



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
Stock code : 326



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 2012 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2012

	Notes	Six months ended 30th June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Turnover	4	593,521	470,930
Cost of sales		(286,404)	(165,862)
Gross profit		307,117	305,068
Other revenue	5	12,700	8,810
Other income	6	173	183
Administrative expenses		(217,035)	(217,527)
Marketing, selling and distribution expenses		(22,823)	(6,541)
Loss arising on change in fair value of financial assets classified as held for trading		(8,188)	(17,757)
Impairment loss recognised in respect of intangible assets	13	(7,300)	(73,830)
Profit/(loss) from operations		64,644	(1,594)
Finance costs	7	(22,817)	(8,542)
Share of results of associates		-	431
Share of results of jointly controlled entities		(2)	28
Profit/(loss) before tax	8	41,825	(9,677)
Taxation credit	9	256	7,239
Profit/(loss) for the period		42,081	(2,438)
Attributable to:			
Owners of the Company		2,691	(27,992)
Non-controlling interests		39,390	25,554
		42,081	(2,438)
Earnings/(loss) per share			
Basic	10	HK cents 0.14	HK cents (6.34)
Diluted	10	HK cents 0.12	HK cents (6.34)

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



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2012

	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	<u>42,081</u>	<u>(2,438)</u>
Other comprehensive income		
Exchange differences on translation of foreign operations		
Exchange differences arising during the period	(29)	168
Reclassification adjustments upon disposal	<u>-</u>	<u>24</u>
Other comprehensive (loss)/income for the period	<u>(29)</u>	<u>192</u>
Total comprehensive income/(loss) for the period	<u>42,052</u>	<u>(2,246)</u>
Total comprehensive income/(loss) attributable to:		
Owners of the Company	2,664	(27,800)
Non-controlling interests	<u>39,388</u>	<u>25,554</u>
	<u>42,052</u>	<u>(2,246)</u>



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2012

	Notes	At 30th June 2012 HK\$'000 (Unaudited)	At 31st December 2011 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	587,822	637,702
Interests in leasehold land		495,926	507,359
Goodwill		3,030	3,030
Intangible assets	13	92,816	100,729
Interests in jointly controlled entities		28,654	28,656
Interests in associates		2,377	7,977
		1,210,625	1,285,453
Current assets			
Inventories		34,663	38,639
Stock of properties		557,760	550,312
Film rights		19,761	19,761
Films in progress		3,150	3,150
Trade receivables	14	94,555	143,008
Deposits, prepayments and other receivables	15	675,686	396,386
Held for trading investments		42,609	50,797
Amounts due from associates		19,072	16,854
Prepaid tax		168	86
Cash and bank balances		672,464	903,094
		2,119,888	2,122,087
Total assets		3,330,513	3,407,540
Capital and reserves			
Share capital	16	20,325	19,647
Reserves		1,958,384	1,948,945
Equity attributable to owners of the Company		1,978,709	1,968,592
Non-controlling interests		339,139	306,317
Total equity		2,317,848	2,274,909



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

At 30th June 2012

	Notes	At 30th June 2012 HK\$'000 (Unaudited)	At 31st December 2011 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings	17	375,000	400,000
Obligation under finance lease		97	153
Convertible bonds	18	340,183	339,187
Deferred tax liabilities		83,988	84,253
		<u>799,268</u>	<u>823,593</u>
Current liabilities			
Bank borrowings	17	69,573	66,674
Obligation under finance lease		111	128
Trade payables	19	67,266	139,080
Deposits received, accruals and other payables		57,942	68,244
Tax payables		4	4
Amount due to an associate		18,303	34,906
Amounts due to non-controlling interests		198	2
		<u>213,397</u>	<u>309,038</u>
Total liabilities		<u>1,012,665</u>	<u>1,132,631</u>
Total equity and liabilities		<u>3,330,513</u>	<u>3,407,540</u>
Net current assets		<u>1,906,491</u>	<u>1,813,049</u>
Total assets less current liabilities		<u>3,117,116</u>	<u>3,098,502</u>

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

CHINA STAR ENTERTAINMENT LIMITED



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2012

	Attributable to owners of the Company											
	Share capital	Share premium	Contributed surplus	Exchange reserve	Statutory reserve	Share-based payment reserve	Convertible bonds reserve	Capital reduction reserve	Retained earnings/(Accumulated losses)	Sub-total	Non-controlling interests	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1st January 2011	43,340	609,421	1,056,041	888	259	59,978	-	316,008	216,840	2,302,775	277,181	2,579,956
(Loss)/profit for the period	-	-	-	-	-	-	-	-	(27,992)	(27,992)	25,554	(2,438)
Other comprehensive income for the period	-	-	-	192	-	-	-	-	-	192	-	192
Total comprehensive (loss)/income 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	353,650	-	-	-	-	-	-	368,385	-	-	368,385
Share issuing expenses	-	(4,792)	-	-	-	-	-	-	(4,792)	-	-	(4,792)
Exercise of listed warrants	-	2	-	-	-	-	-	-	2	-	-	2
Transfer to statutory reserve	-	-	-	-	28	-	-	-	(28)	-	-	-
At 30th June 2011	19,647	992,954	1,100,247	1,080	287	53,133	-	316,008	195,665	2,679,021	302,735	2,981,756
At 1st January 2012	19,647	992,954	1,100,247	926	287	53,134	9,803	316,008	(524,414)	1,968,592	306,317	2,274,909
Profit for the period	-	-	-	-	-	-	-	-	2,691	2,691	39,390	42,081
Other comprehensive loss for the period	-	-	-	(27)	-	-	-	-	-	(27)	(2)	(29)
Total comprehensive (loss)/income for the period	-	-	-	(27)	-	-	-	-	2,691	2,664	39,388	42,052
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	(6,434)	(6,434)	(6,566)	(13,000)
Share issuing expenses	-	(193)	-	-	-	-	-	-	-	(193)	-	(193)
Exercise of listed warrants	678	13,402	-	-	-	-	-	-	14,080	-	-	14,080
Transfer to statutory reserve	-	-	-	-	4	-	-	-	(4)	-	-	-
At 30th June 2012	20,325	1,006,163	1,100,247	899	291	53,134	9,803	316,008	(528,161)	1,978,709	339,139	2,317,848

