	188,420
– Convertible bonds	–	3,290,223
	<u>                    </u>	<u>                    </u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>11,165,013</u></b>	<b><u>8,865,093</u></b>

Pursuant to the deed polls of the bonus convertible bonds, the bonus convertible bonds will confer the holders with the same economic interests attached to the shareholders of the Company. Accordingly, 26,507,961 (30th June 2013: 1,946,549,342) fully paid ordinary share of HK\$0.01 each which shall be convertible from an aggregated amount of approximately HK\$265,000 (30th June 2013: HK\$19,465,000) outstanding bonus convertible bonds are included in the weighted average number of ordinary shares for calculating the basic earnings per share for the period ended 30th June 2014 and 30th June 2013.

As the Company's outstanding share options where applicable had an anti-dilutive effect to the basic earnings per share calculation for the period ended 30th June 2014, the exercise of the above potential dilutive shares is not assumed in the calculation of diluted earnings per share for the period ended 30th June 2014.

**11. EARNINGS/(LOSS) PER SHARE (Continued)****From continuing operations**

The computations of basic and diluted earnings per share from continuing operations attributable to owners of the Company are based on the following data:

	<b>Six months ended 30th June 2014 HK\$'000 (Unaudited)</b>	2013 HK\$'000 (Unaudited)
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	<b>116,450</b>	60,277
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds, net of income tax	<u>          -</u>	<u>15,054</u>
Earnings for the purpose of diluted earnings per share	<b><u>116,450</u></b>	<b><u>75,331</u></b>

The denominators used are same as those detailed above for calculation of both basic and diluted earnings per share from continuing operations in both periods.

**From discontinued operation**

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

	<b>For the period from 1st January 2014 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)</b>	Six months ended 30th June 2013 HK\$'000 (Unaudited)
<b>(Loss)/earnings</b>		
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share ((loss)/profit attributable to owners of the Company)	<b><u>(1,660)</u></b>	<b><u>1,465</u></b>

The denominators used are same as those detailed above for calculation of both basic and diluted (loss)/earnings per share from discontinued operation in both periods.

## 12. DIVIDEND AND DISTRIBUTION

### Dividend

No interim dividend was paid or proposed during the six months ended 30th June 2014 and 30th June 2013, nor any dividend been proposed by the Board subsequent to the end of the reporting period.

### Distribution

	<b>Six months ended 30th June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Special distribution made out in 2013:		
– HK4 cents per share on 3,502,888,015 shares held by shareholders	–	140,116
– HK4 cents per share on 1,947,024,934 new shares to be issued to the holders of bonus convertible bonds	–	77,880
	<u>–</u>	<u>217,996</u>
	<u>–</u>	<u>217,996</u>

No distribution was proposed to be made out of the contributed surplus account of the Company during the six months ended 30th June 2014, nor any distribution been proposed to be made out by the Board subsequent to the end of the reporting period.

The special distribution made out in 2013 was made out of the contributed surplus account of the Company to the shareholders whose names appear on the Company's register of member on 6th May 2013.

According to the deed poll of the bonus convertible bonds, the holders of the bonus convertible bonds also entitled to the special distribution as if their outstanding bonus convertible bonds had been converted on 6th May 2013.

## 13. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired items of property, plant and equipment with a cost of approximately HK\$10,252,000 (six months ended 30th June 2013: HK\$10,298,000).

## 14. INTANGIBLE ASSETS

	Rights in sharing of profit streams <i>HK\$'000</i>	Trademarks <i>HK\$'000</i>	Customers relationship <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>				
At 1st January 2013,				
at 31st December 2013,				
at 1st January 2014	989,205	7,345	2,454	999,004
Disposal of subsidiaries (see note 28(b))	—	(7,345)	(2,454)	(9,799)
	<u>989,205</u>	<u>—</u>	<u>—</u>	<u>989,205</u>
At 30th June 2014	989,205	—	—	989,205
<b>Accumulated amortisation and impairment</b>				
At 1st January 2013	922,385	865	578	923,828
Charge for the year	—	735	491	1,226
Impairment loss recognised	42,727	—	—	42,727
	<u>965,112</u>	<u>1,600</u>	<u>1,069</u>	<u>967,781</u>
At 31st December 2013 and at 1st January 2014	965,112	1,600	1,069	967,781
Charge for the period	—	326	217	543
Disposal of subsidiaries (see note 28(b))	—	(1,926)	(1,286)	(3,212)
Impairment loss recognised	6,594	—	—	6,594
	<u>971,706</u>	<u>—</u>	<u>—</u>	<u>971,706</u>
At 30th June 2014	971,706	—	—	971,706
<b>Carrying amounts</b>				
<b>At 30th June 2014 (Unaudited)</b>	<b><u>17,499</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>17,499</u></b>
At 31st December 2013 (Audited)	<u>24,093</u>	<u>5,745</u>	<u>1,385</u>	<u>31,223</u>

Other than the rights in sharing of profit streams, which has indefinite useful lives, the intangible assets are amortised on a straight-line basis over the following periods:

Trademarks	10 years
Customers relationship	5 years

The above trademarks and customers relationship are disposed of during the period (see note 28(b) to the condensed consolidated financial statements).

#### 14. INTANGIBLE ASSETS (Continued)

##### Impairment testing of intangible asset with indefinite useful life

For the purpose of impairment testing, rights in sharing of profit streams are allocated at acquisition to the cash-generating unit ("CGU") that are expected to benefit from such intangible asset.

The intangible asset associated with the rights in sharing of profit streams from the gaming promotion business represented the rights in sharing of 0.4% of rolling turnover generated from a casino VIP room located in Macau for an indefinite period of time. Such intangible asset is carried at cost less accumulated impairment, if any.

The junket licences associated with the rights in sharing of the profit streams is renewable annually by the Macau government. The directors of the Company are of the opinion that the Group would renew the junket licences continuously and has the ability to do so. Therefore, the directors of the Company consider that the junket licences associated with the rights in sharing of the profit streams have an indefinite useful life because it is expected to contribute the net cash inflow indefinitely. The junket licences associated with the rights in sharing of the profit streams will not be amortised until its useful life is determined to be finite. Instead, it will be tested for impairment annually and whenever there is an indication that it may be impaired.

At 30th June 2014, the directors of the Company have assessed the recoverable amount of intangible asset 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 asset associated with the rights in sharing of profit streams was impaired by approximately HK\$6,594,000 (six months ended 30th June 2013: HK\$41,036,000).

The recoverable amount of the rights in sharing of profit streams from gaming promotion business is determined based on value in use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 18.87% per annum (31st December 2013: 20.30% per annum) and cash flows beyond the five-year period are extrapolated using a zero growth rate for both periods. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include gross margin, growth and discount rate, such estimation is based on past experience and management's expectations for the market development.

The impairment loss recognised during the period solely relates to the Group's right in sharing of profit streams based in Macau. At 30th June 2014, the CGU has been reduced to its recoverable amount of approximately HK\$17,499,000 (31st December 2013: HK\$24,093,000), any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment loss.

**15. TRADE RECEIVABLES**

The following is an aging analysis of trade receivables, presented based on the invoice date, which approximates the respective revenue recognition dates and net of allowance for doubtful debts:

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
0 to 30 days	<b>105,648</b>	274,691
31 to 60 days	–	2,153
61 to 90 days	–	149
Over 90 days	<b>63,662</b>	1,925
	<b><u>169,310</u></b>	<b><u>278,918</u></b>

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

**16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
Other deposits paid	<b>10,865</b>	15,423
Deposit paid for investment	<b>600,000</b>	–
Prepayments	<b>21,535</b>	25,105
Loan interest receivables	<b>8,027</b>	–
Other receivables	<b>53,296</b>	9,529
	<b><u>693,723</u></b>	<b><u>50,057</u></b>

Deposit paid for investment with the amount of HK\$600,000,000 represented the cash deposit paid by Classic Champion Holdings Limited (“Classic Champion”), a wholly owned subsidiary of the Company in respect of acquisition of the entire equity interest of Protective Capital Group Limited pursuant to a conditional sale and purchase agreement.

## 17. LOAN RECEIVABLES

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
Fixed-rate loan receivables	<b>400,000</b>	–

At the end of the reporting period, loan receivables are secured by the personal guarantees of the sole beneficial owner and director of the respective borrowers.

Loan receivables are interest bearing at 10% per annum and repayable after the date falling 24 months from the first drawdown date. Loan receivables contain a clause of repayable on demand and thus classified as current assets.

