THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Star Entertainment Limited (the "Company"), you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

(Warrant Code: 1056)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MOST FAMOUS ENTERPRISES LIMITED AND THE SALE LOAN AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders

Donvex 富域資本

Donvex Capital Limited
富域資本有限公司

All capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 5 to 16 of this circular. A letter from an Independent Board Committee in respect of the Acquisition is set out on page 17 of this circular. A letter from Donvex Capital Limited to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 29 of this circular.

A notice convening the SGM to be held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Monday, 16 July 2012 at 11:30 a.m., or any adjournments thereof, is set out on pages 193 and 194 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

27 June 2012

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In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

"2009 Proposed Acquisition"	the proposed acquisition of the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited and the total obligations, liabilities and debts owing or incurred by Splendid Construction and Over Profit to Ms. Chen announced by the Company on 5 May 2009
"2009 Sale and Purchase Agreement"	a conditional sale and purchase agreement entered into between Bestjump Holdings Limited and Ms. Chen dated 29 April 2009 as varied pursuant to (a) the deeds of variation to vary the terms on 14 August 2009 and 30 December 2009 and (b) the supplemental agreements to amend the terms on 31 December 2010 and 30 December 2011 in respect of the 2009 Proposed Acquisition
"Acquisition"	the acquisition of the Sale Capital and the Sale Loan by the Purchaser from the Vendor pursuant to the terms and conditions of the Sale and Purchase Agreement
"Announcement"	the announcement dated 21 February 2012 issued by the Company in relation to, among others, the Acquisition
"associate"	has the meaning as ascribed to it under the Listing Rules
"Board"	the board of the Directors
"Business Day(s)"	a day (other than a Saturday or days on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business
"Charm Faith"	Charm Faith Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned 1% of the issued quotas of Classic Management
"Classic Management"	Classic Management & Services Company Limited, a company incorporated in Macau with limited liability and beneficially owned as to 99% by Lan Kwai Fong (Macau) and as to 1% by Charm Faith
"Company"	China Star Entertainment Limited, an exempted company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Capital and the Sale Loan pursuant to the terms and conditions of the Sale and Purchase Agreement

"Completion Date"	three Business Days after the satisfaction and/or waiver of the last conditions precedent or such other date as the parties may agree in writing
"controlling shareholder"	has the meaning ascribed to it in the Listing Rules
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"Deed of Termination"	the deed of termination dated 15 February 2012 entered into between Bestjump Holding Limited and Ms. Chen relating to the termination of the 2009 Sale and Purchase Agreement
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group following the Completion
"Exceptional Gain"	Exceptional Gain Profits Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company, currently holding 51% of the equity interest in Lan Kwai Fong (Macau) and 51% of the equity interest in Charm Faith
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hotel"	has the same meaning ascribe to it under the section headed "INFORMATION ON THE TARGET COMPANY, LAN KWAI FONG (MACAU), CLASSIC MANAGEMENT AND CHARM FAITH" in this circular
"Independent Board Committee"	the independent board committee comprising Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert, all of which are independent non-executive Directors to advise the Independent Shareholders on the Acquisition
"Independent Financial Adviser"	Donvex Capital Limited, a licensed corporation registered under the SFO to carry on type 6 regulated activity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the Acquisition
"Independent Shareholder(s)"	Shareholders other than the Vendor and his associates
"Lan Kwai Fong (Macau)" or "Hotel LKF"	Hotel Lan Kwai Fong (Macau) Limited, a company incorporated in Macau under the laws of Macau with an authorized capital of MOP500,000, of which 500,000 quota have been issued and are fully paid up, a 51% owned subsidiary of the Company and is the sole and beneficial owner of the Hotel

"Latest Practicable Date"	22 June 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"Mr. Li"	Mr. Li Chi Keung, who is a director of Lan Kwai Fong (Macau), Classic Management, Charm Faith and beneficially owns 50% equity interest in the Target Company as at the date of the Announcement
"Ms. Chen"	Ms. Chen Ming Yin, Tiffany, an executive Director and a controlling Shareholder and the spouse of the Vendor
"Ms. Wong"	Ms. Wong Hoi Ping, the spouse of Mr. Li who is a director of Lan Kwai Fong (Macau), Classic Management, Charm Faith and beneficially owns 50% equity interest in the Target Company as at the date of the Announcement
"Over Profit"	Over Profit International Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned as to 50% by Modern Vision (Asia) Limited and as to 25% by Reform Base Holdings Limited
"Purchase Price"	the total consideration of HK$618.00 million payable by the Purchaser to the Vendor for the purchase of the Sale Capital and the Sale Loan
"Purchaser"	China Star Entertainment (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 15 February 2012 and entered into between the Vendor and the Purchaser pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Capital and the Sale Loan at the Purchase Price
"Sale Capital"	the 100% of the entire issued share capital of the Target Company which is beneficially owned by the Vendor as at the Latest Practicable Date
"Sale Loan"	all the interests, benefits and rights of and in the shareholder's loan owed by the Target Company to the Vendor on Completion, which as at 31 January 2012 amounted to approximately HK$277.42 million. As at 31 May 2012, the Sale Loan amounted to approximately HK$277.35 million

"SFO"	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company to be convened and held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Monday, 16 July 2012 at 11:30 a.m. to consider and, if thought fit, to approve the Sale and Purchase Agreement and transaction contemplated thereunder
"Share(s)"	the ordinary share(s) of HK$0.01 each in the issued share capital of the Company from time to time
"Shareholder(s)"	the holder(s) of the Shares
"Splendid Construction"	Splendid Construction and Investment Company Limited (formerly known as Legstrong Construction and Investment Company Limited), a company incorporated in Macau with limited liability and a wholly owned subsidiary of Over Profit
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Most Famous Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability holding 49% equity interest in Lan Kwan Fong (Macau) and 49% equity interest in Charm Faith
"Vendor" or "Mr. Heung"	Mr. Heung Wah Keung, an executive Director and a controlling Shareholder
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"MOP"	Macau Pataca, the lawful currency of Macau
"%"	per cent.

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)
(Warrant Code: 1056)

Executive Directors:
Mr. Heung Wah Keung *(Chairman)*
Ms. Chen Ming Yin, Tiffany *(Vice Chairman)*
Ms. Li Yuk Sheung

Independent non-executive Directors:
Mr. Hung Cho Sing
Mr. Ho Wai Chi, Paul
Mr. Tang Chak Lam, Gilbert

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business in Hong Kong:
Unit 3409, Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

27 June 2012

To the Shareholders and for information only,
the holders of warrants, convertible bonds and share options of the Company

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MOST FAMOUS ENTERPRISES LIMITED AND THE SALE LOAN AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 21 February 2012, the Board announced that on 15 February 2012 (after trading hours of the Stock Exchange), the Purchaser and the Vendor entered into the Sale and Purchase Agreement wherein the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Capital and the Sale Loan at a total consideration of HK$618.00 million, subject to the terms and conditions of the Sale and Purchase Agreement.

The purpose of this circular is (i) to provide further information in respect of the Acquisition, the letter of advice from the Independent Board Committee to the Independent Shareholders and the recommendation of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the accountants' reports on the Target Company, Lan Kwai Fong (Macau), Charm Faith and Classic Management, the independent valuation report on the properties held by Lan Kwai Fong (Macau) and the financial information of the Group as enlarged by the Acquisition; and (ii) to give you notice of the SGM at which resolution will be proposed to consider and if thought fits, approve, inter alia, such matters.

THE SALE AND PURCHASE AGREEMENT

Date

15 February 2012 (after trading hours of the Stock Exchange)

Parties

(a) Purchaser: China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company
(b) Vendor: Mr. Heung Wah Keung

The Vendor is an executive Director and a controlling Shareholder. As at the date of the Sale and Purchase Agreement, the Vendor and his associates hold in aggregate 898,699,702 Shares, representing approximately 45.74% of the issued share capital of the Company. As such, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules.

The Sale Capital and the Sale Loan were owned by Mr. Li and Ms. Wong in equal share as at the date of the Sale and Purchase Agreement. In negotiating the sale and purchase of the Sale Capital and the Sale Loan, the terms offered by Mr. Li and Ms. Wong to the Company is on a "must buy" basis and the date of completion must be taken place on 28 March 2012. As Mr. Li and Ms. Wong are connected persons of the Company, the acquisition of the Sale Capital and the Sale Loan by the Group constitutes a very substantial acquisition and a connected transaction of the Company under the Listing Rules. In view of the lengthy process for complying with the announcement, reporting and shareholders' approval requirements of the Listing Rules, the Vendor entered into a formal binding agreement with Mr. Li and Ms. Wong for acquiring the Sale Capital and the Sale Loan at a total consideration of HK$618.00 million and, in turn, entered into the Sale and Purchase Agreement with the Purchaser for selling the Sale Capital and the Sale Loan to the Group at the same consideration with the same payment terms on 15 February 2012, being the date of the Sale and Purchase Agreement, in order to facilitate the sale and purchase of the Sale Capital and the Sale Loan.

As at 28 March 2012, the Vendor completed the acquisition of the Sale Capital and the Sale Loan from Mr. Li and Ms. Wong.

Asset to be acquired

The Sale Capital represents the entire issued share capital of the Target Company. The principal assets of the Target Company are its 49% equity interest in Lan Kwai Fong (Macau) and 49% equity interest in Charm Faith.

The Sale Loan represents all the interest, benefits and rights of and in the shareholder's loan owed by the Target Company to the Vendor on Completion, which as at 31 January 2012 amounted to approximately HK$277.42 million. As at 31 May 2012, the Sale Loan amounted to approximately HK$277.35 million.

As at the date of the Sale and Purchase Agreement, the Group holds 51% equity interest in Lan Kwai Fong (Macau) and 51% equity interest in Charm Faith.

Consideration

Subject to the terms and conditions of the Sale and Purchase Agreement, the Purchase Price of HK$618.00 million payable to the Vendor by the Purchaser is as follows:

(a) a refundable amount of HK$335.00 million (the "**First Deposit**") by the Purchaser to the Vendor (or its nominee) upon the signing of the Sale and Purchase Agreement; and

(b) a refundable amount of HK$283.00 million (the "**Second Deposit**") by the Purchaser to the Vendor (or its nominee) on 28 March 2012.

The First Deposit and Second Deposit shall immediately be returned to the Purchaser without interest in the event of termination or non-completion of the Sale and Purchase Agreement for whatever reason.

The Purchase Price of HK$618.00 million was arrived at arm's length negotiations between the Vendor and the Purchaser with reference to a preliminary draft property valuation on Lan Kwai Fong (Macau) of approximately HK$1,250.00 million as at 31 December 2011 conducted by an independent professional valuer adjusted for the net current assets values of Lan Kwai Fong (Macau), Classic Management and Charm Faith as at 31 December 2011 and the outstanding balance of bank loans of Lan Kwai Fong (Macau) of HK$450.00 million as at 31 December 2011. As disclosed in the valuation report on the properties held by Lan Kwai Fong (Macau) (set out in Appendix V to this circular, the properties held by Lan Kwai Fong (Macau) was valued at approximately HK$1,354 million as at 30 April 2012.

The premium (the "**Premium**") was approximately 34.4% as compared to the Purchase Price of HK$618.00 million with the net amount of HK$459.69 million, being the sum of 49% of the property valuation on the properties held by Lan Kwai Fong (Macau) of HK$1,282 million as at 31 December 2011 and the net current assets of Lan Kwai Fong (Macau), Classic Management and Charm Faith of HK$106.15 million and the outstanding bank loans of HK$450 million at 31 December 2011, the Directors consider that the Premium is fair and reasonable taking into account net profit from the hotel and gaming service operations segment was approximately HK$58.4 million for the year ended 31 December 2011, the expected synergy with the Group's new site in Lot 6B, Lot 6C, Lot 6D and Lot 6E located at Zona de Aterros do Porto Exterior (ZAPE) Macau (the "**Sites**") to be developed into commercial units and residential apartments located in front of the Hotel and future prospect of Macau's hospitality and gaming sectors and the Hotel. Accordingly, the Directors consider that the Purchase Price is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The Company financed the Acquisition from the internal resources of the Group, including the initial deposit and the second deposit in an aggregate amount of HK$360.00 million refunded from Ms. Chen to the Group. The Board considers the Group has sufficient internal resources for the Acquisition.

Conditions precedent

Completion shall be conditional upon the following conditions being fulfilled and remaining fulfilled or waived by the Purchaser as at the Completion Date:

(a) consents of the Stock Exchange in connection with the transactions contemplated by the Sale and Purchase Agreement having been obtained;

(b) the Independent Shareholders having approved at the SGM with the transactions contemplated by the Sale and Purchase Agreement;

(c) the warranties given by the Vendor under the Sale and Purchase Agreement remaining true and accurate in all material respects; and

(d) the formal binding agreement dated 15 February 2012 entered into between the Vendor, Mr. Li and Ms. Wong relating to the sale and purchase of the Sale Capital and the Sale Loan having been completed.

Save for (c), all of the above conditions are not waivable under the Sale and Purchase Agreement.

As at the Latest Practicable Date, other than (d), none of the above condition have been fulfilled.

If any of the above conditions have not been satisfied (or, as the case may be, waived by the Purchaser) on or before 5:00 p.m. on 31 August 2012 (or such other date as the Vendor and the Purchaser may agree), the Sale and Purchase Agreement shall cease and determine (save and except certain clause to the Sale and Purchase Agreement which shall continue to have full force and effect) and none of the parties shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

Completion

Completion of the Sale and Purchase Agreement shall take place on the third Business Day after the fulfillment and/or waiver of the last of the conditions precedent in the Sale and Purchase Agreement or such later date as the Vendor and the Purchaser may agree in writing.

INFORMATION ON THE TARGET COMPANY, LAN KWAI FONG (MACAU), CLASSIC MANAGEMENT AND CHARM FAITH

The Target Company

The Target Company was incorporated in the British Virgin Islands with limited liability on 2 August 2006. The Target Company is an investment holding company. Other than holding 49% equity interest in Lan Kwai Fong (Macau) and 49% equity interest in Charm Faith, the Target Company has not carried out any business since the date of incorporation.

The principal assets of the Target Company are its 49% equity interest in Lan Kwai Fong (Macau) and 49% equity interest in Charm Faith.

According to the accountants' report of the Target Company for the years ended 31 December 2009, 2010 and 2011 which are prepared in accordance with Hong Kong Financial Reporting Standards as disclosed in Appendix IIA to this circular, the net liabilities of the Target Company as at 31 December 2009 and 2010 were HK$63,763,000 and HK$22,890,000 respectively. The net asset value of the Target Company as at 31 December 2011 was HK$16,065,000. The loss before and after tax for the year ended 31 December 2009 were both HK$36,022,000, The profit before and after tax for the year ended 31 December 2010 were both HK$40,873,000. The profit before and after tax for the year ended 31 December 2011 were both HK$38,955,000.

According to Hong Kong Accounting Standard ("**HKAS**") 28 "Investments in Associates", the associate recorded in the Target Company was measured under the equity method. Under the equity method, investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. After application of the equity method including recognising the associate's profit or loss in accordance with HKAS 28, the investor applies the requirements of HKAS 39 "Financial Instruments: Recognition and Measurement" to determine whether it is necessary to recognise any impairment loss with respect to the investor's net investment in the associate.

The directors of the Target Company have assessed the recoverable amount of interests in associates by not only considering the financial statements of Lan Kwai Fong (Macau) and also considering the fair value of buildings and leasehold land as disclosed in Appendix V which is one of the major assets recorded in the financial statements of Lan Kwai Fong (Macau). Since the fair value of the buildings and leasehold land is approximately HK$1,354,000,000 as at 30 April 2012 and the carrying amount of interests in associate recorded in the Target Company is less than its recoverable amount, no impairment was recognised. The carrying value of the buildings and leasehold land of Lan Kwai Fong (Macau) was not stated at fair value of approximately HK$1,354,000,000, but at cost less accumulated depreciation, amortisation and impairment loss (if any) in its financial statements in accordance with HKAS 16 "Property, Plant and Equipments". As such, the net asset value of Lan Kwai Fong (Macau) in its financial statements is lower than its fair value. Based on the above, the interests in associates of HK$293,000,000 as recorded in the financial statements of the Target Company is larger than the 49% of Lan Kwai Fong (Macau)'s net assets value.

