

Interim Report 2010

Macau

hotel lan kwai fong



casino

hotel lan kwai fong macau



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

Stock code : 326

The board of directors of China Star Entertainment Limited (the "Company") presents the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2010 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2010

		Six months ended 30th June	
		2010	2009
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	4	454,234	146,733
Cost of sales		(13,111)	(8,512)
Gross profit		441,123	138,221
Other revenue	5	9,267	4,191
Other income	6	27,345	52,400
Administrative expenses		(286,780)	(45,394)
Marketing and distribution expenses		(36,131)	(182)
Gain arising on change in fair value of financial assets classified as held for trading		26,277	11,726
Gain arising on change in fair value of investment properties		4,090	6,700
Impairment loss recognised in respect of goodwill		(8,975)	(24,862)
Impairment loss recognised in respect of intangible assets		(197,973)	–
Share-based payment expenses		(8,237)	–
(Loss)/profit from operations		(29,994)	142,800
Finance costs	7	(8,642)	(14,371)
Share of losses of associates		(16)	–
Gain/(loss) arising on change in fair value in respect of conversion options embedded in convertible notes receivable		882	(22,619)
Loss on disposal of a subsidiary		–	(29,602)
(Loss)/profit before taxation	8	(37,770)	76,208
Taxation charge	9	(32)	(982)
(Loss)/profit for the period		(37,802)	75,226
Attributable to:			
Owners of the Company		(61,099)	101,236
Non-controlling interests		23,297	(26,010)
		(37,802)	75,226
(Loss)/earnings per share			
Basic	10	HK\$(0.01)	HK\$0.50
Diluted	10	HK\$(0.01)	HK\$0.50

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2010

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	<u>(37,802)</u>	<u>75,226</u>
Other comprehensive income		
Exchange differences arising on translation of foreign operations	(355)	(8)
Fair value adjustment on available for sale financial assets	<u>-</u>	<u>9,800</u>
Other comprehensive (expense)/income for the period	<u>(355)</u>	<u>9,792</u>
Total comprehensive (expense)/income for the period	<u>(38,157)</u>	<u>85,018</u>
Total comprehensive (expense)/income attributable to:		
Owners of the Company	(61,454)	111,028
Non-controlling interests	<u>23,297</u>	<u>(26,010)</u>
	<u>(38,157)</u>	<u>85,018</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2010

	Notes	At 30th June 2010 HK\$'000 (Unaudited)	At 31st December 2009 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	734,549	773,254
Interests in leasehold land		476,180	484,333
Investment properties		65,400	61,310
Goodwill	13	–	8,975
Intangible assets	14	791,232	989,205
Convertible notes receivable	15	–	20,015
Interests in associates		–	–
		2,067,361	2,337,092
Current assets			
Inventories		1,277	1,091
Film rights		22,660	22,914
Films in progress		19,038	19,238
Trade receivables	16	69,993	105,428
Deposits, prepayments and other receivables		390,865	396,968
Conversion options embedded in convertible notes receivable	15	–	10,908
Held for trading investments		85,840	97,641
Amounts due from associates		7,856	16,435
Prepaid tax		308	1,100
Cash and bank balances		353,464	173,188
		951,301	844,911
Assets classified as held for sale		–	8,272
		951,301	853,183
Total assets		3,018,662	3,190,275
Capital and reserves			
Share capital	17	28,893	22,965
Reserves		2,078,056	2,052,157
Equity attributable to owners of the Company		2,106,949	2,075,122
Non-controlling interests		267,568	244,271
Total equity		2,374,517	2,319,393

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30th June 2010

	Notes	At 30th June 2010 HK\$'000 (Unaudited)	At 31st December 2009 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings – due after one year	18	126,932	178,275
Obligation under finance lease		257	305
Deferred tax liabilities		86,714	86,682
		<u>213,903</u>	<u>265,262</u>
Current liabilities			
Bank overdraft		171,320	178,764
Bank borrowings – due within one year	18	112,666	232,631
Obligation under finance lease		96	96
Trade payables	19	15,929	21,426
Deposits received, accruals and other payables		63,709	132,201
Amount due to an associate		1,020	–
Amounts due to minority shareholders		65,502	40,502
		<u>430,242</u>	<u>605,620</u>
Total liabilities		<u>644,145</u>	<u>870,882</u>
Total equity and liabilities		<u>3,018,662</u>	<u>3,190,275</u>
Net current assets		<u>521,059</u>	<u>247,563</u>
Total assets less current liabilities		<u>2,588,420</u>	<u>2,584,655</u>