## 18. SHARE CAPITAL AND WARRANTS

	<b>Number of shares</b>		<b>Amount</b>	
	<b>At 30th June 2014 '000 (Unaudited)</b>	At 31st December 2013 '000 (Audited)	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)

**Ordinary shares of HK\$0.01 each****Authorised:**

At the beginning/end of the reporting period	<b>50,000,000</b>	50,000,000	<b>500,000</b>	500,000
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**Issued and fully paid:**

At the beginning of the reporting period	<b>6,567,309</b>	1,685,918	<b>65,673</b>	16,859
Issue of new shares upon open offer (see note a)	<b>2,626,924</b>	–	<b>26,269</b>	–
Placement of shares (see note b)	<b>3,200,000</b>	400,000	<b>32,000</b>	4,000
Conversion of convertible bonds (see note c)	<b>2,045,454</b>	1,136,364	<b>20,455</b>	11,363
Issue of bonus shares (see note d)	–	514,463	–	5,145
Conversion of bonus convertible bonds (see note d)	–	2,828,157	–	28,282
Exercise of listed warrants	–	2,407	–	24
At the end of the reporting period	<b>14,439,687</b>	6,567,309	<b>144,397</b>	65,673

**18. SHARE CAPITAL AND WARRANTS (Continued)**

Notes:

- (a) On 22nd January 2014, the Company allotted and issued 2,626,923,658 offer shares of the Company of HK\$0.01 each at a subscription price of HK\$0.125 per offer share on the basis of two offer shares for every five existing shares held on 31st December 2013 by way of open offer. The net proceeds of approximately HK\$324,470,000 were intended to be used for property investment in Hong Kong and/or Macau when suitable opportunity arises.

As disclosed in the announcement dated 4th April 2014, the Company changed the use of proceeds. The net proceeds is allocated by approximately HK\$200,000,000 to be used for financing a loan agreement dated 4th April 2014 and the remaining balance of approximately HK\$124,470,000 will be used for investment in gaming/gaming-related business and/or general working capital of the Company.

- (b) (i) On 23rd April 2014, the Company allotted and issued an aggregate 3,200,000,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.125 per share. The net proceeds of approximately HK\$395,470,000 were used for the proposed acquisition of a VIP gaming promotion operations in Macau of the Group.
- (ii) On 30th January 2013, the Company allotted and issued an aggregate 400,000,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.14 per share. The net proceeds amounted to approximately HK\$55,300,000 were used for property investment in Hong Kong.
- (c) On 31st March 2014 and 2nd October 2013, 2,045,454,545 shares and 1,136,363,636 shares were allotted and issued upon the conversion of convertible bonds in the principal amount of HK\$225,000,000 and HK\$125,000,000 at the adjusted conversion price of HK\$0.11 per share by Eternity Finance Group Limited ("Eternity Finance") respectively.
- (d) On 20th November 2012, the Company announced that pursuant to a mandate granted by the shareholders of the Company at the special general meeting of the Company held on 25th October 2012 (the "SGM"), the Board has resolved to implement the bonus issue for issue of bonus shares by the Company on the basis of two bonus shares for every one existing share held on 6th December 2012 with an option elect to receive the bonus convertible bonds 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 Listing Rules. Upon completion of the bonus issue on 9th January 2013, the Company issued 514,463,056 bonus shares and bonus convertible bonds ("Bonus CBs") in an aggregate amount of HK\$28,471,249.34 convertible into 2,847,124,934 shares at conversion price of HK\$0.01 per share (subject to adjustment in accordance with the deed poll of the Bonus CBs, if necessary).

The Bonus CBs holders had converted an aggregate of HK\$28,281,574.94 Bonus CBs, into 2,828,157,494 shares at conversion price of HK\$0.01 per share during the year ended 31st December 2013.

**18. SHARE CAPITAL AND WARRANTS (Continued)**

Notes: (Continued)

(d) (Continued)

On 18th November 2013, the Company announced that it proposed the subscription of not more than 7,586,976 units of new Bonus CBs in the aggregate principal amount of HK\$75,869.76 offered by the Company to the existing Bonus CBs holders on the basis of 2 new Bonus CBs for every 5 existing Bonus CBs held on 31st December 2013 at the subscription price of HK\$0.125 per new Bonus CB. On 22nd January 2014, 7,540,521 units of new Bonus CBs in the principal amount of HK\$75,405.21 were issued by the Company. The net proceeds of HK\$75,869.76 were intended to be used as general working capital of the Group and have been utilised as intended.

No Bonus CBs was converted during the six months ended 30th June 2014. At 30th June 2014, there were an aggregate of HK\$265,079.61 outstanding Bonus CBs which are convertible into 26,507,961 new shares.

**Warrants**

During the year ended 31st December 2013, 2,407,201 new shares were issued on 2nd January 2013 upon the exercise of the warrants of the Company at the subscription price of HK\$0.069 per share. Those remaining warrants of the Company were expired on their respective expiry dates.

**19. BANK BORROWINGS**

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
Secured bank borrowings	<b>325,000</b>	352,037
Unsecured bank borrowings	-	15,255
	<b><u>325,000</u></b>	<u>367,292</u>
Carrying amount repayable:		
Within one year	<b>50,000</b>	61,789
More than one year, but not exceeding two years	<b>275,000</b>	50,000
More than two years, but not more than five years	-	250,000
	<b><u>325,000</u></b>	<u>361,789</u>
Carrying amount of banks borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	-	5,503
	<b><u>325,000</u></b>	<u>367,292</u>
Less: Amount shown under current liabilities	<b>(50,000)</b>	(67,292)
Amount shown under non-current liabilities	<b><u>275,000</u></b>	<u>300,000</u>

**19. BANK BORROWINGS (Continued)**

At 30th June 2014, the Group had secured bank borrowing with remaining balance of HK\$325,000,000 (31st December 2013: HK\$350,000,000) which is secured by the Group's buildings and leasehold land with carrying amounts of approximately HK\$235,521,000 (31st December 2013: HK\$241,047,000) and HK\$388,352,000 (31st December 2013: HK\$398,848,000) respectively. The secured bank borrowing is interest bearing at 3.5% per annum (Hong Kong Prime Rate 5.25% less margin 1.75%) and repayable within 5 years by remaining of 5 equal consecutive quarterly instalments of HK\$12,500,000 per quarter and a final repayment of HK\$262,500,000 at the maturity date of bank borrowing.

At 31st December 2013, the Group had a secured bank borrowing with remaining balance of approximately HK\$2,037,000 which is secured by the Group's buildings with carrying amount of approximately HK\$78,494,000. The secured bank borrowing is interest bearing at 2.9% per annum below Hong Kong Dollar Best Lending Rate and repayable by remaining of 76 consecutive monthly instalments of approximately HK\$29,000 per month and a final payment of remaining balance at the maturity date of bank borrowing and contains a clause of repayable on demand and thus classified as current liabilities. Upon the disposal of Star Hope Investments Limited as disclosed in note 28(a) to the condensed consolidated financial statements, this secured bank borrowing was no longer included in the bank borrowings of the Group at 30th June 2014.

At 31st December 2013, the Group had unsecured bank borrowing of HK\$800,000 that granted under the Special Loan Guarantee Scheme of the Government of the Hong Kong Special Administrative Region ("HKSAR"). The unsecured bank borrowing is 80% guaranteed by the government of HKSAR and 100% personally guaranteed by an ex-shareholder of NPH Holdings Limited ("NPH") respectively. The unsecured bank borrowing is interest bearing at 2.5% per annum over 1 month Hong Kong Inter-bank Offered Rate ("HIBOR"), repayable by remaining of 8 equal consecutive monthly instalments of HK\$100,000 per month and contains a clause of repayable on demand and thus classified as current liabilities.

At 31st December 2013, the Group had unsecured bank borrowing of approximately HK\$2,666,000 that granted under the Special Loan Guarantee Scheme of the Government of HKSAR. The unsecured bank borrowing is 80% guaranteed by the government of HKSAR and 100% personally guaranteed by an ex-shareholder of NPH respectively. The unsecured bank borrowing is interest bearing at 2.5% per annum over 1 month HIBOR, repayable by remaining of 25 consecutive monthly instalments of approximately HK\$108,000 per month and a final payment of remaining balance at the maturity date of the bank borrowing and contains a clause of repayable on demand and thus classified as current liabilities.

At 31st December 2013, the Group had unsecured import trade loans of approximately HK\$11,789,000. The unsecured import trade loans are personally guaranteed by an ex-shareholder of NPH, interest bearing at 2% per annum over 1 month HIBOR and repayable within one year.

Upon the disposal of Ace Season as disclosed in note 28(b) to the condensed consolidated financial statements, the unsecured bank borrowings and unsecured import trade loans were no longer included in the bank borrowings of the Group at 30th June 2014.