Lan Kwai Fong (Macau) and Classic Management

The principal activities of Lan Kwai Fong (Macau) are provision of hotel services in Macau, property investment and investment holding. The principal assets of Lan Kwai Fong (Macau) are the hotel property located at the hotel building (comprising the portions being operated as a hotel under the name of Hotel Lan Kwai Fong Macau and the commercial podium having a covered floor area of about 25,000 square meters (inclusive of area of basement)) situated at Rua De Luis Gonzaga Gomes No. 176-230, Rua De Nagasaki No.64-A-82, Rua De Xiamen No.37-A-59, Macau (the "**Hotel**") and a 99% equity interest in Classic Management, which provides casino management services in the Hotel.

The Hotel presents a total of around 200 guestrooms, casino situated in the ground, 1st and 18th floors, restaurants, flower shop, retail shop and a spa. As at 30 June 2011, the casino in the Hotel operated a total of 78 gaming tables in both VIP and mass markets and also operated a total of 121 slot machines.

According to the accountants' report of Lan Kwai Fong (Macau) for the years ended 31 December 2009, 2010 and 2011 which are prepared in accordance with Hong Kong Financial Reporting Standards as disclosed in Appendix IIB to this circular, the net liability of Lan Kwai Fong (Macau) as at 31 December 2009 was HK$74,201,000 and the net assets values of Lan Kwai Fong (Macau) as at 31 December 2010 and 2011 were approximately HK$9,090,000 and HK$89,362,000 respectively. The loss before and after tax for the year ended 31 December 2009 were both HK$68,888,000. The profit before and after tax for the year ended 31 December 2010 were both HK$83,291,000. The profit before and after tax for the year ended 31 December 2011 were both HK$80,272,000.

According to the accountants' report of Classic Management for the period/years ended 31 December 2009, 2010 and 2011 which are prepared in accordance with Hong Kong Financial Reporting Standards as disclosed in Appendix IID to this circular, the net assets values of Classic Management as at 31 December 2009, 2010 and 2011 were HK$134,000, HK$274,000 and HK$508,000 respectively. The profit before and after tax for the period from 28 July 2009 (date of incorporation) to 31 December 2009 were both HK$37,000. The profit before and after tax for the year ended 31 December 2010 were both HK$140,000. The profit before and after tax for the year ended 31 December 2011 were HK$238,000 and 234,000 respectively.

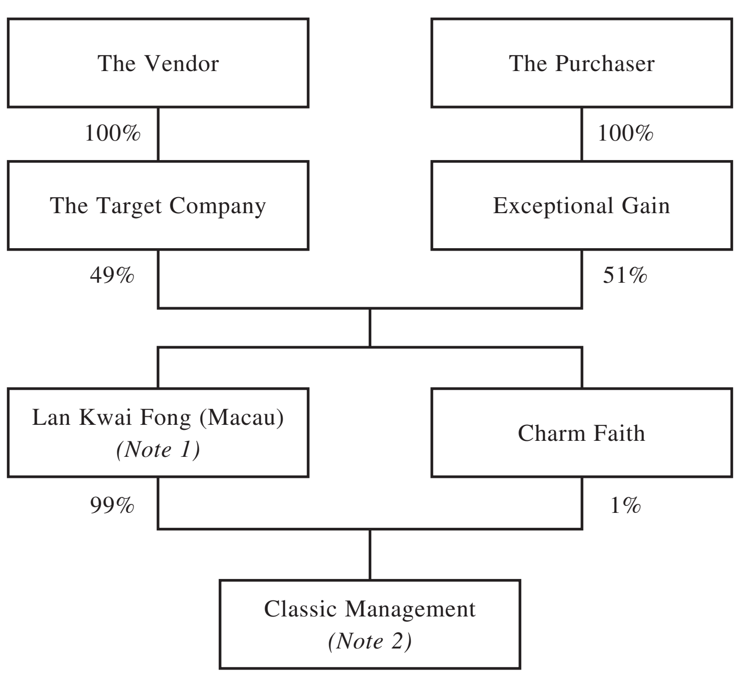
Charm Faith

The principal activity of Charm Faith is investment holding. The principal asset of Charm Faith is a 1% equity interest in Classic Management. Other than holding of 1% equity interest in Classic Management, Charm Faith has no other principal business activity.

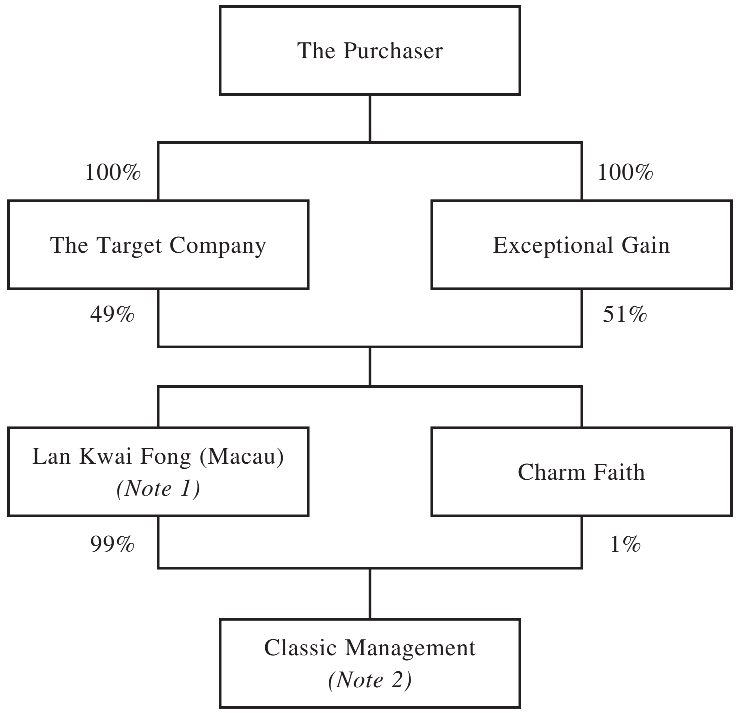
According to the accountants' report of Charm Faith for the years ended 31 December 2009, 2010 and 2011 which are prepared in accordance with Hong Kong Financial Reporting Standards as disclosed in Appendix IIC to this circular, the net liabilities of Charm Faith as at 31 December 2009, 2010 and 2011 were HK$6,000, HK$20,000 and HK$28,000 respectively. The loss before and after tax for the period from 19 May 2009 (date of incorporation) to 31 December 2009 were both HK$7,000. The loss before and after tax for the year ended 31 December 2010 were both HK$14,000. The loss before and after tax for the year ended 31 December 2011 were both HK$8,000.

SHAREHOLDING STRUCTURE BEFORE AND AFTER COMPLETION

Before Completion:



After Completion:



Notes:

1. A company that solely and beneficially owns the Hotel.

2. A company that provides casino management services in the Hotel.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, sales of Chinese health products, investing in operations which receive the profit stream from gaming promotion business, property and hotel investment, and property development.

The Board is optimistic about the prospect and future development of Macau and thus continues to pursue its strategy of growing its business in Macau and the Board also expects the performance of the hotel and gaming service operations of Lan Kwai Fong (Macau) and Classic Management to have stable growth.

Following the recommencement of operations of the Hotel in August 2009, Lan Kwai Fong (Macau) and Classic Management have contributed positively in terms of profitability and cashflow to the Group.

According to the accountants' report of Lan Kai Fong (Macau) as disclosed in Appendix IIB to this circular, Lan Kai Fong (Macau) recorded a loss before depreciation and amortisation after tax of approximately HK$27.80 million for the year ended 31 December 2009. The earnings before depreciation and amortisation after tax for the years ended 31 December 2010 and 2011 amounted to approximately HK$173.84 million and HK$175.74 million respectively.

According to the accountants' report of Classic Management as disclosed in Appendix IID to this circular, Classic Management recorded earnings before depreciation and amortisation after tax of HK$40,000, HK$146,000 and HK$244,000 for the years ended 31 December 2009, 2010 and 2011 respectively.

As the financial performance of Lan Kwai Fong (Macau) and Classic Management show a continuing growth, the Board believes Lan Kwai Fong (Macau) and Classic Management remain the core profit contributors to the Group and provide the Group with a steady cash inflow in long run.

According to the Quarterly Gaming Statistics 2011 prepared by The Gaming Inspection and Coordination Bureau, Macau SAR, Macau has recorded a 42% growth in gross gaming revenue in 2011. Given that Macau has achieved strong growth in its gross gaming revenue in recent years, Macau has become the world's biggest gaming market. The Board has considered to acquire the remaining equity interest in Lan Kwai Fong (Macau) and Classic Management shall enable the Group to solidify its profitability and to capture the potential growing opportunities in Macau's hospitality and gaming sectors. As such, the Board considers that the Acquisition presents an opportunity to the Group for acquiring the remaining 49% equity interest of Lan Kwai Fong (Macau) and Classic Management, which is in line with the Group's strategy. Accordingly, the Board is of the view that the Sale and Purchase Agreement are entered into on normal commercial terms after arm's length negotiation and the terms of the Sale and Purchase Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

As the Group has already owned 51% equity interest in Lan Kwai Fong (Macau) and Charm Faith and Classic Management, the Target Company, Lan Kwai Fong (Macau), Charm Faith and Classic Management will become wholly owned subsidiaries of the Company upon Completion.

FINANCIAL EFFECTS OF THE ACQUISITION

Assets

As at 31 December 2011, the audited consolidated total assets of the Group amounted to approximately HK$3,407.54 million.

Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma consolidated total assets of the Enlarged Group would decrease to approximately HK$2,774.54 million as a result of the Acquisition.

Liabilities

As at 31 December 2011, the audited consolidated total liabilities of the Group amounted to HK$1,132.63 million.

Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma consolidated total liabilities of the Enlarged Group would have no effect as a result of the Acquisition.

Earnings

According to the unaudited pro forma consolidated income statement of the Enlarged Group as set out in Appendix IV to this circular, the financial loss of the Enlarged Group would increase by HK$2 million as a result of the Acquisition.

Gearing ratio

As at 31 December 2011, the total borrowings of the Group was HK$806.14 million and the Group's gearing ratio calculated on the basis of the Group's total borrowings over equity attributable to equity holders of the Company was 40.95%.

The Acquisition would increase the gearing ratio of the Enlarged Group to 49.10%.

PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in film production, distribution of film and television drama series, sales of Chinese health products, investing in operations which receive the profit streams from the gaming promotion business, property and hotel investment, and property development.

In view of the promising financial performance of Lan Kwai Fong (Macau), Charm Faith and Classic Management which was classified as hotel and gaming service operations segment in the Group's consolidated financial statements, the Group decided to enter into the Sale and Purchase Agreement for acquiring the remaining interests in Lan Kwai Fong (Macau), Charm Faith and Classic Management in order to enable the Group to fully entitle their economic benefits.

Of the total turnover amount of the Group for the year ended 31 December 2011, 86% was generated from hotel and gaming service operations. Hotel and gaming service operations contributed an aggregate segment profit of HK$58.4 million to the Group's loss before tax of HK$661.5 million.

The performance of the hotel and gaming service operations in the Hotel is considered to be the core profit and cash contributor of the Group in the future. In these few years, it has successfully positioned to be a boutique hotel with excellent services and guest satisfaction and received numerous awards for its quality management and planning. Given the moderate size of the Hotel, the Company can enjoy the benefit of fast response to the changing market conditions in the Macau casino market. Mass table gaming operations are more profitable than VIP gaming operations and thus Casino Lan Kwai Fong has spend resources to expand its market share in the mass table gaming operations and was proved to be successful in the year 2011 and the Company would continue this strategy in the near future. The Acquisition enhances the Group to solidify its profitability and capture the full potential growth in the hotel and gaming service operations. The development of the Sites of the Group located at Zona de Aterros do Porto Exterior (ZAPE) Macau not only directly contribute revenue to the Group but also provide synergy with the Hotel. Following the completion of acquisition of the Sites in June 2011, the Group starts to prepare its development plan in develop it in to commercial units and residential apartment for sale. The location of the Sites is superb. It is adjacent to the Hotel, Macao Polytechnic Institute, Forum de Macao and Golden Lotus Square and is a couple blocks away from Macau Fisherman's Wharf and

Sands Casino. The Group also intends to develop the street level of the Sites into an area consisting of restaurants, bars, nightclubs and art galleries in order to create traffic in the surrounding area of the Hotel. The Group is confident that this project will be another success project of the Group and the Hotel will further benefit from it.

Looking ahead over the near-to-medium-term, the Group considers Macau's prospects stable, with growth as its infrastructural development matures. 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 diminished and the total number of gaming tables in Macau would be capped in the next two years, the Group expects the performance of the hotel and gaming service operations to stabilise and grow accordingly.

The Board believes that Lan Kwai Fong (Macau) and Classic Management will continue to provide stable revenue and cash income to the Group. Meanwhile, the Acquisition will strengthen the Group's business portfolios and confidence in the prospect and development in Macau. Based on the above reasons, the Acquisition represents an opportunity with good potential of revenue growth and a positive impact on the Group's business in the long run.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As the Vendor is an executive Director and a controlling Shareholder, who and his associates hold in aggregate 898,699,702 Shares, representing approximately 45.74% of the issued share capital of the Company, as at the date of the Sale and Purchase Agreement, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. The Vendor and his associates shall abstain from voting at the SGM in respect of the resolution to approve the Sale and Purchase Agreement. Donvex Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Acquisition. There was no previous transaction entered into between the Company and the Vendor that requires aggregation pursuant to Rule 14A.25 of the Listing Rules.

Given the Vendor, being an executive Director and a controlling Shareholder, has a material interest in the Sale and Purchase Agreement, the Vendor and Ms. Chen have abstained from voting on the relevant resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the meeting of the Board held on 15 February 2012. In addition, the Vendor, Ms. Chen and Ms. Li Yuk Sheung are the executive directors of Lan Kwai Fong (Macau), Ms. Li Yuk Sheung, an executive Director, has also abstained from voting on the relevant resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at such board meeting.

To the best of Directors' knowledge, information and belief and having made all reasonable enquires, save for the Vendor and his associates, no other Shareholder who has material interest in the Acquisition will require to abstain from voting on the resolution approving the Acquisition at the SGM.

INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all three of the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition. Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

VOTING BY POLL

Pursuant to the Listing Rules, any vote of the Shareholders at a general meeting (except resolution relates purely to procedural or administrative matter) must be taken by poll. Therefore, the chairman of the SGM will demand a poll for the resolution set out in the notice of the SGM. After the conclusion of the SGM, the results of the poll will be published on the websites of the Stock Exchange (www.hkexnews.hk) and of the Company (www.chinastar.com.hk).

THE SGM

A notice convening the SGM to be held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre 168-200 Connaught Road Central, Hong Kong on Monday, 16 July 2012 at 11:30 a.m. is set out on pages 193 and 194 of this circular for the purpose of considering and, if thought fit, passing, with or without amendments, the ordinary resolution in respect of the Acquisition. A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

WARNING STATEMENT

Shareholders and potential investors should note that the Acquisition is conditional upon fulfillment of various conditions precedent of the Sale and Purchase Agreement, details of which have been set out under the paragraph headed "Conditions precedent" of this circular. Accordingly, the Acquisition may or may not proceed.

Any Shareholder and potential investor contemplating selling or purchasing Shares and warrants of the Company should exercise extreme caution when dealing in Shares and warrants of the Company, and if they are in any doubt about their position, they should consult his/her/its own professional adviser.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole and that the terms of the Sale and Purchase Agreement are fair and reasonable so far as Shareholders are concerned. Accordingly, the Directors recommend that all Shareholders should vote in favour of the resolution to be proposed at the SGM to approve the Sale and Purchase Agreement. The Independent Board Committee, having taken into account of the advice of the Independent Financial Adviser, considers the Acquisition is in the interests of the Company and the Independent Shareholders as a whole and that the terms of the Sale and Purchase Agreement and the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Directors (including the independent non-executive Directors) recommend that all Independent Shareholders should vote in favour of the ordinary resolution proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the general information set out in the appendices to this circular.

By Order of the Board
China Star Entertainment Limited
Heung Wah Keung
Chairman

中国星

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)
(Warrant Code: 1056)

27 June 2012

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF MOST FAMOUS ENTERPRISES LIMITED AND THE SALE LOAN

We refer to the circular dated 27 June 2012 issued by the Company (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used therein unless the context requires otherwise.

We have been appointed as the Independent Board Committee to advise you in connection with the Acquisition, details of which are set out in the letter from the Board in the Circular. Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Details of the advice from the Independent Financial Adviser together with the principal factors and reasons taken into consideration in arriving at such advice are set out on pages 18 to 29 of the Circular.