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2010

	Attributable to owners of the Company												
	Share capital	Share premium	Contributed surplus	Exchange reserve	Share-based	Convertible	Properties	Financial	Capital reduction reserve	Retained earnings	Non-controlling interests		Total
					payment reserve	notes reserve	revaluation reserve	assets revaluation reserve			Sub-total	interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
At 1st January 2009	26,612	100,649	878,319	1,020	53,666	32,665	5,330	(35,762)	316,008	40,204	1,418,711	284,264	1,702,975
Profit for the period	-	-	-	-	-	-	-	-	-	101,236	101,236	(26,010)	75,226
Other comprehensive income	-	-	-	(8)	-	-	-	9,800	-	-	9,792	-	9,792
Total comprehensive income for the period	-	-	-	(8)	-	-	-	9,800	-	101,236	111,028	(26,010)	85,018
Released on disposal of a subsidiary	-	-	-	-	-	-	-	25,962	-	-	25,962	-	25,962
Redemption of convertible notes	-	-	-	-	-	(17,923)	-	-	-	(15,295)	(33,218)	-	(33,218)
Release of deferred tax upon redemption of convertible notes	-	-	-	-	-	2,868	-	-	-	-	2,868	-	2,868
Issue of shares under open offer and bonus issue	212,897	(100,282)	(59,392)	-	-	-	-	-	-	-	53,223	-	53,223
Capital reorganisation - capital reduction	(237,114)	-	237,114	-	-	-	-	-	-	-	-	-	-
Placement of shares	8,000	152,000	-	-	-	-	-	-	-	-	160,000	-	160,000
Share issuing expenses	-	(1,967)	-	-	-	-	-	-	-	-	(1,967)	-	(1,967)
At 30th June 2009	10,395	150,400	1,056,041	1,012	53,666	17,610	5,330	-	316,008	126,145	1,736,607	258,254	1,994,861
At 1st January 2010	22,965	400,734	1,056,041	1,059	57,376	-	5,330	-	316,008	215,609	2,075,122	244,271	2,319,393
Loss for the period	-	-	-	-	-	-	-	-	-	(61,099)	(61,099)	23,297	(37,802)
Other comprehensive expense	-	-	-	(355)	-	-	-	-	-	-	(355)	-	(355)
Total comprehensive (expense)/income for the period	-	-	-	(355)	-	-	-	-	-	(61,099)	(61,454)	23,297	(38,157)
Share-based payment expenses	-	-	-	-	8,237	-	-	-	-	-	8,237	-	8,237
Exercise of share options	528	10,367	-	-	(1,393)	-	-	-	-	-	9,502	-	9,502
Placement of shares	5,400	70,200	-	-	-	-	-	-	-	-	75,600	-	75,600
Share issuing expenses	-	(58)	-	-	-	-	-	-	-	-	(58)	-	(58)
Released on disposal of investment properties	-	-	-	-	-	-	(5,330)	-	-	5,330	-	-	-
At 30th June 2010	28,893	481,243	1,056,041	704	64,220	-	-	-	316,008	159,840	2,106,949	267,568	2,374,517

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2010

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	185,498	(110,999)
Net cash generated from/(used in) investing activities	97,531	(170,624)
Net cash (used in)/generated from financing activities	(94,954)	383,983
Net increase in cash and cash equivalents	188,075	102,360
Cash and cash equivalents at beginning of the period	(5,576)	(36,681)
Effect of foreign exchange rate changes	(355)	(8)
Cash and cash equivalents at the end of the period	<u>182,144</u>	<u>65,671</u>
Analysis of the balances of cash and cash equivalents:		
Cash and cash equivalents	182,144	65,111
Cash and cash equivalents included in non-current assets held for sale		
– Cash and cash equivalents	–	560
	<u>182,144</u>	<u>65,671</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2010

1. BASIS OF PREPARATION

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

The Interim Financial Statements should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2009.

The Interim Financial Statements have been prepared on the historical cost basis, except certain investment properties and financial assets, which are measured at fair values, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 31st December 2009, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and interpretations described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's accounting period beginning on 1st January 2010.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRS 1 (Amendment)	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Amendments to HKFRS 2 Share-based Payments – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1st January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1st January 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the Interim Financial Statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the new and revised HKFRSs had no material effect on how the results and financial positions of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Impact of new and revised HKFRSs not yet effective

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 ¹
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1st July 2010 and 1st January 2011, as appropriate

² Effective for annual periods beginning on or after 1st February 2010

³ Effective for annual periods beginning on or after 1st July 2010

⁴ Effective for annual periods beginning on or after 1st January 2011

⁵ Effective for annual periods beginning on or after 1st January 2013

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

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

3. SEGMENT INFORMATION

The Group has identified the following reporting segments:

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

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

	Segment revenue		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Film distribution operations	937	4,133	439	(4,561)
Hotel and gaming service operations	369,491	–	46,112	–
Gaming promotion operations	83,806	142,600	82,724	142,600
	<u>454,234</u>	<u>146,733</u>	<u>129,275</u>	<u>138,039</u>
Reconciliation from segment results to (loss)/profit before taxation				
Unallocated corporate income			31,969	56,591
Gain arising on change in fair value of financial assets classified as held for trading			26,277	11,726
Gain arising on change in fair value of investment properties			4,090	6,700
Impairment loss recognised in respect of goodwill			(8,975)	(24,862)
Impairment loss recognised in respect of intangible assets			(197,973)	–
Unallocated corporate expenses			(22,433)	(111,986)
(Loss)/profit before taxation			<u>(37,770)</u>	<u>76,208</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the period (2009: Nil).

3. SEGMENT INFORMATION (Continued)

Segment results represent the (loss)/profit earned by each segment without allocation of central administration costs, change in fair value of investment in trading securities and investment properties, impairment loss recognised in respect of goodwill and intangible assets and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

(b) Geographical information

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

	Revenue from external customers	
	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong	773	3,332
Macau	453,297	142,600
Worldwide other than Hong Kong and Macau	164	801
	454,234	146,733

4. TURNOVER

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Film distribution fee income	937	2,524
Film production fee income	–	1,509
Service income	–	100
Hotel room income	24,827	–
Food and beverage sales	6,680	–
Service income from table gaming operations	334,679	–
Service income from slot machine operations	3,305	–
Receive profit streams from the gaming promotion business	83,806	142,600
	454,234	146,733

5. OTHER REVENUE

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	230	266
Imputed interest income from convertible notes receivable	1,212	1,125
Management fee income	2,400	2,430
Other ancillary hotel revenue	5,395	–
Rental income	17	228
Others	13	142
	9,267	4,191

6. OTHER INCOME

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gain on redemption of convertible notes	–	16,459
Gain on redemption of convertible notes receivable	26,983	–
Gain on disposal of property, plant and equipment	–	10,540
Net foreign exchange gain	255	–
Reversal of impairment loss in respect of amount due from a former associate	–	25,179
Others	107	222
	27,345	52,400