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended 30th June 2012

	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	12,893	(361,140)
Net cash used in investing activities	(227,504)	(40,729)
Net cash (used in)/generated from financing activities	(15,990)	370,526
Decrease in cash and cash equivalents	(230,601)	(31,343)
Cash and cash equivalents at beginning of the period	903,094	625,827
Effect of foreign exchange rate changes	(29)	168
Cash and cash equivalents at the end of the period	<u>672,464</u>	<u>594,652</u>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	<u>672,464</u>	<u>594,652</u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2012

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 2011.

The Interim Financial Statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, 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 2011, 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 and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's accounting period beginning on 1st January 2012.

HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets

The application of the new and revised HKFRSs in the current periods has no material effect on the Group's financial performance and positions 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 and provision of related gaming promotion business
- Property development operations – Investing and development of properties located in Macau
- Chinese health products sales operations – Sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailer as well as Chinese clinical services

Segment information about these businesses is presented bellowed:

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

	Segment revenue		Segment results	
	Six months ended 30th June 2012	2011	Six months ended 30th June 2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hotel and gaming service operations	521,662	420,590	80,156	50,671
Gaming promotion operations	8,648	48,909	1,719	(25,572)
Film distribution operations	33	1,431	(203)	244
Property development operations	-	-	(33)	-
Chinese health products sales operations	63,178	-	(524)	-
	<u>593,521</u>	<u>470,930</u>	<u>81,115</u>	<u>25,343</u>
Reconciliation from segment results to profit/(loss) before tax				
Unallocated corporate income			2,162	2,539
Loss arising on change in fair value of financial assets classified as held for trading			(8,188)	(17,757)
Unallocated corporate expenses			(33,264)	(19,802)
Profit/(loss) before tax			<u>41,825</u>	<u>(9,677)</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/(loss) earned/(suffered) by each segment without allocation of central administration costs under the heading of unallocated corporate expenses, change in fair value of financial assets classified as held for trading, income tax expenses and partial other revenue and other income under the heading of 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 Group's revenue from external customers is mainly derived from its operations in Macau.

4. TURNOVER

	Six months ended 30th June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Film distribution fee income	33	1,431
Hotel room income	42,936	29,737
Food and beverage sales	12,176	7,943
Services income from mass table gaming operations	359,950	220,701
Services income from VIP table gaming operations	98,386	156,093
Services income from slot machine operations	8,214	6,116
Receive profit streams from gaming promotion business	8,648	48,909
Sales of Chinese health products	63,178	–
	593,521	470,930

5. OTHER REVENUE

	Six months ended 30th June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Bank interest income	4,450	2,660
Management fee income	1,165	192
Other ancillary hotel revenue	7,085	5,951
Others	–	7
	12,700	8,810



6. OTHER INCOME

	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net foreign exchange gain	153	183
Others	20	—
	<u>173</u>	<u>183</u>

7. FINANCE COSTS

	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank borrowings-wholly repayable within five years	7,914	8,527
Finance lease	16	15
Imputed interests on convertible bonds	14,881	—
Other finance cost	6	—
	<u>22,817</u>	<u>8,542</u>

8. PROFIT/(LOSS) BEFORE TAX

	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit/(loss) before tax has been arrived at after charging:		
Amortisation of film rights (included in cost of sales)	—	1,161
Amortisation of interests in leasehold land	11,433	7,003
Amortisation of intangible assets	613	—
Cost of inventories (included in cost of sales)	44,788	3,626
Depreciation of property, plant and equipment	52,245	46,193
Employee benefit expenses	65,407	47,654
Impairment loss recognised in respect of intangible assets	7,300	73,830
Loss on disposal of property, plant and equipment	189	90
Loss on disposal of financial assets classified as held for trading	—	2,490
Loss arising on change in fair value of financial assets classified as held for trading	8,188	15,267
Operating lease rental in respect of rental premises	7,103	715
	<u>7,103</u>	<u>715</u>



9. TAXATION CREDIT

	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The taxation credit is as follow:		
Current tax:		
PRC Enterprise Income Tax	(9)	–
	(9)	–
Over provision in prior periods:		
Other jurisdictions	–	64
	–	64
Deferred tax:		
Current period	265	7,175
	256	7,239

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both periods. Macau subsidiaries are subject to Macau Complementary Tax at 12% for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax has been made for both periods as the 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.



10. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to owners of the Company for the purpose of basic and diluted earnings/(loss) per share	<u>2,691</u>	<u>(27,992)</u>
	Six months ended 30th June	
	2012	2011
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	1,971,074	441,498
Effect of dilutive potential ordinary shares: Warrants	<u>288,240</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>2,259,314</u>	<u>441,498</u>

The weighted average number of ordinary shares for the six months ended 30th June 2012 for the purpose of diluted earnings per share has been adjusted for the outstanding warrants of the Company during the period.

As the Company's outstanding convertible bonds, warrants (if applicable) and share options were applicable had an anti-dilutive effect to the basic earnings/(loss) per share calculation for the current and prior periods, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted earnings/(loss) per share.

11. DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30th June 2012 and 2011.

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\$2,769,000 (2011: HK\$8,666,000).



13. INTANGIBLE ASSETS

	Rights in sharing of profit streams <i>HK\$'000</i>	Trademarks <i>HK\$'000</i>	Customers relationship <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1st January 2011	989,205	–	–	989,205
Additional amounts recognised from business combinations occurred during the year	–	7,345	2,454	9,799
At 31st December 2011, 1st January 2012 and 30th June 2012	989,205	7,345	2,454	999,004
Accumulated amortisation and impairment				
At 1st January 2011	197,973	–	–	197,973
Amortised for the year	–	130	87	217
Impairment loss recognised	700,085	–	–	700,085
At 31st December 2011 and 1st January 2012	898,058	130	87	898,275
Amortised for the period	–	367	246	613
Impairment loss recognised	7,300	–	–	7,300
At 30th June 2012	905,358	497	333	906,188
Carrying amount				
At 30th June 2012 (Unaudited)	83,847	6,848	2,121	92,816
At 31st December 2011 (Audited)	91,147	7,215	2,367	100,729

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

Trademarks	10 years
Customers relationship	5 years

The above trademarks and customers relationship are acquired as part of a business combination during the year ended 31st December 2011.



13. INTANGIBLE ASSETS (Continued)

The intangible assets associated with the rights in sharing of profit streams from the gaming promotion business represented the rights in sharing of 0.4% of rolling turnover generated 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 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 2012, the directors of the Company assessed the recoverable amount of intangible assets with regard to the rights in sharing of profit streams from the gaming promotion business with reference to the valuation performed by Grant Sherman Appraisal Limited, independent qualified professional valuers and determined that intangible assets associated with rights in share of profit streams from the gaming promotion business was impaired by approximately HK\$7,300,000 (31st December 2011: HK\$700,085,000).

14. TRADE RECEIVABLES

The following is an aging analysis of trade receivables, presented based on the invoice date and net of allowance for doubtful debts:

	At 30th June 2012 HK\$'000 (Unaudited)	At 31st December 2011 HK\$'000 (Audited)
0 to 30 days	90,995	138,166
31 to 60 days	920	912
61 to 90 days	727	1,580
91 to 180 days	109	175
Over 180 days	1,804	2,175
	94,555	143,008

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



15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30th June 2012 HK\$'000 (Unaudited)	At 31st December 2011 HK\$'000 (Audited)
Deposits for investment	618,000	360,000
Other deposits	35,219	16,949
Prepayments	10,269	8,880
Other receivables	12,198	10,557
	<u>675,686</u>	<u>396,386</u>

Deposits for investment of HK\$618,000,000 represented the cash deposit paid by China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company, pursuant to the sale and purchase agreement entered with Mr. Heung Wah Keung, an executive director and a substantial shareholder of the Company, in respect of the acquisition of the entire equity interest of Most Famous Enterprises Limited. Details of the transaction are set out in note 22(a).

16. SHARE CAPITAL

	Number of shares		Amount	
	At 30th June 2012 '000 (Unaudited)	At 31st December 2011 '000 (Audited)	At 30th June 2012 HK\$'000 (Unaudited)	At 31st December 2011 HK\$'000 (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	-	(45,000,000)	-	-
Capital reduction	-	-	-	(450,000)
Capital increase	-	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	1,964,721	4,333,933	19,647	43,340
Placement of shares	-	577,855	-	5,778
Share consolidation	-	(4,420,610)	-	-
Capital reduction	-	-	-	(44,206)
Issue of shares under rights issue	-	1,473,541	-	14,735
Exercise of share options	-	1	-	-
Exercise of listed warrants	67,770	1	678	-
At end of the period/year	<u>2,032,491</u>	<u>1,964,721</u>	<u>20,325</u>	<u>19,647</u>



16. SHARE CAPITAL (Continued)

Warrants

During the period, 67,770,327 new shares were issued on the conversion of the warrants of the Company, of which 82,266 shares and 67,688,061 shares were converted at the subscription price of HK\$0.835 per share and HK\$0.207 per share respectively. As at 14th June 2012, the warrants of the Company issued on 15th June 2010 (warrant code: 972) which carried rights to subscribe in cash for new shares of HK\$0.01 each in the capital of the Company at an adjusted subscription price of HK\$0.835 per share was expired.

As at 30th June 2012, the Company had outstanding warrants of approximately HK\$59,666,000. The exercise in full would result in the issue of approximately 288,240,000 shares of the Company at the adjusted subscription price of HK\$0.207 per share (subject to further adjustment).

