



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

Stock code: 326

Interim Report 09



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 2009 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2009

	Notes	Six months ended 30th June 2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited) (Re-presented)
Turnover	4	146,733	95,834
Cost of sales		(8,512)	(15,844)
Gross profit		138,221	79,990
Other revenue	5	4,191	3,402
Other income	6	52,400	155
Administrative expenses		(45,394)	(37,584)
Marketing and distribution expenses		(182)	(247)
Net realised and unrealised gain on financial assets classified as held-for-trading		11,726	1,293
Impairment loss recognised in respect of goodwill	20	(24,862)	–
Change in fair value in respect of conversions option embedded in convertible bonds		(22,619)	–
Increase in fair value of investment properties		6,700	–
Profit from operations		120,181	47,009
Finance costs	8	(14,371)	(15,266)
Share of results of associates		–	(3,303)
(Loss)/gain on disposal of subsidiaries	21	(29,602)	476
Loss on deemed disposal of interest in an associate		–	(17,551)
Profit before taxation	7	76,208	11,365
Taxation	9	(982)	235
Profit for the period		75,226	11,600
Attributable to:			
Owners of the Company		101,236	17,865
Non-controlling interests		(26,010)	(6,265)
		75,226	11,600
Earnings per share			
Basic	10	HK\$0.50	HK\$0.92
Diluted	10	HK\$0.50	HK\$0.92

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

CHINA STAR ENTERTAINMENT LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2009

	Six months ended 30th June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	<u>75,226</u>	<u>11,600</u>
Other comprehensive income		
Exchange differences arising on translation of foreign operations	(8)	390
Share of exchange reserves of associates	-	10,982
Fair value adjustment on available-for-sale financial assets	<u>9,800</u>	<u>(18,751)</u>
Other comprehensive income for the period	<u>9,792</u>	<u>(7,379)</u>
Total comprehensive income for the period	<u>85,018</u>	<u>4,221</u>
Total comprehensive income attributable to:		
Owners of the Company	111,028	10,486
Non-controlling interests	<u>(26,010)</u>	<u>(6,265)</u>
	<u>85,018</u>	<u>4,221</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2009

		As at 30th June 2009 HK\$'000 (Unaudited)	As at 31st December 2008 HK\$'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment	12	656,927	494,983
Interests in leasehold land		490,356	502,524
Investment properties		56,630	49,930
Goodwill		24,391	24,391
Intangible assets		989,205	989,205
Convertible bonds receivable	13	18,652	–
Conversion options embedded in convertible bonds	13	19,854	–
Available-for-sale financial assets		–	16,800
		2,256,015	2,077,833
Current assets			
Inventories		354	399
Film rights		23,080	29,753
Films in progress		24,143	18,379
Trade receivables	14	71,990	68,770
Deposits, prepayments and other receivables		389,390	61,077
Held-for-trading investments		54,509	25,713
Loan to a minority shareholder		144,058	183,750
Prepaid tax		1,082	632
Cash and bank balances		231,648	138,145
		940,254	526,618
Assets classified as held for sale	20	12,516	716
		952,770	527,334
Total assets		3,208,785	2,605,167

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

CHINA STAR ENTERTAINMENT LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30th June 2009

	Notes	As at 30th June 2009 HK\$'000 (Unaudited)	As at 31st December 2008 HK\$'000 (Audited)
Capital and reserves			
Share capital	15	10,395	26,612
Reserves		1,726,212	1,392,099
Equity attributable to owners of the Company		1,736,607	1,418,711
Non-controlling interests		258,254	284,264
Total equity		1,994,861	1,702,975
Non-current liabilities			
Bank borrowings – due after one year	17	229,599	280,906
Loan from a related company		200,000	–
Convertible notes payable	18	59,814	138,390
Deferred tax liabilities		86,430	88,317
		575,843	507,613
Current liabilities			
Bank overdraft		166,537	174,826
Trade payables	16	12,698	7,083
Deposits received, accruals and other payables		75,447	69,271
Bank borrowings – due within one year	17	222,595	102,561
Amounts due to minority shareholders		123,310	40,502
Tax payable		116	336
Liabilities classified as held for sale	20	600,703	394,579
		37,378	–
		638,081	394,579
Total liabilities		1,213,924	902,192
Total equity and liabilities		3,208,785	2,605,167
Net current assets		314,689	132,755
Total assets less current liabilities		2,570,704	2,210,588

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 2009

	Attributable to owners of the Company													
	Share capital	Share premium	Contributed surplus	Exchange reserve	Special reserve	Share-based payment reserve	Convertible notes	Revaluation reserve	Financial assets revaluation 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)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1st January 2008	140,305	1,356,450	186,624	10,540	(6,867)	55,292	1,247	-	(12,600)	316,008	(872,866)	1,174,133	1,328	1,175,461
Profit for the period	-	-	-	-	-	-	-	-	-	-	17,865	17,865	(6,265)	11,600
Other comprehensive income	-	-	-	11,372	-	-	-	-	(18,751)	-	-	(7,379)	-	(7,379)
Total comprehensive income for the period	-	-	-	11,372	-	-	-	-	(18,751)	-	17,865	10,486	(6,265)	4,221
Share of reserves of associates	-	-	-	-	-	1,079	-	-	-	-	-	1,079	-	1,079
Transfer to liabilities associated with assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	6,262	6,262
Disposal of subsidiaries	-	-	-	(348)	-	-	-	-	-	-	-	(348)	(128)	(476)
Capital reduction	(199,910)	-	199,910	-	-	-	-	-	-	-	-	-	-	-
Share premium cancellation	-	(1,356,450)	1,356,450	-	-	-	-	-	-	-	-	-	-	-
Set off against accumulated losses	-	-	(864,665)	-	-	-	-	-	-	-	864,665	-	-	-
Released on deemed disposal of an associate	-	-	-	-	-	(930)	(1,247)	-	-	-	-	(2,177)	-	(2,177)
Issue of convertible notes	-	-	-	-	-	-	71,691	-	-	-	-	71,691	-	71,691
Deferred tax	-	-	-	-	-	-	(11,829)	-	-	-	-	(11,829)	-	(11,829)
Share options lapsed	-	-	-	-	-	(1,394)	-	-	-	-	1,394	-	-	-
Issue of shares for acquisition of a subsidiary	11,817	2,363	-	-	-	-	-	-	-	-	-	14,180	-	14,180
Placement of new shares	70,000	98,000	-	-	-	-	-	-	-	-	-	168,000	-	168,000
Share issuing expenses	-	(4,321)	-	-	-	-	-	-	-	-	-	(4,321)	-	(4,321)
At 30th June 2008	22,212	96,042	878,319	21,564	(6,867)	54,047	59,862	-	(31,351)	316,008	11,058	1,420,894	1,197	1,422,091
At 1st January 2009	26,612	100,649	878,319	1,020	-	53,666	32,665	5,330	(35,762)	316,008	40,204	1,418,711	284,264	1,702,975
Profit for the period	-	-	-	-	-	-	-	-	-	-	101,236	101,236	(26,010)	75,226
Other comprehensive income	-	-	-	(8)	-	-	-	-	9,800	-	-	9,792	-	9,792
Total comprehensive income for the period	-	-	-	(8)	-	-	-	-	9,800	-	101,236	111,028	(26,010)	85,018
Released on disposal of a subsidiary	-	-	-	-	-	-	-	-	25,962	-	-	25,962	-	25,962
Redemption of convertible notes	-	-	-	-	-	-	(17,923)	-	-	-	(15,295)	(33,218)	-	(33,218)
Deferred tax	-	-	-	-	-	-	2,868	-	-	-	-	2,868	-	2,868
Issue of shares under bonus issue and open offer	212,897	(100,282)	(59,392)	-	-	-	-	-	-	-	-	53,223	-	53,223
Capital reduction	(237,114)	-	237,114	-	-	-	-	-	-	-	-	-	-	-
Placement of new shares	8,000	152,000	-	-	-	-	-	-	-	-	-	160,000	-	160,000
Share issuing expenses	-	(1,967)	-	-	-	-	-	-	-	-	-	(1,967)	-	(1,967)
At 30th June 2009	10,395	150,400	1,056,041	1,012	-	53,666	17,610	5,330	-	316,008	126,145	1,736,607	258,254	1,994,861