7. FINANCE COSTS

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Imputed interest on convertible notes wholly repayable within five years	–	3,072
Interest on bank borrowings wholly repayable within five years	8,627	9,573
Interest on other loan wholly repayable within five years	–	1,726
Interest on finance lease	15	–
	8,642	14,371

8. (LOSS)/PROFIT BEFORE TAXATION

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit before taxation has been arrived at after charging/(crediting):		
Amortisation of film rights (included in cost of sales)	254	8,473
Amortisation of interests in leasehold land	9,109	65
Depreciation of property, plant and equipment	46,752	1,046
Employee benefit expenses	48,658	31,946
Loss/(gain) on disposal of property, plant and equipment	114	(10,540)
Net foreign exchange (gains)/losses	(255)	7
	<u> </u>	<u> </u>

9. TAXATION CHARGE

	Six months ended 30th June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The taxation charge comprises:		
Deferred tax	32	982
	<u> </u>	<u> </u>

No provision for Hong Kong Profits Tax has been made in the Interim Financial Statements 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 Macau Complimentary Income Tax has been provided as there was no assessable profit for both periods.

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

10. (LOSS)/EARNINGS PER SHARE

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

Six months ended 30th June	
2010	2009
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

(Loss)/earnings

(Loss)/earnings attributable to owners of the Company
for the purpose of basic and diluted (loss)/earnings per share

(61,099)	101,236
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Six months ended 30th June	
2010	2009
'000	'000

Number of shares

Weighted average number of ordinary shares for the
purpose of basic and diluted (loss)/earnings per share

4,347,421	201,434
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The weighted average number of ordinary shares for the six months ended 30th June 2010 and 30th June 2009 for the purposes of diluted (loss)/earnings per share did not assume the exercise of the outstanding share options and outstanding bonus warrants (if applicable) of the Company since their exercise would result in a decrease in loss per share and an increase in earnings per share respectively and thus anti-dilutive.

11. DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30th June 2010 (six months ended 30th June 2009: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired items of property, plant and equipment with a cost of approximately HK\$8,161,000 (six months ended 30th June 2009: HK\$163,086,000).

13. GOODWILL

HK\$'000

Cost

At 1st January 2009	117,678
Additions	24,862
Disposal of subsidiaries	(24,862)

At 31st December 2009, 1st January 2010 and 30th June 2010	117,678
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Impairment

At 1st January 2009	93,287
Impairment loss recognised	40,278
Elimination upon disposal of subsidiaries	(24,862)

At 31st December 2009 and 1st January 2010	108,703
Impairment loss recognised	8,975

At 30th June 2010	117,678
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Carrying amount

At 30th June 2010 (Unaudited)	-
At 31st December 2009 (Audited)	8,975

For the purpose of impairment testing, goodwill has been allocated to the cash generating unit ("CGU") of gaming promotion business.

At 30th June 2010, the directors of the Company have reassessed the recoverable amount of the CGU of gaming promotion business with reference to the valuation performed by Grant Sherman Appraisal Limited, a firm of independent qualified professional valuers and determined that goodwill associated with gaming promotion business was impaired by approximately HK\$8,975,000 (2009: Nil).

The recoverable amount of the CGU of gaming promotion business was assessed by reference to value in use calculation based on a five year projection of the relevant CGU with a 2% growth rate. This growth rate does not exceed the long term average growth rate for the market in which the CGU of gaming promotion business operates. A discount rate of 18.39% per annum for gaming promotion business was applied in the value in use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "CGU Forecast") covering a five-year period. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the CGU Forecast. Key assumptions included gross margin, growth and discount rate which are determined by the management of the Group based on past experience and its expectation for market development. Gross margin are budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the five-year budgeted period and are consistent with the CGU Forecast. The discount rate used is pre-tax and reflect specific risks relating to the industry.

14. INTANGIBLE ASSETS

HK\$'000

Cost

At 1st January 2009, 31st December 2009, 1st January 2010
and 30th June 2010

989,205

Impairment

At 1st January 2009, 31st December 2009 and 1st January 2010
Impairment loss recognised

–
197,973

At 30th June 2010

197,973

Carrying amount

At 30th June 2010 (Unaudited)

791,232

At 31st December 2009 (Audited)

989,205

The intangible assets represent the rights in sharing of profit streams from gaming promotion business at one of the VIP room in a casino in Macau for an indefinite period of time. Such intangible assets are carried at cost less accumulated impairment.

The junket licences associated with the rights in sharing of profit streams are renewable annually by the Macau Government. The directors of the Company are not aware of any expected impediment with respect to the renewal of the junket licences and consider that the possibility of failing in licence renewal is remote. Therefore, the directors of the Company consider that the intangible assets are treated as having indefinite lives.

At 30th June 2010, the directors of the Company have assessed the recoverable amount of the intangible assets by reference to the valuation performed by Grant Sherman Appraisal Limited, a firm of independent qualified professional valuers which valued the rights in sharing of profit streams using the discounted cash flow method and determined that intangible assets associated with gaming promotion business was impaired by approximately HK\$197,973,000 (2009: Nil). Further details of the impairment testing are also set out in Note 13.

15. CONVERTIBLE NOTES RECEIVABLE/CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE NOTES RECEIVABLE

	Convertible notes receivable <i>HK\$'000</i>	Conversion options embedded in convertible notes receivable <i>HK\$'000</i>
At 1st January 2009	–	–
Subscription of convertible notes	17,527	42,473
Imputed interest income	2,488	–
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable	–	(31,565)
	<hr/>	<hr/>
At 31st December 2009 and 1st January 2010 (Audited)	20,015	10,908
Imputed interest income	1,212	–
Gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable	–	882
Redemption of convertible notes receivable	(21,227)	(11,790)
	<hr/>	<hr/>
At 30th June 2010 (Unaudited)	<u>–</u>	<u>–</u>

On 26th November 2008, the Company entered into a subscription agreement with China Star Film Group Limited (“CSF”) in which the Company shall subscribe and CSF shall issue convertible notes in the principal amount of HK\$60,000,000 in five tranches of HK\$12,000,000. The subscription was completed and executed by way of Deed Poll on 29th January 2009.