Having considered the terms of the Sale and Purchase Agreement and the Acquisition, the interest of the Independent Shareholders, the principal factors and reasons considered by and the advice of the Independent Financial Adviser, we consider that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole and that the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Mr. Hung Cho Sing **Mr. Ho Wai Chi, Paul** **Mr. Tang Chak Lam, Gilbert**
Independent non-executive Directors

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Donvex Capital Limited
富域資本有限公司

Unit 1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

27 June 2012

To the Independent Board Committee and the Independent Shareholders
China Star Entertainment Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Shareholders with respect to the Acquisition, details of which are set out in the letter from the Board contained in the circular dated 27 June 2012 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter have the same meaning as defined elsewhere in the Circular unless the context requires otherwise.

As the Vendor is an executive Director and a controlling Shareholder, who and his associates hold in aggregate 898,699,702 Shares, representing approximately 45.74% of the issued share capital of the Company, as at the date of the Circular, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to, among other things, the approval of the Independent Shareholders at the SGM. The Vendor and his associates shall abstain from voting at the SGM in respect of the resolutions to approve the Acquisition.

The Independent Board Committee, comprising all the independent non-executive Directors, Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tang Chak Lam, Gilbert has been established to advise the Shareholders in relation to the Acquisition. We, Donvex Capital Limited, have been appointed to advise the Independent Board Committee and the Shareholders in connection with the Acquisition, in particular as to whether the terms of the Agreement are fair and reasonable and on normal commercial terms so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the information and representations supplied, and the opinion expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and that they may be relied upon in formulating our opinion. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We also consider that we have taken all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Acquisition, we have considered the following principal factors and reasons:

Reason and benefits of entering of the Sale and Purchase Agreement

(i) Background of the Group

The Group an investment holding company and its subsidiaries are principally engaged in film production, distribution of film and television drama series, sales of Chinese health products, investing in operations which receive the profit streams from the gaming promotion business, property and hotel investment and property development.

(ii) Background of the Target Company, Lan Kwai Fong (Macau), Classic Management and Charm Faith (the "Target Group")

The Target Company

The Target Company was incorporated in the British Virgin Islands with limited liability on 2 August 2006. The Target Company is an investment holding company. The principal assets of the Target Company are its 49% equity interest in Lan Kwai Fong (Macau) and 49% equity interest in Charm Faith. The remaining 51% equity interest in Lan Kwai Fong (Macau) and 51%

equity interest in Charm Faith were acquired by the Purchaser before entered into the Sale and Purchase Agreement. Other than holding 49% equity interest in Lan Kwai Fong (Macau) and 49% equity interest Charm Faith, the Target Company has not carried out any business since the date of incorporation.

Extract from the audited financial accounts of the Target Company for the years ended 31 December 2009 to 2011 are as follows:

	For the year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Net assets/(liabilities)	(63,763)	(22,890)	16,065
Net current liabilities	316,556	341,057	277,354
Turnover	0	0	0
(Loss)/Profit before Taxation	(36,022)	40,873	38,955
(Loss)/Profit after Taxation	(36,022)	40,873	38,955

Lan Kwai Fong (Macau) and Classic Management

The principal activities of Lan Kwai Fong (Macau) are provision of hotel services in Macau, property investment and investment holding. The principal assets of Lan Kwai Fong (Macau) are the hotel property located at the hotel building (comprising the portions being operated as a hotel under the name of Hotel Lan Kwai Fong Macau and the commercial podium having a covered floor area of about 25,000 square meters (inclusive of area of basement) situated at Rua De Luix Gonzaga Gomes No. 176-230, Rua De Nagasaki No.64-A-82, Rua De Xiamen No 37-A-59, Macau (the "Hotel") and a 99% equity interest in Classic Management, which provides casino management services in the Hotel.

The Hotel presents a total of around 200 guestrooms, casino situated in the ground, 1st and 18th floors, restaurants, flower shop, retail shop and a spa. As at 30 June 2011, the casino in the Hotel operated a total of 78 gaming tables in both VIP and mass markets and also operated a total of 121 slot machines.

Extract from the audited financial accounts of Lan Kwai Fong (Macau) for the years ended 31 December 2009, 2010 and 2011 which are prepared in accordance with Hong Kong Financial Reporting Standards, is as follows:

	Year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Net assets/(liabilities)	(74,201)	9,090	89,362
Net current assets/(liabilities)	(472,789)	(65,724)	55,691
Turnover	22,583	65,357	81,724
(Loss)/profit before Taxation	(68,888)	83,291	80,272
(Loss)/profit after Taxation	(68,888)	83,291	80,272

Extract from the audited financial accounts of Classic Management for the years ended 31 December 2009, 2010 and 2011 which are prepared in accordance with Hong Kong Financial Reporting Standards, is as follows:

	For the year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Net asset	134	274	508
Net current asset	106	252	492
Turnover	199,460	659,773	867,536
Profit before Taxation	37	140	238
Profit after Taxation	37	140	234

Charm Faith

The principal activity of Charm Faith is investment holding. The principal asset of Charm Faith is a 1% equity interest in Classic Management. Other than holding of 1% equity interest in Classic Management, Charm Faith has no other principal business activity.

Extract from the audited financial accounts of Charm Faith for the years ended 31 December 2009, 2010 and 2011 which are prepared in accordance with Hong Kong Financial Reporting Standards, is as follows:

	For the year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Net liabilities	6	20	28
Net current liabilities	7	21	29
Turnover	0	0	0
Loss before Taxation	7	14	8
Loss after Taxation	7	14	8

(iii) Financial information of the Group

Financial results

The following are the summaries of the results of the Group for the years ended 31 December 2009, 2010 and 2011:

	For the year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	543,429	864,261	1,096,762
Profit/(Loss) for the year	164,395	24,827	(654,106)
Cash	173,188	625,827	903,094

As shown in the table above, the Group has recorded net loss for the year ended 31 December 2011 despite the fact that the Group has net profit for the two years ended 31 December 2009 and 2010. The net loss from operations for the year ended 31 December 2011 was mainly due to an impairment loss of HK$700,085,000 (2010: HK$197,973,000) recognised in respect of the intangible assets, which is mainly attributable to the decrease in sharing of the profit streams from investments in gaming and entertainment business in Macau from Best Mind International Inc as a result of the keen competition in the VIP gaming industry segment and the new promoter commission policy of the Macau government. According to the annual report 2011 of the Company, such intangible assets represented the rights in sharing of rolling turnover generated at one of the VIP room in a casino in Macau for an indefinite period of time, having considered that the positive outlook of the Macau gaming industry as concluded under the section named "Overview of the gaming industry of Macau by the Group", it is reasonable to believe that such impairment loss is an one-off item. As of 31 December 2011, the turnover of the Group was concentrated, which was composed of 86.60% from the segment of hotel and gaming service operations. In view of such concentrated source of revenue composition together with i) the positive outlook of the Macau gaming industry, and ii) the segment results from the hotel and gaming service operations was approximately HK$58.40 million and HK$64.30 million for the fiscal years ended 31 December 2011 and 2010, which demonstrated the consistency of profitability of the segment, we are of the view that the profitability of the Group will improve in the future.

In addition, any potential investment opportunity may improve the profitability of the Group by the way of acquiring business with positive earnings which will increase the likelihood of an improvement of the profitability of the Group given the positive outlook of the Macau gaming industry as concluded under the section named "Overview of the gaming industry of Macau by the Group". In particular, acquisition of business in Macau gaming industry will enable the Group to solidify its profitability and to capture the potential growing opportunities in Macau's hospitality and gaming sectors, which is having a promising prospectus as discussed in the section named "Overview of the gaming industry of Macau by the Group". Furthermore, the similarity of the business nature between the hotel and gaming service operations segment of the Company and the Target Group will create positive synergy effect to the enlarged group, which will also help improve the profitability of the enlarged group. As such, the Acquisition is fair and reasonable and is in the interest of the Shareholders as a whole.

(iv) Overview of the gaming industry of Macau by the Group

According to the Quarterly Gaming Statistics 2011 prepared by The Gaming Inspection and Coordination Bureau, Macau SAR, Macau has recorded a 42% growth in gross gaming revenue in 2011. Given that Macau has achieved strong growth in its gross gaming revenue in recent years, Macau has become the world's biggest gaming market. The Board has considered to acquire the remaining equity interest in Lan Kwai Fong (Macau) and Classic Management shall enable the Group to solidify its profitability and to capture the potential growing opportunities in Macau's hospitality and gaming sectors. As such, the Board considers that the Acquisition presents an opportunity to the Group for acquiring the remaining 49% equity interest of Lan Kwai Fong (Macau) and Classic Management, which is in line with the Group's strategy. Accordingly, the Board is of the view that the Sale and Purchase Agreement are entered into on normal commercial terms after arm's length negotiation and the terms of the Sale and Purchase Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Consideration

(i) Basis of the consideration of the Purchase Price

Pursuant to the Sale and Purchase Agreement, the Purchase Price of HK$618.00 million payable to the Vendor by the Purchaser is as follows:

(a) a refundable amount of HK$335.00 million (the "First Deposit") by the Purchaser to the Vendor upon signing of the Sale and Purchase Agreement; and

(b) a refundable amount of HK$283.00 million (the "Second Deposit") by the Purchaser to the Vendor on 28 March 2012.

The above shall immediately be returned to the Purchaser without interest in the event of termination or non-completion of the Sale and Purchase for whatever reason.

The Purchase Price of HK$618.00 million was arrived at arm's length negotiations between the Vendor and the Purchaser with reference to a draft property valuation of Lan Kwai Fong (Macau) of approximately HK$1,250.00 million as at 31 December 2011 conducted by an independent professional valuer adjusted for the net current assets values of Lan Kwai Fong (Macau), Classic Management and Charm Faith as at 31 December 2011 and the outstanding balance of bank loans of Lan Kwai Fong (Macau) of HK$450.00 million as at 31 December 2011. As disclosed in the property valuation report of Lan Kwai Fong (Macau) set out in Appendix V to this circular, Lan Kwai Fong (Macau) was valued at approximately HK$1,354.00 million as at 30 April 2012.

The premium (the "Premium") was approximately 34.40% as compared to the Purchase Price of HK$618.00 million with the net amount of HK$459.69 million, being the sum of 49.00% of the property valuation on the properties held by Lan Kwai Fong (Macau) of HK$1,282.00 million as at 31 December 2011 and the net current assets of Lan Kwai Fong (Macau), Classic Management and Charm Faith of HK$106.15 million and the outstanding bank loans of HK$450.00 million at 31 December 2011, the Directors considered that the Premium is fair and reasonable taking into account net segment profits from the hotel and gaming service operations was approximately HK$58.40 million for the year ended 31

December 2011, the expected synergy with the Group's new site in Lot 6B, Lot 6C, Lot 6D and Lot 6E located at Zona de Aterros do Porto Exterior (ZAPE) Macau (the "Sites") to be developed into commercial units and residential apartments located in front of the Hotel and future prospect of Macau's hospitality and gaming sectors and the Hotel. Accordingly, the Directors considered that the Purchase Price is fair and reasonable and in the interest of the Company and its shareholders as a whole.

Referring to Appendix IIA – IID, the net current assets adjustment of approximately HK$106.00 million consists of the difference of i) the sum of current assets of the Target Group of approximately HK$315.00 million, and ii) the sum of current liabilities of the Target Group of approximately HK$209.00 million. We noted that the Directors have considered the adjustment of the i) sum of net current assets of the Target Group, and ii) outstanding bank borrowings of HK$450.00 million together as a whole, in which we consider such approach to be appropriate given that such approach will reflect the change of minority interest of the Enlarged Group upon Completion as Lan Kwai Fong (Macau) and Charm Faith will change from 51% owned subsidiaries to wholly-owned subsidiaries.

We also noted the Premium is of approximately 34.40%, in which we are of the view that the amount of the Premium is justified in view of i) the positive industry outlook as concluded under the section named "Overview of the gaming industry of Macau by the Group", ii) the likelihood of an improvement of the profitability of the Group upon completion of the Acquisition and the possible synergy effects created thereafter, iii) the turnover of the Group was composed of 86.60% from the segment of hotel and gaming service operations who being the core business of the Group, and iv) the segment results from the hotel and gaming service operations was approximately HK$58.40 million and HK$64.30 million for the two year ended 31 December 2011 and 2010, which demonstrated the consistency of profitability of the segment. As such, we are of the view that the net current asset adjustment, the Premium, and the Purchase Price is fair and reasonable and in the interest of the Company and its shareholders as a whole.

We have reviewed and discussed with DTZ Debenham Tie Leung Limited, the approach to value and valuation assumptions regarding the Valuation Report and are of the view that they are reasonably prepared. Further details can be found in the section headed "Valuation Report" below. We have also compared the Purchase Price to the audited net assets as at 31 December 2011 of the entire interest of the Target Company to be acquired by the Group which is of approximately HK$16.1 million as stated in the Accountants' Report of the Target Company in Appendix IIA of the Circular, the Purchase Price represents a premium of approximately 3,739%.

(ii) Review on the fairness of the Purchase Price

In order to have a fair comment on the Purchase Price, we have identified the information on the Stock Exchange of 3 companies (the "Comparables") that are engaged in similar business (hotel and/or gaming industry) of the Company in the recent 12 months up to the Latest Practicable Date (the "Review Period"). During the Review Period, catastrophic events such as the European sovereign-debt crisis and the downgrade of credit rating of the United States of America happened to give severe impacts to global stock markets, including the Hong Kong stock market. Under such a situation, we are of the view that the length of period is appropriate as such catastrophic events would have given the market an opportunity to re-evaluate the fairness of the asset value, and to investigate the risk factors underneath. As such, the valuations of the asset prices are believed to be rational and representative within the period.

Criteria for the selection of the comparables

In order to ensure the comparison made to be sound and meaningful, we have, to the best of our effort, knowledge and endeavour, screened out an exhaustive list of Comparables within the pool of all Hong Kong listed stocks that can fulfill our selection criteria. The criteria in selecting the Comparables are that their business nature is similar to the Group and exposed to similar industry risk of the Group. Within the Review Period, we have noticed that i) none of the Comparables has participated in acquisition transaction in identical nature with the Acquisition, ii) only limited number of Comparables have participated in acquisition transaction in similar nature with the Acquisition, and iii) no acquisition target has been found to be in identical business nature and operation status as to the Target Group. Based on such criteria, we are of the view that it would be the most suitable to use the Comparables for our analysis below.

Details of the Comparables are as follows:

Company name (Stock Code)	**Date of Announcement**	**Type of transaction**	**Considerations** *HK$*	**Basis of Consideration**	**Net profit/ (Loss) of the Target** *HK$*	**Net asset/ (liability) of the Target** *HK$*	**Net current asset/ (liability) of the Target** *HK$*	**Price earnings ratio as implied by the consideration**	**Premium (discount) to net current asset value**
Rosedale Hotel Holding Limited (#1189)	13 February 2012	Very substantial Acquisition	Approximately 1,317,708,000	(a) The further costs to be expanded to complete the Property as a fully operational hotel as assessed by an independent property valuer. (b) The net asset value of the Disposal Group. (c) The amount of the Sale Loan	As at 31 Dec 2011 (183,006)	As at 31 Dec 2011 (837,919)	As at 31 Dec 2011 (633,994,220)	N/A *(Note 2)*	N/A *(Note 2)*
The Hong Kong and Shanghai Hotels, Limited (#45)	5 September 2011	Acquisition of the Equity Interest and Indebtedness of a Non-wholly owned Subsidiary	578,000,000	(a) The contractual entitlements of the parties (b) The expected additional investments to be made through to the end of the term of TPH joint venture arrangements and with reference to the fair value of HKCKL's investment in the Peninsula Beijing as at 30 June, 2011	As at 31 Dec 2010 53,377,396	N/A *(Note 1)*	N/A *(Note 1)*	10.82	N/A *(Note 2)*
Kosmopolito Hotels International Limited (#2266)	21 December 2011	Acquisition of the entire issued share capital and shareholder's loan of Capital Fortune Investment Limited	76,045,000	The fair value of the 25% equity interest in the Joint Venture Company owned by Capital Fortune	As at 31 Mar 2011 (24,719)	N/A *(Note 1)*	N/A *(Note 1)*	N/A *(Note 2)*	N/A *(Note 2)*
The Company			**618,000,000**		**As at 31 Dec 2011 38,955,000**	**As at 31 Dec 2011 16,065,000**	**As at 31 Dec 2011 (277,354,000)**	**15.86**	N/A *(Note 2)*

Note:

1. The information was not disclosed in the respective announcement by the listed companies.

2. The item is not applicable due to insufficient or invalid information in the public document.

Based on the above limited comparison, we could not draw the conclusion as to whether it is a common practice of using net current asset value as the basis of the consideration when making the Acquisition. We have tried to use other alternative for comparison, including i) net asset value; and ii) price earnings ratio as implied by the consideration.

