



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

Stock code : 326

Interim Report 2011



CHINA STAR ENTERTAINMENT LIMITED

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2011

		Six months ended 30th June	
	Notes	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Re-presented)
Turnover	4	470,930	454,234
Cost of sales		(165,862)	(119,611)
Gross profit		305,068	334,623
Other revenue	5	8,810	9,267
Other income	6	183	27,345
Administrative expenses		(217,527)	(213,371)
Marketing and distribution expenses		(6,541)	(3,040)
Share-based payment expenses		-	(8,237)
(Loss)/gain arising on change in fair value of financial assets classified as held for trading		(17,757)	26,277
Gain arising on change in fair value of investment properties		-	4,090
Impairment loss recognised in respect of goodwill		-	(8,975)
Impairment loss recognised in respect of intangible assets		(73,830)	(197,973)
Loss from operations		(1,594)	(29,994)
Finance costs	7	(8,542)	(8,642)
Share of profit/(loss) of associates		431	(16)
Share of profit of jointly controlled entities		28	-
Gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable		-	882
Loss before taxation	8	(9,677)	(37,770)
Taxation credit/(charge)	9	7,239	(32)
Loss for the period		(2,438)	(37,802)
Attributable to:			
Owners of the Company		(27,992)	(61,099)
Non-controlling interests		25,554	23,297
		(2,438)	(37,802)
Loss per share			
Basic and diluted	10	HK cents(6.34)	HK cents(14.58)

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2011

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2011

	Notes	At 30th June 2011 HK\$'000 (Unaudited)	At 31st December 2010 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	670,996	721,381
Interests in leasehold land		523,222	464,731
Investment properties	13	–	73,580
Intangible assets	14	717,402	791,232
Interests in associates		8,416	7,985
Interests in jointly controlled entities	15	30,028	–
		1,950,064	2,058,909
Current assets			
Inventories		2,015	1,657
Stock of properties	16	550,000	–
Film rights		20,660	21,321
Films in progress		19,078	19,038
Trade receivables	17	78,014	69,337
Deposits, prepayments and other receivables		381,524	441,059
Held for trading investments		101,877	94,050
Amounts due from associates		14,755	13,714
Prepaid tax		96	180
Cash and bank balances		594,652	625,827
		1,762,671	1,286,183
Total assets		3,712,735	3,345,092
Capital and reserves			
Share capital	18	19,647	43,340
Reserves		2,659,374	2,259,435
Equity attributable to owners of the Company		2,679,021	2,302,775
Non-controlling interests		302,735	277,181
Total equity		2,981,756	2,579,956

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30th June 2011

	Notes	At 30th June 2011 HK\$'000 (Unaudited)	At 31st December 2010 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings – due after one year	19	425,000	450,000
Obligation under finance lease		209	201
Deferred tax liabilities		80,888	88,063
		506,097	538,264
Current liabilities			
Bank borrowings – due within one year	19	50,000	50,000
Obligation under finance lease		110	96
Trade payables	20	21,969	25,038
Deposits received, accruals and other payables		70,828	60,470
Amount due to an associate		16,473	25,766
Amounts due to non-controlling interests		65,502	65,502
		224,882	226,872
Total liabilities		730,979	765,136
Total equity and liabilities		3,712,735	3,345,092
Net current assets		1,537,789	1,059,311
Total assets less current liabilities		3,487,853	3,118,220