CHINA STAR ENTERTAINMENT LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2009

	Six months ended 30th June 2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Net cash (used in)/generated from operating activities	(110,999)	3,398
Net cash used in investing activities	(170,624)	(206,469)
Net cash generated from financing activities	383,983	137,454
Net increase/(decrease) in cash and cash equivalents	102,360	(65,617)
Cash and cash equivalents at beginning of the period	(36,681)	57,321
Effect of foreign exchange rate changes	(8)	390
Cash and cash equivalents at the end of the period	<u>65,671</u>	<u>(7,906)</u>
Analysis of the balances of cash and cash equivalents:		
Cash and cash equivalents	65,111	(7,906)
Cash and cash equivalents included in non-current assets held for sale (note 20) – Cash and cash equivalents	560	–
	<u>65,671</u>	<u>(7,906)</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2009

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 2008.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 31st December 2008, 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 or revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's accounting period beginning on 1st January 2009.

HKFRSs (Amendments)	Improvements to HKFRSs issued in October 2008
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 (Revised) & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of new and revised HKFRSs not yet effective

HKFRSs (Amendments)	Improvements to HKFRSs issued in October 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in May 2009 ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ⁴
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ⁴
HKFRS 2 (Amendment)	Group cash-settled share based payments transactions ⁵
HKFRS 3 (Revised)	Business Combinations ⁴
HK(IFRIC) - Int 9 & HKAS 39 (Amendment)	Embedded Derivatives ³
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners ⁴
HK(IFRIC) - Int 18	Transfer of Assets from Customers ⁴

¹ Amendment to HKFRS 5 effective for annual periods beginning on or after 1st July 2009

² Effective for annual periods beginning on or after 1st July 2009 and 1st January 2010 as appropriate

³ Effective for annual periods beginning on or after 30th June 2009

⁴ Effective for transfer of assets from customers received on or after 1st July 2009

⁵ Effective for transfer of assets from customers received on or after 1st January 2010

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

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

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1st January 2009. The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of resource allocation and assessment of segment performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in redesignation of the Group's reportable segments as compared with the primary reportable segment determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group has identified the following reportable segments:

Gaming and entertainment	–	Investment in operations which receive profit streams from the gaming promotion business
Film distribution	–	Production and distribution of motion pictures and television drama series
Hotel services	–	Provision of hotel services in Macau
Others	–	Service income and production fee income

3. SEGMENT INFORMATION (Continued)

For the six months ended 30th June 2009 and 30th June 2008, no revenue and segment result are arrived from hotel services segment.

Operating segment information is presented below:

For the six months ended 30th June 2009

	Gaming and entertainment <i>HK\$'000</i> (Unaudited)	Film distribution <i>HK\$'000</i> (Unaudited)	Others <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Turnover				
– Hong Kong	-	1,723	1,609	3,332
– Macau	142,600	-	-	142,600
– Worldwide other than Hong Kong and Macau	-	801	-	801
	<u>142,600</u>	<u>2,524</u>	<u>1,609</u>	<u>146,733</u>
Segment result				
– Hong Kong	-	(750)	1,570	820
– Macau	142,600	-	-	142,600
– Worldwide other than Hong Kong and Macau	-	(5,381)	-	(5,381)
	<u>142,600</u>	<u>(6,131)</u>	<u>1,570</u>	138,039
Unallocated corporate revenue and income				75,017
Unallocated corporate expenses				<u>(92,875)</u>
Profit from operations				120,181
Finance costs				(14,371)
Loss on disposal of a subsidiary				<u>(29,602)</u>
Profit before taxation				76,208
Taxation				<u>(982)</u>
Profit for the period				<u>75,226</u>

3. SEGMENT INFORMATION (Continued)

For the six months ended 30th June 2008

	Gaming and entertainment HK\$'000 (Unaudited)	Film distribution HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Turnover				
– Hong Kong	–	10,146	2,495	12,641
– Macau	78,764	–	–	78,764
– Worldwide other than Hong Kong and Macau	–	4,429	–	4,429
	<u>78,764</u>	<u>14,575</u>	<u>2,495</u>	<u>95,834</u>
Segment result				
– Hong Kong	–	(275)	2,276	2,001
– Macau	78,764	–	–	78,764
– Worldwide other than Hong Kong and Macau	–	(1,022)	–	(1,022)
	<u>78,764</u>	<u>(1,297)</u>	<u>2,276</u>	<u>79,743</u>
Unallocated corporate revenue and income				4,850
Unallocated corporate expenses				<u>(37,584)</u>
Profit from operations				47,009
Finance costs				(15,266)
Share of results of associates				(3,303)
Gain on disposal of subsidiaries				476
Loss on deemed disposal of interest in an associate				<u>(17,551)</u>
Profit before taxation				11,365
Taxation				<u>235</u>
Profit for the period				<u><u>11,600</u></u>

4. **TURNOVER**

	Six months ended 30th June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Receive profit streams from the gaming promotion business	142,600	78,764
Distribution fee income	2,524	14,575
Production fee income	1,509	2,345
Service income	100	150
	<u>146,733</u>	<u>95,834</u>