In respect of the comparison by using price earnings ratio as the basis of the consideration, only one Comparable has P/E ratio for comparison, and the price earnings ratio used for the Acquisition by the Company is higher than that Comparable. We have noticed that all Comparables do not have information for net assets analysis, however, as stated in the above table, only one Comparables has a higher premium in respect of using net asset value as the basis of consideration due to the acquisition of a net deficit target, as compared to the premium paid by the Company.

We have considered that the comparison by using net asset value and price earnings ratio as the basis of the consideration may not be appropriate due to the difference in geographical location of the acquisition targets of the Comparables as compared to the Target Company. All the Comparables acquired their targets in PRC and the operation of the Target Company is at Macau. As such, the prospects of two different areas would have significant impact on the consideration as those acquisitions in PRC is merely in tourism industry and the operation of the Target Company is in both tourism industry and gaming industry. Based on the above analysis, although there is insufficient information as revealed by the net asset value and P/E ratio, we are of the view that it is inappropriate to use net asset value and price earnings ratio to justify the fairness and reasonableness of the consideration of the Acquisition having considered the possible difference in i) segment revenue composition, and ii) segment profit distribution between the acquisition targets of the Comparables and the Target Group.

In view of the above analysis, using net current asset as the basis of the consideration is a more appropriate alternative available to us in view of the net current assets of the Target Group being a factor in the determination of the fairness and reasonableness of the Purchase Price. In addition, the effect on the minority interest of the Enlarged Group upon completion due to the outstanding bank loan of Lan Kwai Fong (Macau) should be considered as part of the Purchase Price as well, as Lan Kwai Fong (Macau) will change from 51% owned subsidiary to a wholly-owned subsidiary upon completion. As no other alternative could be used as the basis of the consideration save for using net current asset and the outstanding bank loans of Lan Kwai Fong (Macau) as the basis of the consideration, we are of the view that using net current asset and the outstanding bank loans of Lan Kwai Fong (Macau) as the basis of the consideration in the Acquisition is fair and reasonable.

(iii) Payment Method

The Purchase Price, which will be settled by way of cash by the Company, will be returned to the Company without interest in the event of termination or non-completion of the Sale and Purchase Agreement.

As stated above, the Company has cash on hand of HK$903.1 million as at the 31 December 2011. The Company intends to finance the Acquisition from the internal resources as they have sufficient cashflow for the Acquisition.

In respect of the zero interest to be charged by the Company in the event of termination or non-completion of the Sale and Purchase Agreement, the Board confirmed that there are other competitors, which offered the same terms as to the provision of the deposit without charging any interest in the event of termination or non-completion of the acquisition. In view of the profitability of the Target Company and in order to be competitive as compared to other offers, the Board agrees to have the deposit to be returned without interest in the event of termination or non-completion of the Sale and Purchase Agreement.

Based on the profitability of the Target Company and the competitive offers from other competitors, we are of the view that the payment terms of Sale and Purchase Agreement is fair and reasonable.

Valuation Report

In assessing the fairness and reasonableness of the valuation of the assets of the Target Company, we have studied the expertise of the valuer, valuation methodology, basis of valuation and assumptions underlying the Valuation Report.

(i) Expertise

As per the discussion with the valuer, Mr. K.B. Wong, we noticed that the valuer is a Registered Professional Surveyor who has over 25 years' experience in valuation of properties in Hong Kong and Macau. As such, we are of the view that the valuer has possessed sufficient experience in performing the valuation of the assets of the Target Company.

(ii) Valuation methodology

It is stated in the Valuation Report that DTZ Debenham Tie Leung Limited has considered three generally accepted valuation approaches, i.e. the Market Approach, the Income Approach and the Cost Approach and considered to use the Market Approach.

(iii) Valuation and assumptions

The valuer has considered the nature of the asset and the gaming and hotel industry in the valuation process. The Market Approach has been adopted in the valuation process in this case as market prices of similar assets are available.

We have discussed with the valuer regarding the basis of the valuation and the underlying assumptions of the valuation as stated in the Valuation Report, including the followings:

i. The valuation of each property represents its market value which in accordance with the valuation standards on properties of the Hong Kong Institute of Surveyors and is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

ii. The valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and lease back arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

iii. No allowance has been made in the valuations for any changes, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale.

iv. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Having reviewed the i) the expertise of the valuer, ii) valuation methodology, and iii) the assumptions adopted in the valuation, we are of the view that (i) the Valuation Report is well prepared; (ii) the valuation performed is fair; and (iii) the assumptions adopted in the valuation is complete, fair and reasonable.

Financial effects of the Acquisition

(i) Net asset value

As stated in Appendix I to the Circular, the net assets of the Group as at 31 December 2011 was approximately HK$2,274.90 million. Assuming Completion had taken place, the pro forma net assets of the enlarged group would have been HK$1,641.90 million. As such, there has been a negative impact on the net asset of the Group upon Completion. As disclosed in Appendix IV, the expected decrease of HK$633 million in net assets of the Enlarged Group is attributable to i)the adjustment of HK$335.00 million decrease in deposits, prepayments and other receivables, reflecting the payment of the First Deposit, ii) the adjustment of HK$285.00 million decrease in cash and bank balances reflecting the payment of the Second Deposit including approximately HK$2.00 million of the associated professional fee and expenses incurred in the Acquisition, and iii) the approximately HK$13.00 million for the acquisition of 1% equity interest in Hotel LKF, Charm Faith and Classic Management.

(ii) Earning

As stated in Appendix I to the Circular, the net loss attributable to equity shareholders of the Company for the year ended 31 December 2011 was approximately HK$683.00 million. As disclosed in Appendix IV, assuming Completion had taken place as at 31 December 2011, the pro forma net loss of the enlarged attributable to equity shareholders of the Company would have been approximately HK$656 million.

(iii) Working capital

As stated in Appendix I to the Circular, the net current assets of the Group as at 31 December 2011 was approximately HK$1,813.00 million. Assuming Completion had taken place, the pro forma net current assets of the enlarged group would have been approximately HK$1,180.00 million. As such, the decrease in pro-forma net current assets of the Enlarged Group was mainly due to the reduction of the working capital as a result of the payment of the First and Second Deposit.

Despite the fact that there is a negative impact on the financial position of the Group upon Completion, the Board believes that (i) of the total turnover amount of the Group for the year ended 31 December 2011, 86% was generated from hotel and gaming service operations. Hotel and gaming service operations contributed an aggregate segment profit of HK$58.40 million to the Group's loss before tax of HK$661.5 million; (ii) Lan Kwai Fong (Macau) continues to provide stable revenue and cash income to the Group in view of the promising prospects of the Hotel held by Lan Kwai Fong (Macau); and (iii) the Acquisition will provide synergy with the sites of the Group located at Zona de Aterros do Porto Exterior (ZAPE) Macau currently under development by the Group. As such, we concur with the view of the Board.

RECOMMENDATION

In view of the (i) the potential profitability of the Target Company after taking into account the promising prospects of the Hotel held by Lan Kwai Fong (Macau) under the potential growing opportunities in Macau's hospitality and gaming sectors expected by the Board as discussed under the section named "Overview of the gaming industry of Macau by the Group"; (ii) the financial effect of the Acquisition on the Group; (iii) the business nature of the Target Company matches the Company's development needs; and (iv) the basis of the consideration of the Purchase Price, we are in the opinion that the Acquisition is on normal commercial terms, in the ordinary and usual course of the Company's business, fair and reasonable and in the interest of the Company and the Shareholders as a whole. As such, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions relating to the Acquisition at the SGM respectively. We also recommend the Independent Shareholders to vote in favour of the resolutions in relation the Acquisition at the SGM.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated results and the financial position of the Group for each of the three years ended 31 December 2009, 2010 and 2011 as extracted from the relevant published financial statements of the Group.

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
	(Re-presented)		
Turnover	543,429	864,261	1,096,762
Cost of sales	(98,810)	(239,153)	(481,744)
Gross profit	444,619	625,108	615,018
Other revenue	10,104	25,293	18,972
Other income	55,088	27,802	1,421
Administrative expenses	(236,101)	(455,812)	(462,600)
Marketing, selling and distribution expenses	(9,514)	(5,810)	(16,059)
Share-based payment expenses	(8,039)	(8,238)	–
Gain/(loss) arising on change in fair value of financial assets classified as held for trading	15,622	28,707	(68,837)
Gain arising on change in fair value of investment properties	19,652	12,270	–
Impairment loss recognised in respect of goodwill	(40,278)	(8,975)	–
Impairment loss recognised in respect of film rights	–	(1,339)	(619)
Impairment loss recognised in respect of films in progress	–	–	(15,928)
Impairment loss recognised in respect of intangible assets	–	(197,973)	(700,085)
Profit/(loss) from operations	251,153	41,033	(628,717)
Finance costs	(22,272)	(15,695)	(31,456)
Share of losses of jointly controlled entities	–	–	(1,344)
Share of losses of associates	(14)	(1)	(8)
(Loss)/gain arising on change in fair value in respect of conversion options embedded in convertible notes receivable	(31,565)	882	–
Loss on disposal of subsidiaries	(30,059)	–	–
Profit/(loss) before tax	167,243	26,219	(661,525)
Taxation (charge)/credit	(2,848)	(1,392)	7,419
Profit/(loss) for the year	164,395	24,827	(654,106)
Attributable to:			
Owners of the Company	204,388	(8,083)	(683,234)
Non-controlling interests	(39,993)	32,910	29,128
	164,395	24,827	(654,106)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
	(Re-presented)		
Profit/(loss) for the year	164,395	24,827	(654,106)
Other comprehensive income			
Exchange differences arising on translation of foreign operations	39	(171)	16
Reclassification adjustments relating to foreign operations disposed during the year	–	–	24
Fair value adjustment on available for sale financial assets	9,800	–	–
Other comprehensive income/(loss) for the year	9,839	(171)	40
Total comprehensive income/(loss) for the year	174,234	24,656	(654,066)
Total comprehensive income/(loss) attributable to:			
Owners of the Company	214,227	(8,254)	(683,196)
Non-controlling interests	(39,993)	32,910	29,130
	174,234	24,656	(654,066)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	773,254	721,381	637,702
Interests in leasehold land	484,333	464,731	507,359
Investment properties	61,310	73,580	–
Goodwill	8,975	–	3,030
Intangible assets	989,205	791,232	100,729
Convertible notes receivable	20,015	–	–
Interests in jointly controlled entities	–	–	28,656
Interests in associates	–	7,985	7,977
	2,337,092	2,058,909	1,285,453
Current assets			
Inventories	1,091	1,657	38,639
Stock of properties	–	–	550,312
Film rights	22,914	21,321	19,761
Films in progress	19,238	19,038	3,150
Trade receivables	105,428	69,337	143,008
Deposits, prepayments and other receivables	396,968	441,059	396,386
Conversion options embedded in convertible notes receivable	10,908	–	–
Held for trading investments	97,641	94,050	50,797
Amounts due from associates	16,435	13,714	16,854
Prepaid tax	1,100	180	86
Cash and bank balances	173,188	625,827	903,094
	844,911	1,286,183	2,122,087
Assets classified as held for sale	8,272	–	–
	853,183	1,286,183	2,122,087
Total assets	3,190,275	3,345,092	3,407,540
Capital and reserves			
Share capital	22,965	43,340	19,647
Reserves	2,052,157	2,259,435	1,948,945
Equity attributable to owners of the Company	2,075,122	2,302,775	1,968,592
Non-controlling interests	244,271	277,181	306,317
Total equity	2,319,393	2,579,956	2,274,909

	At 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Non-current liabilities			
Bank borrowings	178,275	450,000	400,000
Obligation under finance lease	305	201	153
Convertible bonds	–	–	339,187
Deferred tax liabilities	86,682	88,063	84,253
	265,262	538,264	823,593
Current liabilities			
Bank overdraft	178,764	–	–
Bank borrowings	232,631	50,000	66,674
Obligation under finance lease	96	96	128
Trade payables	21,426	25,038	139,080
Deposits received, accruals and other payables	132,201	60,470	68,244
Tax payable	–	–	4
Amount due to an associate	–	25,766	34,906
Amounts due to non-controlling interests	40,502	65,502	2
	605,620	226,872	309,038
Total liabilities	870,882	765,136	1,132,631
Total equity and liabilities	3,190,275	3,345,092	3,407,540
Net current assets	247,563	1,059,311	1,813,049
Total assets less current liabilities	2,584,655	3,118,220	3,098,502

2. THREE YEARS FINANCIAL INFORMATION

Details of the financial information of the Group for the three financial years ended 31 December 2009, 31 December 2010 and 31 December 2011 including the notes thereto have been set out in the Company's annual reports for the financial years ended 31 December 2009 (pages 41 to 175), 31 December 2010 (pages 45 to 195) and 31 December 2011 (pages 53 to 214) respectively. All of the financial statements of the Company for the years ended 31 December 2009, 31 December 2010 and 31 December 2011 have been published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.chinastar.com.hk on 29 April 2010, 26 April 2011 and 30 April 2012 respectively.

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the performance of the Group for each of the three years ended 31 December 2009, 2010 and 2011 based on the annual report of the Company for each of the three years ended 31 December 2009, 2010 and 2011.

For the financial year ended 31 December 2011

FINANCIAL REVIEW

For the year ended 31st December 2011, the Group's turnover increased by 27% to approximately HK$1,096,762,000 (2010: HK$864,261,000).

Loss from operations and loss for the year amounted to approximately HK$628,717,000 and HK$654,106,000 respectively as compared to profit from operations and profit for the year of HK$41,033,000 and HK$24,827,000 respectively for last year. The incur of a substantial loss was mainly attributable to an impairment loss of HK$700,085,000 (2010: HK$197,973,000) recognised in respect of the intangible assets 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 gaming promoters at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. Taking out the effect of this impairment loss recognised, the Group would recorded profit from operations and profit for the year amounted to approximately HK$71,368,000 and HK$45,979,000 respectively.

The loss attributable to owners of the Company increased from HK$8,083,000 to HK$683,234,000 for the year ended 31st December 2011.

DIVIDEND

The board of directors of the Company declared and paid a special dividend of HK3.3 cents per share to the shareholders of the Company whose names appear on the register of members of the Company on 17th November 2011. The directors do not recommend the payment of a final dividend for the year ended 31st December 2011.

BUSINESS REVIEW

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

Of the total turnover amount for the year, HK$949,260,000 or 86% was generated from hotel and gaming service operations, HK$117,436,000 or 11% was generated from gaming promotion operations, HK$1,602,000 or 0% was generated from film distribution operations, HK$nil or 0% was generated from property development operations and HK$28,464,000 or 3% was generated from Chinese health products sales operations.

Hotel and Gaming Service Operations

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

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will 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 31st December 2011, Casino LKF operated a total of 84 tables, targeting both for the VIP market and the mass market. It also operated a total of 121 slot machines.

The Group had shared revenue and segment profit of approximately HK$949,260,000 (2010: HK$725,130,000) and HK$58,375,000 (2010: HK$64,333,000) from the hotel and gaming service operations, an increase of 31% and a decrease of 9% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel room sales of HK$64,955,000 (2010: HK$52,426,000), food and beverage sales of HK$16,769,000 (2010: HK$12,931,000) and services income of HK$307,178,000 (2010: HK$351,015,000), HK$548,390,000 (2010: HK$302,681,000) and HK$11,968,000 (2010: HK$6,077,000) received from VIP table gaming, mass table gaming and slot machines respectively. Hotel and gaming service operations recorded an aggregate segment profit of HK$58,375,000 (2010: HK$64,333,000). This year, the performance of Lan Kwai Fong was encouraging. The average monthly revenue from the hotel and gaming service operations was approximately HK$79,105,000 per month which represented increase of 31% from HK$60,428,000 per month in 2010, mainly reflecting 81% increase in monthly service income from mass table gaming to HK$45,699,000 per month in 2011 from HK$25,223,000 per month in 2010, which was partly offset by 12% decrease in monthly service income from VIP gaming to HK$25,598,000 per month in 2011 from HK$29,251,000 per month in 2010. The significantly improvement in revenue from mass table gaming and slight decrease in segment profit was mainly because Lan Kwai Fong has incurred a one off payment on review of the whole operation and subsequent strategy of the Casino LKF in the beginning of the year 2011 which has bring the improvement in revenue in 2011 and expected to bring subsequent improvement on the future revenue.