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 2011

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Contributed surplus	Exchange reserve	Statutory reserve	Share-based payment reserve	Properties revaluation reserve	Capital reduction reserve	Retained earnings	Sub-total		
	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)
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
Exchange alignment	-	-	-	(355)	-	-	-	-	-	(355)	-	(355)
Other comprehensive loss for the period	-	-	-	(355)	-	-	-	-	-	(355)	-	(355)
(Loss)/profit for the period	-	-	-	-	-	-	-	-	(61,099)	(61,099)	23,297	(37,802)
Total comprehensive (loss)/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	<u>28,893</u>	<u>481,243</u>	<u>1,056,041</u>	<u>704</u>	<u>-</u>	<u>64,220</u>	<u>-</u>	<u>316,008</u>	<u>159,840</u>	<u>2,106,949</u>	<u>267,568</u>	<u>2,374,517</u>
At 1st January 2011	43,340	609,421	1,056,041	888	259	59,978	-	316,008	216,840	2,302,775	277,181	2,579,956
Exchange alignment	-	-	-	192	-	-	-	-	-	192	-	192
Other comprehensive income for the period	-	-	-	192	-	-	-	-	-	192	-	192
(Loss)/profit for the period	-	-	-	-	-	-	-	-	(27,992)	(27,992)	25,554	(2,438)
Total comprehensive income/(loss) for the period	-	-	-	192	-	-	-	-	(27,992)	(27,800)	25,554	(2,246)
Placement of shares	5,778	34,672	-	-	-	-	-	-	-	40,450	-	40,450
Capital reduction	(44,206)	-	44,206	-	-	-	-	-	-	-	-	-
Exercise of share options	-	1	-	-	-	-	-	-	-	1	-	1
Expiry of share options	-	-	-	-	-	(6,845)	-	-	6,845	-	-	-
Issue of shares under rights issue	14,735	352,650	-	-	-	-	-	-	-	368,385	-	368,385
Share issuing expenses	-	(4,792)	-	-	-	-	-	-	-	(4,792)	-	(4,792)
Exercise of listed warrant	-	2	-	-	-	-	-	-	-	2	-	2
Transfer to statutory reserve	-	-	-	-	28	-	-	-	(28)	-	-	-
At 30th June 2011	<u>19,647</u>	<u>992,954</u>	<u>1,100,247</u>	<u>1,080</u>	<u>287</u>	<u>53,133</u>	<u>-</u>	<u>316,008</u>	<u>195,665</u>	<u>2,679,021</u>	<u>302,735</u>	<u>2,981,756</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2011

	Six months ended 30th June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	(361,140)	185,498
Net cash (used in)/generated from investing activities	(40,729)	97,531
Net cash generated from/(used in) financing activities	370,526	(94,954)
(Decrease)/increase in cash and cash equivalents	(31,343)	188,075
Cash and cash equivalents at the beginning of the period	625,827	(5,576)
Effect of foreign exchange rate changes	168	(355)
Cash and cash equivalents at the end of the period	<u>594,652</u>	<u>182,144</u>
Analysis of the balances of cash and cash equivalents:		
Cash and cash equivalents	<u>594,652</u>	<u>182,144</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2011

1. BASIS OF PREPARATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3. SEGMENT INFORMATION

The Group has identified the following operating segments:

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

Segment information about these businesses is presented below:

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

	Segment revenue		Segment results	
	Six months ended 30th June 2011	2010	Six months ended 30th June 2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited) (Re-presented)
Film distribution operations	1,431	937	244	439
Hotel and gaming service operations	420,590	369,491	50,671	46,112
Gaming promotion operations	48,909	83,806	(25,572)	(124,224)
	<u>470,930</u>	<u>454,234</u>	<u>25,343</u>	<u>(77,673)</u>
Reconciliation from segment results to loss before taxation				
Unallocated corporate income			2,539	31,969
Change in fair value of financial assets classified as held for trading			(17,757)	26,277
Change in fair value of investment properties			-	4,090
Unallocated corporate expenses			(19,802)	(22,433)
Loss before taxation			<u>(9,677)</u>	<u>(37,770)</u>



3. SEGMENT INFORMATION (Continued)

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

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

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

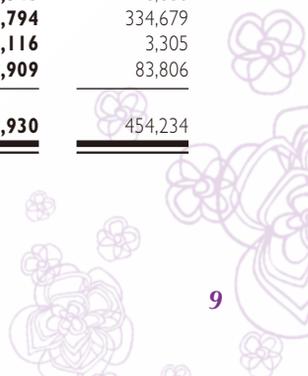
(b) Geographical information

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

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

4. TURNOVER

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



5. OTHER REVENUE

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

6. OTHER INCOME

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

7. FINANCE COSTS

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

8. LOSS BEFORE TAXATION

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

9. TAXATION CREDIT/(CHARGE)

	Six months ended 30th June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The taxation credit/(charge) is as follow:		
Current tax in other jurisdictions:		
Over provision in prior periods	64	-
Deferred tax:		
Current period	7,175	(32)
	<u>7,239</u>	<u>(32)</u>