17. BANK BORROWINGS

	At 30th June 2012 HK\$'000 (Unaudited)	At 31st December 2011 HK\$'000 (Audited)
Bank loans:		
– Secured	425,000	450,000
– Unsecured	19,573	16,674
	<u>444,573</u>	<u>466,674</u>
The maturity of the above bank borrowings is as follow:		
Within one year	62,402	58,286
Between one and two years	50,000	50,000
Between two to five years	325,000	350,000
	437,402	458,286
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	7,171	8,388
	444,573	466,674
Less: Amount shown under current liabilities	(69,573)	(66,674)
Amount shown under non-current liabilities	<u>375,000</u>	<u>400,000</u>



17. BANK BORROWINGS (Continued)

At 30th June 2012, the Group had a secured bank term loan with remaining balance of HK\$425,000,000. The secured bank term loan is secured by the Group's leasehold land and buildings with carrying amount of approximately HK\$430,336,000 (31st December 2011: HK\$440,832,000) and HK\$257,622,000 (31st December 2011: HK\$263,147,000) respectively. The secured bank term loan is interest bearing at 3.5% per annum (Hong Kong Prime Rate 5.25% less margin 1.75%) and repayable by 13 remaining 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.

At 30th June 2012, the Group had unsecured bank loan of HK\$2,600,000 that granted under the Special Loan Guarantee Scheme of the Government of the Hong Kong Special Administrative Region ("HKSAR"). The unsecured bank loan is 80% guaranteed by the government of HKSAR and 100% personally guaranteed by an ex-shareholder of NPH Holdings Limited ("NPH"), respectively. The unsecured bank loan is interest bearing at 2.5% per annum over 1 month HIBOR, repayable by 26 equal consecutive monthly installments of HK\$100,000 each and contains a clause of repayable on demand and thus classified as current liabilities.

At 30th June 2012, the Group had unsecured import trade loans of approximately HK\$12,402,000. The unsecured import trade loans are personally guaranteed by an ex-shareholder of NPH, interest bearing at 2% per annum over 1 month HIBOR and repayable on demand.

At 30th June 2012, the Group had unsecured bank loan of approximately HK\$4,571,000. The unsecured bank loan is personally guaranteed by an ex-shareholder of NPH. The unsecured bank loan is interest bearing at 2.5% per annum over 1 month HIBOR, repayable by 43 consecutive monthly installments of approximately HK\$104,000 each and a final payment of approximately HK\$99,000 at the maturity date of the loan and contains a clause of repayable on demand and thus classified as current liabilities.

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



18. CONVERTIBLE BONDS

On 7th July 2011, the Company issued unsecured convertible bonds in the principal amount of HK\$350,000,000 to Eternity Finance Group Limited (formerly known as Wingo Consultants Limited), a wholly owned subsidiary of Eternity Investment Limited. The bonds are interest bearing at 8% per annum. The holder of the bonds may convert the bonds into ordinary shares of the Company at any time before the maturity date on 6th July 2016 at an adjusted conversion price of HK\$0.36 per share (subject to further adjustment) as at 30th June 2012. Details of the transaction are set out in the Company's circular dated 1st April 2011. If the bonds have not been converted, they will be redeemed on 6th July 2016 at principal amount.

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

	Liability component	
	At 30th	At 31st
	June	December
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
At the beginning of the period/year	339,187	–
At the date of issue	–	338,260
Interest charged and calculated at an effective interest rate at 8.837%	14,881	14,582
Interest paid and payable	(13,885)	(13,655)
	340,183	339,187

19. TRADE PAYABLES

The aging analysis of the trade payables is as follow:

	At 30th	At 31st
	June	December
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 to 30 days	56,157	128,025
31 to 60 days	5,419	3,855
61 to 90 days	1,010	1,765
91 to 180 days	685	1,188
Over 180 days	3,995	4,247
	67,266	139,080



20. LEASE COMMITMENTS

At 30th June 2012, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and staff quarters which fall due as follows:

	At 30th June 2012 HK\$'000 (Unaudited)	At 31st December 2011 HK\$'000 (Audited)
Within one year	14,878	9,494
In the second to fifth year inclusive	20,513	5,803
	<u>35,391</u>	<u>15,297</u>

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

21. CAPITAL COMMITMENTS

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

	At 30th June 2012 HK\$'000 (Unaudited)	At 31st December 2011 HK\$'000 (Audited)
Authorised and contracted, but not provided for:		
Acquisition of subsidiaries	–	540,000
Development expenditure of properties in Macau	28,760	–
	<u>28,760</u>	<u>540,000</u>

22. MATERIAL RELATED PARTY TRANSACTIONS

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

- (a) On 15th February 2012, China Star Entertainment (BVI) Limited (“CSBVI”), a wholly owned subsidiary of the Company and Mr. Heung Wah Keung (“Mr. Heung”), a substantial shareholder and director of the Company entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and CSBVI has conditionally agreed to purchase the entire issued share capital of Most Famous Enterprises Limited (“Most Famous”) and a sale loan amounted to approximately HK\$277,420,000 at total consideration of HK\$618,000,000 (the “Acquisition”). The major assets of Most Famous are its 49% equity interests in Hotel Lan Kwai Fong (Macau) Limited (“Hotel LKF”) and 49% equity interests in Charm Faith Holdings Limited (“Charm Faith”), a company beneficially owned 1% of the issued quotas of Classic Management & Services Company Limited (“Classic”). Up to the reporting date, deposits of HK\$618,000,000 had been paid and recognised as deposits, prepayment and other receivables in the Interim Financial Statements of the Group at 30th June 2012. Details of the Acquisition were set out in the Company’s circular dated 27th June 2012.