Gaming Promotion Operations

The Group had shared revenue and segment loss of approximately HK$117,436,000 (2010: HK$137,814,000) and HK$583,961,000 (2010: HK$70,349,000) from the gaming promotion operations respectively.

Although Macau's casino gaming industry earned record revenue in year 2011, the competition in gaming industry continues to be intense. One of the characteristic of the VIP gaming is that the majority of the business volume is highly volatile. The publishing on 10th August 2009 by the Macau government in its official gazette an amendment to an executive regulation that would enable the Financial Secretary to set a cap for promotor 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 was worsen as new hotels and casinos including Encore at Wynn Macau and Galaxy Macau, which opened in April 2010 and May 2011 respectively. The impact was particularly apparent for Galaxy Macau after its opening in May 2011. The number of gaming tables occupied by Ocho were also shifted to new or other promoters with better performance. The decrease in revenue sharing also decrease the expected cash inflow from this operation. As at 31st December 2011, the directors assessed the recoverable amounts of the profit streams from the gaming promotion operation in Ocho with reference to the valuations performed by an independent firm of professional valuers and thus recognised an impairment loss of HK$700,085,000 (2010: HK$197,973,000) in respect of the intangible assets for the year ended 31st December 2011.

Film Distribution Operations

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

In year 2011, turnover for film distribution operations amounted to HK$1,602,000 (2010: HK$1,317,000) and its segment loss amounted to HK$16,037,000 (2010: HK$520,000) which was mainly attributable to impairment losses recognised in respect of film rights and films in progress in an aggregate amount of HK$16,547,000 in the year.

Property Development Operations

Property development operations included sales of properties located in Macau after the completion of the Acquisition (as defined below). The Sites will developed into commercial units and residential apartments for sale.

In year 2011, the Group had shared no revenue and segment loss of approximately HK$33,000 from the property development operations since the Group is in the progress of preparing the master development plan of the Sites (as defined below) for submission to Macau Government for approval.

Chinese Health Products Sales Operations

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

From 28th October 2011 (completion date of acquisition of NPH) to 31st December 2011, the Group had shared revenue and segment loss of approximately HK$28,464,000 and HK$278,000 from the Chinese health products sales operations respectively.

Geographical Segments

For the geographical segments, as revenue from hotel and gaming service operations and gaming promotion operations are all sourced in Macau, almost 97% turnover of the Group during this year were come from Macau.

Administration Expenses

For the year ended 31st December 2011, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK$335,634,000, a 3% decrease from HK$347,548,000 as compared to the last corresponding year. The decrease was mainly attributable to the decrease in casino management fees paid by Classic and partly offset by the increase in the staffs costs and overhead expenses in the hotel and gaming service operations during the year. Such management fees paid decreased because it was charged on a pro rata basis of gross win from VIP table gaming that had decreased by around 12% in the year 2011. Employee benefit expenses increased 7% from HK$102,334,000 to HK$109,123,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2011, the Group had total assets of approximately HK$3,407,540,000 and a net current assets of HK$1,813,049,000, representing a current ratio of 6.9 (2010: 5.7). The Group had cash and bank balances of approximately HK$903,094,000 (2010: HK$625,827,000). As at 31st December 2011, the Group had total borrowings of HK$806,142,000 which comprised a secured bank term loan of HK$450,000,000 ("Term Loan"), unsecured bank loans in aggregate amount of HK$16,674,000, an outstanding convertible bonds with liabilities component of HK$339,187,000 and obligation under lease HK$281,000. The Term Loan was interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank, repayable by 15 equal consecutive quarterly installments of HK$12,500,000 each and a final repayment for the remaining balance. The unsecured bank loans comprised import trade loans ("Import Loans") of HK$8,286,000, unsecured bank loan ("Unsecured Loan") of HK$5,188,000 and unsecured bank loan of HK$3,200,000 granted under the Special Loan Guarantee Scheme of the Government of HKSAR ("Government Loan"). The Import Loans were interest bearing at 2% over 1 month

HIBOR, repayable within 1 year and guaranteed by an ex-shareholder of a subsidiary of the Company. The Unsecured Loan was interest bearing at 2.5% over one month HIBOR, repayable by 49 equal consecutive monthly installments of approximately HK$106,000 per month and a final repayment for the remaining balance and guaranteed by an ex-shareholder of a subsidiary of the Company. The Government Loan was interest bearing at 2.5% per annum over 1 month HIBOR, repayable on demand and 80% guaranteed by the Government of HKSAR and 100% guaranteed by an ex-shareholder of a subsidiary of the Company. The outstanding convertible bonds were unsecured, interest bearing at coupon rate of 8% per annum and will mature on 6th July 2016. The convertible bonds carry the right to convert into shares of the Company at an adjusted conversion price of HK$0.36 per share as of 31st December 2011. As at 31st December 2011, the Group had banking facilities amounting to HK$563,000,000 which were utilised to the extent of HK$520,286,000. The Group's gearing was low during the year with total debts of HK$806,142,000 against owners' equity of HK$1,968,592,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 41% (2010: 22%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca, Renminbi and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 31st December 2011, the Group had no contingent liability.

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

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

On 21st January 2011, the Company and Eternity Investment Limited ("Eternity") entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for convertible bonds in the maximum principal amount of HK$650 million in two tranches at their face value. The convertible bonds are unsecured, interest bearing at 8% per annum and carry the right to convert into shares at an initial conversion price of HK$0.80 per share (subject to adjustment) after the Capital Reorganisation (as defined below) and will mature on the fifth anniversary from the date of issue.

The estimated maximum net proceeds from the issue of the convertible bonds of approximately HK$649.5 million will be used for financing the Acquisition (as defined below), the development of the Sites (as defined below) and/or the general working capital of the Group. On 7th July 2011, first tranche convertible bonds in the principal amount of HK$350 million were issued to a company procured by Eternity. According to the provisions of the instruments dated 7th July 2011 constituting the convertible bonds, the directors of the Company considered that an adjustment to the conversion price would be required as a result of the completion of the Rights Issue (as defined below) and bonus issue of 2011 Warrants (as defined below) on 29th June 2011. As a result, the conversion price has been adjusted from HK$0.80 per share to HK$0.44 per share with effect from 7th July 2011. The conversion price has further adjusted to HK$0.36 per share on 18th November 2011 as a result of the payment of a special dividend by the Company.

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

On 29th June 2011, the Company raised approximately HK$368,385,000 before expenses by way of rights issue (the "Rights Issue") of 1,473,540,870 rights shares at a subscription price of HK$0.25 each on the basis of three rights shares for every one shares held on 7th June 2011 with the issue of bonus warrants (the "2011 Warrants") on the basis of one bonus warrant for every five rights shares taken up under the Rights Issue. The estimated net proceeds were approximately HK$363,530,000, of which approximately HK$360,000,000 were intended to be used to fund the financial needs for developing the Sites (as defined below) and/or the remaining of approximately HK$3,530,000 were intended to be used for general working capital of the Group.

During the year ended 31st December 2011, an option holder exercised her option rights to subscribe for 1,243 shares at exercise price of HK$0.144 per share. The net proceeds from the exercise of option rights amounted to HK$179.

MATERIAL ACQUISITIONS

On 7th January 2011, China Star Entertainment (BVI) Limited ("CSBVI"), a wholly owned subsidiary of the Company and KH Investment Holdings Limited ("KH Investment") formed a joint venture company, China Star Film Group Limited (the "JV Company") for an investment cost of HK$30,000,000 each. CSBVI and KH Investment beneficially interested in 50% each of the JV Company. The JV Company is principally engaged in production and distribution of films.

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

On 19th October 2011, CSBVI and Well Gain (Asia) Limited ("Well Gain") entered into a sale and purchase agreement pursuant to which CSBVI has conditionally agreed to acquire and Well Gain has conditionally agreed to sell 50,000 shares of US$1.00 each in the entire share capital of NPH at a total consideration of HK$50,000,000. NPH and its subsidiaries, collectively Poo Yuk Loong Limited, NPH Sino-Meditech Limited, Nam Pei Hong Sum Yung Drugs Company Limited, Poo Yuk Loong Food (Shenzhen) Company Limited, Most Trade Enterprises Limited and 中山市古鎮南臻參茸海味店, are principally engaged in the business of sales of ginseng, dried seafood and pharmaceutical products. The acquisition was completed on 28th October 2011 and the Group started to consolidate the results of the group headed by NPH.

TERMINATION OF THE PROPOSED ACQUISITION OF THE ENTIRE SHARE CAPITAL OF MODERN VISION (ASIA) LIMITED AND REFORM BASE HOLDINGS LIMITED AND THE SALE LOANS

On 29th April 2009, Bestjump Holdings Limited ("Bestjump"), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director of the Company entered into a sale and purchase agreement (the "2009 Sale and Purchase Agreement") pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the "Targeted Companies") and outstanding loans in an aggregate amount of HK$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited, through a Macau company, Legstrong

Construction and Investment Company Limited (the "Macau Co"), indirectly owned 100% beneficial interest in a lot of land 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"). The transaction has been approved in a special general meeting of the Company held on 3rd September 2009. The longstop date of the agreement had further extended to 31st December 2012.

One of the conditions to completion is the publication by the Macau Government of a master zoning guideline for the "C" area of Nam Van Lakes Zone and the results of a new amendment to the land grant under which the Macau Co holds the Macau Land from the Macau Government executed on 14th August 2001 to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government. In the third quarter of 2010, the Macau Government invited Macau citizens as part of this process to submit their conceptual planning proposals for the Nam Van area with a view to optimising the benefits to the city's infrastructures as a whole. Afterwards, the Macau Government has not yet issued any update on the master zoning guideline. On 15th February 2012, Bestjump and Ms. Chen entered into a deed of termination to terminate the 2009 Sale and Purchase Agreement. Given that (a) it did not appear that the master zoning guideline for the Macau Land would be issued anytime soon by the Macau Government; and (b) the ultimate target of the LKF Acquisition (as defined below) was the 49% equity interest in Hotel LKF which had been operating with positive earnings before interest, tax and depreciation, the parties had decided to terminate the 2009 Sale and Purchase Agreement in order to release the Group's internal resource for the LKF Acquisition. Deposits of HK$360,000,000 was refund to the Group, of which HK$335,000,000 was used as first deposit in LKF Acquisition.

EVENTS AFTER THE REPORTING PERIOD

On 11th January 2012, Exceptional Gain Profits Limited ("Exceptional Gain"), a wholly owned subsidiary of the Company and SJM – Investment Limited ("SJM-I"), an investment holding company and a subsidiary of SJM Holding Limited (stock code: 880), entered into agreements pursuant to which SJM-I has agreed to sell or procure the sale of, and Exceptional Gain has conditionally agreed to purchase, 1% equity interest of the issued quotas in Hotel LKF and 1% equity interest in the issued share capital of Charm Faith Holdings Limited ("Charm Faith"), a company beneficially owned 1% of the issued quotas of Classic, at a total consideration of HK$13,000,007.80. The agreements were completed on 31st January 2012 and the consideration was financed from internal resources of the Group. After completion, the Company become interested in 51% equity interest in Hotel LKF, Charm Faith and Classic. To the best of Directors' knowledge, information and belief and having made all reasonable enquiries, SJM-I and its ultimate, beneficial owners are parties independent of the Company and its connected person.

On 15th February 2012, CSBVI and Mr. Heung entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and CSBVI has conditionally agreed to purchase 100% of the entire issued share capital of Most Famous Enterprises Limited ("Most Famous") and a sale loan amounted to approximately HK$277,420,000 at total consideration of HK$618,000,000 (the "LKF Acquisition"). The major assets of Most Famous are its 49% equity interests in Hotel LKF and 49% interest in Charm Faith. The LKF Acquisition constituted a very substantial acquisition and a connected transaction of the Company under the Listing Rules and thus is subject to the approval of the independent shareholders of the Company in a special general meeting to be convened by the Company. The consideration will be financed by the internal resources of the Group, including partial deposit refunded from Ms. Chen in the termination of the 2009 Sale and Purchase Agreement. As the Company has already owned 51% equity interest in each of Hotel LKF, Charm Faith and Classic as at the date of this agreement, Most Famous, Hotel LKF, Charm Faith and Classic will become wholly owned subsidiaries of the Company upon completion of the LKF Acquisition.

EMPLOYEES

As at 31st December 2011, the Group employed 726 staffs (2010: 556 staffs) with employee benefit expenses of HK$109,123,000 (2010: HK$102,334,000). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

PROSPECT

According to the Macau Government Statistics and Census Service, visitation to Macau increased by over 12% to establish a new record of around 28 million in 2011. With the continuous growth of visitation to Macau, the Group is optimistic about the prospect and future development of Macau and thus continues to pursue its strategy of growing its business in Macau.

The performance of the hotel and gaming service operations in Lan Kwai Fong is considered to be the core profit and cash contributor of the Group in the future. In these few years, it has successfully positioned to be an boutique hotel with excellent services and guest satisfaction. Given the moderate size of Lan Kwai Fong, we can enjoy the benefit of fast response to the changing market conditions in the Macau casino market. Mass table gaming operations are more profitable than VIP gaming operations and thus Casino LKF has spend resources to expand its market share in the mass table gaming operations and was proved to be successful in the year 2011 and we would continue this strategy in the near future. The LKF Acquisition enhances the Group to solidify its profitability and capture the full potential growth in the hotel and gaming service operations.

The development of the Sites not only directly contribute revenue to the Group but also provide synergy with Lan Kwai Fong. Following the completion of acquisition of the Sites in June 2011, the Group starts to prepare its development plan in develop it in to commercial units and residential apartment for sale. Given the superb location of the Sites which is adjacent to Lan Kwai Fong, Macao Polytechnic Institute, Forum de Macao and Golden Lotus Square and is a couple blocks away from Macau Fisherman's Whalf and Sands Casino and the recognized and solid experience in renovation of Lan Kwai Fong, the Group is confident that the development project will be another success project of the Group.

In the next few years, the Group will focus on development of the Sites and expect the outlook of the Macau's property market to be positive.

For the financial year ended 31 December 2010

FINANCIAL REVIEW

For the year ended 31st December 2010, the Group's turnover increased by 59% to approximately HK$864,261,000 (2009: HK$543,429,000).

Profit from operations and profit for the year amounted to approximately HK$41,033,000 and HK$24,827,000 respectively as compared to HK$251,153,000 and HK$164,395,000 respectively for last year. The substantial decrease was mainly attributable to an aggregate impairment losses of HK$206,948,000 recognised in respect of intangible assets of HK$197,973,000 and goodwill of HK$8,975,000 during the interim review of the Group as at 30th June 2010 with regard to the decrease in sharing of profit streams from investments in gaming promotion 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 promotors at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. As at 31st December 2010, the Group did not identify further impairment losses. Taking out the effect of the impairment losses recognised, the Group's profit from operations and profit for the year would amounted to approximately HK$247,981,000 and HK$231,775,000 respectively.

The loss attributable to owners of the Company for the year ended 31st December 2010 was HK$8,083,000, representing a 104% decrease over profit of HK$204,388,000 in the last year.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31st December 2010 (2009: nil).

BUSINESS REVIEW

Of the total turnover amount for the year, HK$725,130,000 or 84% was generated from hotel and gaming service operations, HK$137,814,000 or 16% was generated from gaming promotion operations and HK$1,317,000 or 0% was generated from film distribution operations.

Hotel and Gaming Service Operations

Hotel and gaming service operations included the hotel operation in Hotel Lan Kwai Fong Macau ("Lan Kwai Fong") which was recorded in an indirect subsidiary of the Group, Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF") and services provided to the casino situated in Lan Kwai Fong (the "Casino LKF") which was recorded in an indirect subsidiary of the Group, Classic Management & Services Company Limited ("Classic"). Lan Kwai Fong presents a total of approximately 200 guest rooms, casino situated in the 1st and 18th floors, restaurants, flower shop, retail shop and a spa.

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will share certain percentage of service income from SJM based on the gross wins of the table gaming and slot machines in Casino LKF. As at 31st December 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 128 slot machines.

