CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2010

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2010

		Six months ended 30th June	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*4*	**454,234**	146,733
Cost of sales		**(13,111)**	(8,512)
Gross profit		**441,123**	138,221
Other revenue	*5*	**9,267**	4,191
Other income	*6*	**27,345**	52,400
Administrative expenses		**(286,780)**	(45,394)
Marketing and distribution expenses		**(36,131)**	(182)
Gain arising on change in fair value of financial assets classified as held for trading		**26,277**	11,726
Gain arising on change in fair value of investment properties		**4,090**	6,700
Impairment loss recognised in respect of goodwill		**(8,975)**	(24,862)

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30th June 2010

	Notes	**Six months ended 30th June 2010** *HK$'000* **(Unaudited)**	2009 *HK$'000* (Unaudited)
Impairment loss recognised in respect of intangible assets		**(197,973)**	–
Share-based payment expenses		**(8,237)**	–
(Loss)/profit from operations		**(29,994)**	142,800
Finance costs	*7*	**(8,642)**	(14,371)
Share of losses of associates		**(16)**	–
Gain/(loss) arising on change in fair value in respect of conversion options embedded in convertible notes receivable		**882**	(22,619)
Loss on disposal of a subsidiary		**–**	(29,602)
(Loss)/profit before taxation	*8*	**(37,770)**	76,208
Taxation charge	*9*	**(32)**	(982)
(Loss)/profit for the period		**(37,802)**	75,226
Attributable to:			
Owners of the Company		**(61,099)**	101,236
Non-controlling interests		**23,297**	(26,010)
		(37,802)	75,226
(Loss)/earnings per share			
Basic	*10*	**HK$(0.01)**	HK$0.50
Diluted	*10*	**HK$(0.01)**	HK$0.50

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30th June 2010

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2010

	Notes	At 30th June 2010 HK$'000 (Unaudited)	At 31st December 2009 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**734,549**	773,254
Interests in leasehold land		**476,180**	484,333
Investment properties		**65,400**	61,310
Goodwill		**–**	8,975
Intangible assets		**791,232**	989,205
Convertible notes receivable		**–**	20,015
Interests in associates		**–**	–
		2,067,361	2,337,092
Current assets			
Inventories		**1,277**	1,091
Film rights		**22,660**	22,914
Films in progress		**19,038**	19,238
Trade receivables	12	**69,993**	105,428
Deposits, prepayments and other receivables		**390,865**	396,968
Conversion options embedded in convertible notes receivable		**–**	10,908
Held for trading investments		**85,840**	97,641
Amounts due from associates		**7,856**	16,435
Prepaid tax		**308**	1,100
Cash and bank balances		**353,464**	173,188
		951,301	844,911
Assets classified as held for sale		**–**	8,272
		951,301	853,183
Total assets		**3,018,662**	3,190,275

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 30th June 2010

	Notes	At 30th June 2010 HK$'000 (Unaudited)	At 31st December 2009 HK$'000 (Audited)
Capital and reserves			
Share capital		**28,893**	22,965
Reserves		**2,078,056**	2,052,157
Equity attributable to owners of the Company		**2,106,949**	2,075,122
Non-controlling interests		**267,568**	244,271
Total equity		**2,374,517**	2,319,393
Non-current liabilities			
Bank borrowings – due after one year		**126,932**	178,275
Obligation under finance lease		**257**	305
Deferred tax liabilities		**86,714**	86,682
		213,903	265,262
Current liabilities			
Bank overdraft		**171,320**	178,764
Bank borrowings – due within one year		**112,666**	232,631
Obligation under finance lease		**96**	96
Trade payables	*13*	**15,929**	21,426
Deposits received, accruals and other payables		**63,709**	132,201
Amount due to an associate		**1,020**	–
Amounts due to minority shareholders		**65,502**	40,502
		430,242	605,620
Total liabilities		**644,145**	870,882
Total equity and liabilities		**3,018,662**	3,190,275
Net current assets		**521,059**	247,563
Total assets less current liabilities		**2,588,420**	2,584,655

NOTES:

1. BASIS OF PREPARATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Impact of new and revised HKFRSs not yet effective

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

1 Effective for annual periods beginning on or after 1st July 2010 and 1st January 2011, as appropriate
2 Effective for annual periods beginning on or after 1st February 2010
3 Effective for annual periods beginning on or after 1st July 2010
4 Effective for annual periods beginning on or after 1st January 2011
5 Effective for annual periods beginning on or after 1st January 2013

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

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

3. SEGMENT INFORMATION

The Group has identified the following reporting segments:

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

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

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

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

3. SEGMENT INFORMATION (CONTINUED)

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

(b) Geographical information

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

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

4. TURNOVER

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

5. OTHER REVENUE

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

6. OTHER INCOME

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

7. **FINANCE COSTS**

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

8. **(LOSS)/PROFIT BEFORE TAXATION**

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

9. **TAXATION CHARGE**

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

No provision for Hong Kong Profits Tax has been made in the condensed consolidated 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.

No Macau Complimentary Income Tax has been provided as there was no assessable profit for both periods.

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

10. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30th June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/earnings attributable to owners of the Company for the purpose of basic and diluted (loss)/earnings per share	**(61,099)**	101,236

	Six months ended 30th June	
	2010	2009
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	**4,347,421**	201,434

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

11. DIVIDEND

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

12. TRADE RECEIVABLES

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

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

13. TRADE PAYABLES

The aging analysis of the trade payables is as follows:

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

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

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

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

Dividend

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

Business Review

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

Hotel and Gaming Service Operatons

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

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will 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 2010, Casino LKF operated a total of 84 tables, targeting both for the VIP market and the mass market. It also operated a total of 104 slot machines.

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

Gaming Promotion Operations

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

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

Film Distribution Operations

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

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

Geographical Segments

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

Administrative Expenses

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

Liquidity and Financial Resources

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

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

On 4th January 2010, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 540,000,000 new shares of HK$0.01 each to independent investors at a price of HK$0.14 per share. 540,000,000 new shares was issued on 11th February 2010 under the specific mandate granted to the directors of the Company at the special general meeting of the Company held on 8th February 2010. The net proceeds of approximately HK$75,400,000 were intended to be used for the Group's investment projects in Macau and general working capital of the Group.

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

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

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

Material Acquisition

On 29th April 2009, Bestjump Holdings Limited ("Bestjump"), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director of the Company entered into a sale and purchase agreement pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the "Targeted Companies") and outstanding loans in an aggregate amount of HK$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam van Lakes Zone, at Avenida Doutor Stanley

Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the "Macau Land"). Details of the transaction were set out in the Company's circular dated on 17th August 2009. The transaction has been approved in a special general meeting held on 3rd September 2009. The longstop date of the agreement had extended to 31st December 2010 and the acquisition has not yet completed up to the reporting date.

Employees

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

Prospect

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

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

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code 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 2010. The Model Code also applies to other specified senior management of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2010.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

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

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

The unaudited condensed consolidated interim financial statements for the six months ended 30th June 2010 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT

The Company's 2010 interim report will be despatched to the shareholders of the Company and published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company's website (www.chinastar.com.hk or www.irasia.com/listco/hk/chinastar) in due course.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 30th August 2010

As at the date of this announcement, 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.