**22. MATERIAL RELATED PARTY TRANSACTIONS (Continued)**

- (b) During the period, the Group entered into the following transactions with its related companies:

	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Income received from associates:		
Rental income and utilities fee reimbursement	4,165	9,246
Management fee income	408	192
Expenses paid to associates:		
Entertainment and staff messing paid	3,543	4,764
	<u> </u>	<u> </u>

23. EVENTS AFTER THE REPORTING PERIOD

- (a) The Acquisition was completed on 17th July 2012 and the Company become interested in 100% equity interests in Hotel LKF, Charm Faith, Classic and Most Famous.
- (b) On 4th June 2012, the Company announced that a conditional cash offer (the "Offer") will be made by Get Nice Securities Limited on behalf of the Company to repurchase up to 982,830,877 shares for cancellation at a price of HK\$0.35 per share (the "Announcement"). The Offer will be available for acceptance in respect of shares held by the shareholders of the Company. As at the date of the Announcement, except for those undertaking parties (the "Undertaking Parties") that agreed not to accept the Offer, the consideration for the Offer would be approximately HK\$276.52 million (assuming none of the share options, warrants and convertible bonds of the Company are exercised or converted on or before closing of the Offer) and HK\$343.99 million (assuming all of the share options, warrants and convertible bonds of the Company are exercised or converted on or before closing of the Offer, except for those held by the Undertaking Parties that have agreed not to exercise or converted their share options, warrants and convertible bonds before the closing of the Offer). As at the date of this report, a copy of the circular, amongst other things, details of the Offer and notice of a special general meeting of the Company is expected to be despatched to the shareholders and holders of the warrants of the Company on or before 6th September 2012. Details of the Offer are set out in the Announcement.

24. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 23rd August 2012.



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

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 2012 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 Limited

Chartered Accountants
Certified Public Accountants

Yu Chi Fat

Practising Certificate Number: P05467

Hong Kong, 23rd August 2012



MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30th June 2012, the Group's turnover increased by 26% to approximately HK\$593,521,000 as compared to HK\$470,930,000 for the same period in the previous year.

Profit from operations and profit for the period amounted to approximately HK\$64,644,000 and HK\$42,081,000 respectively as compared to loss from operations and loss for the period of HK\$1,594,000 and HK\$2,438,000 respectively for the last corresponding period. The turnaround of the current period's profit was mainly attributable to the decrease in impairment loss of HK\$7,300,000 as compared to the last corresponding period of HK\$73,830,000 recognised in respect of the intangible assets with regard to the 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.

Profit attributable to owners of the Company for the six months ended 30th June 2012 was HK\$2,691,000, representing an increase of 110% from loss of HK\$27,992,000 for the last corresponding period.

Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2012.

Business Review

The Group has five reportable segments – (1) hotel and gaming service operations; (2) gaming promotion operations; (3) film distribution operations; (4) property development operations; and (5) Chinese health products sales operations.

Of the total turnover amount, HK\$521,662,000 or 88% was generated from hotel and gaming service operations, HK\$8,648,000 or 1% was generated from gaming promotion operations, HK\$33,000 or 0% was generated from film distribution operations, HK\$nil or 0% was generated from property development operations and HK\$63,178,000 or 11% was generated from Chinese health products sales 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 appropriately 200 guest rooms, casino situated in the ground, first and 18th floor, restaurants, flower shop, retail shop, spa and medical clinic.

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will shared 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 2012, Casino LKF operated a total of 84 tables, targeting both for the VIP market and the mass market. It also operated a total of 126 slot machines.

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

The Group had shared revenue and segment profit of approximately HK\$521,662,000 (2011: HK\$420,590,000) and HK\$80,156,000 (2011: HK\$50,671,000) from the hotel and gaming service operations, an increase of 24% and 58% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel room income of HK\$42,936,000 (2011: HK\$29,737,000), food and beverage sales of HK\$12,176,000 (2011: HK\$7,943,000) and service income received from mass table gaming, VIP table gaming and slot machines of HK\$359,950,000 (2011: HK\$220,701,000), HK\$98,386,000 (2011: HK\$156,093,000) and HK\$8,214,000 (2011: HK\$6,116,000) respectively. Hotel and gaming service operations recorded an aggregate segment profit of approximately HK\$80,156,000 (2011: HK\$50,671,000). This period, the performance of Lan Kwai Fong was encouraging. The average monthly revenue from the hotel and gaming service operations increased to approximately HK\$86,944,000 per month from HK\$70,098,000 per month in the first half of 2011, mainly reflecting 63% increase in monthly service income from mass table gaming to HK\$59,992,000 per month from HK\$36,784,000 per month in first half of 2011, which was partly offset by 37% decrease in monthly service income from VIP table gaming to HK\$16,398,000 per month from HK\$26,016,000 per month in the first half of 2011.

Gaming Promotion Operations

The Group had shared revenue of approximately HK\$8,648,000 (2011: HK\$48,909,000) and segment profit of HK\$1,719,000 as compared to segment loss of HK\$25,572,000 from the gaming promotion operations, a decrease of 82% and an increase of 107% respectively.