Revenue in the hotel and gaming service operations mainly comprised of hotel room sales of HK$52,426,000 (2009: HK$18,611,000), food and beverage of HK$12,931,000 (2009: HK$3,972,000) and services income of HK$653,696,000 (2009: HK$197,027,000) and HK$6,077,000 (2009: HK$2,433,000) received from table gaming and slot machines respectively. Hotel and gaming service operations recorded an aggregate segment profit of HK$64,333,000 (2009: loss of HK$76,635,000). In year 2009, Lan Kwai Fong had operations for only around 5 months. This year, the performance of Lan Kwai Fong was encouraging. The average monthly revenue from the hotel and gaming service operations was approximately HK$60,428,000 which represented increase of 36% from approximately HK$44,409,000 in 2009, mainly reflecting 38% increase in monthly service income from table gaming to approximately HK$54,475,000 in 2010 from approximately HK$39,405,000 in 2009.

Gaming Promotion Operations

The Group had shared revenue and segment loss of approximately HK$137,814,000 (2009: HK$294,806,000) and HK$70,349,000 (2009: profit of HK$292,710,000) from the gaming promotion business, a decrease of 53% and 124% respectively.

Although Macau's casino gaming industry earned record revenue in year 2010, the competition in gaming industry continues to be intense. One of the characteristic of the VIP gaming is that the majority of the business volume is highly volatile. The publishing on 10th August 2009 by the Macau government in its official gazette an amendment to an executive regulation that would enable the Financial Secretary to set a cap for promoter commission in Macau and its implementation from December 2009 had resulted in Ocho lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers. The decrease in revenue sharing also decrease the expected cash inflow from this operation and thus recognised an aggregate impairment losses of HK$206,948,000 in respect of intangible assets of HK$197,973,000 and goodwill of HK$8,975,000 during the interim review as at 30th June 2010. As at 31st December 2010, the Group did not identify further impairment losses. Although the Group had to recognise an impairment for this investment this year, the Group considered the investment was fair as the accumulated revenue received from this investment amounted to approximately HK$635,948,000 which is far exceeding the impairment losses recognised. Besides, it can provide strong cash flow to the Group with comparatively small costs.

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 new film during the year.

In year 2010, turnover for film distribution division amounted to HK$1,317,000 (2009: HK$26,580,000) and its segment loss amounted to HK$520,000 (2009: HK$11,738,000) which included impairment loss recognised in respect of film rights and goodwill of HK$1,339,000 (2009: nil) and nil (2009: HK$15,416,000) respectively.

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 year were come from Macau.

Administrative Expenses

For the year ended 31st December 2010, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK$347,548,000, a 83% increase from HK$190,264,000 as compared to the last corresponding year. The increase was mainly attributable to the full operations of Lan Kwai Fong during the year as compared to 5 months in the last corresponding year. Employee benefit expenses increased 32% from HK$77,651,000 to HK$102,334,000 for the same reason.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2010, the Group had total assets of approximately HK$3,345,092,000 and net current assets of HK$1,059,311,000, representing a current ratio of 5.7 (2009: 1.4). The Group had cash and cash balances of approximately HK$625,827,000 (2009: HK$173,188,000). As at 31st December 2010, the Group had total borrowings of HK$500,000,000 which comprised a secured bank term loan ("Term Loan"). The Term Loan is interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank, repayable by 19 equal consecutive quarterly installments of HK$12,500,000 each commencing from the third month after the date of the first loan drawdown and a final repayment for the remaining balance. As at 31st December 2010, Hotel LKF, a subsidiary of the Company had banking facilities amounting to HK$536,000,000 which were utilised to the extent of HK$500,000,000. The Group's gearing was low during the year with total debts of HK$500,000,000 against owners' equity of HK$2,302,775,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 22% (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 31st December 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 used for the Group's investment projects in Macau and general working capital of the Group.

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 KH Investment Holdings Limited (formerly known as China Star Film Group Limited) ("KH Investment") in five tranches of HK$12,000,000 each due on the tenth anniversary of the date of issue for such tranche. HK$60,000,000 convertible bonds were issued by KH Investment to the Company on 29th January 2009 and were fully redeemed by KH Investment on 26th May 2010.

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 share of HK$0.01 each (subject to adjustment) on the basis of one bonus warrant for every five shares held on 8th June 2010. The warrants of the Company were issued on 15th June 2010. As at 31 December 2010, the Company had approximately HK$111,526,000 warrants outstanding which are convertible into approximately 602,841,000 shares of the Company at an adjusted subscription price of HK$0.185 per share. On 27th January 2011, the subscription price of the warrants was further adjusted to HK$0.182 per share upon completion of the placement of 577,855,000 new shares of the Company.

On 8th July 2010, the Company announced that it proposed to raise approximately HK$144,464,000 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 estimated net proceeds were approximately HK$141,460,000, of which approximately HK$100,460,000 were intended to be used for reducing the Group's bank borrowings and approximately HK$41,000,000 was intended to be used for financing hotel operation of the Group or general working capital of the Group. The rights shares were issued on 11th August 2010. On 9th February 2011, the Company announced that the Company and the bank had agreed to restructure the Group's bank borrowings with better terms and longer repayment period. In view of the Acquisition (as defined herein), the Company intend to change the use of proceeds of the rights issue and to apply the net proceeds of approximately HK$100,460,000 to satisfy part of the total consideration for the Acquisition. HK$41,000,000 were used for financing hotel operation of the Group and general working capital of the Group as intended.

During the year ended 31st December 2010, certain option holders exercised their option rights to subscribe for an aggregate of 52,790,000 shares of HK$0.01 each at exercise price of HK$0.18 per share. The net proceeds from the exercise of option rights amounted to HK$9,502,200.

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

On 9th February 2011, the board of directors of the Company announced that the Company intended to put forward to the shareholders of the Company for their approval a proposal involving capital reorganisation ("Capital Reorganisation") of the Company comprising (a) share consolidation that every 10 issued and unissued existing shares of HK$0.01 each be consolidated into 1 consolidated share of HK$0.10 each of the Company ("Consolidated Shares"); (b) capital reduction that (i) the issued share capital of the Company be reduced by the cancellation of the paid-up capital of the Company to the extent of HK$0.09 on each of the then issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK$0.10 to HK$0.01; (ii) the authorised share capital of the Company be reduced by reducing the nominal value of all Consolidated Shares from HK$0.10 each to HK$0.01 each resulting in the reduction of the authorised share capital of the Company from HK$500,000,000 divided into 5,000,000,000 Consolidated Shares to HK$50,000,000 divided into 5,000,000,000 new shares of HK$0.01 each; and (iii) the credit arising from the reduction of the issued share capital of the Company be transferred to the contributed surplus account of the Company; and (c) capital increase that the authorised share capital of the Company be increased from HK$50,000,000 divided into 5,000,000,000 new shares of HK$0.01 each to HK$500,000,000 divided into 50,000,000,000 new shares of HK$0.01 each. The Capital Reorganisation was not yet completed up to the reporting date.

On 21st January 2011, the Company and Eternity Investment Limited ("Eternity") entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for convertible bonds in the maximum principal amount of HK$650,000,000 in two tranches at their face value. The convertible bonds will be unsecured, interest bearing at 8% per annum and carry the right to convert into shares of the Company at an initial conversion price of HK$0.08 per share (subject to adjustment) and will mature on the 5th anniversary from the date of issue. The estimated maximum net proceeds from the issue of the convertible bonds of approximately HK$649,500,000 will be used for financing the Acquisition, the development of the Sites (as defined herein) to be acquired in the Acquisition and/or the general working capital of the Group.

MATERIAL ACQUISITIONS

On 29th April 2009, Bestjump Holdings Limited ("Bestjump"), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), an executive director and a substantial shareholder of the Company entered into a sale and purchase agreement pursuant to which Bestjump has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited (the "Targeted Companies") and outstanding loans in an aggregate amount of HK$750,810,007 due by the Targeted Companies to Ms. Chen at an aggregate consideration HK$900,000,000 (subject to adjustment). The major assets of the Targeted Companies are their aggregate 75% equity interests in Over Profit International Limited. Over Profit International Limited, through a Macau company, Legstrong Construction and Investment Company Limited (the "Macau Co"), indirectly owned 100% beneficial interest in a lot of land with the area of 4,669 square meters, named "Lote C7 do Plano de Urbanização da Baía da Praia Grande", located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the "Macau Land"). Details of the transaction were set out in the Company's circular dated 17th August 2009 ("the Circular"). The transaction has been approved in a special general meeting of the Company held on 3rd September

2009. The longstop date of the agreement had extended to 31st December 2010 and further extended to 31st December 2011. As set out in the Circular, one of the conditions to completion is the publication by the Macau Government of a master zoning guideline for the "C" area of Nam Van Lakes Zone and the results of a new amendment to the land grant under which the Macau Co holds the Macau Land from the Macau Government executed on 14th August 2001 to be submitted by Macau Co having been, in light of the master zoning guideline, gazetted by the Macau Government. In the third quarter of 2010, the Macau Government invited Macau citizens as part of this process to submit their conceptual planning proposals for the Nam Van area with a view to optimising the benefits to the city's infrastructures as a whole. It is anticipated that the Macau Government will need further time for its consideration and deliberations of the conceptual planning proposals to finalise the plan. As the conditions have not been satisfied or waived by Bestjump, the transaction has not yet completed up to the reporting date.

On 8th December 2010, China Star Entertainment (BVI) Limited ("CSBVI"), a wholly owned subsidiary of the Company, KH Investment and China Star Film Group Limited (the "JV Company") entered into a joint venture agreement (the JV Agreement") relating to the formation of the JV Company, which is principally engaged in production and distribution of films. Pursuant to the JV Agreement, the JV Company agreed to issue and allot 30 shares and 29 shares of the JV Company at a price of HK1,000,000 per share to CSBVI and KH Investment respectively. CSBVI and KH Investment will benefially interested in 50% each of the JV Company after the completion of the JV Agreement. The 59 shares of the JV Company were issued and alloted on 7th January 2011.

On 23rd December 2010, Triumph Top Limited, a wholly owned subsidiary of the Company (the "Purchaser"), the Company, Sociedade de Turismo e Diversões de Macau, S.A. (the "Vender") and Mr. Heung Wah Keung, a director of the Company entered into a conditional agreement pursuant to which the Vender has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the property leasehold right held by the Vender under the leasehold granted by the Macau Government over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites") (and the inherent transfer to the Purchaser of the legal title to the Sites) at a consideration of HK$550,000,000 (the "Acquisition"). The Acquisition constitutes a very substantial acquisition and a connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and thus is subject to the approval of the independent shareholders of the Company in a special general meeting to be convened by the Company.

EMPLOYEES

As at 31st December 2010, the Group employed 556 staffs (2009: 526 staffs) with employee benefit expenses of HK$102,334,000 (2009: HK$77,651,000). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes, housing allowance and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

PROSPECT

As majority of the Group's revenues are contributed by operations in 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 excellent given its infrastructural development become more mature and this can be supported by the strong growth of Macau's gaming industry in 2010.

In March 2010, the Macau government announced that the total number of gaming tables in Macau would be capped at 5,500 in the next three years. The Group expects that this policy would limit the competition among the gaming industry in Macau and thus enhance the future development of the operations in Lan Kwai Fong and the gaming promotion business.

Despite Hong Kong movie market situation remained unfavourable, the development of China movie market created new opportunities for the industry. Although the film productions of the Group are substantially decreased in these few years, the Group will continue on utilising its well established network and solid experience in the market to produce and distribute high quality films. By investing in the newly formed joint venture company, China Star Film Group Limited which is engaged in production and distribution of films, with KH Investment, the Group can reduce the working capital tied up in the film production and distribution business and spread out the business risks involved.

Looking ahead, the Group will diversify into the property development market in Macau. Both the Macau Land and the Sites to be acquired and develop by the Group are located in superb locations. These investments will further grasp the business opportunities of the economic development of Macau especially in the sectors of tourism and property and expect to have positive contribution to the Group in the next few years.

For the financial year ended 31 December 2009

FINANCIAL REVIEW

For the year ended 31st December 2009, the Group's turnover increased by 139% to approximately HK$543,429,000 (2008: HK$227,747,000).

Profit from operations and profit for the year amounted to approximately HK$251,153,000 and HK$164,395,000 respectively as compared to HK$121,695,000 and HK$65,590,000 respectively for last year.

The profit attributable to owners of the Company for the year ended 31st December 2009 was HK$204,388,000, representing a 126% improvement over HK$90,604,000 in the last year.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31st December 2009. The directors recommended a final dividend of HK$0.02 per share for the year ended 31st December 2008.

BUSINESS REVIEW

This year, as Hotel Lan Kwai Fong Macau ("Lan Kwai Fong", formally known as Hotel Kingsway), a major investment of the Group had its grand opening in August 2009, it started to contribute revenue to the Group during the year. Lan Kwai Fong presents 200 rooms and suites with 112 deluxe rooms, 82 grand suites, 4 exclusive suites and 2 luxuriously appointed LKF apartments. Casino located in Lan Kwai Fong (the "Casino LKF") situates in the first and 18th floor. Located on 18th floor is the sky casino with red carpet suite features eight VIP rooms with unique decoration. Lan Kwai Fong also operates dining restaurants, a flower shop, retail shops and a spa.

Of the total turnover for the year, HK$222,043,000 or 41% was generated from hotel and gaming service operations, HK$294,806,000 or 54% was generated from gaming promotion operations and HK$26,580,000 or 5% was generated from film distribution operations.

Hotel and Gaming Service Operations

Hotel and gaming service operations included the hotel operation in 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 which was recorded in an indirect subsidiary of the Group, Classic Management & Services Company Limited ("Classic").

Revenue in hotel and gaming service operations mainly comprised of hotel room sales of HK$18,611,000, food and beverage sales of HK$3,972,000 and service income of HK$197,027,000 and HK$2,433,000 from table gaming and slot machines respectively. Hotel and gaming service operations recorded an aggregate segment loss of approximately HK$76,635,000. For the year ended 31st December 2009, Lan Kwai Fong had operations for only around 5 months but had to expense for the whole year's administrative expenses, the grand opening expenses and pre-operating expenses, it then attributed a segment loss for the year.

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 31 December 2009, Casino LKF operated a total of 87 tables, targeting both for the VIP market and the mass market. It also operated a total of 104 slot machines.

Gaming Promotion Operations

The Group's investment in Best Mind International Inc. ("Best Mind") has continued to share strong profit from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau. The Group had shared revenue and segment profit of approximately HK$294,806,000 (2008: HK$203,327,000) and HK$292,710,000 (2008: HK$201,604,000) from the gaming promotion business.

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 released only 3 new films in the market in response to the weak market condition of the entertainment industry in these years. In year 2009, turnover for film distribution operations amounted to HK$26,580,000 (2008: HK$24,420,000) and its segment loss amounted to HK$11,738,000 (2008: HK$19,128,000) respectively. In response to the weak market condition, the Group had impaired the goodwill of HK$15,416,000 (2008: HK$13,646,000) for the cash generating unit of film distribution business as at 31st December 2009.

Administrative Expenses

For the year ended 31st December 2009, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment) amounted to HK$254,518,000, a 229% increase from HK$77,330,000 as compared to the last corresponding year. The increase was mainly attributable to the operations of the hotel and gaming service operations during the year. Employee benefit expenses increased from HK$32,774,000 to HK$77,651,000 with respect to the increase in the number of employees in Lan Kwai Fong after its grand opening in August 2009.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2009, the Group had total assets of approximately HK$3,190,275,000 and a net current assets of HK$247,563,000, representing a current ratio of 1.4 (2008: 1.3). The Group had cash and cash balances of approximately HK$173,188,000 (2008: HK$138,145,000). As at 31st December 2009, the Group had total borrowings of HK$590,071,000 comprising a bank mortgage loan of HK$5,906,000, a secured bank overdraft of HK$178,764,000, a secured bank term loan of HK$275,000,000 ("Term Loan I"), a secure bank term loan of HK$60,000,000 ("Term Loan II"), an unsecured bank term loan of HK$70,000,000 ("Term Loan III") and obligation under finance lease of HK$401,000. The bank mortgage loan is secured by the Group's investment properties with carrying value of HK$61,310,000, interest bearing at 2.5% below the Hong Kong Prime Lending Rate per annum and repayable by 49 monthly instalments. The bank overdraft facility, Term Loan I and Term Loan II are secured by the Group's leasehold land, buildings and construction in progress with an aggregate carrying values of approximately HK$761,223,000 (2008: HK$991,034,000). 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. Term Loan I is 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 and Term Loan III are interest bearing at 2.2% and 3% per annum respectively over 1-month HIBOR, repayable by 12 equal consecutive monthly installments of HK$10,000,000 each commencing from the first month after the date of drawdown. As at 31st December 2009, Hotel LKF, a subsidiary of the Company had banking facilities amounting to HK$535,600,000 which were utilised to the extent of HK$513,764,000. The Group's gearing remained low during the year with total debts of HK$590,071,000 against owners' equity of HK$2,075,122,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 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 31st December 2009, the Group had no contingent liability.