The effective interest rate of the convertible notes receivable was approximately 15%.

On 26th May 2010, the directors of the Company assessed the fair value of the conversion options embedded in convertible notes receivable by reference to the valuation performed by Grant Sherman Appraisal Limited, a firm of independent qualified professional valuers which valued the fair value using the binomial option pricing model and determined that a gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable was approximately HK\$882,000.

On 26th May 2010, CSF redeemed all of the convertible notes for a consideration of HK\$60,000,000. The difference between the consideration and the carrying amount represented a gain of approximately HK\$26,983,000 credited to the condensed consolidated income statement.

16. TRADE RECEIVABLES

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

	At 30th June 2010 HK\$'000 (Unaudited)	At 31st December 2009 HK\$'000 (Audited)
0 to 30 days	47,961	86,269
31 to 60 days	5,627	7,763
61 to 90 days	4,573	4,518
91 to 180 days	6,747	1,817
Over 180 days	6,249	6,225
	71,157	106,592
Less: Impairment loss on trade receivables	(1,164)	(1,164)
	69,993	105,428

17. SHARE CAPITAL

	Number of shares		Amount	
	At 30th June 2010 '000 (Unaudited)	At 31st December 2009 '000 (Audited)	At 30th June 2010 HK\$'000 (Unaudited)	At 31st December 2009 HK\$'000 (Audited)
Ordinary shares of HK\$0.01 each (2009: HK\$0.01 each)				
Authorised:				
At beginning of period/year	50,000,000	2,000,000	500,000	100,000
Increase in authorised share capital	-	8,000,000	-	400,000
	50,000,000	10,000,000	500,000	500,000
Share consolidation	-	(9,500,000)	-	-
Share subdivision	-	49,500,000	-	-
	50,000,000	50,000,000	500,000	500,000
Issued and fully paid:				
At beginning of period/year	2,296,496	532,243	22,965	26,612
Open offer and bonus issue	-	4,257,944	-	212,897
Share consolidation	-	(4,550,678)	-	-
Capital reduction	-	-	-	(237,114)
Exercise of share options (note a)	52,790	49,087	528	491
Placement of shares (note b)	540,000	1,007,900	5,400	10,079
Conversion of convertible notes	-	1,000,000	-	10,000
	2,889,286	2,296,496	28,893	22,965

Notes:

- (a) During the period, certain share option holders exercised their option rights to subscribe for an aggregate of 52,790,000 shares at exercise price of HK\$0.18 per share. The net proceeds from the exercise of option rights amounted to approximately HK\$9,502,000.
- (b) On 11th February 2010, the Company allotted and issued an aggregate of 540,000,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.14 per share. The net proceeds of approximately HK\$75,542,000 were intended to be used for the Group's investment projects in Macau and general working capital of the Group.
- (c) On 26th April 2010, the board proposed to issue bonus warrants to the shareholders on the basis of one warrant for every five shares of the Company held on 8th June 2010. Total amount of approximately HK\$111,526,000 warrants ("2010 Warrants") were issued on 15th June 2010 at an initial subscription price of HK\$0.193 per share (subject to adjustment) and exercisable at any time during the period commencing on 15th June 2010 to 14th June 2012 (both days inclusive). The exercise in full of 2010 Warrants at 30th June 2010 would result in the issue of 577,857,273 shares of the Company.

During the period, no new share was issued on the conversion of 2010 Warrants.

18. BANK BORROWINGS

	At 30th June 2010 HK\$'000 (Unaudited)	At 31st December 2009 HK\$'000 (Audited)
Bank loans:		
– Secured	229,598	340,906
– Unsecured	10,000	70,000
	239,598	410,906
The maturity of the above borrowings is as follow:		
Within one year	112,666	232,631
Between one and two years	101,494	103,007
Between two and five years	25,438	75,268
Over five years	–	–
	239,598	410,906
Less: Amount due within one year shown under current liabilities	(112,666)	(232,631)
Amount due after one year	126,932	178,275

At 30th June 2010, the Group had bank borrowings of approximately HK\$239,598,000 comprising a bank mortgage loan of approximately HK\$4,598,000, a secured bank term loan of outstanding amount HK\$225,000,000 and an unsecured term loan of HK\$10,000,000. The bank mortgage loan was secured by the Group's investment properties with carrying value of approximately HK\$65,400,000 (31st December 2009: HK\$61,310,000), interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 43 monthly instalments. The secured term loan is secured by the Group's leasehold land and building with carrying value of approximately HK\$751,842,000 (31st December 2009: HK\$761,223,000). The secured term loan is interest bearing at 2% per annum below the bank's best lending rate, repayable by 9 equal consecutive quarterly installments of HK\$25,000,000 each. The unsecured term loan is interest bearing at 3% over 1-month HIBOR and repayable at the end of July 2010.