5. **OTHER REVENUE**

	Six months ended 30th June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	266	494
Rental income	228	120
Management fee income received from a former associate	2,430	2,430
Imputed interest income on convertible bonds receivable	1,125	–
Others	142	358
	<u>4,191</u>	<u>3,402</u>

6. **OTHER INCOME**

	Six months ended 30th June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment	10,540	1
Gain on disposal of trading securities	104	–
Gain on redemption of convertible notes	16,459	–
Reversal of impairment loss on amount due from a former associate	25,179	–
Others	118	154
	<u>52,400</u>	<u>155</u>

7. PROFIT BEFORE TAXATION

	Six months ended 30th June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging/(crediting):		
Amortisation of film rights (included in cost of sales)	8,473	15,622
Amortisation of interests in leasehold land	65	82
Depreciation of property, plant and equipment	1,046	1,160
Employee benefit expenses	31,946	9,594
Impairment loss on amounts due from associates	-	14,975
Net foreign exchange losses	7	377
Gain on disposal of property, plant and equipment	(10,540)	(1)
Gain on disposal of trading securities	(104)	-
	<u> </u>	<u> </u>

8. FINANCE COSTS

	Six months ended 30th June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Effective interest expense on convertible notes	3,072	6,916
Interest on bank borrowings wholly repayable within five years	9,573	8,324
Interest on bank borrowings not wholly repayable within five years	-	26
Other loan wholly repayable within five years	1,726	-
	<u> </u>	<u> </u>
	<u>14,371</u>	<u>15,266</u>

9. TAXATION

	Six months ended 30th June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The taxation charge/ (credit) comprises:		
Current tax charge in other jurisdictions	-	1
Deferred tax	982	(236)
	<u> </u>	<u> </u>
	<u>982</u>	<u>(235)</u>

No provision for Hong Kong Profits Tax has been made in the condensed consolidated interim financial statements 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. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

10. EARNINGS PER SHARE

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

	Six months ended 30th June 2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Earnings		
Earnings attributable to owners of the Company		
for the purpose of basic and diluted earnings per share	<u>101,236</u>	<u>17,865</u>
	Six months ended 30th June 2009 '000	2008 '000 (restated)
Number of shares		
Weighted average number of ordinary shares		
for the purpose of basic and diluted earnings per share	<u>201,434</u>	<u>19,443</u>

The weighted average number of ordinary shares for the six months ended 30th June 2008 and 30th June 2009 for the purposes of basic and diluted earnings per share have been adjusted and restated respectively to take into the effect of the share consolidation that became effective on 4th May 2009. The computation of diluted earnings per share did not assume the exercise of outstanding share options and the conversion of the outstanding convertible notes of the Company since their exercise and conversion had no dilutive effect on earnings 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 2009 (Six months ended 30th June 2008: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired items of property, plant and equipment with a cost of approximately HK\$163,086,000 (Six months ended 30th June 2008: HK\$274,000).

13. CONVERTIBLE BONDS RECEIVABLE/CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE BONDS

	Convertible bonds receivable <i>HK\$'000</i>	Conversion options embedded in Convertible bonds <i>HK\$'000</i>
At 1st January 2008	667	222
Imputed interest income	40	–
Disposals	<u>(707)</u>	<u>(222)</u>
At 31st December 2008 and 1st January 2009	–	–
Subscription of convertible bonds	17,527	42,473
Imputed interest income	1,125	–
Change in fair value in respect of conversion options embedded in convertible bonds	<u>–</u>	<u>(22,619)</u>
At 30th June 2009	<u><u>18,652</u></u>	<u><u>19,854</u></u>

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

Conversion options embedded in convertible bonds represented the conversion option element of the convertible bonds subscribed by the Group and are measured at fair value using the Binomial Option Pricing Model by an independent professional valuer, at initial recognition and at 30th June 2009. The debt element of convertible bonds is classified under loan and receivables.

14. TRADE RECEIVABLES

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

	As at 30th June 2009 <i>HK\$'000</i> (Unaudited)	As at 31st December 2008 <i>HK\$'000</i> (Audited)
0 to 30 days	24,713	22,721
31 to 60 days	–	339
61 to 90 days	1,506	136
91 to 180 days	1,392	73
Over 180 days	<u>45,740</u>	<u>46,862</u>
	73,351	70,131
Less: Impairment loss on trade receivables	<u>(1,361)</u>	<u>(1,361)</u>
Total	<u><u>71,990</u></u>	<u><u>68,770</u></u>

15. SHARE CAPITAL

	Number of shares		Amount	
	As at 30th June 2009 '000 (Unaudited)	As at 31st December 2008 '000 (Audited)	As at 30th June 2009 HK\$'000 (Unaudited)	As at 31st December 2008 HK\$'000 (Audited)
Ordinary shares of HK\$0.01 each (2008: HK\$0.05 each)				
Authorised:				
At beginning of period	2,000,000	20,000,000	100,000	1,000,000
Increase in authorised share capital (note a)	8,000,000	–	400,000	–
	10,000,000	20,000,000	500,000	1,000,000
Share consolidation (note c (i))	(9,500,000)	(18,000,000)	–	–
Share subdivision (note c (iii))	49,500,000	–	–	–
Capital reduction	–	–	–	(900,000)
At end of period	50,000,000	2,000,000	500,000	100,000
Issued and fully paid:				
At beginning of period	532,243	2,806,097	26,612	140,305
Open offer and bonus issue (note b)	4,257,944	–	212,897	–
Share consolidation (note c (i))	(4,550,678)	(3,998,187)	–	–
Capital reduction (note c (ii))	–	–	(237,114)	(199,910)
Placement of shares (note d)	800,000	1,488,000	8,000	74,400
Consideration shares for acquisition of a subsidiary	–	236,333	–	11,817
At end of period	1,039,509	532,243	10,395	26,612

Notes:

- (a) Pursuant to an ordinary resolution passed in a special general meeting of the Company held on 23rd January 2009, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 2,000,000,000 shares of HK\$0.05 each to HK\$500,000,000 divided into 10,000,000,000 shares of HK\$0.05 each by creation of an additional 8,000,000,000 shares of HK\$0.05 each.
- (b) On 26th February 2009, the Company issued 1,064,486,080 offer shares of the Company of HK\$0.05 per share at a subscription price of HK\$0.05 each on the basis of two offer shares for every existing shares held on 23rd January 2009 by way of open offer and issued 3,193,458,240 new shares on the basis of three bonus shares for every one offer shares taken up under the open offer of the Company. The estimated net proceeds of not less than approximately HK\$42,000,000 was intended to be used for subscription of convertible bonds to be issued by Golife.