On 8th December 2008, the Company announced that it proposed to subscribe zero coupon convertible notes in principal amount of HK$60,000,000 to be issued by China Star Film Group Limited (formerly known as Golife Concepts Holdings Limited) ("CS Film Group") 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 notes were issued by CS Film Group 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 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 alloted and issued on 26th February 2009.

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 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 as at the date of the agreement.

On 12th May 2009, the Company entered into a placing agreement with a placing agent to place on a fully underwritten basis an aggregate 800,000,000 new shares of the Company to independent investors at a price of HK$0.20 per share. 800,000,000 new shares were alloted 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.

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 the Company to independent investors at a price of HK$0.22 per share. 207,900,000 new shares were alloted 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 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 the convertible notes (the "China Star Investment Convertible Notes") 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 China Star Investment Convertible Notes 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 conversion period from the date of issue to the third anniversary from date of issue. The China Star Investment Convertible Notes were subscribed by China Star Investment on 21st September 2009. During the year ended 31st December 2009, the China Star Investment Convertible Notes were fully converted into 1,000,000,000 shares of the Company at the conversion price of HK$0.20 per share. China Star Investment become a substantial shareholder of the Company.

During the year ended 31st December 2009, certain option holders exercised their option rights to subscribe for an aggregate of 49,087,000 shares of the Company at an exercise price of HK$0.268 per share. The net proceeds from the exercise of option rights amounted to approximately HK$13,155,000. Subsequent to the balance sheet date, a total of 52,790,000 options were exercised at an exercise price of HK$0.180 per share to convert into 52,790,000 shares of the Company on 8th January 2010 with net proceeds of HK$9,502,000.

Subsequent to the balance sheet date, the Company entered into a placing agreement on 4th January 2010 with a placing agent to place on a fully underwritten basis an aggregate 540,000,000 new shares of the Company to independent investors at a price of HK$0.14 per share. 540,000,000 new shares were alloted and 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 directors of the Company proposed, subject to the satisfaction of certain conditions, to make the proposed bonus issue of warrants ("Warrants") by the Company to subscribe for new shares of the Company at an initial subscription price of HK$0.193 per new share (subject to adjustment) to the qualifying shareholders whose names appear on the register of members on the basis of one Warrant for every five shares held on the record date as announced by the Company.

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 17th August 2009. The transaction has been approved in a special general meeting of the Company held on 3rd September 2009. The acquisition has not yet completed up to the reporting date.

MATERIAL DISPOSALS

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 Listing Rules. These assets were classified as assets held for sale as at 31st December 2008 and the disposal was then completed on 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. The Group recorded a loss on disposal of approximately HK$29,602,000.

EMPLOYEES

As at 31st December 2009, the Group employed 526 staffs (2008: 93 staffs) with employee benefit expenses of HK$77,651,000 (2008: HK$32,774,000). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, medical schemes, housing allowance and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

PROSPECT

During the year, the gaming promotion 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 investments, Lan Kwai Fong had its grand opening on 2nd August 2009 which has attracted wide attention of the hotel and casino market. It has successfully established the boutique hotel image which was enhanced and proven by being awarded as winner of "5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China". The performance of Lan Kwai Fong is encouraging and shows trend of improvement. The Group believes that Lan Kwai Fong can continue to provide stable revenue and cash income to the Group. The performance of our businesses in Macau encouraged and strengthened 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.

In the past few years, the Group had succeeded in deploying diversified business strategy and hence improved both the earning ability and financial position of the Group. 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.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 June 2012

The Directors
China Star Entertainment Limited
Unit 3409 Shun Tak Centre,
West Tower,
168-200 Connaught Road Central,
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Most Famous Enterprises Limited ("Most Famous") set out in Section A and B below, for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 27 June 2012 (the "Circular") in connection with the proposed acquisition (the "Acquisition") of entire equity interest of Most Famous. The Financial Information comprises the statement of financial position of Most Famous as at 31 December 2009, 2010 and 2011 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for each of the years ended 31 December 2009, 2010 and 2011 (the "Relevant Years") and a summary of significant accounting policies and other explanatory information.

Most Famous was incorporated in British Virgin Islands ("BVI") on 2 August 2006 with limited liability and is engaged in investment holding.

No statutory financial statements have been prepared for Most Famous since its date of incorporation as there is no statutory requirement in BVI.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of Most Famous are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with accounting policies set out in note 3 to the Financial Information below (the "Underlying Financial Statements") and the Underlying Financial Statements in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (" HKICPA"), the disclosure requirement of the Hong Kong Companies Ordinance and the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and for such internal control as the directors of Most Famous determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information for the Relevant Years, for the purpose of this report, gives a true and fair view of the state of affairs of Most Famous as at 31 December 2009, 2010 and 2011, and the results and cash flows for the Relevant Years then ended.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 3(a) to the Financial Information which indicates that Most Famous incurred accumulated losses of approximately HK$63,764,000 and HK$22,891,000 as at 31 December 2009 and 2010 respectively and, as of that date, Most Famous has net liabilities of approximately HK$63,763,000 and HK$22,890,000. Most Famous has net current liability of HK$277,354,000 as at 31 December 2011. These conditions, along with other matters as set forth in note 3(a) to the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about Most Famous's ability to continue as a going concern.

A. FINANCIAL INFORMATION OF MOST FAMOUS ENTERPRISES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

		For the year ended 31 December		
		2009	**2010**	**2011**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	7	–	–	–
Administrative expenses		(3)	(1)	–
Loss from operations		(3)	(1)	–
Finance costs	8	(2,279)	–	(489)
Share of results of associates		(33,740)	40,874	39,444
(Loss)/profit before tax	9	(36,022)	40,873	38,955
Taxation charge	10	–	–	–
(Loss)/profit for the year		(36,022)	40,873	38,955
Other comprehensive income for the year		–	–	–
Total comprehensive (loss)/income for the year		(36,022)	40,873	38,955
(Loss)/profit and total comprehensive (loss)/income attributable to:				
Owners of Most Famous		(36,022)	40,873	38,955

The accompanying notes form an integral part of the Financial Information of Most Famous.

STATEMENT OF FINANCIAL POSITION

		At 31 December		
		2009	2010	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current asset				
Interests in associates	13	252,793	318,167	293,419
Capital and reserves				
Share capital	14	1	1	1
Reserve		(63,764)	(22,891)	16,064
Total equity		(63,763)	(22,890)	16,065
Current liability				
Amounts due to shareholders	15	316,556	341,057	277,354
Total equity and liability		252,793	318,167	293,419
Net current liability		(316,556)	(341,057)	(277,354)
Total asset less current liability		(63,763)	(22,890)	16,065

STATEMENT OF CHANGES IN EQUITY

	Share capital	(Accumulated losses)/ retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	1	(27,742)	(27,741)
Total comprehensive loss for the year	–	(36,022)	(36,022)
At 31 December 2009 and 1 January 2010	1	(63,764)	(63,763)
Total comprehensive income for the year	–	40,873	40,873
At 31 December 2010 and 1 January 2011	1	(22,891)	(22,890)
Total comprehensive income for the year	–	38,955	38,955
At 31 December 2011	1	16,064	16,065

STATEMENT OF CASH FLOWS

	For the year ended 31 December		
	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax	(36,022)	40,873	38,955
Adjustments for:			
Interest expenses	2,279	–	489
Share of results of associates	33,740	(40,874)	(39,444)
Operating cash flows before movements in working capital	(3)	(1)	–
Increase (decrease) in amounts due to shareholders	186,033	24,501	(63,703)
Net cash generated from/(used in) operating activities	186,030	24,500	(63,703)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for interest in an associate	(1)	–	–
(Advance to)/repayment from associates	(183,750)	(24,500)	64,192
Net cash (used in)/generated from investing activities	(183,751)	(24,500)	64,192
CASH FLOWS FROM FINANCING ACTIVITY			
Interest paid	(2,279)	–	(489)
Net cash used in financing activity	(2,279)	–	(489)
Net effect in cash and cash equivalents	–	–	–
Cash and cash equivalents at the beginning of the year	–	–	–
Cash and cash equivalents at the end of the year	–	–	–

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Most Famous was incorporated in BVI with limited liability on 2 August 2006. The address of its registered office is P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

The principal activity of Most Famous is engaged in investment holding.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Years, Most Farmous has applied the HKFRSs, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for Most Famous's annual period beginning on or before 1 January 2011 consistently for the Relevant Years. At the date of this report, Most Famous has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective for the Relevant Years:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[2]
HKAS 19 (Revised)	Employee Benefits[4]
HKAS 27 (Revised)	Separate Financial Statements[4]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangement[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

The directors of Most Famous has commenced their assessments of the impact of the above new and revised HKFRSs, but it is not yet in a position to state whether these new and revised HKFRSs, would have a material impact on the results and the financial position of Most Famous.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information of Most Famous are set out below. These policies have been consistently applied to the Relevant Years presented, unless otherwise stated.

(a) Basis of preparation

The Financial Information has been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the disclosure requirement of the Hong Kong Companies Ordinance.

The Financial Information is presented in Hong Kong dollars ("HK$"), which is the same functional currency of Most Famous. All Financial Information presented HK$ has been rounded to the nearest thousand (HK'000) except otherwise stated.

The Financial Information has been prepared on the historical cost basis. The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Most Famous's accounting policy.

In preparing the Financial Information, the directors of Most Famous have given careful consideration to the future liquidity of Most Famous in light of incurred accumulated losses of approximately HK$63,764,000 and HK$22,891,000 as at 31 December 2009 and 2010 respectively and, as of that date, Most Famous has net liabilities of approximately HK$63,763,000 and HK$22,890,000. Most Famous has net current liability of HK$277,354,000 as at 31 December 2011. The Financial Information has been prepared on a going concern basis because the shareholders of Most Famous has confirmed to provide continuing financial support to Most Famous to enable it to continue as a going concern and to settle its liabilities as and when they fall due for the foreseeable future.

(b) Interests in associates

An associate is an entity over which Most Famous has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the statement of financial position at cost and adjusted thereafter to recognise Most Famous's share of the profit or loss and other comprehensive income of the associates. When Most Famous's share of losses of an associate equals or exceeds Most Famous's interest in that associate (which includes any long-term interests that, in substance, form part of Most Famous's net investment in the associate), Most Famous discontinues recognising its share of further losses. Additional losses are recognised only to the extent that Most Famous has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Most Famous's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When Most Famous transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in Most Famous's financial statements only to the extent of interests in the associate that are not related to Most Famous.

(c) Impairment of tangible assets other than goodwill

At the end of each reporting period, Most Famous reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(d) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Most Famous's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with interests in associates, except where Most Famous in able to control the reversal of the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Most Famous expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(f) Financial instruments

Financial asset and financial liability are recognised in the statement of financial position when a company becomes a party to the contractual provisions of the instrument.

Financial asset and financial liability are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial asset or financial liability, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial asset or financial liability at fair value through profit or loss are recognised immediately in profit or loss.

Financial asset

Most Famous's financial asset is classified into loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All regular way purchases or sales of financial asset is recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial asset that require delivery of asset within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Loans and receivables

Loan and receivables are non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including amounts due from associates) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial asset

Financial asset, other than those at financial asset at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial asset is considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial asset, objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty; or

(ii) breach of contract, such as a default or delinquency interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(iv) the disappearance of an active market for that financial asset because of financial difficulties.

For financial asset carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial asset carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

For financial asset measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liability and equity instruments

Financial liability and equity instruments issued by a company entity are classified as either financial liability or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. An equity instrument issued by Most Famous is recognised at the proceeds received, net of direct issue costs.

Other financial liability

Other financial liability (including amounts due to shareholders) is subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

Most Famous derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Most Famous neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Most Famous continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If Most Famous retains substantially all the risks and rewards of ownership of a transferred financial asset, Most Famous continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, Most Famous allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Most Famous derecognises financial liability when, and only when, Most Famous's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(g) Provisions

Provisions are recognised when Most Famous has a present obligation (legal or constructive) as a result of a past event, it is probable that Most Famous will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(h) Related party transactions

A party is considered to be related to Most Famous if:

(a) A person, or a close member of that person's family, is related to Most Famous if that person:

(i) has control or joint control over Most Famous;

(ii) has significant influence over Most Famous; or

(iii) is a member of the key management personnel of Most Famous or Most Famous's parent.

(b) An entity is related to Most Famous if any of the following conditions applies:

(i) the entity and Most Famous are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either Most Famous or an entity related to Most Famous;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influenced by, that person in their dealings with the entity.

(i) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to Most Famous's most senior executive management for the purposes of allocating resources to, and assessing the performance of, Most Famous's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Most Famous's accounting policies, which are described in note 3, the directors of Most Famous are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Financial asset			
Loans and receivables	39,692	64,192	–
Financial liability			
Amortised cost	316,556	341,057	277,354

(b) Financial risk management objectives and policies

Most Famous's major financial instruments include amounts due from associates and amounts due to shareholders. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign exchange risk

Most Famous has no significant exposure to foreign currency risk as substantially all of Most Famous transactions are denominated in HK$.

(ii) Cash flow and fair value interest rate risk

Most Famous has no significant interest-bearing liabilities, no significant cash flow and fair value interest-rate risk.

Credit risk

At the end of the Relevant Years, Most Famous has no significant exposure to credit risk.

Liquidity risk

Most Famous manages liquidity risk by monitoring forecast and actual cash flows and matching the maturity profiles of financial asset and liability.

The liquidity risk is under continuous monitoring by management. Management will raise bank borrowings whenever necessary.

The following table details Most Famous's remaining contractual maturity for its non-derivative financial liability. The table has been drawn up based on the undiscounted cash flows of financial liability based on the earliest date on which Most Famous can be required to pay. The maturity dates for other non-derivative financial liability is based on the agreed repayment dates. The amounts disclosed in the table are based on the contractual undiscounted payments, are as follows:

		At 31 December 2009				
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liability						
Amounts due to shareholders	–	316,556	–	–	316,556	316,556

		At 31 December 2010				
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	
Non-derivative financial liability						
Amounts due to shareholders	–	341,057	–	–	341,057	341,057

		At 31 December 2011				
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liability						
Amounts due to shareholders	0.25%	278,047	–	–	278,047	277,354

(c) Fair value of financial instruments

The fair values of financial asset and financial liability are determined as follows:

- the fair values of financial asset and financial liability with standard terms and conditions and traded in active markets are determined with reference to quoted market bid price and ask prices respectively;
- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair values of other financial asset and financial liability (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of Most Famous consider that the carrying amounts of financial asset and financial liability recognised in the Financial Information approximate to their fair value.

(d) Capital management

Most Famous manages its capital to ensure that entities in Most Famous will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Most Famous's overall strategy remains unchanged in the Relevant Years.

The capital structure of Most Famous consists of net debt (amounts due to shareholders) and equity attributable to owners of Most Famous, comprising issued capital and reserves.

The directors of Most Famous review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and other sources of the risks associates with each class of capital. Based on recommendations of the directors, Most Famous will balance its overall capital structure through issue of new debt or the redemption of existing debt.

Gearing ratio

The gearing ratios as at the Relevant Years are as follows:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Total debt (i)	316,556	341,057	277,354
Equity (ii)	(63,763)	(22,890)	16,065
Total debt to equity ratio	N/A	N/A	1,726%

Notes:

(i) Debts comprises amounts due to shareholders as detailed in note 15.

(ii) Equity includes all capital and reserves of Most Famous.

6. SEGMENT INFORMATION

As per HKRFS 8 "Operating Segments", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown as Most Famous only engaged in investment holding.

7. TURNOVER

Most Famous did not generate any revenue during the Relevant Years.

8. FINANCE COSTS

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Interest on:			
– amounts due to shareholders	2,279	–	489

9. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax has been arrived at after charging:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Auditors' remuneration	–	–	–
Staff costs (including directors' remuneration)			
– Salaries and other benefits	–	–	–
– Retirement benefits scheme contributions	–	–	–

10. TAXATION CHARGE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Years.

No provision for Hong Kong Profits Tax has been made for the Relevant Years as Most Famous has no assessable profits arising in Hong Kong or taxable profits were wholly absorbed by estimated tax losses brought forward.