All interest-bearing bank borrowings are denominated in Hong Kong dollar.

## 20. CONVERTIBLE BONDS

On 7th July 2011, the Company issued unsecured convertible bonds in the principal amount of HK\$350,000,000 to Eternity Finance, a wholly owned subsidiary of Eternity Investment Limited. The convertible bonds are interest bearing at 8% per annum. The holder of the convertible bonds may convert the convertible bonds into ordinary shares of the Company at any time prior to and exclusive of the maturity date on 6th July 2016 at an initial conversion price of HK\$0.44 per share (subject to adjustment, if necessary). The conversion price was adjusted to HK\$0.36 per share on 18th November 2011 upon distribution of special dividend and adjusted to HK\$0.12 per share on 7th December 2012 upon the bonus issue and further adjusted to HK\$0.11 per share on 7th May 2013 upon distribution of special distribution. If the bonds have not been converted, they will be redeemed on 7th July 2016 at principal amount.

The convertible bonds contain two components, liability component and equity component. The equity element is presented in equity under the heading of "convertible bonds reserve". The effective interest rate of the liability component on initial recognition is 8.837%.

On 31st March 2014 and 2nd October 2013, convertible bonds held by Eternity Finance were converted into ordinary shares of the Company at adjusted conversion price of HK\$0.11 per share. Thus, the Group did not have any outstanding convertible bonds due to Eternity Finance at the end of the reporting period.

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
Equity component at the beginning of the reporting period	<b>9,240</b>	11,740
Conversion into ordinary shares	<b>(9,240)</b>	(2,500)
Equity component at the end of the reporting period	<b>-</b>	9,240
	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
Liability component at the beginning of the reporting period	<b>220,869</b>	341,231
Interest charged and calculated at an effective interest rate at 8.837%	<b>4,600</b>	27,644
Interest paid and payable	<b>(4,202)</b>	(25,506)
Conversion into ordinary shares	<b>(221,267)</b>	(122,500)
Liability component at the end of the reporting period	<b>-</b>	220,869

**21. TRADE PAYABLES**

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

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
0 to 30 days	11,520	77,436
31 to 60 days	2,581	3,912
61 to 90 days	5	192
Over 90 days	<u>17,938</u>	<u>16,827</u>
	<u><b>32,044</b></u>	<u><b>98,367</b></u>

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

**22. LEASE COMMITMENTS****The Group as lessee**

	<b>Six months ended 30th June 2014 HK\$'000 (Unaudited)</b>	2013 HK\$'000 (Unaudited)
Minimum lease payments paid under operating leases during the period:		
Premises	<u>2,174</u>	<u>2,145</u>

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the leased premises which fall due as follows:

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
Within one year	4,086	17,003
In the second to fifth year inclusive	<u>6,676</u>	<u>13,412</u>
	<u><b>10,762</b></u>	<u><b>30,415</b></u>

Operating lease payments represented rentals payable by the Group for its premises. Leases are mainly negotiated for an average term of two years. The Group does not have an option to purchase the leased premises at the expiry of the lease period.

**22. LEASE COMMITMENTS (Continued)****The Group as lessor**

Rental income earned during the period was HK\$83,000 (30th June 2013: nil). The Group's investment property is held for rental purposes and expected to generate rental yields of 1.3% (30th June 2013: nil) on an ongoing basis. The property held have committed tenants for the next 2 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
Within one year	<b>180</b>	180
In the second to fifth year inclusive	<b>52</b>	158
	<b>232</b>	338

**23. CAPITAL COMMITMENTS**

The Group had the following outstanding capital commitments at the end of the reporting period:

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
<b>Authorised and contracted, but not provided for:</b>		
– Acquisition of subsidiaries	<b>200,000</b>	–
– Acquisition of property, plant and equipment	<b>93</b>	–
– Development expenditure for stock of properties located in Macau	<b>28,615</b>	28,615
– Renovation expenses for property, plant and equipment	<b>539</b>	1,382
– Design fee for Nam Pei Hong Operations	<b>–</b>	438
	<b>229,247</b>	30,435

## 24. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (see note 19 to the condensed consolidated financial statements) of the Group:

	<b>At 30th June 2014 HK\$'000 (Unaudited)</b>	At 31st December 2013 HK\$'000 (Audited)
Buildings	<b>235,521</b>	319,541
Leasehold land	<b>388,352</b>	398,848
	<b><u>623,873</u></b>	<b><u>718,389</u></b>

At 30th June 2014, the Group's obligation under finance lease is secured by the lessors' title to the leased assets, which have carrying amount of HK\$26,000 (31st December 2013: HK\$77,000).

## 25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

	<b>Quoted prices in active market for identical assets (Level 1) HK\$'000</b>	<b>Significant other observable inputs (Level 2) HK\$'000</b>	<b>Significant unobservable inputs (Level 3) HK\$'000</b>	<b>Total HK\$'000</b>
<b>At 30th June 2014 (Unaudited)</b>				
<i>Fair value on a recurring basis</i>				
Held for trading investments	<b><u>40,799</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>40,799</u></b>
	Quoted prices in active market for identical assets (Level 1) HK\$'000	Significant other observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
<b>At 31st December 2013 (Audited)</b>				
<i>Fair value on a recurring basis</i>				
Held for trading investments	<b><u>57,576</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>57,576</u></b>

During the six months ended 30th June 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31st December 2013: nil).

**25. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)**

(b) *Fair values of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial assets and financial liabilities recognised in the condensed consolidated financial statements are not materially different from their fair values at 30th June 2014 and 31st December 2013.

**26. BUSINESS COMBINATION**

**For the six months ended 30th June 2013**

**Acquisition of Merit Noble Company Limited**

On 15th January 2013, the Group completed the acquisition of the 51% equity interest and a shareholder's loan of HK\$17,370,000 in Merit Noble Company Limited ("Merit Noble") at a total consideration of approximately HK\$15,000. Before the acquisition, the Group held 24.5% effective equity interest in Merit Noble and upon the completion of the acquisition, the Group held 75.5% equity interest in Merit Noble.

This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was approximately HK\$911,000. Merit Noble is engaged in food and beverage operation which operated in Hotel Lan Kwai Fong Macau, and Merit Noble was acquired so as to continue the expansion of the Group's hotel and gaming service operations relating to food and beverage sales.

Consideration paid

	<i>HK\$'000</i>
Cash	15

Acquisition-related costs of approximately HK\$14,000 have been excluded from the consideration transferred and have been recognised as an expense in the condensed consolidated income statement during the period ended 30th June 2013.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	<b>Fair value</b>
	<i>HK\$'000</i>
Net liabilities recognised:	
Property, plant and equipment	7,871
Inventory	537
Deposits paid, prepayments and other receivables	1,724
Cash and bank balances	597
Trade payables	(1,107)
Deposits received, accruals and other payables	(764)
Amount due to a shareholder	(17,370)
Amount due to an associate	(15,680)
	<hr/>
Net liabilities recognised	(24,192)
Non-controlling interest	5,926
Amount due to a shareholder assigned to the purchaser	17,370
Goodwill arising on acquisition	911
	<hr/>
Consideration paid	15

**26. BUSINESS COMBINATION (Continued)****For the six months ended 30th June 2013****Acquisition of Merit Noble Company Limited (Continued)**

Goodwill arose in the acquisition of Merit Noble because the cost of the combination included a control premium paid to acquire the business. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, future market development and the assembled workforce of Merit Noble.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash inflow arising on acquisition

	<i>HK\$'000</i>
Cash consideration paid	(15)
Cash and bank balances acquired	597
	<hr/>
Net cash inflow	582
	<hr/> <hr/>

Included in the profit for the period is approximately HK\$3,460,000 loss attributable to the additional business incurred by Merit Noble. Turnover for the period included approximately HK\$4,238,000 in respect of Merit Noble.

Had the acquisition been completed on 1st January 2013, total Group's turnover for the period from continuing and discontinued operations would have been approximately HK\$713,173,000, and profit for the period would have been approximately HK\$60,387,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January 2013, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Merit Noble been acquired at the beginning of the current period, the directors have:

- calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after business combination.

**27. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY****For the six months ended 30th June 2013****Acquisition of Well Full Limited**

On 1st February 2013, the Group entered into a sale and purchase agreement to acquire 100% equity interest and a shareholder's loan of approximately HK\$29,603,000 in Well Full Limited ("Well Full") at a total consideration of HK\$93,700,000. Well Full is engaged in property investment and its major assets consist of commercial properties, bank deposits and Renminbi bonds. The acquisition was completed on 28th February 2013.