15. SHARE CAPITAL (Continued)

Notes: (Continued)

- (c) At a special general meeting of the Company held on 30th April 2009, a special resolution was passed to approve the following changes to the capital of the Company (the "Capital Reorganisation"):
- (i) Share consolidation: every twenty existing issued and unissued shares (the "Existing Shares") of par value of HK\$0.05 each in the share capital of the Company be consolidated into one consolidated share (each a "Consolidated Share") of HK\$1.00 each;
 - (ii) Capital reduction: (a) the issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.99 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduce from HK\$1.00 to HK\$0.01; and (b) the credit arising from the reduction of issued share capital of the Company be credited to the contributed surplus account of the Company; and
 - (iii) Share subdivision: each of the authorised but unissued Consolidated Shares of HK\$1.00 each be subdivided into one hundred shares of HK\$0.01 each of the Company.

The Capital Reorganisation was effected on 4th May 2009.

- (d) On 11th June 2009, the Company allotted and issued an aggregate of 800,000,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.20 per share. The net proceeds of approximately HK\$158,000,000 were used to finance the hotel operations and for general working capital of the Group.

16. TRADE PAYABLES

The aged analysis of the trade payables is as follows:

	As at 30th June 2009 HK\$'000 (Unaudited)	As at 31st December 2008 HK\$'000 (Audited)
0 to 30 days	4,230	650
31 to 60 days	303	48
61 to 90 days	172	17
91 to 180 days	1,800	632
Over 180 days	6,193	5,736
	<u>12,698</u>	<u>7,083</u>

17. BANK BORROWINGS

	As at 30th June 2009 HK\$'000 (Unaudited)	As at 31st December 2008 HK\$'000 (Audited)
Secured bank loans	<u>452,194</u>	<u>383,467</u>
The maturity of the above borrowings is as follow:		
Within one year	222,595	102,561
Between one and two years	102,666	102,631
Between two and five years	126,933	178,251
Over five years	-	24
	<u>452,194</u>	<u>383,467</u>
Less: Amounts due within one year shown under current liabilities	<u>(222,595)</u>	<u>(102,561)</u>
Amounts due after one year	<u>229,599</u>	<u>280,906</u>

Secured bank loans comprise a mortgage loan which bears interest at commercial rates and a term loan of outstanding amount HK\$325,000,000 ("Term Loan I") which bears interest at 2.0% per annum below the bank's best lending rate and another term loan of outstanding amount HK\$120,000,000 ("Term Loan II") which bears interest at 2.2% per annum above 1 month HIBOR, subject to fluctuation at discretion. The mortgage loan is secured by the Group's investment property with carrying value of approximately HK\$47,580,000 (2008: HK\$40,880,000). The mortgage loan is repayable in installments over a period of ten years. The term loans are secured by the Group's leasehold land, buildings and construction in progress with carrying value of approximately HK\$487,329,000 (2008: HK\$499,457,000), HK\$4,308,000 (2008: HK\$2,931,000) and HK\$648,537,000 (2008: HK\$488,646,000) respectively. Term loan I is repayable by 18 equal consecutive quarterly installments of HK\$25,000,000 each commencing from the 9th month after the date of the first loan drawdown. Term loan II is repayable by 12 equal consecutive monthly installments of HK\$10,000,000 each commencing from first month after the date of loan drawdown.

18. CONVERTIBLE NOTES PAYABLE

On 18th March 2008, the Company issued unsecured convertible notes in the principal amount of HK\$384,000,000 (the "Convertible Notes") to Lucky State Group Limited (the "Noteholder") as part of consideration for the acquisition of entire equity interest of Best Mind. The Convertible Notes are interest bearing at 5% per annum and will be matured on 17th March 2018. The Noteholder may convert the whole or part (in multiple of HK\$1,000,000) of the Convertible Notes into shares of the Company at a conversion price of HK\$6.86 per share (after adjustments) as of 30th June 2009 (subject to further adjustment) from the date either the guarantee profit from Mr. Ng Cheuk Fai, the guarantor and beneficial owner of the Noteholder, is achieved or the shortfall is received from the Noteholder to 17th March 2018. The Company may at any time before the maturity date, by serving at least 7 days' prior written notice on the Noteholder with the total amount proposed to be redeemed from the Noteholder specified therein, redeem Convertible Notes (in whole or in part) at par.

The Convertible Notes contain two components, liability and equity elements. The fair value of the liability component, included in long-term borrowings, was calculated using discounted cash flow method with reference to a market interest rate for an equivalent non-convertible note. The remaining balance represented the equity conversion component, was included in owners' equity named as convertible notes reserve.

	Liability component of the Convertible Notes
	<i>HK\$'000</i>
At 1st January 2008	–
Proceeds of issue	384,000
Equity component	<u>(71,691)</u>
Liability component at date of issue	312,309
Interest charged	13,729
Redemption	(176,759)
Interest paid	<u>(10,889)</u>
At 31st December 2008 and 1st January 2009	138,390
Interest charged	3,072
Redemption	(79,241)
Interest paid	<u>(2,407)</u>
Liability component at 30th June 2009	<u><u>59,814</u></u>

The effective interest rate on the liability component of the Convertible Notes is approximately 7.75% per annum.

19. ACQUISITION OF SUBSIDIARIES

On 30th June 2009, the Group acquired the remaining 51% equity interest in China Star Management Limited ("CSML") and Anglo Market International Limited ("AMIL") at a total consideration of HK\$2. Together with the existing 49% interest in CSML and AMIL held by the Group, CSML and AMIL became wholly owned subsidiaries of the Company as at 30th June 2009.

Details of net assets of CSML and AMIL acquired and goodwill are as follows:

	Carrying amount before the Acquisition	Fair value adjustments	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:			
Property, plant and equipment	86	–	86
Trade receivables	2,215	–	2,215
Deposits paid, prepayments and other receivables	9,655	–	9,655
Cash at bank and in hand	560	–	560
Deposits received, accruals and other payables	<u>(37,378)</u>	–	<u>(37,378)</u>
Net liabilities acquired	<u>(24,862)</u>	–	<u>(24,862)</u>
Goodwill			<u>24,862</u>
Total consideration at fair value			<u>–</u>
Total consideration at fair value satisfied by:			
Cash consideration paid			<u>–</u>
Net cash inflow arising from the acquisition:			
Cash consideration paid			–
Cash at bank and in hand acquired			<u>560</u>
			<u>560</u>

During the six months ended 30th June 2009, CSML and AMIL did not contribute any profit to the Group.