19. TRADE PAYABLES

The aging analysis of the trade payables is as follows:

	At 30th June 2010 HK\$'000 (Unaudited)	At 31st December 2009 HK\$'000 (Audited)
0 to 30 days	4,613	6,247
31 to 60 days	1,254	3,614
61 to 90 days	2,164	101
91 to 180 days	1,257	1,845
Over 180 days	6,641	9,619
	<u>15,929</u>	<u>21,426</u>

20. MATERIAL RELATED PARTY TRANSACTIONS

- (a) Saved as disclosed elsewhere in these Interim Financial Statements, during the period under review, the Group entered into the following transactions with related parties:

	Six months ended 30th June 2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Associates:		
Rental income and utilities fee reimbursement	9,720	–
Marketing, entertainment and staff messing paid	5,056	–
Rental expenses	350	–
Others:		
Imputed interest income from convertible notes receivable (Note)	155	–
Management fee income received or receivable (Note)	271	2,430
Interest expenses on loan advance paid or payable	–	1,726
	<u>–</u>	<u>1,726</u>

Note: Mr. Heung Wah Keung is a common director of the Company and China Star Film Group Limited. Mr. Heung Wah Keung resigned as an executive director of China Star Film Group Limited with effect from 21st January 2010.

- (b) The Group entered into a sale and purchase agreement with Ms. Chen Ming Yin, Tiffany, an executive director and a substantial shareholder of the Company, in respect of the acquisition of the entire equity interest of Modern Vision (Asia) Limited and Reform Base Holdings Limited. Up to the reporting date, deposits of HK\$360,000,000 had been paid and recognised as deposits, prepayment and other receivables in the Interim Financial Statements of the Group at 30th June 2010. Details of the transaction were set out in the Company's circular dated 17th August 2009.

21. LEASE COMMITMENTS

At 30th June 2010, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	At 30th June 2010 HK\$'000 (Unaudited)	At 31st December 2009 HK\$'000 (Audited)
Within one year	950	963
In the second to fifth year inclusive	648	1,128
	<u>1,598</u>	<u>2,091</u>

22. CAPITAL COMMITMENTS

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

	At 30th June 2010 HK\$'000 (Unaudited)	At 31st December 2009 HK\$'000 (Audited)
Authorised and contracted, but not provided for:		
Construction in progress	-	1,049
Acquisition of properties	-	1,180
Acquisition of subsidiaries	540,000	540,000
	<u>540,000</u>	<u>542,229</u>

23. EVENTS AFTER REPORTING PERIOD

On 11th August 2010, the Company allotted and issued 1,444,643,184 rights shares of the Company of HK\$0.01 per share at a subscription price of HK\$0.10 each on the basis of one rights share for every two existing shares held on 20th July 2010 by way of rights issue. The net proceeds of approximately HK\$141,460,000 was intended to be used for reducing the Group's bank borrowings and financing hotel operation of the Group or general working capital of the Group. The details of the rights issue are set out in the Company's prospectus dated 21st July 2010 and the Company's announcements dated 8th July 2010, 9th July 2010 and 10th August 2010 respectively.

24. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 30th August 2010.



Chartered Accountants
Certified Public Accountants

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 information set out on pages 1 to 21, 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 2010 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-month period then ended and a summary of significant accounting policies and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information 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 information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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 Standards 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 information consists of making inquiries, 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 information is not prepared, in all material respects, in accordance with HKAS 34.

HLB Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

Hong Kong, 30th August 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30th June 2010, the Group's turnover increased by 210% to approximately HK\$454,234,000 as compared to HK\$146,733,000 for the same period in the previous year.

Loss from operations and loss for the period amounted to approximately HK\$29,994,000 and HK\$37,802,000 respectively as compared to profit from operations and profit for the period of HK\$142,800,000 and HK\$75,226,000 respectively for the last corresponding period. The incur of a loss was mainly attributable to an aggregate impairment losses of HK\$206,948,000 recognised in respect of the intangible assets of HK\$197,973,000 and goodwill of HK\$8,975,000 in the current period's result with regard to the decrease in sharing of profit streams from investments in gaming and entertainment business in Macau from Best Mind International Inc. ("Best Mind"). Best Mind is the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. Taking out the effect of the impairment losses recognised, the Group's profit from operations and profit for the period would amount to approximately HK\$176,954,000 and HK\$169,146,000 respectively.

The loss attributable to equity owners of the Company for the six months ended 30th June 2010 was HK\$61,099,000 representing a 160% decrease over profit of HK\$101,236,000 for the last corresponding period.

Dividend

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

Business Review

Of the total turnover amount, HK\$369,491,000 or 81% was generated from hotel and gaming service operations, HK\$83,806,000 or 18% was generated from gaming promotion operations, HK\$937,000 or 1% was generated from film distribution operations.

Hotel and Gaming Service Operations

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

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will share certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines in Casino LKF. As at 30th June 2010, Casino LKF operated a total of 84 tables, targeting both for the VIP market and the mass market. It also operated a total of 104 slot machines.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

Revenue in the hotel and gaming service operations mainly comprised of hotel room sales of HK\$24,827,000, food and beverage sales of HK\$6,680,000 and service income of HK\$334,679,000 and HK\$3,305,000 from table gaming and slot machines respectively. Hotel and gaming service operations recorded an aggregate segment profit of approximately HK\$46,112,000. In year 2009, Lan Kwai Fong had operations for only around 5 months. This period, the performance of Lan Kwai Fong was encouraging. The average monthly revenue from the hotel and gaming service operations was approximately HK\$61,582,000 which represented increase of 39% from HK\$44,409,000 in 2009, mainly reflecting 42% increase in monthly service income from table gaming to HK\$55,780,000 in 2010 from HK\$39,405,000 in 2009.

Gaming Promotion Operations

The Group's investment in Best Mind has continued to share profit from Ocho. The Group had shared revenue and segment profit of approximately HK\$83,806,000 (2009: HK\$142,600,000) and HK\$82,724,000 (2009: HK\$142,600,000) from the gaming promotion operations, a decrease of 41% and 42% respectively.