The acquisition has been accounted for as an acquisition of assets and liabilities. The effect of the acquisition is summarised as follows:

	HK\$'000
Net assets acquired:	
Property, plant and equipment	79,973
Held for trading investment	6,731
Deposit, prepayment and other receivables	88
Pledged bank deposits	8,870
Cash and bank balances	324
Deposit received, accruals and other payables	(3)
Bank borrowings	(2,283)
	<u>93,700</u>
Total consideration	<u><u>93,700</u></u>
Consideration paid:	
Cash	<u><u>93,700</u></u>
Net cash outflow arising on acquisition:	
	HK\$'000
Cash consideration paid	(93,700)
Cash and bank balances acquired	324
	<u><u>(93,376)</u></u>

According to the sales and purchase agreement, the shareholder's loan amounted to approximately HK\$29,603,000 was assigned to the Group upon completion of the acquisition.

**28. MATERIAL DISPOSAL OF SUBSIDIARIES****For the six months ended 30th June 2014****(a) Disposal of Star Hope Investments Limited**

On 6th June 2014, the Group had disposed entire equity interest of Star Hope Investments Limited ("Star Hope") and a shareholder's loan of approximately HK\$82,000,000 at a total consideration of approximately HK\$82,282,000. The net liabilities of Star Hope, at the date of disposal were as follows:

Consideration received:

	<i>HK\$'000</i>
Cash received	82,282
	<u><u>82,282</u></u>

Analysis of assets and liabilities over which control was lost:

	<i>HK\$'000</i>
Net liabilities disposed of:	
Property, plant and equipment	77,726
Deposits, prepayments and other receivables	219
Held for trading investments	3,426
Cash and bank balances	572
Accruals	(23)
Bank borrowing	(1,912)
Amount due to immediate holding company	(82,000)
	<u><u>(1,992)</u></u>

Gain on disposal of subsidiaries:

	<i>HK\$'000</i>
Consideration received	82,282
Net liabilities disposed of	1,992
Amount due to immediate holding company assigned to the purchaser	(82,000)
Non-controlling interests	(996)
	<u><u>1,278</u></u>

Net cash inflow arising on disposal:

	<i>HK\$'000</i>
Cash consideration received	82,282
Less: cash and bank balances disposed of	(572)
	<u><u>81,710</u></u>

**28. MATERIAL DISPOSAL OF SUBSIDIARIES (Continued)****For the six months ended 30th June 2014 (Continued)****(b) Disposal of Ace Season**

On 11th June 2014, the Group had disposed its equity interest in Ace Season, which principally engaged in the Nam Pei Hong operations, and a shareholder's loan of approximately HK\$46,362,000 at a total consideration of HK\$45,000,000. The net assets of Ace Season, at the date of disposal were as follows:

Consideration transferred:

	HK\$'000
Consideration receivable	45,000
	<u>45,000</u>

Analysis of assets and liabilities over which control was lost:

	HK\$'000
Net assets disposed of:	
Property, plant and equipment	4,287
Goodwill	3,030
Intangible assets	6,587
Inventories	60,011
Trade receivables	3,893
Deposits, prepayments and other receivables	11,514
Cash and bank balances	26,561
Trade payables	(6,729)
Accruals and other payables	(3,477)
Bank borrowings	(11,353)
Amount due to immediate holding company	(46,362)
Amounts due to non-controlling interests	(46,586)
Deferred tax liabilities	(1,087)
	<u>289</u>
Net assets disposed of	<u>289</u>

Loss on disposal of subsidiaries:

	HK\$'000
Consideration receivable	45,000
Net assets disposed of	(289)
Amount due to immediate holding company assigned to the purchaser	(46,362)
Non-controlling interests	(94)
Release of exchange reserve upon disposal of subsidiaries	79
	<u>(1,666)</u>
Loss on disposal of subsidiaries	<u>(1,666)</u>

**28. MATERIAL DISPOSAL OF SUBSIDIARIES (Continued)****For the six months ended 30th June 2014 (Continued)****(b) Disposal of Ace Season (Continued)**

Net cash outflow arising on disposal:

	HK\$'000
Cash consideration received	–
Less: cash and bank balances disposed of	(26,561)
	<hr/>
Net cash outflow	(26,561)
	<hr/> <hr/>

- (c) On 17th April 2014, the Group completed the disposal of the entire equity interests of China Star Movie Limited ("CS Movie") and a shareholder's loan of approximately HK\$9,002,000 at a total consideration of approximately HK\$4,340,000. The net liabilities of CS Movie at the date of disposal were approximately HK\$4,662,000. No gain or loss on disposal of CS Movie was recognised and net cash inflow of approximately HK\$4,304,000 was generated from disposal of CS Movie.

**29. MATERIAL TRANSACTION WITH NON-CONTROLLING INTERESTS****Acquisition of 50% equity interests in Smart Value Developments Limited and its subsidiaries**

On 6th June 2014, the Group further acquired 50% equity interest of the issued share capital in Smart Value Developments Limited ("Smart Value") and its subsidiaries and a shareholder's loan of approximately HK\$77,992,000 at total consideration of HK\$80,000,000. The major assets of Smart Value are entire equity interests in Well Star Investments Limited and Big Century Limited. As a result of the acquisition, the Group's shareholding in Smart Value and its subsidiaries increased from 50% to 100%. The Group recognised an increase in non-controlling interests of approximately HK\$770,000 and a decrease in equity attributable to owners of the Company of approximately HK\$770,000.

**30. MATERIAL RELATED PARTY TRANSACTIONS**

During the period under review, the Group entered into the following transactions with its related parties:

	<b>Six months ended 30th June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Nature of transactions</b>		
Income received from family member of the substantial shareholders and the directors of the company:		
Rental income	83	–
Income received from associates:		
Rental income and utilities fee reimbursement	–	547
Other ancillary hotel revenue	–	8
Expenses paid to associates:		
Entertainment and staff messing paid	–	58
	<hr/> <hr/>	<hr/> <hr/>

### 31. EVENTS AFTER THE REPORTING PERIOD

- (a) On 8th July 2014, the Company announced that:
- (i) the Company has appointed Mr. Mung Kin Keung ("Mr. Mung") as Co-Chairman of the Board and executive director of the Company;
  - (ii) the Company entered into a share subscription agreement ("Share Subscription") with Long Joy Investment Limited, a wholly owned subsidiary of Well Way Group Limited, a company listed on The Growth Enterprise Market ("GEM") of the Stock Exchange (the "Share Subscriber") pursuant to which the Share Subscriber has conditionally agreed to subscribe and the Company has conditionally agreed to allot and issue 1,500,000,000 new shares at subscription price of HK\$0.09 per subscription share; and
  - (iii) the Company entered into a subscription agreement ("CB Subscription") with Mr. Mung pursuant to which the Company has conditionally agreed to issue and Mr. Mung has conditionally agreed to subscribe for convertible bonds of the Company in an aggregate principal amount of up to HK\$405.00 million by a maximum of five tranches during the period of 36 months commencing from the date of the special general meeting of the Company approving, among other, the issue of the convertible bonds.

The Share Subscription is subject to the shareholders' approval at a special general meeting of the Company and the CB Subscription is subject to Independent shareholders' approval at a special general meeting as it constitutes a connected transaction of the Company. The net proceeds from the Share Subscription of approximately HK\$134.30 million will be used for the investment in gaming/gaming-related business in Macau. The net proceeds from the CB Subscription of approximately HK\$404.00 million will be used for the construction and development of the Sites for expanding the operation of Hotel Lan Kwai Fong Macau. At the date of this report, the Share Subscription and the CB Subscription are not yet complete.

- (b) On 17th July 2014, a loan agreement was entered into between Classic Champion as lender and a junket company which engaged in gaming promotion business in Macau (the "Junket Company 3") as borrower pursuant to which Classic Champion has conditionally agreed to grant the Junket Company 3 a loan of HK\$200.00 million ("Loan 3") for a term of 24 months from the date of first drawdown at the interest rate of 10% per annum. The sole beneficial owner and director of the Junket Company 3 has given his personal guarantee to the Loan 3. In addition, he has undertaken, among others, not to sell, transfer or otherwise dispose of or create any third party rights on any of his interests in the Junket Company 3. HK\$100 million of the Loan 3 was drawn on 21st July 2014 and was financed by the internal resources of the Group. The remaining portion of Loan 3 will be financed by the internal resources of the Group. The Group considered that the Loan 3 provided the Group with a long period of time to negotiate the terms and conditions of acquisition of the Junket Company 3 exclusively, if a decision in acquiring the Junket Company 3 is made.