Since the end of the last year, the growth in revenue from casino VIP room slowed down and even declined in July 2012. Besides, 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\$7,300,000 (2011: HK\$73,830,000) was recognised. After the substantial impairment recognised in the year ended 31st December 2011, the decrease in gaming revenue during this period is comparatively stable and thus the impairment loss recognised in respect of intangible assets was substantially decreased.

Film Distribution Operations

Film distribution operations included production and distribution of motion pictures and television drama series and provision of other film related services. During the six months ended 30th June 2012, the Group did not distributed any new film and new productions are in planning stage.

In the first half of the year 2012, turnover for film distribution operations amounted to HK\$33,000 (2011: HK\$1,431,000) and its segment loss amounted to HK\$203,000 as compared to segment profit of HK\$244,000 for the last corresponding period.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Property Development Operations

Property development operations included sales of properties located in Macau after the completion of the acquisition of the property leasehold right over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites"). The Sites will developed into commercial units and residential apartments for sale.

Until the first half of the year 2012, the Group had recorded no revenue and shared segment loss of approximately HK\$33,000 from the property development operations since the development plan of the Sites is in the process of seeking approval from the appropriate authority.

Chinese Health Products Sales Operations

Chinese health products sales operations included sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailers as well as Chinese clinical services after the completion of the acquisition of the group headed by NPH Holdings Limited ("NPH") on 28th October 2011. One of the subsidiary of NPH, Nan Pei Hong Sum Yung Drugs Company Limited has engaged in the business of trading and retail of "Sum Yung" and dried seafood products since 1977 and the brand name of "Nam Pei Hong" is highly recognised in Hong Kong and Southern Mainland China.

The Group had shared revenue and segment loss of approximately HK\$63,178,000 and HK\$524,000 from the Chinese health products sales operations respectively.

Geographical segments

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

Administration Expenses

For the six months ended 30th June 2012, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK\$153,357,000, a 7% decrease from HK\$164,331,000 as compared to the last corresponding period. The decrease was mainly attributable to the decrease in casino management fees paid by Lan Kwai Fong, which were partly offset by the increase in the staffs costs and overhead expenses in the hotel and gaming service operations during the period. Such management fees decreased because it was based on a fixed percentage of service income from VIP table gaming that had decreased in the first half of the year from the last corresponding period. Employee benefit expenses increased 37% to HK\$65,407,000 from HK\$47,654,000 in the first half of 2011.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Financial Resources

As at 30th June 2012, the Group had total assets of approximately HK\$3,330,513,000 and a net current assets of HK\$1,906,491,000, representing a current ratio of 9.9 (31st December 2011: 6.9). The Group had cash and cash balances of approximately HK\$672,464,000 (31st December 2011: HK\$903,094,000). As at 30th June 2012, the Group had total borrowings of HK\$784,964,000 which comprised a secured bank term loan with remaining balance of HK\$425,000,000 (the "Term Loan"), unsecured bank loans in aggregate amount of HK\$19,573,000, an outstanding convertible bonds with liabilities component of HK\$340,183,000 and obligation under finance lease of HK\$208,000. The Term Loan was interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank, repayable by 13 equal consecutive quarterly installments of HK\$12,500,000 each and a final repayment for the remaining balance. The unsecured bank loans comprised import trade loans (the "Import Loans") of HK\$12,402,000, unsecured bank loan (the "Unsecured Loan") of HK\$4,571,000 and unsecured bank loan of HK\$2,600,000 granted under the Special Loan Guarantee Scheme of the Government of HKSAR (the "Government Loan"). The Import Loans were interest bearing at 2% per annum over one month HIBOR, repayable on demand and guaranteed by an ex-shareholder of a subsidiary of the Company. The Unsecured Loan was interest bearing at 2.5% per annum over one month HIBOR, repayable by 43 equal consecutive monthly installments of approximately HK\$104,000 per month and a final repayment for the remaining balance and guaranteed by an ex-shareholder of a subsidiary of the Company. The Government Loan was interest bearing at 2.5% per annum over one month HIBOR, repayable by 26 equal consecutive monthly installments of HK\$100,000 each and 80% guaranteed by the Government of HKSAR and 100% guaranteed by an ex-shareholder of a subsidiary of the Company. The outstanding convertible bonds were unsecured, interest bearing at coupon rate of 8% per annum and will mature on 6th July 2016. The convertible bonds carry the right to convert into shares of the Company at an adjusted conversion price of HK\$0.36 per share as of 30th June 2012. As at 30th June 2012, the Group had banking facilities amounting to HK\$558,000,000 which were utilised to the extent of HK\$524,402,000. The Group's gearing was low during the year with total debts of HK\$784,964,000 against owners' equity of HK\$1,978,709,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 40% (31st December 2011: 41%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca, Renminbi 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 2012, the Group had no contingent liability.