20. NON-CURRENT ASSETS HELD FOR SALE

- (a) Subsequent to the acquisition of CSML and AMIL on 30th June 2009 as disclosed in note 19 to the condensed consolidated interim financial statements, the Group entered into an agreement on 31st July 2009 to dispose its 100% equity interest in CSML and AMIL at a total consideration of HK\$3,137,971. Accordingly, all assets and liabilities of CSML and AMIL as at 30th June 2009 were classified as assets and liabilities held for sale.

The goodwill of approximately HK\$24,862,000 arising from acquisition of subsidiaries classified as non-current assets held for sale was fully impaired for the period.

The major classes of assets and liabilities classified as held for sale at the reporting date are as follows:

	As at 30th June 2009 HK\$'000 (Unaudited)	As at 31st December 2008 HK\$'000 (Audited)
Property, plant and equipment	86	716
Trade receivables	2,215	–
Deposits, prepayments and other receivables	9,655	–
Cash at bank and in hand	560	–
	<hr/>	<hr/>
Assets classified as held for sale	12,516	716
	<hr/>	<hr/>
Deposits received, accruals and other payables	37,378	–
	<hr/>	<hr/>
Liabilities classified as held for sale	37,378	–
	<hr/>	<hr/>
Net (liabilities)/assets classified as held for sale	(24,862)	716
	<hr/> <hr/>	<hr/> <hr/>

- (b) On 3rd December 2008, the Group entered into an agreement to dispose certain of its property, plant and equipment at a total consideration of HK\$11,200,000. Accordingly, the carrying value of these property, plant and equipment was classified as assets held for sale as at 31st December 2008.

- (c) On 1st August 2007, the Company entered into an agreement with China Star Investment Holdings Limited ("China Star Investment") and Legend Rich Limited, a wholly owned subsidiary of China Star Investment, whereby the Company has agreed to sell 100% of the issued share capital of Exceptional Gain Profits Limited and a sale loan owned by Exceptional Gain Profits Limited to the Company (the "Proposed Disposal"). The Proposed Disposal was approved by the shareholders of the Company at a special general meeting held on 24th October 2007 and all the results of the group headed by Exceptional Gain Profits Limited which mainly comprised the hotel operations were classified as discontinued operations for the period ended 30th June 2008.

On 23rd December 2008, the Company entered into a termination agreement with China Star Investment and Legend Rich Limited to terminate the Proposed Disposal with immediate effect. The results of the discontinued operations for the period ended 30th June 2008 were re-presented as continuing operations in the condensed consolidated income statement.

21. DISPOSAL OF A SUBSIDIARY

On 8th June 2009, the Group disposed Bingo Chance Limited, a direct wholly owned subsidiary of the Company, at a consideration of HK\$22,960,000.

Details of net assets disposed of are as follows:

	<i>HK\$'000</i>
Details of the net assets disposed of are as follows:	
Available-for-sale financial assets	26,600
Release of financial assets revaluation reserve	25,962
	52,562
Loss on disposal of a subsidiary	(29,602)
	22,960
Satisfied by:	
Cash consideration	22,960
	22,960
Net cash inflow arising from the disposal:	
Cash consideration received	22,960
Bank balance and cash disposed of	—
	22,960

During the six months ended 30th June 2009, Bingo Chance Limited did not contribute any to the Group's turnover and contributed a loss of approximately HK\$4,800 to the Group's profit for the period.

22. MATERIAL RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in these unaudited condensed consolidated interim financial statements, during the period under review, the Group entered into the following transactions with related parties:

	For the six months ended	
	30th June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Management fee income received or receivable from a former associate	2,430	2,430
Interest expenses on loan advance paid or payable to a related company	1,726	—
	1,726	—

The amounts were determined at prices agreed between parties.

23. LEASE COMMITMENTS

As at 30th June 2009, the Group had commitments for total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30th June 2009 HK\$'000 (Unaudited)	As at 31st December 2008 HK\$'000 (Audited)
Within one year	1,049	2,250
In the second to fifth years, inclusive	1,634	2,151
	<u>2,683</u>	<u>4,401</u>

24. CAPITAL COMMITMENTS

The Group had the following outstanding commitments in respect of acquisitions of equity interests in certain entities at period ended as follows:

	As at 30th June 2009 HK\$'000 (Unaudited)	As at 31st December 2008 HK\$'000 (Audited)
Authorised and contracted, but not provided for	<u>600,000</u>	<u>163,680</u>

25. SUBSEQUENT EVENTS

- (a) On 29th April 2009, Bestjump Holdings Limited ("Bestjump"), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director of the Company entered into a sale and purchase agreement pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the "Targeted Companies") and the 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 million (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interest in Over Profit International Limited. Over Profit International Limited indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070. Details of the transaction were set out in the Company's circular dated on 17th August 2009. The transaction has been approved in a special general meeting held on 3rd September 2009.

25. SUBSEQUENT EVENTS (Continued)

- (b) On 16th July 2009, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 207,900,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.22 per share. 207,900,000 new shares were allotted and issued on 29th July 2009 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 29th June 2009. The net proceeds of approximately HK\$45,238,000 were intended to be used for the general working capital of the Group.
- (c) On 23rd July 2009, the Company entered into a subscription agreement with China Star Investment Holdings Limited ("China Star Investment") pursuant to which the Company has agreed to issue and China Star Investment has agreed to subscribe for convertible bonds in the principal amount of HK\$200,000,000 to be issued by the Company. The subscription price should be satisfied by setting off against the loan advance in the sum of HK\$200,000,000 granted by China Star Investment to the Company pursuant to the loan facility agreement dated 11th March 2009. Mr Heung Wah Keung and Ms Chen are the common executive directors and have beneficial interests in the Company and China Star Investment. The convertible bonds were subscribed by China Star Investment on 21st September 2009.
- (d) On 31st July 2009, the Company entered into a sale and purchase agreement to dispose its entire equity interests in CSML and AMIL to Dance Star Group Limited with a total consideration of HK\$3,137,971.

26. APPROVAL OF INTERIM FINANCIAL STATEMENT

The Interim Financial Statements were approved and authorised for issue by the board of directors of the Company on 25th September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

Following the termination of the Proposed Disposal (defined below), all corresponding results in the income statement for the six months ended 30th June 2008 were re-presented. Details are disclosed in the section "Termination of the Proposed Disposal of Exceptional Gain Profits Limited and Hotel Lan Kwai Fong (Macau) Limited".

For the six months ended 30th June 2009, the Group's turnover increased by 53% to approximately HK\$146,733,000 as compared to HK\$95,834,000 for the same period in the previous year.