### 32. COMPARATIVE FIGURES

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

### 33. APPROVAL AND AUTHORISATION FOR ISSUE OF INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 28th August 2014.



國衛會計師事務所有限公司  
**Hodgson Impey Cheng Limited**

31st Floor  
Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

## **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA STAR ENTERTAINMENT LIMITED**

*(Incorporated in Bermuda with limited liability)*

### **INTRODUCTION**

We have reviewed the interim financial statements set out on pages 1 to 37, which comprise the condensed consolidated statement of financial position of China Star Entertainment Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") as of 30th June 2014 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial statements in accordance with HKAS 34.

Our responsibility is to form a conclusion, based on our review, on this interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements at 30th June 2014 is not prepared, in all material respects, in accordance with HKAS 34.

### **HLB Hodgson Impey Cheng Limited**

*Certified Public Accountants*

#### **Yu Chi Fat**

Practising Certificate Number: P05467

Hong Kong, 28th August 2014

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the six months ended 30th June 2014, the Group recorded a turnover of approximately HK\$601,674,000 representing a decrease of 5% as compared to HK\$635,744,000 for the last corresponding period.

Profit for the period amounted to approximately HK\$115,138,000 representing an increase of 89% as compared to HK\$60,789,000 for the last corresponding period. Such increase is mainly attributable to (i) substantial decrease in impairment loss recognised in respect of intangible assets of the gaming promotion operations of HK\$6,594,000 by HK\$34,442,000 from HK\$41,036,000 in the corresponding period of the previous year; (ii) the absence of share-based payment expenses of HK\$8,747,000 recorded in the six months ended 30th June 2013; (iii) increase in other revenue of HK\$16,261,000 by HK\$11,200,000 from HK\$5,061,000 in the corresponding period of the previous year which mainly included increase in loan interest income; and (iv) decrease in finance costs of HK\$10,547,000 by HK\$11,334,000 from HK\$21,881,000 in the corresponding period of the previous year which mainly caused by the full conversion of the outstanding 8% convertible bonds of the Company into shares of the Company on 31st March 2014 and thus decrease the interest expenses for the period.

Profit attributable to owners of the Company for the six months ended 30th June 2014 amounted to HK\$114,790,000 representing an increase of 86% as compared to HK\$61,742,000 for the last corresponding period.

### DIVIDEND AND DISTRIBUTION

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2014 (2013: nil).

During the period ended 30th June 2013, the Board proposed and paid a special distribution out of the contributed surplus account of the Company of HK4 cents per share to the shareholders and the bonus convertible bonds holders of the Company whose names appear on the registers of member and convertible bonds holders of the Company respectively on 6th May 2013, amounted to an aggregate of HK\$217,996,000.

### BUSINESS REVIEW

#### Continuing Operations

The Group has four continuing reportable segments – (1) hotel and gaming service operations; (2) gaming promotion operations; (3) film distribution operations; and (4) property development operations.

Of the total turnover amount for the period, HK\$597,992,000 or 99% was generated from hotel and gaming service operations, HK\$2,464,000 or 1% was generated from gaming promotion operations, HK\$1,135,000 or 0% was generated from film distribution operations and HK\$83,000 or 0% was generated from property development operations.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)****BUSINESS REVIEW (Continued)****Continuing Operations (Continued)****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 Company, Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF"); services provided to the casino situated in Lan Kwai Fong (the "Casino LKF") which was recorded in an indirect subsidiary of the Company, Classic Management & Services Company Limited ("Classic") and other ancillary services provided in Lan Kwai Fong. Lan Kwai Fong presents a total of 209 guest rooms, casino situated in the ground, first and 18th floor, restaurants, flower shop, retail shop, spa and medical clinic.

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 mass market table gaming, VIP rooms table gaming and slot machines in Casino LKF. As at 30th June 2014, Casino LKF operated a total of 84 tables, targeting both for the VIP rooms table gaming and the mass market table gaming. It also operated a total of 128 slot machines.

During the short 5-year period since launching, Lan Kwai Fong has been awarded with several international accolades, which included the "5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China" and the "2012 TripAdvisor Travelers' Choice – Top 25 Trendiest Hotels in China". In respect of promoting the notion of environmental protection, Lan Kwai Fong has won the "AHF Asia Awards 2010 – Leading Green Hotel of Asia" and the "Macau Green Hotel Award 2010 – Bronze Award".

The Group had shared revenue and segment profit of approximately HK\$597,992,000 (2013: HK\$631,745,000) and HK\$128,149,000 (2013: HK\$136,630,000) from the hotel and gaming service operations, decreases of 5% and 6% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel room income of HK\$56,666,000 (2013: HK\$53,414,000), food and beverage sales of HK\$19,244,000 (2013: HK\$15,878,000), services income received from mass market table gaming of approximately HK\$465,637,000 (2013: HK\$482,711,000) representing a decrease of 4%, services income received from VIP rooms table gaming of HK\$47,702,000 (2013: HK\$73,929,000 representing a decrease of 35% and service income received from slot machines of HK\$8,743,000 (2013: HK\$5,813,000) representing an increase of 50%. For the six months ended 30 June 2014, the total casino revenue gross win in Macau market was approximately HK\$187.5 billion, increased by 12.6% from last corresponding period. Those casinos located in Cotai have achieved a higher growth rate than those located in Macau Peninsula in the first half of 2014. Despite market share migration from Macau Peninsula to Cotai, we were able to maintain our overall market share and profit margin in this segment by effective marketing plan and cost control measure. Mass market table gaming operations are more profitable than VIP rooms table gaming operations and thus Casino LKF had spent resources to expand its market share in the mass market table gaming operations and targeted the high end customers in the mass market table gaming and was continued to be successful during this period. During the period, the average monthly revenue from (i) mass market table gaming of approximately HK\$77,606,000 (2013: HK\$80,452,000) and (ii) VIP rooms table gaming of HK\$7,950,000 (2013: HK\$12,322,000). Besides, the occupancy rate of Hotel LKF during the period increased by 5% to an average of about 99%.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **BUSINESS REVIEW (Continued)**

#### **Continuing Operations (Continued)**

##### **Gaming Promotion Operations**

The Group had shared revenue and segment loss of approximately HK\$2,464,000 (2013: HK\$3,688,000) and HK\$4,710,000 (2013: HK\$37,949,000) from the gaming promotion operations, decreases of 33% and 88% respectively.

Since years before, the revenue in sharing of profit streams from investments in the profit receiving company, Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the gaming promoters at one of the VIP rooms at the Grand Lisboa Casino in Macau had apparently decreased. One of the characteristic of the VIP rooms gaming is that the majority of the business volume is highly volatile. Ocho had lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers as they were attracted by other large and well equipped new hotels and casinos in Macau. The decrease in revenue sharing also impact and decrease the expected cash inflow from this operation and thus impairment loss in respect of intangible assets of HK\$6,594,000 (2013: HK\$41,036,000) was recognised. This impairment amount was based on the recoverable amount of intangible asset by reference to the valuation report issued by a firm of independent qualified professional valuers using discounted cash flow method each period.

##### **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 six months ended 30 June 2014, the Group did not distributed any new film.

In the first half of the year 2014, turnover for film distribution operations amounted to HK\$1,135,000 (2013: HK\$311,000) and its segment profit amounted to HK\$153,000 (2013: HK\$213,000). Due to the unsatisfactory performance of this business segment in the past years, the Group decided to allocate less resource in this business and thus the Group had disposed China Star Movie Limited and China Star International Movie Limited, the film production companies of the Group during the period. The Group considered that the disposal enabled the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau. The Group will engaged in new film production only when good opportunities arises.

##### **Property Development Operations**

Property development operations included investing and development of properties in Macau and Hong Kong. Development of properties in Macau represented 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 develop into commercial units and residential apartments for sale. The development plan of the Sites is in the process of seeking approval from the relevant authority.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)****BUSINESS REVIEW (Continued)****Continuing Operations (Continued)****Property Development Operations (Continued)**

In the year 2013, the Group had acquired the properties located at the 4th Floor and the Ground Floor and its Cockloft of Nos. 1 and 3 Mercer Street, Hong Kong; and 1st Floor and the Ground Floor and its Cockloft of Nos. 20, 22 and 24 Mercer Street, Kam Tak Building, Hong Kong. The Group intended to develop the Ground Floor and its Cockloft of Nos. 1 and 3 Mercer Street, Hong Kong and 1st Floor and the Ground Floor and its Cockloft of Nos. 20, 22 and 24 Mercer Street, Kam Tak Building, Hong Kong as the flagship stores of retail chain of Nam Pei Hong in Hong Kong. Due to change of business strategy of the Group, the Group had sold the properties located at the Ground Floor and its Cockloft of Nos. 1 and 3 Mercer Street, Hong Kong during the period ended 30th June 2014. 4th Floor of Nos. 1 and 3 Mercer Street, Hong Kong is rent out for investment purpose. The Group is considering the usage of other properties in Hong Kong after the disposal of Nam Pei Hong operations.