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 carried the right to convert into shares of the Company at an initial conversion price of HK\$0.80 (subject to adjustment) 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 of the property leasehold right of the Sites, the development of the Sites 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 a company procured by Eternity. As at 30th June 2012, the adjusted conversion price of the convertible bonds is HK\$0.36 per share. As at 29th June 2012, the Company and Eternity entered into a supplemental agreement pursuant to which both parties agreed to extend the completion date of the second tranche subscription in the principal amount of HK\$300 million from 30th June 2012 to 31st December 2013.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Financial Resources (Continued)

On 4th June 2012, the Company announced that a conditional cash offer (the "Offer") will be made by Get Nice Securities Limited on behalf of the Company to repurchase up to 982,830,877 shares for cancellation at a price of HK\$0.35 per share. The Offer will be available for acceptance in respect of shares held by shareholders of the Company. As at the date of announcement of the Company, except for those undertaking parties (the "Undertaking Parties") that agreed not to accept the Offer and not to exercise or converted their share options, warrants and convertible bonds before the closing of the Offer, the consideration for the Offer would be approximately HK\$276.52 million (assuming none of the share options, warrants and convertible bonds of the Company are exercised or converted on or before closing of the Offer) and HK\$343.99 million (assuming all of the share options, warrants and convertible bonds of the Company are exercised or converted on or before closing of the Offer, except for those Undertaking Parties). As at the date of this report, a copy of the circular, amongst other things, details of the Offer and notice of a special general meeting of the Company is expected to be despatched to the shareholders and holders of warrants of the Company on or before 6 September 2012. Details of the Offer are set out in the announcement of the Company dated 4th June 2012.

During the period, 67,770,327 new shares were issued on the conversion of the warrants of the Company, of which 82,266 shares and 67,688,061 shares were converted at the adjusted subscription prices of HK\$0.835 per share and HK\$0.207 per share respectively. The net proceeds from the conversion of the warrants of the Company amounted to approximately HK\$14,080,000 were intended to be used as general working capital of the Group.

Material Acquisitions

On 11th January 2012, Exceptional Gain Profits Limited ("Exceptional Gain"), a wholly owned subsidiary of the Company and SJM – Investment Limited ("SJM-I") entered into agreements pursuant to which SJM-I has agreed to sell or procure the sale of, and Exceptional Gain has conditionally agreed to purchase, 1% issued quotas in Hotel LKF and 1% equity interest in the issued share capital of Charm Faith Holdings Limited ("Charm Faith"), a company beneficially owned 1% issued quotas of Classic, at a total consideration of HK\$13,000,007.80. The agreements were completed on 31st January 2012 and the Company become interested in 51% equity interest in Hotel LKF, Charm Faith and Classic.

On 15th February 2012, China Star Entertainment (BVI) Limited ("CSBVI"), a wholly owned subsidiary of the Company and Mr. Heung Wah Keung ("Mr. Heung") entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and CSBVI has conditionally agreed to purchase the 100% of the entire issued share capital of Most Famous Enterprises Limited ("Most Famous") and a sale loan amounted to approximately HK\$277,420,000 at total consideration of HK\$618,000,000 (the "LKF Acquisition"). The major assets of Most Famous are its 49% equity interests in Hotel LKF and 49% interest in Charm Faith. The LKF Acquisition constituted a very substantial acquisition and a connected transaction of the Company under the Listing Rules and was approved by the independent shareholders of the Company in a special general meeting held on 16th July 2012. The LKF Acquisition was subsequently completed on 17th July 2012. As the Company has already owned 51% equity interest in each of Hotel LKF, Charm Faith and Classic as at the date of this agreement, Most Famous, Hotel LKF, Charm Faith and Classic become wholly owned subsidiaries of the Company upon completion of the LKF Acquisition.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Termination of the Proposed Acquisition of the Entire Share Capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited and the Sale Loan

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 (the "2009 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, Legstrong Construction and Investment Company Limited (the "Macau Co"), indirectly owned 100% beneficial interest in a lot of land 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"). 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 further extended to 31st December 2012.

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. Afterwards, the Macau Government has not yet issued any update on the master zoning guideline. On 15th February 2012, Bestjump and Ms. Chen entered into a deed of termination to terminate the 2009 Sale and Purchase Agreement. Given that (a) it did not appear that the master zoning guideline for the Macau Land would be issued anytime soon by the Macau Government; and (b) the ultimate target of the LKF Acquisition was the 49% equity interest in Hotel LKF which had been operating with positive earnings before interest, tax and depreciation, the parties had decided to terminate the 2009 Sale and Purchase Agreement in order to release the Group's internal resource for the LKF Acquisition.

Employees

As at 30th June 2012, the Group employed 742 staffs (31st December 2011: 726 staffs) with employees benefit expenses of HK\$65,407,000 (31st December 2011: HK\$109,123,000). 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

Hotel and gaming service operations in Lan Kwai Fong is considered to be the core profit and cash contributor of the Group in the near future. In these few years, it has successfully positioned to be an boutique hotel with excellent services and guest satisfaction. Given the moderate size of Lan Kwai Fong, we can enjoy the benefit of fast response to the changing market conditions in the Macau casino market. Mass table gaming operations are more profitable than VIP table gaming operations and thus Casino LKF has spend resources to expand its market share in the mass table gaming operations and targeted the high end customers in the mass table gaming and was continued to be successful during this period. The growth in revenue from VIP table gaming operations in Macau was slow down since the end of last year and even set back in July 2012, the strategy in Casino LKF was proved to be effective. After the completion of the LKF Acquisition on 17th July 2012, the Group owned 100% interests in Lan Kwai Fong and can solidify its profitability and capture the full potential growth in the hotel and gaming service operations.

The development of the Sites will be the Group's medium to long term core investments. It will not only directly contribute revenue to the Group but also provide synergy with Lan Kwai Fong. Following the completion of acquisition of the Sites in June 2011, the Group starts to prepare its development plan in develop it into commercial units and residential apartment for sale and the development plan is currently under the approval of the Macau government. 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 project will be another success project of the Group.