Profit from operations and profit for the period amounted to approximately HK\$120,181,000 and HK\$75,226,000 respectively as compared to profit from operations and profit for the period of HK\$47,009,000 and HK\$11,600,000 respectively for the last corresponding period. The improvement in the current period's result was mainly attributable to substantial contribution from 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 equity owners of the Company for the six months ended 30th June 2009 was HK\$101,236,000, representing a 467% improvement over profit of HK\$17,865,000 for the last corresponding period.

Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2009.

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

Of the total turnover amount, HK\$142,600,000 or 97% was generated from gaming and entertainment business, HK\$2,524,000 or 2% was generated from film distribution business, HK\$1,609,000 or 1% was generated from other service income.

This period, the Group had continued to benefit from the sound performance of Best Mind. The Group had shared revenue of approximately HK\$142,600,000 (2008: HK\$78,764,000) from the gaming and entertainment business, a 49% higher than the guarantee profit of approximately HK\$96,000,000 for the same period as provided by Mr. Ng Cheuk Fai, the guarantor and the beneficial owner of Ocho.

For the film distribution business, the Group had released only 1 new film in the market in response to the weak market condition of the entertainment industry in these years, especially for the Chinese language films. During the six months ended 30th June 2009, turnover and its segment loss for film distribution division amounted to HK\$2,524,000 and HK\$6,131,000 respectively as compared to HK\$14,575,000 and HK\$1,297,000 respectively for the last corresponding period.

As Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF", formally known as Kingsway Hotel Limited), a major subsidiary of the Company which operates a hotel in Macau was under renovation during the reporting period, no revenue was recorded for hotel operations.

For the geographical segments, turnover for Hong Kong segment amounted to HK\$3,332,000 or 2% of the total turnover as compared to HK\$12,641,000 or 13% of total turnover for the last corresponding period. Segment profit amounted to HK\$820,000 as compared to HK\$2,001,000 for the last corresponding period. The decrease in turnover and segment profit by the Hong Kong segment was mainly attributable to decrease in the number of films produced and distributed during the period.

Turnover for Macau segment amounted to HK\$142,600,000 or 97% of the total turnover as compared to HK\$78,764,000 or 82% of total turnover for the last corresponding period. Segment profit amounted to HK\$142,600,000 as compared to HK\$78,764,000 for the last corresponding period. This revenue mainly represented revenue derived from sharing of profit streams from investments in gaming and entertainment business in Macau. The Group had shared revenue from it for this whole period whereas only shared the period from 18th March 2008 to 30th June 2008 in the last corresponding period.

For the six months ended 30th June 2009, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK\$44,283,000, a 22% increase from HK\$36,342,000 as compared to the last corresponding period. Such increase was mainly attributable to a 233% increase in employee benefit expenses from HK\$9,594,000 to HK\$31,946,000 with respect to the increase in the number of employees in Hotel LKF for the preparation of grand opening in the second half of the year.

Finance costs for the six months ended 30th June 2009 amounted to HK\$14,371,000, a 6% decrease from HK\$15,266,000 as compared to the last corresponding period. HK\$3,072,000 (2008: HK\$6,916,000) was attributable to the unsecured convertible notes issued to Lucky State Group Limited as part of the consideration for the acquisition of Best Mind with effective interest rate of 7.75% per annum and the balance was mainly attributable to the term loans and bank overdraft granted by a bank to Hotel LKF.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Financial Resources

As at 30th June 2009, the Group had total assets of approximately HK\$3,208,785,000, and a net current assets of HK\$314,689,000, representing a current ratio of 1.5 (31st December 2008: 1.3). The Group had cash and cash balances of approximately HK\$231,648,000 (31st December 2008: HK\$138,145,000). As at 30th June 2009, the Group had total borrowings of HK\$878,545,000 comprising a bank mortgage loan of HK\$7,194,000, a secured bank overdraft of HK\$166,537,000, a secured bank term loan of outstanding amount HK\$325,000,000 ("Term Loan I"), another secured bank term loan of outstanding amount HK\$120,000,000 ("Term Loan II"), an outstanding convertible notes of HK\$59,814,000 (liability component of principal amount of HK\$72,000,000) and loan from a related company of HK\$200,000,000. The bank mortgage loan was secured by the Group's investment properties with carrying value of HK\$47,580,000, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 55 monthly instalments. The bank overdraft facility and the term loans were secured by the Group's leasehold land, building and construction in progress with carrying value of approximately HK\$1,140,174,000 (31st December 2008: HK\$991,034,000). The bank overdraft facility was interest bearing at 1% per annum below the bank's best lending rate, repayable on demand and reviewed by the bank annually. Term Loan I was interest bearing at 2.0% per annum below the bank's best lending rate, repayable by 18 equal consecutive quarterly installments of HK\$25,000,000 each commencing from the 9th month after the date of the first loan drawdown. Term Loan II was interest bearing at 2.2% per annum over one month HIBOR, repayable by 12 equal consecutive monthly installments of HK\$10,000,000 each commencing from first month after the date of drawdown. The outstanding convertible notes were unsecured, interest bearing at 5% per annum and will mature on 17th May 2012. The convertible notes carry the right to convert into shares of the Company at an adjusted conversion price of HK\$3.0 per share as of 30th June 2009. Loan from a related company was unsecured, interest bearing at prime rate of The Hong Kong and Shanghai Banking Corporation Limited and will mature on the thirty-six months after the date of first drawdown. As at 30th June 2009, Hotel LKF, a subsidiary of the Company had banking facilities amounting to HK\$645,000,000 which were utilised to the extent of HK\$611,537,000. The Group's gearing remained reasonable during the period with total debts of HK\$878,545,000 against owners' equity of HK\$1,736,607,000. This represented a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 51%.

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 2009, the Group had no contingent liability.

On 8th December 2008, the Company announced that it proposed to subscribe zero coupon convertible bonds in principal amount of HK\$60,000,000 to be issued by Golife Concepts Holdings Limited in five tranches of HK\$12,000,000 each due on the tenth anniversary of the date of issue for such tranche ("Subscription"). HK\$60,000,000 convertible bonds were issued by Golife Concepts Holdings Limited to the Company on 29th January 2009.

At the same date, the Company also announced that 1,064,486,080 offer shares of the Company of HK\$0.05 per share at a subscription price of HK\$0.05 each on the basis of two offer shares for every shares held on 23rd January 2009 with bonus issue on the basis of three bonus shares for every one offer shares taken up under the open offer of the Company. The estimated net proceeds of not less than approximately HK\$42,000,000 were intended to be used for the Subscription. The offer shares and the bonus shares were allotted and issued on 26th February 2009.

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

On 29th January 2009, the authorised share capital of the Company increased from HK\$100,000,000 divided into 2,000,000,000 shares of HK\$0.05 each to HK\$500,000,000 divided into 10,000,000,000 shares of HK\$0.05 each.