In the first half of the year 2014, turnover for property development operations amounted to HK\$83,000 (2013: nil) and its segment loss amounted to approximately HK\$1,714,000 (2013: HK\$1,538,000).

**Discontinued Operation**

During the period ended 30th June 2014, the Group disposed of all its equity interest in the subsidiaries engaged in Nam Pei Hong operations.

In view of no significant improvement in performance of Nam Pei Hong operations in these years and it is expected that its performance will continue like this in the foreseeable future. The Group considered that the disposal would enable the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau.

Accordingly, Nam Pei Hong operations were treated as discontinued operation in the financial statements of the Group for the six months ended 30th June 2014.

**Nam Pei Hong Operations**

From 1st January 2014 to 11th June 2014 (date of disposal), the Group had shared revenue of approximately HK\$79,510,000 (2013: HK\$77,386,000) and segment loss of approximately HK\$1,660,000 as compared to segment profit of approximately HK\$1,465,000 for the six months ended 30th June 2013.

**Geographical segments**

For the geographical segments, as revenue from hotel and gaming service operations, gaming promotion operations and property development operations are all sourced in Hong Kong and Macau, almost 100% turnover of the Group during the period were mainly derived from Hong Kong and Macau.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### BUSINESS REVIEW (Continued)

#### Administrative Expenses

For the six months ended 30th June 2014, administrative expenses of HK\$194,465,000 (2013: HK\$207,379,000) after net of amortisation of interests in leasehold land and depreciation of property, plant and equipment in an aggregate of HK\$51,308,000 (2013: HK\$57,171,000) amounted to HK\$143,157,000 (2013: HK\$150,208,000), representing a 5% decrease. The decrease was mainly attributable to the decrease in casino management fees paid by Classic which were partly offset by the increase in staffs costs during the period. Such management fees decreased because it was based on a fixed percentage of service income from VIP rooms table gaming that had decreased by 35% for the same period in previous year. Employee benefit expenses recorded as administrative expenses increased 5% to HK\$69,718,000 from HK\$66,250,000 (net of share-based payment expenses of HK\$5,386,000).

#### LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2014, the Group had total assets of approximately HK\$3,190,807,000 and a net current assets of HK\$2,014,185,000, representing a current ratio of 15.3 (31st December 2013: 5.6). The Group had cash and bank balances of approximately HK\$263,571,000 (31st December 2013: HK\$390,241,000). As at 30th June 2014, the Group had total borrowings of HK\$325,028,000 which comprised a secured bank term loan with remaining balance of HK\$325,000,000 (the "Term Loan") and obligations under finance leases of HK\$28,000.

The Term Loan was secured by the Group's leasehold land and buildings with carrying amount of HK\$623,873,000, interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank and repayable by remaining of 5 equal consecutive quarterly installments of HK\$12,500,000 each and a final repayment for the remaining balance of HK\$262,500,000.

As at 30th June 2014, the Group had banking facilities amounting to HK\$531,000,000 which were utilised to the extent of HK\$500,000,000. The Group's gearing was acceptable during the period with total debts of HK\$325,028,000 against owners' equity of HK\$2,693,974,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 12% (31st December 2013: 36%).

As at 30th June 2014, capital expenditure commitments by the Group amounted to approximately HK\$229,247,000, which mainly comprised HK\$200,000,000 as the balancing payment of the Proposed Acquisition (as defined below) which will be settled by the issue of a promissory note upon completion and HK\$28,615,000 as professional fees for the preparation of the development plan of the Sites.

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollar, Macau Pataca, United States dollar and Renminbi, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2014, the Group had no material contingent liability.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)****LIQUIDITY AND FINANCIAL RESOURCES (Continued)**

On 18th November 2013, the Company announced to raise not less than approximately HK\$328,370,000 and not more than approximately HK\$339,900,000 before expenses by way of open offer (the "Open Offer") of not less than 2,626,923,658 and not more than 2,719,215,073 offer shares at a subscription price of HK\$0.125 per offer shares on the basis of two offer shares for every five existing shares held on 31st December 2013. 2,626,923,658 offer shares were issued and allotted on 22nd January 2014. The estimated net proceeds of approximately HK\$324,470,000 were intended to be used for property investment in Hong Kong and/or Macau when suitable opportunity arises. On 4th April 2014, the Board allocated the net proceeds of approximately HK\$200 million to be used for financing a loan agreement dated 4th April 2014 and the remaining balance of approximately HK\$124.47 million to be used for investment in gaming/gaming related business and/or general working capital of the Company. On 8th April 2014, HK\$200 million has been utilized as reallocated upon drawing of the Loan 1 (as defined below). On 24th April 2014, the remaining balance of approximately HK\$124.47 million has been utilised as reallocated upon the drawing of Loan 2 (as defined below).

On the same date, the Company announced that it proposed the subscription of not more than 7,586,976 units of new bonus convertible bonds (the "New Bonus CBs") in the aggregate principal amount of HK\$75,869.76 offered by the Company to the existing bonus convertible bonds of the Company (the "Bonus CBs") which are convertible into new shares at the conversion price of HK\$0.01 per share on the basis of 2 New Bonus CBs for every 5 existing Bonus CBs held on 31st December 2013 at the subscription price of HK\$0.125 per New Bonus CB. The transaction was approved by the shareholders of the Company at the special general meeting of the Company held on 18th December 2013. On 22nd January 2014, 7,540,521 units of New Bonus CBs in the principal amount of HK\$75,405.21 were issued by the Company. The net proceeds of HK\$75,869.76 were intended to be used as general working capital of the Group and have been utilised as intended.

As at 31st December 2013, the Company and Eternity Investment Limited ("Eternity") entered into a supplemental agreement pursuant to which both parties agreed to extend the completion date of the second tranche subscription for convertible bonds in the principal amount of HK\$300 million from 31st December 2013 further extend to 31st December 2015.

On 27th January 2014, the Company entered into a placing agreement with a placing agent to place on a best effort basis up to 3,200,000,000 new shares of HK\$0.01 each (in aggregate nominee value of HK\$32,000,000) by a maximum of four tranches (in which each tranche shall not be less than 800,000,000 new shares, save for the last tranche) to independent investors at a price of HK\$0.125 per share (the "Placing"). The net price per share was approximately HK\$0.124 and the closing price per share as quoted on the Stock Exchange on the date of the said placing agreement was HK\$0.134. On 23rd April 2014, 3,200,000,000 new shares were allotted and issued under the specific mandate approved by the shareholders of the Company at the special general meeting of the Company held on 24th March 2014. The net proceeds of approximately HK\$395,470,000 were intended to be used for the Proposed Acquisition (as defined below) and were utilised as intended.

On 31st March 2014, 2,045,454,545 shares were allotted and issued upon the conversion of convertible bonds in the principal amount of HK\$225,000,000 at the adjusted conversion price of HK\$0.11 per share by Eternity Finance Group Limited, a wholly owned subsidiary of Eternity. Thereafter, the Group did not have any outstanding convertible bonds due to Eternity Finance Group Limited.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### LIQUIDITY AND FINANCIAL RESOURCES (Continued)

On 4th April 2014, a loan agreement was entered into between Classic Champion Holdings Limited ("Classic Champion"), a wholly owned subsidiary of the Company as lender and a junket company which engaged in gaming promotion business in Macau (the "Junket Company 1") as borrower pursuant to which Classic Champion has conditionally agreed to grant the Junket Company 1 a loan of HK\$200.00 million ("Loan 1") for a term of 24 months from the date of drawdown at the interest rate of 10% per annum. The sole beneficial owner and director of the Junket Company 1 has given his personal guarantee to the Loan 1. In addition, he has undertaken, among others, not to sell, transfer or otherwise dispose of or create any third party rights on any of his interests in the Junket Company 1. The Loan 1 was drawn on 8th April 2014 and was wholly financed by part of net proceeds from the Open Offer. The Group considered that the Loan 1 provided the Group with a long period of time to negotiate the terms and conditions of acquisition of the Junket Company 1 exclusively, if a decision in acquiring the Junket Company 1 is made.