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

No Macau Complementary Tax has been provided as assessable profit for the period was set off against the tax losses brought forward from previous years or was exempt for tax liability.

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

10. LOSS PER SHARE

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

	Six months ended 30th June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share	<u>(27,992)</u>	<u>(61,099)</u>
	Six months ended 30th June	
	2011	2010
	'000	'000
	(Unaudited)	(Unaudited) (Restated)
Number of shares	<u>441,498</u>	<u>418,962</u>

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

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

11. DIVIDEND

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

12. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired items of property, plant and equipment with a cost of approximately HK\$8,666,000 (2010: HK\$8,161,000).

On 1st January 2011, investment properties with fair value of approximately HK\$8,086,000 were transferred to property, plant and equipment (Details refer to note 13).



13. INVESTMENT PROPERTIES

On 1st January 2011, the directors of the Company changed their intention for the use of the whole investment properties to owner-occupation. Investment properties with fair value of approximately HK\$8,086,000 were then transferred to property, plant and equipment. The remaining balances of approximately HK\$65,494,000 were transferred to interests in leasehold land.

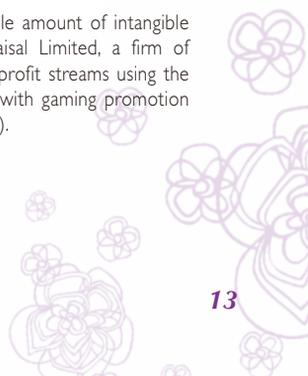
14. INTANGIBLE ASSETS

	HK\$'000
Cost	
At 1st January 2010, 31st December 2010, 1st January 2011 and 30th June 2011	989,205
Impairment	
At 1st January 2010	–
Impairment loss recognised	197,973
At 31st December 2010 and 1st January 2011	197,973
Impairment loss recognised	73,830
At 30th June 2011	271,803
Carrying amount	
At 30th June 2011 (Unaudited)	717,402
At 31st December 2010 (Audited)	791,232

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 the profit streams is 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 2011, the directors of the Company have assessed the recoverable amount of intangible assets by reference to the valuation report issued by Grant Sherman Appraisal Limited, a firm of independent qualified professional valuers which valued the rights in sharing of profit streams using the discounted cash flow method and determined that intangible assets associated with gaming promotion business was impaired by approximately HK\$73,830,000 (2010: HK\$197,973,000).



15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

During the period under review, the Group formed a jointly controlled entity (the "JV Company") with investment cost of HK\$30,000,000 and the Group is beneficially interested in 50% of the JV Company. A profit of approximately HK\$28,000 was shared by the Group for the six months ended 30th June 2011.

16. STOCK OF PROPERTIES

During the period under review, the Group acquired items of properties under development held for sale with a cost of HK\$550,000,000.

17. 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 2011 HK\$'000 (Unaudited)	At 31st December 2010 HK\$'000 (Audited)
0 to 30 days	74,795	64,152
31 to 60 days	114	609
61 to 90 days	16	–
91 to 180 days	–	–
Over 180 days	4,246	5,733
	79,171	70,494
Less: Impairment loss on trade receivables	(1,157)	(1,157)
	78,014	69,337

18. SHARE CAPITAL

Number of shares		Amount	
At	At	At	At
30th June	31st December	30th June	31st December
2011	2010	2011	2010
'000	'000	HK\$'000	HK\$'000
(Unaudited)	(Audited)	(Unaudited)	(Audited)

Ordinary shares of HK\$0.01 each

Authorised:

At beginning of the period/year	50,000,000	50,000,000	500,000	500,000
Share consolidation (note b(i))	(45,000,000)	–	–	–
Capital reduction (note b(ii))	–	–	(450,000)	–
Capital increase (note b(iii))	45,000,000	–	450,000	–
At end of the period/year	<u>50,000,000</u>	<u>50,000,000</u>	<u>500,000</u>	<u>500,000</u>

Issued and fully paid:

At beginning of the period/year	4,333,933	2,296,496	43,340	22,965
Placement of shares (note a)	577,855	540,000	5,778	5,400
Share consolidation (note b(i))	(4,420,610)	–	–	–
Capital reduction (note b(ii))	–	–	(44,206)	–
Issue of shares under rights issue (note c)	1,473,541	1,444,643	14,735	14,446
Exercise of share options (note d)	1	52,790	–	528
Exercise of listed warrants	1	4	–	1
At end of the period/year	<u>1,964,721</u>	<u>4,333,933</u>	<u>19,647</u>	<u>43,340</u>

Notes:

- (a) On 27th January 2011, the Company allotted and issued an aggregate 577,855,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.07 per share. The net proceeds of approximately HK\$39,895,000 were used as part of the consideration of the acquisition of the property leasehold rights over Lot 6B, Lot 6C, Lot 6D and Lot 6E located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites") as announced by the Company on 7th January 2011 (the "Acquisition").
- (b) At a special general meeting of the Company held on 6th May 2011, a special resolution was passed to approve the following changes to the capital of the Company (the "Capital Reorganisation"):
 - (i) Share consolidation: every ten issued and unissued existing shares of par value of HK\$0.01 each be consolidated into one consolidated share of HK\$0.10 each of the Company (the "Consolidated Share");

18. SHARE CAPITAL (Continued)

Notes: (Continued)

- (ii) Capital reduction: (1) the issued share capital of the Company be reduced by the cancellation of the paid-up capital of the Company to the extent of HK\$0.09 on each of the then issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.10 to HK\$0.01; (2) the authorised share capital of the Company be reduced by reducing the nominal value of all Consolidated Shares from HK\$0.10 each to HK\$0.01 each resulting in the reduction of the authorised share capital of the Company from HK\$500,000,000 divided into 5,000,000,000 Consolidated Shares to HK\$50,000,000 divided into 5,000,000,000 new shares of HK\$0.01 each; and (3) the credit arising from the reduction of issued share capital of the Company be transferred to the contributed surplus account of the Company; and
- (iii) Capital increase: the authorised share capital of the Company be increased from HK\$50,000,000 divided into 5,000,000,000 new shares of HK\$0.01 each to HK\$500,000,000 divided into 50,000,000,000 new shares of HK\$0.01 each.

The Capital Reorganisation was completed on 9th May 2011.

- (c) On 29th June 2011, the Company allotted and issued 1,473,540,870 rights shares ("Rights Shares") of the Company of HK\$0.01 each per share at a subscription price of HK\$0.25 each on the basis of three rights shares for every one share held on 7th June 2011 by way of rights issue. The net proceed was approximately HK\$364,148,000, of which approximately HK\$360,000,000 was intended to be used to fund the financial needs for developing the Sites and/or the remaining for general working capital of the Group.
- (d) During the six months ended 30th June 2011, an option holder exercised her option right to subscribe for 1,243 shares at exercise price of HK\$0.144 per share. The net proceeds from the exercise of option rights amounted to approximately HK\$1,000.

Warrants

- (a) 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 (the "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 subscription price was adjusted to HK\$1.01 per share due to the completion of rights issue of the Company on 11th August 2010, placements of shares of the Company on 27th January 2011, Capital Reorganisation on 9th May 2011 and completion of rights issue of the Company on 29th June 2011.

During the year ended 31st December 2010, 4,205 new shares were issued on the conversion of the 2010 Warrants, of which 4,000 shares and 205 shares were converted at the subscription price of HK\$0.193 per share and HK\$0.185 per share respectively.