On 26th February 2009, 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 (i) share consolidation that every 20 issued and unissued shares of HK\$0.05 each be consolidated into 1 consolidated share of HK\$1.00 each of the Company ("Consolidated Shares"); (ii) capital reduction that the issued share capital of the Company be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.99 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Shares will be reduced from HK\$1.00 to HK\$0.01 and the credit arising from the reduction of issued share capital of the Company be credited to the contributed surplus account of the Company; and (iii) share subdivision that each of the authorised but unissued Consolidated Shares of HK\$1.00 each be subdivided into 100 new shares of HK\$0.01 each. The Capital Reorganisation was completed on 4th May 2009.

On 11th March 2009, the Company entered into a loan agreement with China Star Investment Holdings Limited ("China Star Investment") pursuant to which China Star Investment agreed to grant an unsecured loan facility of up to HK\$200,000,000 to the Company. HK\$200,000,000 (the "Loan Advance") was drawn on 29th April 2009. Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are the common executive directors and have beneficial interests in the Company and China Star Investment.

On 12th May 2009, the Company entered into a placing agreement with a placing agent and had conditionally agreed to place on a fully underwritten basis an aggregate 800,000,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.20 per share. 800,000,000 new shares was allotted and issued on 11th June 2009 under the general mandate granted to the directors of the Company at the special general meeting of the Company held on 5th June 2009. The net proceeds of approximately HK\$158,000,000 were used to finance the hotel operations and for general working capital of the Group.

Subsequent to the balance sheet date, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 207,900,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.22 per share on 16th July 2009. 207,900,000 new shares was allotted and issued on 29th July 2009 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 29th June 2009. The net proceeds of approximately HK\$45,238,000 were intended to be used for the general working capital of the Group.

On 23rd July 2009, the Company entered into a subscription agreement with China Star Investment pursuant to which the Company has agreed to issue and China Star Investment has agreed to subscribe for convertible bonds in the principal amount of HK\$200,000,000 to be issued by the Company. The subscription price should be satisfied by setting off against the Loan Advance. The convertible bonds were unsecured, interest bearing at prime rate of The Hong Kong and Shanghai Banking Corporation Limited and carry the right to convert into shares of the Company at an initial conversion price of HK\$0.20 per share (subject to adjustment) during the third anniversary from the date of issue of the convertible bonds. The convertible bonds were subscribed by China Star Investment on 21st September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Termination of the Proposed Disposal of Exceptional Gain Profits Limited and Hotel Lan Kwai Fong (Macau) Limited

On 1st August 2007, the Company entered into an agreement with China Star Investment and Legend Rich Limited, a wholly-owned subsidiary of China Star Investment, whereby the Company has agreed to sell 100% of the issued share capital of Exceptional Gain Profits Limited ("Exceptional Gain") and a sale loan owned by Exceptional Gain to the Company for an aggregate consideration of HK\$447,000,000 (the "Proposed Disposal"). The Proposed Disposal was approved by the shareholders of the Company at a special general meeting held on 24th October 2007 and all the results of the group headed by Exceptional Gain which mainly comprised the hotel operations were classified as discontinued operations for the period ended 30th June 2008.

On 23rd December 2008, the Company entered into a termination agreement with China Star Investment and Legend Rich Limited to terminate the Proposed Disposal with immediate effect. The results of the discontinued operations for the period ended 30th June 2008 were re-presented as continuing operations in the condensed consolidated income statement.

Material Disposal

Disposal of equipments of China Star Production Services Limited

On 4th December 2008, the Company announced that China Star Production Services Limited, a wholly owned subsidiary of the Company entered into a memorandum of agreement with Hong Kong Movie City Company Limited to dispose a number of system/unit used for post production process to the final cut of films for a total consideration of HK\$11,200,000. This disposal constituted a discloseable transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and was completed 30th April 2009.

Disposal of Bingo Chance Limited

On 8th June 2009, the Group entered into a sale and purchase agreement to dispose 100% equity interest in Bingo Chance Limited at a consideration of HK\$22,960,000. The major assets in Bingo Chance Limited were its investment in 700,000,000 shares in Daido Group Limited which were classified as available-for-sale financial assets by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Material Acquisition after Balance Sheet Date

On 29th April 2009, Bestjump Holdings Limited ("Bestjump"), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director of the Company entered into a sale and purchase agreement pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the "Targeted Companies") and outstanding loans in an aggregate amount of HK\$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK\$900 million (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the "Macau Land"). Details of the transaction were set out in the Company's circular dated on 17th August 2009. The transaction has been approved in a special general meeting of the Company held on 3rd September 2009.

Employees

As at 30th June 2009, the Group employed 633 staffs (2008: 78 staffs), including 596 staffs (2008: 30 staffs) employed by Hotel LKF. 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.

Prospects

During the period under review, the gaming and entertainment business continues its dominant contribution and provides stable cash income to the Group. The Group believes that the Macau gaming and entertainment business would growth internationally when its infrastructural development becomes more matured. One of our major investment, Hotel LKF has its grand opening on 2nd August 2009 which has attracted wide attention of the hotel and casino market. Hotel LKF is a unique, contemporary and cozy hotel which features comfortable suites, exciting dining, cool bars and exclusive gaming rooms. The income stream of the Group will become more solid and stable following the grand opening of Hotel LKF. The performance of the gaming and entertainment business has encouraged and strengthen the Group's confidence in the prospect and development in Macau. On 29th April 2009, the Group has entered into a sale and purchase agreement to purchase the Macau Land. It is intended that luxury residential apartments be developed on the Macau Land for sale. The development costs of the Macau Land are intended to be financed by proceeds from pre-sale of the apartments and bank borrowings.

Looking ahead, the Group will continue to streamline its business operations which can enables the Group to operate in a much cost effective manner and concentrate its resources on investments opportunity with good potential of revenue growth and a positive impact on the Group's return in the long run.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2009, 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 ("Mr. Heung")	Beneficial owner/ interest of spouse/ interest of controlled corporation	70,403,099*	6.77
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	70,403,099*	6.77

All interests stated above represent long positions.