On 17th April 2014, a loan agreement was entered into between Classic Champion as lender and a junket company which engaged in gaming promotion business in Macau (the "Junket Company 2") as borrower pursuant to which Classic Champion has conditionally agreed to grant the Junket Company 2 the loan of HK\$200.00 million ("Loan 2") for a term of 24 months from the date of drawdown at the interest rate of 10% per annum. The sole beneficial owner and director of the Junket Company 2 has given his personal guarantee to the Loan 2. In addition, he has undertaken, among others, not to sell, transfer or otherwise dispose of or create any third party rights on any of his interests in the Junket Company 2. The Loan 2 was drawn on 28th April 2014 and approximately HK\$124.47 million was financed by part of net proceeds from the Open Offer and approximately HK\$75.53 million was financed by the internal resources of the Group. The Group considered that the Loan 2 provided the Group with a long period of time to negotiate the terms and conditions of acquisition of the Junket Company 2 exclusively, if a decision in acquiring the Junket Company 2 is made.

During the period, no Bonus CBs and New Bonus CBs were converted.

During the period, no share options of the Company were granted, exercised, lapsed, expired or cancelled.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)****MATERIAL ACQUISITIONS AND DISPOSALS****Proposed acquisition of Protective Capital Group Limited**

On 25th February 2014, Classic Champion and Mr. Kam Lap Sing, Kelvin, an independent third party of the Company (the "Vendor I") entered into a conditional sale and purchase agreement (the "Agreement"), pursuant to which Classic Champion has conditionally agreed to acquire, and the Vendor I has conditionally agreed to sell, the entire issued share capital of Protective Capital Group Limited ("Target I") and a sale loan (amounted to HK\$20 million at the date of Agreement) owned by Eight Elements Entertainment Limited ("Eight Elements") upon completion for an aggregate consideration of HK\$800 million which shall be settled by Classic Champion: (a) as to HK\$300 million in cash as initial deposit upon the signing of the Agreement ("1st Deposit"); (b) as to HK\$300 million in cash on 24th April 2014 or upon completion of the Agreement, whichever is earlier ("2nd Deposit"); and (c) the balance of HK\$200 million by procuring the Company to issue a promissory note to the Vendor I on completion (the "Proposed Acquisition"). The major assets of Target I is its entitlement to the economic benefits of Eight Elements. Eight Elements is a company incorporated in Macau with limited liability and carrying on gaming promoter operations (being activities undertaken to promote casino games by way of offering transportation, accommodation, food and beverage, entertainment) in exchange for a commission or other compensation paid by the gaming concessionaire in respect of the casino premises of Casino LKF and related businesses in Macau. Particulars of the Proposed Acquisition are disclosed in the announcement of the Company dated 25th February 2014. The Proposed Acquisition constitutes a major transaction of the Company pursuant to the Listing Rules and is subject to the approval of the shareholders of the Company. Up to the reporting date, the Proposed Acquisition is not yet completed and the Company is still in the process of preparing the circular of the Proposed Acquisition. The 1st Deposit and the 2nd Deposit were paid on 25th February 2014 and 24th April 2014 respectively and were financed by the net proceeds of the Placing and the internal resources of the Group.

**Disposal of China Star Movie Limited**

On 14th April 2014, China Star Entertainment Holding Limited, in indirect wholly owned subsidiary of the Company ("CS Holding") and Dance Star Group Limited, a wholly owned subsidiary of China Media and Films Holdings Limited ("Dance Star") entered into a conditional sale and purchase agreement pursuant to which CS Holding has agreed to sell and Dance Star has agreed to purchase the entire equity interest in China Star Movie Limited ("CS Movie") and a sale loan amounted to approximately HK\$9,002,000 at an aggregate cash consideration of HK\$4,340,000. The principal activity of CS Movie is film production. The Group considered that the disposal enabled the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)****MATERIAL ACQUISITIONS AND DISPOSALS (Continued)****Disposal of Star Hope Investments Limited**

On 6th June 2014, Empowered Century Limited, an indirect non-wholly owned subsidiary of the Company ("Empowered") and Wing Shan Int'l Limited ("Wing Shan") entered into an unconditional sale and purchase agreement pursuant to which Empowered has agreed to sell and Wing Shan has agreed to purchase the entire equity interest in Star Hope Investments Limited ("Star Hope") and a sale loan amounted to HK\$81,999,878.40 at a total consideration of HK\$82,282,048. Star Hope is the legal and beneficial owner of the entire share capital of Well Full Limited and the major assets of Well Full Limited are properties located at Cockloft Floor and the Ground Floor of Nos. 1 and 3 Mercer Street, Hong Kong. The disposal constituted a discloseable and connected transaction of the Company pursuant to Chapter 14 and Chapter 14A of the Listing Rules but was exempt from independent shareholders' approval and was completed simultaneously. Upon completion, Star Hope and Well Full Limited ceased to be subsidiaries of the Company and their financial results were no longer be consolidated into the Company's consolidated financial statements. The Directors consider that the disposal represented an opportunity for realisation of the Group's investment having considered the recent market sentiments towards property investment in Hong Kong and would enable the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau.

**Disposal of Ace Season Holdings Limited**

On 11th June 2014, China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company ("CSBVI") and Attentive Wealth Investments Limited ("Attentive") entered into an unconditional sale and purchase agreement (the "S&P Agreement") pursuant to which CSBVI agreed to sell and Attentive agreed to purchase 50% of the equity interest and a sale loan amounted to approximately HK\$46,361,858 in Ace Season Holdings Limited ("Ace Season") at a total consideration of HK\$45,000,000 which shall be settled in cash by Attentive: (a) as to HK\$9 million within two months from date of the S&P Agreement and (b) as to HK\$36 million within six months from date of the S&P Agreement. Ace Season is an investment holding company and its major subsidiaries are groups headed by NPH Holdings Limited which is engaged in the business of 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. The disposal constituted a discloseable transaction of the Company pursuant to the Listing Rules. Upon completion, Ace Season and its subsidiaries ceased to be subsidiaries of the Company and their financial results were no longer be consolidated into the Company's consolidated financial statements. The Directors consider that the disposal would enable the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau.

**EMPLOYEES AND REMUNERATION POLICY**

As at 30th June 2014, the Group employed 707 staffs (2013: 751 staffs) with employee benefit expenses from continuing operations of HK\$73,333,000 (2013: HK\$74,508,000) and from discontinued operation of HK\$8,196,000 (2013: HK\$8,110,000) respectively. 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.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)****EVENT AFTER THE REPORTING DATE**

On 8th July 2014, the Company announced that:

- (i) the Company has appointed Mr. Mung Kin Keung ("Mr. Mung") as Co-Chairman of the Board and executive director of the Company;
- (ii) the Company entered into a share subscription agreement with Long Joy Investments Limited, a wholly owned subsidiary of Well Way Group Limited (stock code: 8063), a company listed on the Growth Enterprise Market of the Stock Exchange (the "Share Subscriber") pursuant to which the Share Subscriber has conditionally agreed to subscribe and the Company has conditionally agreed to allot and issue 1,500,000,000 new shares at subscription price of HK\$0.09 per subscription share ("Share Subscription"); and
- (iii) the Company entered into a subscription agreement with Mr. Mung pursuant to which the Company has conditionally agreed to issue and Mr. Mung has conditionally agreed to subscribe for convertible bonds of the Company in an aggregate principal amount of up to HK\$405.00 million by a maximum of five tranches during the period of 36 months commencing from the date of the special general meeting of the Company approving, among other, the issue of the convertible bonds ("CB Subscription").

The Share Subscription is subject to the shareholders' approval at a special general meeting of the Company. The CB Subscription is subject to independent shareholders' approval at a special general meeting as it constitutes a connected transaction of the Company. The net proceeds from the Share Subscription of approximately HK\$134.30 million will be used for the investment in gaming/gaming-related business in Macau. The net proceeds from the CB Subscription of approximately HK\$404.0 million will be used for the construction and development of the Sites for expanding the operation of Lan Kwai Fong. As at the date of this report, the Share Subscription and the CB Subscription are not yet complete.

On 17th July 2014, a loan agreement was entered into between Classic Champion as lender and a junket company which engaged in gaming promotion business in Macau (the "Junket Company 3") as borrower pursuant to which Classic Champion has conditionally agreed to grant the Junket Company 3 the loan of HK\$200.00 million ("Loan 3") for a term of 24 months from the date of first drawdown at the interest rate of 10% per annum. The sole beneficial owner and director of the Junket Company 3 has given his personal guarantee to the Loan 3. In addition, he has undertaken, among others, not to sell, transfer or otherwise dispose of or create any third party rights on any of his interests in the Junket Company 3. HK\$100 million of the Loan 3 was drawn on 21st July 2014 and was financed by the internal resources of the Group. The remaining portion of Loan 3 will be financed by the internal resources of the Group. The Group considered that the Loan 3 provided the Group with a long period of time to negotiate the terms and conditions of acquisition of the Junket Company 3 exclusively, if a decision in acquiring the Junket Company 3 is made.