Although Macau's casino gaming industry earned record revenue in these few months, the competition in VIP gaming industry continues to be intense. One of the characteristic of the VIP gaming is that the majority of the business volume is highly volatile. The publishing on 10th August 2009 by the Macau government in its official gazette an amendment to an executive regulation that would enable the Financial Secretary to set a cap for promoter commission in Macau and its implementation from December 2009 had resulted in Ocho lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers. The decrease in revenue sharing also decrease the expected cash inflow from this operation and thus recognised an aggregate impairment losses of HK\$206,948,000 in respect of the intangible assets of HK\$197,973,000 and goodwill of HK\$8,975,000 in the current period. Although the Group had to recognised an impairment for this investment this period, the Group considered the investment was fair as the accumulated revenue received from this investment amounted to approximately HK\$581,940,000 which is far exceeding the impairment losses recognised.

Film Distribution Operations

Film distribution operations includes production and distribution of motion pictures and television drama series and provision of other film related services. The Group had distributed only 1 film in the market during this period.

During the six months ended 30th June 2010, turnover and its segment profit for film distribution operations amounted to HK\$937,000 and HK\$439,000 respectively as compared to HK\$4,133,000 and segment loss of HK\$4,561,000 respectively for the last corresponding period.

Geographical Segments

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

Administrative Expenses

For the six months ended 30th June 2010, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK\$230,919,000, a 421% increase from HK\$44,283,000 as compared to the last corresponding period. The increase was mainly attributable to the full operations of the hotel and gaming service operations during the period. Employee benefit expenses increased 52% from HK\$31,946,000 to HK\$48,658,000 with respect to the increase in the number of employees in Lan Kwai Fong for its grand opening in August 2009.

Liquidity and Financial Resources

As at 30th June 2010, the Group had total assets of approximately HK\$3,018,662,000 and a net current assets of HK\$521,059,000, representing a current ratio of 2.2 (31st December 2009: 1.4). The Group had cash and cash balances of approximately HK\$353,464,000 (31st December 2009: HK\$173,188,000). As at 30th June 2010, the Group had total borrowings of HK\$411,271,000 comprising a bank mortgage loan of HK\$4,598,000, a secured bank overdraft of HK\$171,320,000, a secured bank term loan of outstanding amount HK\$225,000,000, an unsecured term loan of HK\$10,000,000 and obligation under finance lease of HK\$353,000. The bank mortgage loan was secured by the Group's investment properties with carrying value of HK\$65,400,000, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 43 monthly instalments. The bank overdraft facility and the secured term loan are secured by the Group's leasehold land and building with carrying value of approximately HK\$751,842,000 (31st December 2009: HK\$761,223,000). The bank overdraft facility is interest bearing at 1% per annum below the bank's best lending rate, repayable on demand and reviewed by the bank annually. The secured term loan is interest bearing at 2.0% per annum below the bank's best lending rate, repayable by 9 equal consecutive quarterly installments of HK\$25,000,000 each. The unsecured term loan is interest bearing at 3% over 1-month HIBOR and repayable at the end of July 2010. As at 30th June 2010, Hotel LKF, a subsidiary of the Company had banking facilities amounting to HK\$535,600,000 which were utilised to the extent of HK\$506,920,000. The Group's gearing remained low during the period with total debts of HK\$411,271,000 against owners' equity of HK\$2,106,949,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 20% (31st December 2009: 28%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2010, the Group had no contingent liability.

On 4th January 2010, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 540,000,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.14 per share. 540,000,000 new shares was issued on 11th February 2010 under the specific mandate granted to the directors of the Company at the special general meeting of the Company held on 8th February 2010. The net proceeds of approximately HK\$75,542,000 were intended to be used for the Group's investment projects in Macau and general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Financial Resources (Continued)

On 26th April 2010, the Company announced that it proposed to issue bonus warrants at the initial subscription price of HK\$0.193 per new shares (subject to adjustment) on the basis of one bonus warrant for every five shares of the Company held on 8th June 2010. The warrants of the Company was issued on 15th June 2010. No warrant was exercised during the period.

During the period, certain option holders exercised their option rights to subscribe for an aggregate of 52,790,000 shares at exercise price of HK\$0.18 per share. The net proceeds from the exercise of option rights amounted to approximately HK\$9,502,000.

Subsequent to the period end date, the Company announced that it proposed to raise approximately HK\$144,460,000 before expenses by way of rights issue of 1,444,643,184 rights shares at a subscription price of HK\$0.1 each on the basis of one rights shares for every two shares held on 20th July 2010. The net proceeds of approximately HK\$141,460,000 was intended to be used for reducing the Group's bank borrowings and financing hotel operation of the Group or general working capital of the Group. The rights shares were allotted and issued on 11th August 2010.

Material Acquisition

On 29th April 2009, Bestjump Holdings Limited ("Bestjump"), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director of the Company entered into a sale and purchase agreement pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the "Targeted Companies") and outstanding loans in an aggregate amount of HK\$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK\$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the "Macau Land"). Details of the transaction were set out in the Company's circular dated on 17th August 2009. The transaction has been approved in a special general meeting held on 3rd September 2009. The longstop date of the agreement had extended to 31st December 2010 and the acquisition has not yet completed up to the reporting date.

Employees

As at 30th June 2010, the Group employed 541 staffs (31st December 2009: 526 staffs). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospect

As nearly all of the Group's revenue are come from Macau, Macau's economy will have significant impact on the future performance of the Group. The Group considers that the prospect of Macau over the near to medium term are stable and growth given its infrastructural development become more mature. After the effect of the global financial crisis, the tightened visa conditions for Mainland residents to visit Macau and the enforcement of a cap on Macau promoter commission are mitigated, we expect the performance of our hotel and gaming service operations and gaming promotion operations will also be stable and growth. Besides, in March 2010, the Macau Government announced that the total number of gaming tables in Macau would be capped in the next three years. The Group expects the competition among the gaming industry in Macau would not be worsen. During the second half of the year, the Group will focus on improving efficiency of its operations and identifying possible marketing plans to increase the headcount and income of Lan Kwai Fong.