- * These shares are held as to 23,176,653 shares by Mr. Heung, as to 1,427,247 shares by Ms. Chen (the spouse of Mr. Heung), as to 45,662,174 shares by Porterstone Limited ("Porterstone") (a company wholly-owned by Ms. Chen) and as to 137,025 shares by Dorest Company Limited ("Dorest") (a company wholly-owned by Glenstone Investments Limited which is in turn controlled as to 60% by Porterstone and as to 40% by Mr. Heung).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

(ii) Rights to acquire shares in the Company

(a) *Share options*

As at 30th June 2009, 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	28.03.2000 – 27.03.2010	642.26	12,048	12,048	24,096	
	02.06.2000 – 01.06.2010	311.26	5,455	5,455	10,910	
	16.07.2002 – 15.07.2012	65.68	2,893	2,893	5,786	
	17.07.2003 – 16.07.2013	21.60	5,971	5,971	11,942	
			<u>26,367</u>	<u>26,367[#]</u>	<u>52,734</u>	<u>0.00</u>
Ms. Chen	28.03.2000 – 27.03.2010	642.26	12,048	12,048	24,096	
	02.06.2000 – 01.06.2010	311.26	5,455	5,455	10,910	
	16.07.2002 – 15.07.2012	65.68	2,893	2,893	5,786	
	17.07.2003 – 16.07.2013	21.60	5,971	5,971	11,942	
			<u>26,367</u>	<u>26,367⁺</u>	<u>52,734</u>	<u>0.00</u>
Ms. Li Yuk Sheung	16.07.2002 – 15.07.2012	65.68	28,993	–	28,993	
	17.07.2003 – 16.07.2013	21.60	59,709	–	59,709	
			<u>88,702</u>	<u>–</u>	<u>88,702</u>	<u>0.03</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
Chen Ming Yin, Tiffany	700,000,000	67.34
Heung Wah Keung	700,000,000*	67.34

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.

Other than as set out above, as at 30th June 2009, none of the directors or chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register of Interests or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEME

Pursuant to a resolution passed at the annual general meeting of the Company held on 27th May 2002, the share option scheme adopted by the Company on 23rd October 1996 (the "Old Option Scheme") was terminated and a new share option scheme (the "New Option Scheme") was adopted.

As the Old Option Scheme was terminated on 27th May 2002, no further share options can be granted under the Old Option Scheme thereafter. However, all outstanding share options granted under the Old Option Scheme prior to the said termination shall remain valid and exercisable in accordance with the provisions of the Old Option Scheme.

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

SHARE OPTION SCHEME (Continued)

Details of share options outstanding as at 30th June 2009 were as follows:

Category of participants	Name of scheme	Exercisable period [†]	Exercise price per share [#] HK\$	Number of share options			
				Outstanding as at 01.01.2009	Expired during the period	Adjustment during the period [#]	Outstanding as at 30.06.2009
Directors of the Company	Old Option Scheme	28.03.2000 – 27.03.2010	642.26	100,108	–	(76,012)	24,096
		02.06.2000 – 01.06.2010	311.26	45,326	–	(34,416)	10,910
	New Option Scheme	16.07.2002 – 15.07.2012 17.07.2003 – 16.07.2013	65.68 21.60	144,499 297,680	– –	(109,720) (226,029)	34,779 71,651
				587,613	–	(446,177)	141,436
Employees of the Group	Old Option Scheme	05.01.1999 – 04.01.2009	46.16 [‡]	4	(4) [‡]	–	–
		28.03.2000 – 27.03.2010	642.26	26,067	–	(19,793)	6,274
		02.06.2000 – 01.06.2010	311.26	45,326	–	(34,417)	10,909
	New Option Scheme	16.07.2002 – 15.07.2012	65.68	240,915	–	(182,927)	57,988
		17.07.2003 – 16.07.2013	21.60	248,068	–	(188,359)	59,709
		13.12.2004 – 12.12.2014	19.90	325,691	–	(247,298)	78,393
		04.02.2005 – 03.02.2015	20.60	1,986,713	–	(1,508,517)	478,196
		30.12.2005 – 29.12.2015	9.26	718,148	–	(545,292)	172,856
		21.11.2006 – 20.11.2016	10.60	1,302,762	–	(989,191)	313,571
		25.05.2007 – 24.05.2017	16.08	1,779,356	–	(1,351,070)	428,286
		27.06.2007 – 26.06.2017	16.00	1,011,269	–	(767,859)	243,410
		23.10.2007 – 22.10.2017	7.60	5,243,000	–	(3,981,023)	1,261,977
		21.08.2008 – 20.08.2018	0.98	21,395,000	–	(16,245,274)	5,149,726
			34,322,319	(4)	(26,061,020)	8,261,295	
Other participants	New Option Scheme	16.07.2002 – 15.07.2012	65.68	481,828	–	(365,852)	115,976
		17.07.2003 – 16.07.2013	21.60	765,916	–	(581,562)	184,354
		13.12.2004 – 12.12.2014	19.90	1,608,911	–	(1,221,650)	387,261
		04.02.2005 – 03.02.2015	20.60	1,716,932	–	(1,303,670)	413,262
		30.12.2005 – 29.12.2015	9.20	1,346,187	–	(1,022,163)	324,024
		21.11.2006 – 20.11.2016	10.60	977,072	–	(741,893)	235,179
		25.05.2007 – 24.05.2017	16.08	3,905,030	–	(2,965,098)	939,932
		27.06.2007 – 26.06.2017	16.00	1,669,164	–	(1,267,401)	401,763
		23.10.2007 – 22.10.2017	7.60	6,027,000	–	(4,576,315)	1,450,685
		21.08.2008 – 20.08.2018	0.98	22,515,000	–	(17,095,692)	5,419,308
			41,013,040	–	(31,141,296)	9,871,744	
			75,922,972	(4)	(57,648,493)	18,274,475	

[†] The exercisable period commenced on the date of grant of the relevant share options.

[#] The exercise prices and number of options which remained outstanding during the period have been adjusted due to the completion of the open offer with bonus issue and capital reorganisation during the period.

[‡] No adjustment for this exercise price since these options expired on 4th January 2009, i.e. before the completion of the open offer with bonus issue and capital reorganisation.

No share option was granted, exercised, lapsed or cancelled during the six months ended 30th June 2009.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2009, 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 held	Approximate percentage of interests held
Au Tsui Yee Maggie	Beneficial owner	102,000,000	9.81
Chan Shuk King	Beneficial owner	102,000,000	9.81
So Chi Ming	Beneficial owner	102,000,000	9.81

All interests stated above represent long positions.

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 2009.

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 2009, except for the following deviation:

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

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th June 2009. 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 2009.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at 30th June 2009 was comprising Messrs. Hung Cho Sing, Ho Wai Chi, Paul and Leung Hok Man, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

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

The unaudited condensed consolidated interim financial statements for the six months ended 30th June 2009 have been reviewed by the audit committee of the Company.

BOARD OF DIRECTORS

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

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 25th September 2009



Chartered Accountants
Certified Public Accountants

31st Floor
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The Landmark
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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 23, 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") at of 30th June 2009 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended 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 enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

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

HLB Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

Hong Kong, 25th September 2009