In the recent years, the Group has improved its profitability by expanding into hotel and gaming service operations. Based on the audited consolidated financial statements for the year ended 31st December 2011, the net assets per share was HK\$1.00 ("NAV per Share"). However, the directors have noticed that the trading prices of shares of the Company are well below the NAV per Share and consider the trading prices of shares do not reflect the profitability of the Group. Therefore, the Company proposed the Offer to the shareholders of the Company and provides them a chance to realise their investments at a higher return. Besides, the directors consider that the Offer will lead to an enhancement of NAV per Share and better investor relationship with its shareholders.



DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2012, 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	<u>898,699,702*</u>	<u>44.33</u>
Ms. Chen Ming Yin, Tiffany	Interest of spouse/ interest of controlled corporation	<u>898,699,702*</u>	<u>44.33</u>

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 2012, 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) Warrants

Name of Director	Number of underlying shares comprised in the warrants	Approximate percentage of interests held
Ms. Chen Ming Yin, Tiffany	<u>211,114,613*</u>	<u>10.41</u>
Mr. Heung Wah Keung	<u>211,114,613*</u>	<u>10.41</u>

All the interests stated above represent long positions.

* These underlying shares are held by HWKFE.

Other than as set out above, as at 30th June 2012, 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 as at 30th June 2012.

Details of share options outstanding as at 30th June 2012 were as follows:

Category of participants	Exercisable period⁺	Exercise price per share HK\$	Number of share options outstanding as at 01.01.2012 and 30.06.2012
Substantial shareholders and directors of the Company	16.07.2002 – 15.07.2012	371.400	1,022
	17.07.2003 – 16.07.2013	122.141	2,112
			3,134
Director of the Company	16.07.2002 – 15.07.2012	371.400	5,126
	17.07.2003 – 16.07.2013	122.141	10,558
			15,684
Employees of the Group	16.07.2002 – 15.07.2012	371.400	25,638
	17.07.2003 – 16.07.2013	122.141	36,298
	13.12.2004 – 12.12.2014	112.527	68,993
	04.02.2005 – 03.02.2015	116.486	110,976
	30.12.2005 – 29.12.2015	52.361	39,811
	21.11.2006 – 20.11.2016	59.942	69,316
	25.05.2007 – 24.05.2017	90.930	173,615
	27.06.2007 – 26.06.2017	90.475	114,094
	23.10.2007 – 22.10.2017	42.977	398,633
	21.08.2008 – 20.08.2018	5.543	1,491,029
			2,528,403



SHARE OPTION SCHEME (Continued)

Category of participants	Exercisable period ⁺	Exercise price per share HK\$	Number of share options outstanding
			as at 01.01.2012 and 30.06.2012
Other participants	16.07.2002 – 15.07.2012	371.400	5,128
	17.07.2003 – 16.07.2013	122.141	6,864
	13.12.2004 – 12.12.2014	112.527	13,354
	04.02.2005 – 03.02.2015	116.486	26,340
	30.12.2005 – 29.12.2015	52.361	48,058
	21.11.2006 – 20.11.2016	59.942	27,727
	25.05.2007 – 24.05.2017	90.930	68,346
	23.10.2007 – 22.10.2017	42.977	81,088
	21.08.2008 – 20.08.2018	5.543	188,986
			465,891
			3,013,112

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

There was no movement for the share options during the six months ended 30th June 2012.



SUBSTANTIAL SHAREHOLDERS

As at 30th June 2012, 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	<u>1,970,349,582</u> (note a)	<u>97.19</u>
Riche (BVI) Limited	Interest of controlled corporation	<u>1,288,531,400</u> (note b)	<u>63.56</u>
HWKFE	Beneficial owner	<u>1,109,800,613</u>	<u>54.74</u>
Eternity Finance Group Limited (formerly known as Wingo Consultants Limited)	Beneficial owner	<u>972,222,222</u>	<u>47.96</u>
Simple View Investment Limited	Beneficial owner	<u>248,309,178</u>	<u>12.25</u>

All interests stated above represent long positions.

Notes:

- (a) These shares/underlying shares are held as to 681,818,182 underlying shares by Eternity Investment Limited, as to 68,000,000 shares by Victory Peace Holdings Limited, as to 200,000,000 shares and 48,309,178 underlying shares by Simple View Investment Limited and as to 972,222,222 underlying shares by Eternity Finance Group Limited.
- (b) These shares/underlying shares are held as to 68,000,000 shares by Victory Peace Holdings Limited, as to 200,000,000 shares and 48,309,178 underlying shares by Simple View Investment Limited and as to 972,222,222 underlying shares by Eternity Finance Group Limited.

Other than as disclosed above, the Company had not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital as at 30th June 2012.



CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions laid down in the Code on Corporate Governance Practices and the revised and renamed Corporate Governance Code as set out in Appendix 14 to the Listing Rules (both hereinafter referred to as the "Code") during the period from 1st January 2012 to 31st March 2012 and from 1st April 2012 to 30th June 2012 respectively, except for the following deviation:

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

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th June 2012. 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 2012.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at 30th June 2012 was comprising Messrs. Hung Cho Sing, Ho Wai Chi, Paul 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 2012 have been reviewed by the audit committee of the Company and the Company's independent auditors.



BOARD OF DIRECTORS

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

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 23rd August 2012