18. SHARE CAPITAL (Continued)

Notes: (Continued)

During the six months ended 30th June 2011, 1,290 new shares were issued on the conversion of the 2010 Warrants at the subscription price of HK\$1.82 per share. As at 30th June 2011, the Company had outstanding 2010 Warrants of approximately HK\$111,523,000. The exercise in full of the 2010 Warrants would result in the issue of approximately 110,419,000 shares of the Company.

- (b) On 29th June 2011, the Company issued one bonus warrant for every five Rights Shares taken up under the rights issue as announced on 18th April 2011. Total amount of approximately HK\$73,677,000 warrants (the "2011 Warrants") were issued at an initial subscription price of HK\$0.25 per shares (subject to adjustment) and exercisable at any time during the period commencing on 29th June 2011 to 28th December 2012 (both days inclusive).

During the six months ended 30th June 2011, no 2011 Warrants were converted. As at 30th June 2011, the Company had outstanding 2011 Warrants of approximately HK\$73,677,000. The exercise in full of the 2011 Warrants would result in the issue of approximately 294,708,000 shares of the Company.

19. BANK BORROWINGS

	At 30th June 2011 HK\$'000 (Unaudited)	At 31st December 2010 HK\$'000 (Audited)
Bank loans:		
– Secured	475,000	500,000
The maturity of the above borrowings is as follow:		
Within one year	50,000	50,000
Between one and two years	50,000	50,000
Between two and five years	375,000	400,000
	475,000	500,000
Less: Amount due within one year shown under current liabilities	(50,000)	(50,000)
Amount due after one year	425,000	450,000

At 30th June 2011, the Group had a secured bank term loan with remaining balance of HK\$475,000,000. The secured bank term loan is secured by the Group's leasehold land and buildings with carrying amount of approximately HK\$455,757,000 and HK\$270,372,000 respectively. The secured bank term loan is interest bearing at 3.50% per annum (Hong Kong Prime Rate 5.25% less margin 1.75%) and repayable within 5 years by 19 equal consecutive quarterly installments of HK\$12,500,000 each and a final repayment of HK\$262,500,000 at the maturity date of the loan.

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

20. TRADE PAYABLES

The aging analysis of the trade payables is as follows:

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

21. LEASE COMMITMENTS

At 30th June 2011, 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 2011 HK\$'000 (Unaudited)	At 31st December 2010 HK\$'000 (Audited)
Within one year	1,503	1,491
In the second to fifth year inclusive	786	1,219
	<u>2,289</u>	<u>2,710</u>

Operating lease payments represented rentals payable by the Group for its office premises. Leases are mainly negotiated for an average term of two years and rentals are fixed for an average of two years.

22. CAPITAL COMMITMENTS

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

	At 30th June 2011 HK\$'000 (Unaudited)	At 31st December 2010 HK\$'000 (Audited)
Authorised and contracted, but not provided for:		
Acquisition of property leasehold rights	–	495,000
Acquisition of subsidiaries	540,000	540,000
Capital contribution of joint venture company	–	30,000
	540,000	1,065,000

23. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Interim Financial Statements, the Group entered into the following transactions with related parties:

- (a) 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, prepayments and other receivables in the Interim Financial Statements of the Group at 30th June 2011. Details of the transaction were set out in the Company's circular dated 17th August 2009.
- (b) During the period under review, the Group entered into the following transactions with its related companies:

	Six months ended 30th June 2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Income received from associates:		
Rental income and utilities fee reimbursement	9,246	9,720
Management fee income	192	–
Expenses paid to associates:		
Entertainment and staff messing paid	4,764	5,056
Rental expenses	–	350
Income received from companies with common directors:		
Management fee income	–	271
Imputed interest income from convertible notes receivable	–	155

24. EVENTS AFTER THE REPORTING PERIOD

On 21st January 2011, the Company and Eternity Investment Limited (“Eternity”) entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for convertible bonds in the maximum principal amount of HK\$650,000,000 in two tranches at their face value. The estimated maximum net proceeds from the issue of the convertible bonds of approximately HK\$649,500,000 will be used for financing the Acquisition, the development of the Sites and/or the general working capital of the Group. Subsequent to the reporting date, the first tranche of convertible bonds in principal amount of HK\$350,000,000 have been issued to Eternity on 7th July 2011. The details of the issue of convertible bonds are set out in the Company’s circular dated 1st April 2011.

25. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 30th August 2011.



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 20, 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 2011 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, 30 August 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

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

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

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

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

Dividend

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

Business Review

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

Hotel and Gaming Service Operations

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

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will share certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines in Casino LKF. As at 30th June 2011, Casino LKF operated a total of 78 tables, targeting both for the VIP market and the mass market. It also operated a total of 121 slot machines.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

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

Gaming Promotion Operations

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

Although Macau's casino gaming industry earned record revenue in these few months, the competition in gaming industry continues to be intense. One of the characteristic of the VIP gaming is that the majority of the business volume is highly volatile. The publishing on 10th August 2009 by the Macau government in its official gazette an amendment to an executive regulation that would enable the Financial Secretary to set a cap for promoter commission in Macau and its implementation from December 2009 had resulted in Ocho lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers. The decrease in revenue sharing also impact and decreased the expected cash inflow from this operation and thus impairment loss in respect of the intangible assets of HK\$73,830,000 (Six months ended 30th June 2010: HK\$197,973,000) was recognised.

Film Distribution Operations

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

Geographical segments

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**Business Review (Continued)***Administrative Expenses*

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

Liquidity and Financial Resources

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

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2011, the Group had no contingent liability.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Financial Resources (Continued)

On 21st January 2011, the Company and Eternity Investment Limited ("Eternity") entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for convertible bonds in the maximum principal amount of HK\$650 million in two tranches at their face value. The convertible bonds are unsecured, interest bearing at 8% per annum and carry the right to convert into shares of the Company at an initial conversion price of HK\$0.80 per share (subject to adjustment) after the Capital Reorganisation (as defined herein) and will mature on the fifth anniversary from the date of issue. The estimated maximum net proceeds from the issue of the convertible bonds of approximately HK\$649.5 million will be used for financing the Acquisition (as defined below), the development of the Sites (as defined below) and/or the general working capital of the Group. On 7th July 2011, first tranche convertible bonds in the principal amount of HK\$350 million were issued to Eternity. According to the provisions of the instruments dated 7th July 2011 constituting the convertible bonds, the directors of the Company considered that an adjustment to the conversion price would be required as a result of the completion of the Rights Issue (as defined herein) and bonus issue of 2011 Warrants (as defined herein) on 29th June 2011. As a result, the conversion price has been adjusted from HK\$0.80 per share to HK\$0.44 per share with effect from 7th July 2011.

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**Liquidity and Financial Resources (Continued)**

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

Material Acquisitions

On 29th April 2009, Bestjump Holdings Limited ("Bestjump"), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director and a substantial shareholder of the Company entered into a sale and purchase agreement pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the "Targeted Companies") and outstanding loans in an aggregate amount of HK\$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK\$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited, through a Macau company, Splendid Construction and Investment Company Limited (formerly known as Legstrong Construction and Investment Company Limited) (the "Macau Co"), indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, named Lote C7 do Plano de Urbanizacao da Baia da Praia Grande, located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the "Macau Land"). Details of the transaction were set out in the Company's circular dated 17th August 2009 (the "Circular"). The transaction has been approved in a special general meeting of the Company held on 3rd September 2009. The longstop date of the agreement had extended to 31st December 2010 and further extended to 31st December 2011. As set out in the Circular, one of the conditions to completion is the publication by the Macau Government of a master zoning guideline for the "C" area of Nam Van Lakes Zone and the results of a new amendment to the land grant under which the Macau Co holds the Macau Land from the Macau Government executed on 14th August 2001 to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government. In the third quarter of 2010, the Macau Government invited Macau citizens as part of this process to submit their conceptual planning proposals for the Nam Van area with a view to optimising the benefits to the city's infrastructures as a whole. It is anticipated that the Macau Government will need further time for its consideration and deliberations of the conceptual planning proposals to finalise the plan. As the conditions have not been satisfied or waived, the transaction has not yet completed up to the reporting date.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Material Acquisitions (Continued)