Other than the investment in Lan Kwai Fong, the Group's next major investment will be the Macau Land. The Group intended to develop luxury residential apartments on the Macau Land for sale. The development costs of the Macau Land are intended to be financed by proceeds from pre-sale of the apartments and bank borrowings. The project will be one of the major development plans of the Group in the near future.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2010, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Interests in ordinary shares of the Company

Name of director	Capacity	Number of shares held	Approximate percentage of interests held
Mr. Heung Wah Keung	Interest of spouse/ interest of controlled corporation	141,407,025*	4.89
Ms. Chen Ming Yin, Tiffany	Interest of spouse/ interest of controlled corporation	141,407,025*	4.89

All interests stated above represent long positions.

* These shares are held as to 141,270,000 shares by Porterstone Limited ("Porterstone") (a company wholly-owned by Ms. Chen) and as to 137,025 shares by Dorest Company Limited ("Dorest") (a company wholly-owned by Glenstone Investments Limited which is in turn controlled as to 60% by Porterstone and as to 40% by Mr. Heung).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

(ii) Rights to acquire shares in the Company

(a) Share options

As at 30th June 2010, the directors of the Company had interests in share options to subscribe for shares in the Company granted as follows:

Name of director	Exercisable period*	Exercise price per share HK\$	Number of underlying shares comprised in the outstanding share options			Approximate percentage of interests held
			Direct interest	Deemed interest	Total	
Mr. Heung Wah Keung	16.07.2002 – 15.07.2012	65.680	2,893	2,893	5,786	
	17.07.2003 – 16.07.2013	21.600	5,971	5,971	11,942	
			<u>8,864</u>	<u>8,864[#]</u>	<u>17,728</u>	<u>0.00</u>
Ms. Chen Ming Yin, Tiffany	16.07.2002 – 15.07.2012	65.680	2,893	2,893	5,786	
	17.07.2003 – 16.07.2013	21.600	5,971	5,971	11,942	
			<u>8,864</u>	<u>8,864⁺</u>	<u>17,728</u>	<u>0.00</u>
Ms. Li Yuk Sheung	16.07.2002 – 15.07.2012	65.680	28,993	–	28,993	
	17.07.2003 – 16.07.2013	21.600	59,709	–	59,709	
	17.07.2009 – 16.07.2010	0.268	10,395,000	–	10,395,000	
	13.05.2010 – 12.05.2011	0.150	18,495,000	–	18,495,000	
			<u>28,978,702</u>	<u>–</u>	<u>28,978,702</u>	<u>1.00</u>

All interests stated above represent long positions.

[#] These share options are held by Ms. Chen, the spouse of Mr. Heung. Mr. Heung is therefore deemed to be interested in these share options.

⁺ These share options are held by Mr. Heung. Ms. Chen is therefore deemed to be interested in these share options.

^{*} The exercisable period commenced on the date of grant of the relevant share options.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)**(ii) Rights to acquire shares in the Company (Continued)***(b) Convertible bond to be issued by the Company*

Name of Director	Number of underlying shares comprised in the convertible bond	Approximate percentage of interests held
Ms. Chen Ming Yin, Tiffany	700,000,000	24.23
Mr. Heung Wah Keung	700,000,000*	24.23

All the interests stated above represent long positions.

* These underlying shares are held by Ms. Chen. Mr. Heung is therefore deemed to be interested in these underlying shares.

(c) Warrants

Name of Director	Number of underlying shares comprised in the warrants	Approximate percentage of interests held
Ms. Chen Ming Yin, Tiffany	28,281,405*	0.98
Mr. Heung Wah Keung	28,281,405*	0.98

All the interests stated above represent long positions.

* These underlying shares are held as to 28,254,000 warrants by Porterstone and as to 27,405 warrants by Dorest.

Other than as set out above, as at 30th June 2010, 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 the annual general meeting of the Company held on 27th May 2002, the share option scheme adopted by the Company on 23rd October 1996 (the "Old Option Scheme") was terminated and a new share option scheme (the "New Option Scheme") was adopted.

As the Old Option Scheme was terminated on 27th May 2002, no further share options can be granted under the Old Option Scheme thereafter. However, all outstanding share options granted under the Old Option Scheme prior to the said termination 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.

Details of share options outstanding as at 30th June 2010 were as follows:

Category of participants	Name of scheme	Exercisable Period*	Exercise price per share HK\$	Number of share options					Outstanding as at 30.06.2010	
				Outstanding as at 01.01.2010	Transfer between category during the period	Granted during the period	Exercised during the period	Expired during the period		
Substantial shareholders and directors of the Company	Old Option Scheme	28.03.2000 – 27.03.2010	642,260	24,096	-	-	-	(24,096)	-	
		02.06.2000 – 01.06.2010	311,260	10,910	-	-	-	(10,910)	-	
	New Option Scheme	16.07.2002 – 15.07.2012	65,680	5,786	-	-	-	-	5,786	
		17.07.2003 – 16.07.2013	21,600	11,942	-	-	-	-	11,942	
				52,734	-	-	-	(35,006)	17,728	
Director of the Company	New Option Scheme	16.07.2002 – 15.07.2012	65,680	28,993	-	-	-	-	28,993	
		17.07.2003 – 16.07.2013	21,600	59,709	-	-	-	-	59,709	
		17.07.2009 – 16.07.2010	0,268	10,395,000	-	-	-	-	10,395,000	
		13.05.2010 – 12.05.2011	0,150	-	-	18,495,000	-	-	-	18,495,000
				10,483,702	-	18,495,000	-	-	28,978,702	
Employees of the Group	Old Option Scheme	28.03.2000 – 27.03.2010	642,260	6,274	-	-	-	(6,274)	-	
		02.06.2000 – 01.06.2010	311,260	10,909	-	-	-	(10,909)	-	
	New Option Scheme	16.07.2002 – 15.07.2012	65,680	57,988	86,982	-	-	-	-	144,970
		17.07.2003 – 16.07.2013	21,600	59,709	145,549	-	-	-	-	205,258
		13.12.2004 – 12.12.2014	19,900	156,786	233,350	-	-	-	-	390,136
		04.02.2005 – 03.02.2015	20,600	515,042	112,493	-	-	-	-	627,535
		30.12.2005 – 29.12.2015	9,260	172,856	52,262	-	-	-	-	225,118
		21.11.2006 – 20.11.2016	10,600	313,571	78,393	-	-	-	-	391,964
		25.05.2007 – 24.05.2017	16,080	566,650	415,092	-	-	-	-	981,742
		27.06.2007 – 26.06.2017	16,000	377,331	267,842	-	-	-	-	645,173
		23.10.2007 – 22.10.2017	7,600	1,592,696	661,438	-	-	-	-	2,254,134
		21.08.2008 – 20.08.2018	0,980	5,887,464	2,544,174	-	-	-	-	8,431,638
		17.07.2009 – 16.07.2010	0,268	44,461,000	-	-	-	-	-	44,461,000
		07.01.2010 – 06.01.2011	0,180	-	-	71,165,000	-	(40,230,000)	-	30,935,000
13.05.2010 – 12.05.2011	0,150	-	-	111,967,000	-	-	-	111,967,000		
				54,178,276	4,597,575	183,132,000	(40,230,000)	(17,183)	201,660,668	

SHARE OPTION SCHEME (Continued)

Category of participants	Name of scheme	Exercisable Period ⁺	Exercise price per share HK\$	Number of share options						
				Outstanding as at 01.01.2010	Transfer between category during the period	Granted during the period	Exercised during the period	Expired during the period	Outstanding as at 30.06.2010	
Other participants	New Option Scheme	16.07.2002 – 15.07.2012	65,680	115,976	(86,982)	–	–	–	28,994	
		17.07.2003 – 16.07.2013	21,600	184,354	(145,549)	–	–	–	38,805	
		13.12.2004 – 12.12.2014	19,900	308,868	(233,350)	–	–	–	75,518	
		04.02.2005 – 03.02.2015	20,600	261,439	(112,493)	–	–	–	148,946	
		30.12.2005 – 29.12.2015	9,260	324,024	(52,262)	–	–	–	271,762	
		21.11.2006 – 20.11.2016	10,600	235,179	(78,393)	–	–	–	156,786	
		25.05.2007 – 24.05.2017	16,080	801,568	(415,092)	–	–	–	386,476	
		27.06.2007 – 26.06.2017	16,000	267,842	(267,842)	–	–	–	–	
		23.10.2007 – 22.10.2017	7,600	1,119,966	(661,438)	–	–	–	458,528	
		21.08.2008 – 20.08.2018	0,980	3,612,872	(2,544,174)	–	–	–	1,068,698	
		07.01.2010 – 06.01.2011	0,180	–	–	58,480,000	(12,560,000)	–	45,920,000	
		13.05.2010 – 12.05.2011	0,150	–	–	104,465,000	–	–	104,465,000	
					<u>7,232,088</u>	<u>(4,597,575)</u>	<u>162,945,000</u>	<u>(12,560,000)</u>	<u>–</u>	<u>153,019,513</u>
					<u>71,946,800</u>	<u>–</u>	<u>364,572,000</u>	<u>(52,790,000)</u>	<u>(52,189)</u>	<u>383,676,611</u>

⁺ The exercisable period commenced on the date of grant of the relevant share options.

No share option was lapsed or cancelled during the six months ended 30th June 2010.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2010, 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

Name	Capacity	Number of shares or underlying shares held	Approximately percentage of interests held
China Star Investment Holdings Limited	Interest of controlled corporation	816,000,000 (Note a)	28.24
Riche (BVI) Limited	Interest of controlled corporation	816,000,000 (Note a)	28.24
Simple View Investment Limited	Beneficial owner	816,000,000	28.24
Kwok Lung	Interest of controlled corporation	265,009,700 (Note b)	9.17
Li Chi Lam	Interest of controlled corporation	265,009,700 (Note b)	9.17
Skylight Property Ltd.	Beneficial owner	237,970,000	8.23
Porterstone	Beneficial owner/ interest of controlled corporation	169,688,430 (Note c)	5.87

All interests stated above represent long positions.

SUBSTANTIAL SHAREHOLDERS (Continued)**Interests in shares of the Company (Continued)**

Notes:

- (a) These shares/underlying shares are held by Simple View Investment Limited.
- (b) These shares are held as to 237,970,000 shares by Skylight Property Ltd. and as to 27,039,700 shares by Yo Chen Limited. Skylight Property Ltd. and Yo Chen Limited are beneficially owned as to 50% by Mr. Kwok Lung and as to 50% by Mr. Li Chi Lam.
- (c) These shares/underlying shares are held as to 141,270,000 shares and 28,254,000 warrants by Porterstone and as to 137,025 shares and 27,405 warrants by Dorest.

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 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30th June 2010, except for the following deviation:

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. However, all the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.



ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code 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 2010. 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 2010.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at 30th June 2010 was comprising Messrs. Hung Cho Sing, Ho Wai Chi, Paul and Leung Hok Man, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

The 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 2010 have been reviewed by the audit committee of the Company.



BOARD OF DIRECTORS

As at the date of this report, the executive directors of the Company are Mr. Heung Wah Keung (Chairman), Ms. Chen Ming Yin, Tiffany (Vice Chairman) 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. Leung Hok Man.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 30th August 2010