Other than those disclosed above, there is no significant event took place subsequent to end of the reporting date.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### PROSPECT

During the first few months in the year 2014, the Group had carried out a number of restructuring procedures which intended to focus its resources on its high return businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau instead of those poor performance and deteriorating businesses.

Hotel and gaming service operations in Lan Kwai Fong is considered to be the core profit and cash contributor of the Group in the coming few years. The successful transformation of Lan Kwai Fong to a boutique hotel that embraces gaming, recreation and tourist accommodation has solidified our role in Macau's hotel and gaming industry. The development of the Sites would also be benefited by the profit and cash flow derived from the principal core business of our Lan Kwai Fong. The foundation of the Group's various investments in Macau will be enhanced and synergistically boosted.

The Group started to strive to achieve healthy and stable growth by enhancing profitability and diversifying its businesses progressively in other gaming related business.

Macau continues its strong upward growth with market-wide gaming revenue. For the six months ended 30th June 2014, the total casino revenue gross win in Macau market was approximately HK\$187.5 billion, increased by 12.6% from last corresponding period. The directors are confident with the gaming industry in Macau. The Company intends to participate in the gaming promotion business of VIP through the Proposed Acquisition as announced in 25th February 2014. The directors believe that the Proposed Acquisition will allow the Group to have greater control over the management and marketing of the VIP gaming floor in Casino LKF as well as to receive a higher percentage of gross gaming income generated by the VIP gaming floor.

The Group had entered Loan 1, Loan 2 and Loan 3 on 4th April 2014, 17th April 2014 and 17th July 2014 respectively which provided the Group with a long period of time to negotiate the terms and conditions of acquisition of those junket companies exclusively and to consider whether to invest in those junket companies in addition to stable and regular interest income from them.

The appointment of Mr. Mung as co-chairman of the Board has strengthened the expertise of the Board. Besides, the Share Subscription and the CB Subscription, if approved by the shareholders and independent shareholders of the Company respectively will introduce a strategic investor to the Company while strengthening the financial position of the Group.

With the expertise of the management of the Group in the casino industry, the Group is optimistic regarding its future investments in other gaming related businesses identified and in its performance for the rest of the year.

### DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2014, the interests of the directors and their associates in the shares and the underlying shares of the Company and its associated corporations, as recorded in the register ("Register of Interests") maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

**DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)****Interests in ordinary shares of the Company**

<b>Name of director</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Approximate percentage of interests held</b>
Mr. Heung Wah Keung	Interest of spouse/ interest of controlled corporation	<u>4,661,203,680*</u>	<u>32.28</u>
Ms. Chen Ming Yin, Tiffany	Interest of spouse/ interest of controlled corporation	<u>4,661,203,680*</u>	<u>32.28</u>

All interests stated above represent long positions.

\* These shares are held as to 4,661,162,574 shares by Heung Wah Keung Family Endowment Limited ("HWKFE") (a company owned as to 50% by Mr. Heung and as to 50% by Ms. Chen) and as to 41,106 shares by Dorest Company Limited ("Dorest") (a company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung).

Other than as set out above, as at 30th June 2014, none of the directors or chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register of Interests or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or the spouse or children under 18 years of age of such director, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**SHARE OPTION SCHEME**

Pursuant to a resolution passed at a special general meeting of the Company held on 28th June 2012, a new share option scheme (the "New Option Scheme") was adopted by the Company.

The previous share option scheme of the Company (the "Old Option Scheme") was expired on 26th May 2012, no further options can be granted under the Old Option Scheme thereafter. However, all outstanding share option granted under the Old Option Scheme prior to the said expiry shall remain valid and exercisable in accordance with the provisions of the Old Option Scheme.

Apart from the New Option Scheme, the Company has no other share option scheme in place as at 30th June 2014.

**SHARE OPTION SCHEME (Continued)**

Details of share options outstanding as at 30th June 2014 were as follows:

Category of participants	Name of scheme	Exercisable period <sup>+</sup>	Exercise price per share HK\$	Number of share options		
				Outstanding as at 01.01.2014	Adjustment during the period	Outstanding as at 30.06.2014
Employees of the Group	Old Option Scheme	13.12.2004 – 12.12.2014	38,441	206,979	(5,017)	201,962
		04.02.2005 – 03.02.2015	39,794	332,928	(8,071)	324,857
		30.12.2005 – 29.12.2015	17,888	119,433	(2,894)	116,539
		21.11.2006 – 20.11.2016	20,477	207,948	(5,042)	202,906
		25.05.2007 – 24.05.2017	31,063	520,845	(12,626)	508,219
		27.06.2007 – 26.06.2017	30,907	342,282	(8,298)	333,984
		23.10.2007 – 22.10.2017	14,682	1,195,899	(28,991)	1,166,908
		21.08.2008 – 20.08.2018	1,894	4,473,087	(108,439)	4,364,648
	New Option Scheme	14.01.2013 – 13.01.2016	0.167	125,000,000	(3,030,303)	121,969,697
				<u>132,399,401</u>	<u>(3,209,681)</u>	<u>129,189,720</u>
Other participants	Old Option Scheme	13.12.2004 – 12.12.2014	38,441	40,062	(972)	39,090
		04.02.2005 – 03.02.2015	39,794	79,020	(1,916)	77,104
		30.12.2005 – 29.12.2015	17,888	144,174	(3,496)	140,678
		21.11.2006 – 20.11.2016	20,477	83,181	(2,016)	81,165
		25.05.2007 – 24.05.2017	31,063	205,038	(4,971)	200,067
		23.10.2007 – 22.10.2017	14,682	243,264	(5,898)	237,366
		21.08.2008 – 20.08.2018	1,894	566,958	(13,744)	553,214
		New Option Scheme	14.01.2013 – 13.01.2016	0.167	78,000,000	(1,890,909)
				<u>79,361,697</u>	<u>(1,923,922)</u>	<u>77,437,775</u>
				<u><u>211,761,098</u></u>	<u><u>(5,133,603)</u></u>	<u><u>206,627,495</u></u>

<sup>+</sup> The exercisable period commenced on the date of grant of the relevant share options.

No share option was exercised, expired, lapsed or cancelled during the six months ended 30th June 2014.

**SUBSTANTIAL SHAREHOLDERS**

As at 30th June 2014, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

**Interests in shares of the Company**

<b>Name</b>	<b>Capacity</b>	<b>Number of shares or underlying shares held</b>	<b>Approximate percentage of interests held</b>
HWKFE	Beneficial owner	<u>4,661,162,574</u>	<u>32.28</u>
Eternity Investment Limited	Beneficial owner/ Interest of controlled corporation	<u>2,405,672,727</u> (note a)	<u>16.66</u>
Riche (BVI) Limited	Interest of controlled corporation	<u>1,723,854,545</u> (note b)	<u>11.94</u>
Eternity Finance Group Limited	Beneficial owner	<u>1,723,854,545</u>	<u>11.94</u>

All interests stated above represent long positions.

Notes:

- (a) These shares/underlying shares are held as to 681,818,182 underlying shares by Eternity Investment Limited and as to 1,723,854,545 shares by Eternity Finance Group Limited.
- (b) These shares are held by Eternity Finance Group Limited.

Other than as disclosed above, the Company had not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital as at 30th June 2014.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is responsible for ensuring high standard 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 Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "Code") during the period from 1st January 2014 to 30th June 2014, except for the following deviations:

- (a) 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; and
- (b) Under the code provision A.6.7 of the Code, all the independent non-executive directors should attend general meetings. Mr. Ho Wai Chi, Paul, an independent non-executive director of the Company, was not able to attend the annual general meeting of the Company held on 26th June 2014 due to another business engagement.

## 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 during the six months ended 30th June 2014. 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 2014.

## AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at 30th June 2014 was comprising Messrs. Ho Wai Chi, Paul, Hung Cho Sing 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 2014 have been reviewed by the audit committee of the Company and the Company's independent auditors.

## BOARD OF DIRECTORS

As at the date of this report, the executive directors of the Company are Mr. Heung Wah Keung, Mr. Mung Kin 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 and Mr. Tang Chak Lam, Gilbert.

By Order of the Board  
**Heung Wah Keung**      **Mung Kin Keung**  
*Co-Chairman*              *Co-Chairman*

Hong Kong, 28th August 2014