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

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

Employees

As at 30th June 2011, the Group employed 573 staffs (31st December 2010: 556 staffs). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospect

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

The Group expects the performance of the hotel and gaming service operations in Lan Kwai Fong to be stable growth given we have positioned us to be an boutique hotel with excellent services and guest satisfaction. Following the completion of acquisition of the Sites in June 2011, the Group starts to prepare its development plan in develop it into commercial and office units and residential apartment for sale. Given the superb location of the Sites which is adjacent to Lan Kwai Fong, Macao Polytechnic Institute, Forum de Macao and Golden Lotus Square and is a couple blocks away from Macau Fisherman's Wharf and Sands Casino and the recognised and solid experience in renovation of Lan Kwai Fong, the Group is confident that the development of the Sites will be another success project of the Group. The development of the Sites not only directly contribute revenue to the Group but also provide synergy with Lan Kwai Fong.

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2011, 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	898,699,702*	45.74
Ms. Chen Ming Yin, Tiffany	Interest of spouse/ interest of controlled corporation	898,699,702*	45.74

All interests stated above represent long positions.

* These shares are held as to 898,686,000 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 13,702 shares by Dorest Company Limited ("Dorest") (a company beneficially owned as to 60% by Ms. Chen 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 2011, 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	371.400	511	511	1,022	
	17.07.2003 – 16.07.2013	122.141	1,056	1,056	2,112	
			<u>1,567</u>	<u>1,567[#]</u>	<u>3,134</u>	<u>0.00</u>
Ms. Chen Ming Yin, Tiffany	16.07.2002 – 15.07.2012	371.400	511	511	1,022	
	17.07.2003 – 16.07.2013	122.141	1,056	1,056	2,112	
			<u>1,567</u>	<u>1,567⁺</u>	<u>3,134</u>	<u>0.00</u>
Ms. Li Yuk Sheung	16.07.2002 – 15.07.2012	371.400	5,126	–	5,126	
	17.07.2003 – 16.07.2013	122.141	10,558	–	10,558	
			<u>15,684</u>	<u>–</u>	<u>15,684</u>	<u>0.00</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	70,000,000	3.56
Mr. Heung Wah Keung	70,000,000*	3.56

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	180,207,167*	9.17
Mr. Heung Wah Keung	180,207,167*	9.17

All the interests stated above represent long positions.

* These underlying shares are held as to 180,201,931 warrants by HWKFE and as to 5,236 warrants by Dorest.

Other than as set out above, as at 30th June 2011, 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, a share option scheme was adopted by the Company (the "Option Scheme").

Apart from the Option Scheme, the Company has no other share option scheme in place.

Details of share options outstanding as at 30th June 2011 were as follows:

Category of participants	Exercisable period ⁺	Exercise price per share HK\$	Number of share options				Outstanding as at 30.06.2011
			Outstanding as at 01.01.2011	Exercised during the period	Expired during the period	Adjustment during the period*	
Substantial shareholders and directors of the Company	16.07.2002 – 15.07.2012	371.400	6,046	–	–	(5,024)	1,022
	17.07.2003 – 16.07.2013	122.141	12,480	–	–	(10,368)	2,112
			18,526	–	–	(15,392)	3,134
Director of the Company	16.07.2002 – 15.07.2012	371.400	30,298	–	–	(25,172)	5,126
	17.07.2003 – 16.07.2013	122.141	62,396	–	–	(51,838)	10,558
	13.05.2010 – 12.05.2011	1.440	19,327,275	–	(1,932,727)	(17,394,548)	–
			19,419,969	–	(1,932,727)	(17,471,558)	15,684
Employees of the Group	16.07.2002 – 15.07.2012	371.400	151,493	–	–	(125,855)	25,638
	17.07.2003 – 16.07.2013	122.141	214,494	–	–	(178,196)	36,298
	13.12.2004 – 12.12.2014	112.527	407,692	–	–	(338,699)	68,993
	04.02.2005 – 03.02.2015	116.486	655,774	–	–	(544,798)	110,976
	30.12.2005 – 29.12.2015	52.361	235,248	–	–	(195,437)	39,811
	21.11.2006 – 20.11.2016	59.942	409,602	–	–	(340,286)	69,316
	25.05.2007 – 24.05.2017	90.930	1,025,920	–	–	(852,305)	173,615
	27.06.2007 – 26.06.2017	90.475	674,205	–	–	(560,111)	114,094
	23.10.2007 – 22.10.2017	42.977	2,355,569	–	–	(1,956,936)	398,633
	21.08.2008 – 20.08.2018	5.543	8,811,062	–	–	(7,320,033)	1,491,029
	07.01.2010 – 06.01.2011	0.172	32,327,075	–	(32,327,075)	–	–
	13.05.2010 – 12.05.2011	1.440	117,005,515	(1,243)	(11,700,427)	(105,303,845)	–
			164,273,649	(1,243)	(44,027,502)	(117,716,501)	2,528,403

SHARE OPTION SCHEME (Continued)

Category of participants	Exercisable period ⁺	Exercise price per share HK\$	Number of share options				Outstanding as at 30.06.2011
			Outstanding as at 01.01.2011	Exercised during the period	Expired during the period	Adjustment during the period*	
Other participants	16.07.2002 – 15.07.2012	371,400	30,299	–	–	(25,171)	5,128
	17.07.2003 – 16.07.2013	122,141	40,551	–	–	(33,687)	6,864
	13.12.2004 – 12.12.2014	112,527	78,916	–	–	(65,562)	13,354
	04.02.2005 – 03.02.2015	116,486	155,648	–	–	(129,308)	26,340
	30.12.2005 – 29.12.2015	52,361	283,991	–	–	(235,933)	48,058
	21.11.2006 – 20.11.2016	59,942	163,841	–	–	(136,114)	27,727
	25.05.2007 – 24.05.2017	90,930	403,867	–	–	(335,521)	68,346
	23.10.2007 – 22.10.2017	42,977	479,162	–	–	(398,074)	81,088
	21.08.2008 – 20.08.2018	5,543	1,116,789	–	–	(927,803)	188,986
	07.01.2010 – 06.01.2011	0.172	47,986,400	–	(47,986,400)	–	–
	13.05.2010 – 12.05.2011	1,440	109,165,925	–	(10,916,593)	(98,249,332)	–
			<u>159,905,389</u>	<u>–</u>	<u>(58,902,993)</u>	<u>(100,536,505)</u>	<u>465,891</u>
			<u>343,617,533</u>	<u>(1,243)</u>	<u>(104,863,222)</u>	<u>(235,739,956)</u>	<u>3,013,112</u>

* The exercise prices and numbers of share options which remained outstanding during the period have been adjusted due to completion of Capital Reorganisations and Rights Issue during the period.

+ 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 2011.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2011, 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
Eternity Investment Limited	Beneficial owner/ Interest of controlled corporation	1,146,488,119 (note a)	58.35
HWKFE	Beneficial owner	1,078,887,931	54.91
Riche (BVI) Limited	Interest of controlled corporation	333,988,119 (note b)	17.00
Simple View Investment Limited	Beneficial owner	333,988,119	17.00

All interests stated above represent long positions.

Notes:

- (a) These shares/underlying shares are held as to 812,500,000 underlying shares by Eternity Investment Limited and as to 268,000,000 shares and 65,988,119 underlying shares by Simple View Investment Limited.
- (b) These shares/underlying shares are held by Simple View Investment 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 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th June 2011. The Model Code also applies to other specified senior management of the Group.

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

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

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

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

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

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

BOARD OF DIRECTORS

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

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 30th August 2011