The tax charge for the Relevant Years can be reconciled to the (loss)/profit per the statement of comprehensive income as follows:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit before tax	(40,925)	40,873	38,955
Tax at Hong Kong Profit Tax rate (2009, 2010 and 2011: 16.5%)	(6,753)	6,744	6,428
Tax effect of:			
Share of results of associates	5,567	(6,744)	(6,508)
Estimated tax losses not recognised	1,186	–	80
Tax charge for the Relevant Years	–	–	–

11. DIVIDENDS

The directors of Most Famous do not recommend the payment of any dividends for the Relevant Years.

12. DIRECTORS' EMOLUMENTS

No emoluments were paid to the directors of Most Famous for the Relevant Years.

For the Relevant Years:

	Fees	**Salaries and other allowance**	**Retirement benefit scheme contribution**	**Share-based payment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Li Chi Keung	–	–	–	–	–
Wong Hoi Ping	–	–	–	–	–
Li Wing Yin	–	–	–	–	–
	–	–	–	–	–

Notes: All directors of Most Famous were appointed on 10 February 2007.

During the Relevant Years, no emoluments were paid by Most Famous to the directors of Most Famous as an inducement to join or upon joining Most Famous or as compensation for loss of office. None of the directors Most Famous has waived any emoluments during the Relevant Years.

13. INTERESTS IN ASSOCIATES

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Cost of investment in associates, unlisted	246,841	213,101	253,975
Share of results of associates	(33,740)	40,874	39,444
	213,101	253,975	293,419
Amounts due from associates	39,692	64,192	–
	252,793	318,167	293,419

The amounts due from associates are unsecured, interest-free and no fixed repayment terms.

For the year ended 31 December 2009, 2010 and 2011 the maximum amount outstanding from Hotel Lan Kwai Fong (Macau) Limited is approximately HK$39,692,000, HK$64,192,000 and HK$64,192,000 respectively.

For the Relevant Years, the maximum amount outstanding from Charm Faith Holdings Limited is HK$382.

Details of the Most Famous's associates at 31 December 2011 are as follows:

Name of associate	Form of business structure	Country/ place of registration/ incorporation	Class of shares/ quota capital	Proportion of nominal value of issued capital/ registered capital held by the Company % Directly	% Indirectly	Issued and fully paid share capital/ registered capital	Principal activities
Charm Faith Holdings Limited	Incorporated	BVI	Ordinary	49	–	100 ordinary of US$1 each	Investment holding
Lan Kwai Fong Hotel (Macau) Limited	Incorporated	Macau	Quota capital	49	–	MOP500,000	Provision of hotel services in Macau and property investment, and investment holding
Classic Management & Services Company Limited	Incorporated	Macau	Quota capital	–	49	MOP100,000	Provision of casino management service

Summarised financial information of associates

	Assets *HK$'000*	Liabilities *HK$'000*	Equity *HK$'000*	Revenue *HK$'000*	(Loss)/profit *HK$'000*
2009					
Total	740,553	(814,626)	(74,073)	222,043	(68,858)
Most Famous's effective interest	362,871	(399,167)	(36,296)	108,801	(33,740)
2010					
Total	767,467	(758,123)	9,344	725,130	83,417
Most Famous's effective interest	376,059	(371,480)	4,579	355,314	40,874
2011					
Total	748,751	(658,909)	89,842	949,260	80,498
Most Famous's effective interest	366,888	(322,865)	44,023	465,137	39,444

14. SHARE CAPITAL

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
50,000 ordinary shares of US$1 each	390,000	390,000	390,000
Issued and fully paid:			
2 ordinary shares of US$1 each	1	1	1

For the Relevant Years, the issued and fully paid share capital approximately HK$1,000 represents 2 ordinary shares of US$1 each amounted HK$15.60.

15. AMOUNTS DUE TO SHAREHOLDERS

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Mr Li Chi Keung	158,278	170,528	138,677
Ms Wong Hoi Ping	158,278	170,529	138,677
	316,556	341,057	277,354

For the Relevant Years, amounts due to shareholders are unsecured and repayable on demand. For the year ended 31 December 2009, amounts due to shareholders was bearing interest at 6% for January to March. For the year ended 31 December 2010, amounts due to shareholders was interest-free. For the year ended 31 December 2011, amounts due to shareholders was bearing interest at 0.25% for June to December.

16. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statement, during the Relevant Years, Most Famous had entered into the following material related party transactions:

(a) Compensation to key management personnel of Most Famous represented directors' remuneration as disclosed in note 9 to the Financial Information.

(b) The amounts due from/(to) associates/shareholders at the end of the Relevant Years is set out on notes 13 and 15 to the Financial Information respectively.

17. EVENTS AFTER THE REPORTING PERIOD

(a) On 15 February 2012, Mr. Heung Wah Keung, an executive director and substantial shareholder of the Company, entered into agreements with Mr. Li and Ms. Wong to purchase, all equity interest of Most Famous, at a total consideration of approximately HK$618,000,000. The agreement was completed on 28 March 2012.

(b) Apart from above and Acquisition, no significant events took place subsequent to the Relevant Years.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Most Famous in respect of any period subsequent to 31 December 2011 and up to the date of this report. In addition, no dividends or other distributions have been declared, made or paid by Most Famous in respect of any period subsequent to 31 December 2011.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 June 2012

The Directors
China Star Entertainment Limited
Unit 3409 Shun Tak Centre,
West Tower,
168-200 Connaught Road Central,
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF") set out in Section A and B below, for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 27 June 2012 (the "Circular") in connection with the proposed acquisition (the "Acquisition") of entire equity interests of Most Famous Enterprises Limited, which one of the principal assets of it is 49% equity interest in Hotel LKF. The Financial Information comprises the statement of financial position of Hotel LKF as at 31 December 2009, 2010 and 2011 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for each of the years ended 31 December 2009, 2010 and 2011 (the "Relevant Years") and a summary of significant accounting policies and other explanatory information.

Hotel LKF was incorporated in Macau on 26 July 1990 with limited liability and is engaged in provision of hotel services in Macau and property investment, and investment holding.

Hotel LKF has adopted 31 December as its financial year end date and the statutory financial statements of Hotel LKF for the year ended 31 December 2009, 2010 and 2011 were audited by CSC & Associados in accordance with General Financial Reporting Standards approved by Macau Administrative Regulation.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of Hotel LKF are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with accounting policies set out in note 3 to the Financial Information below (the "Underlying Financial Statements") and the Underlying Financial Statements in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (" HKICPA"), the disclosure requirement of the Hong Kong Companies Ordinance and the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and for such internal control as the directors of Hotel LKF determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information for the Relevant Years, for the purpose of this report, gives a true and fair view of the state of affairs of Hotel LKF as at 31 December 2009, 2010 and 2011, and the results and cash flows for the Relevant Years then ended.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 3(a) to the Financial Information which indicates that Hotel LKF incurred accumulated losses of approximately HK$74,686,000 as at 31 December 2009 and, as of that date, Hotel LKF has net liabilities of approximately HK$74,201,000. Hotel LKF has net current liabilities of approximately HK$65,724,000 as at 31 December 2010. These conditions, along with other matters as set forth in note 3(a) to the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about Hotel LKF's ability to continue as a going concern.

A. FINANCIAL INFORMATION OF HOTEL LAN KWAI FONG (MACAU) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

		For the year ended 31 December		
		2009	**2010**	**2011**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	7	22,583	65,357	81,724
Cost of sales		(23,341)	(39,923)	(23,071)
Gross (loss)/profit		(758)	25,434	58,653
Other revenue	8	74,939	299,956	287,024
Other income	9	–	547	415
Administrative expenses		(129,042)	(221,497)	(242,890)
Marketing and distribution expenses		(1,289)	(5,565)	(6,146)
(Loss)/profit from operations		(56,150)	98,875	97,056
Finance costs	10	(12,738)	(15,584)	(16,784)
(Loss)/profit before tax	11	(68,888)	83,291	80,272
Taxation charge	12	–	–	–
(Loss)/profit for the year		(68,888)	83,291	80,272
Other comprehensive income for the year		–	–	–
Total comprehensive (loss)/income for the year		(68,888)	83,291	80,272
(Loss)/profit and total comprehensive (loss)/income attributable to:				
Owners of Hotel LKF		(68,888)	83,291	80,272

The accompanying notes form an integral part of the Financial Information of Hotel LKF.

STATEMENT OF FINANCIAL POSITION

		At 31 December		
		2009	**2010**	**2011**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	15	548,884	501,418	411,834
Interests in leasehold land	16	24,913	23,501	21,845
Investment in a subsidiary	17	96	96	96
		573,893	525,015	433,775
Current assets				
Inventories	18	937	1,504	2,097
Trade receivables	19	16,209	1,057	1,534
Deposits, prepayments and other receivables	20	23,521	19,705	13,752
Amount due from a related company	21	16,435	5,850	8,981
Amount due from a subsidiary	21	40,189	42,169	–
Amounts due from fellow subsidiaries	21	–	–	345
Cash and bank balances		11,704	118,026	177,053
		108,995	188,311	203,762
Total assets		682,888	713,326	637,537
Capital and reserves				
Share capital	23	485	485	485
Reserve		(74,686)	8,605	88,877
Total equity		(74,201)	9,090	89,362
Non-current liabilities				
Bank borrowings	24	175,000	450,000	400,000
Obligation under finance lease	25	305	201	104
		175,305	450,201	400,104

		At 31 December		
		2009	2010	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Bank overdrafts		178,764	–	–
Bank borrowings	24	230,000	50,000	50,000
Obligation under finance lease	25	96	96	96
Trade payables	26	3,892	6,189	11,845
Deposits received, accruals and other payables	27	81,266	40,933	27,887
Amount due to a related company	21	8,533	25,766	34,908
Amount due to a fellow subsidiary	21	–	–	124
Amount due to immediate holding company	21	38,731	65,549	–
Amount due to shareholders	21	40,502	65,502	–
Amount due to a subsidiary	21	–	–	23,211
		581,784	254,035	148,071
Total liabilities		757,089	704,236	548,175
Total equity and liabilities		682,888	713,326	637,537
Net current (liabilities)/assets		(472,789)	(65,724)	55,691
Total assets less current liabilities		101,104	459,291	489,466

STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory reserve	(Accumulated losses)/ retained earnings	Total
	HK$'000	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
At 1 January 2009	485	–	(5,798)	(5,313)
Total comprehensive loss for the year	–	–	(68,888)	(68,888)
At 31 December 2009 and 1 January 2010	485	–	(74,686)	(74,201)
Transfer to statutory reserve	–	242	(242)	–
Total comprehensive income for the year	–	–	83,291	83,291
At 31 December 2010 and 1 January 2011	485	242	8,363	9,090
Total comprehensive income for the year	–	–	80,272	80,272
At 31 December 2011	485	242	88,635	89,362

Note: In accordance with the provisions of Macau Commercial Code, Hotel LKF incorporated in Macau is required to transfer a minimum of 25% of the annual net profits to a statutory reserve until that reserve equals 50% of the nominal value of its capital. The statutory reserve may not be distributed in the form of cash dividends or otherwise, during the life of Hotel LKF.

STATEMENT OF CASH FLOWS

		For the year ended 31 December		
		2009	2010	2011
	Note	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss)/profit before tax		(68,888)	83,291	80,272
Adjustments for:				
Interest expenses		12,738	15,584	16,784
Interest income		–	(30)	(1,022)
Depreciation and amortisation of property, plant and equipment and leasehold land		41,090	90,551	95,463
Loss on disposal of property, plant and equipment		611	665	256
Operating cash flows before movements in working capital		(14,449)	190,061	191,753
Increase in inventories		(856)	(567)	(593)
(Increase)/decrease in trade receivables		(16,387)	15,152	(477)
(Increase)/decrease in deposits, prepayments and other receivables		(9,595)	3,816	5,953
Decrease/(increase) in amount due from a related company		32	10,585	(3,131)
(Increase)/decrease in amount due from a subsidiary		(40,189)	(1,980)	42,169
Increase in amounts due from fellow subsidiaries		–	–	(345)
Decrease in amounts due from immediate holding company		30,597	–	–
Increase in amount due to a related company		8,533	17,233	9,142
Increase in amount due to a fellow subsidiary		–	–	124
Increase/(decrease) in amount due to immediate holding company		6,181	26,818	(65,549)
Increase/(decrease) in amounts due to shareholders		72,242	25,000	(65,502)
Increase in amount due to a subsidiary		–	–	23,211
Increase in trade payables		3,818	2,297	5,656
Increase/(decrease) in deposits received, accruals and other payables		66,928	(40,333)	(13,046)
Net cash generated from operating activities		106,855	248,082	129,365

		For the year ended 31 December		
		2009	2010	2011
	Note	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES				
Net cash outflow upon investment in a subsidiary		(96)	–	–
Interest received		–	30	1,022
Proceed from disposal of property, plant and equipment		94	389	–
Purchases of property, plant and equipment and leasehold land		(317,031)	(42,727)	(4,479)
Net cash used in investing activities		(317,033)	(42,308)	(3,457)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid		(12,738)	(15,584)	(16,784)
Net bank loan raised		240,000	500,000	–
New obligation under finance lease		482	–	–
Repayment of obligation under finance lease		(81)	(104)	(97)
Repayment of bank loans		(10,000)	(405,000)	(50,000)
Net cash generated from/(used in) financing activities		217,663	79,312	(66,881)
Increase in cash and cash equivalents		7,485	285,086	59,027
Cash and cash equivalents at the beginning of the year		(174,545)	(167,060)	118,026
Cash and cash equivalents at the end of the year	22	(167,060)	118,026	177,053

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Hotel LKF was incorporated in Macau with limited liability on 26 July 1990. The address of its registered office is Rua de Xiamen, no.59, r/c freguesia da Se, em Macau. The ultimate holding company is China Star Entertainment Limited, a company incorporated in Bermuda with its share listed on the Stock Exchange of Hong Kong Limited. (the "Stock Exchange")

The principal activities of Hotel LKF are provision of hotel services in Macau and property investment, and investment holding.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Years, Hotel LKF has applied the HKFRSs, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for Hotel LKF's annual period beginning on or before 1 January 2011 consistently for the Relevant Years. At the date of this report, Hotel LKF has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective for the Relevant Years:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[2]
HKAS 19 (Revised)	Employee Benefits[4]
HKAS 27 (Revised)	Separate Financial Statements[4]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangement[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The directors of Hotel LKF has commenced their assessments of the impact of the above new and revised HKFRSs, but it is not yet in a position to state whether these new and revised HKFRSs, would have a material impact on the results and the financial position of Hotel LKF.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information of Hotel LKF are set out below. These policies have been consistently applied to the Relevant Years presented, unless otherwise stated.

(a) Basis of preparation

The Financial Information has been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the disclosure requirement of the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Hotel LKF's accounting policy.

Items included in the Financial Information in Hotel LKF are measured using Macau Pataca ("MOP") that best reflects the economic substance of the underlying events and circumstances relevant to Hotel LKF ("functional currency"). The Financial Information are presented in Hong Kong dollars ("HK$") ("presentation currency"). All Financial Information presented HK$ has been rounded to the nearest thousand (HK$'000) except otherwise indicated.

In preparing the Financial Information, the directors of Hotel LKF have given careful consideration to the future liquidity of Hotel LKF in light of incurred accumulated losses of HK$74,686,000 as at 31 December 2009 and as of that date, Hotel LKF has net liabilities of HK$74,201,000. At 31 December 2010, Hotel LKF has net current liabilities of HK$65,724,000. The Financial Information has been prepared on a going concern basis because the ultimate holding company of Hotel LKF has confirmed to provide continuing financial support to Hotel LKF to enable it to continue as a going concern and to settle its liabilities as and when they fall due for the foreseeable future.

(b) Interest in a subsidiary

Subsidiary is an entity over which Hotel LKF has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Hotel LKF controls another entity.

In the Hotel LKF's statement of financial position, the interest in a subsidiary is stated at cost less provision for impairment losses. The result of subsidiary is accounted by the Hotel LKF on the basis of dividend received and receivable.

(c) Revenue recognition

Revenue from hotel accommodation is recognised upon the provision of the accommodation services has been rendered. Revenue from food and beverage sales and other ancillary services are recognised upon the provision of goods and services have been rendered.

Management fee income is recognised when the services are rendered.

Interest income from financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(d) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the reporting period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation is recognised so as to write off the cost of items or property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The principal annual rates are as follows:

Buildings	2% – 5%
Leasehold improvements	20% – 33%
Furniture, fixtures and equipment	10% – 50%
Motor vehicles	15% – 20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(e) Interests in leasehold land

When a lease includes both land and building elements, Hotel LKF assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to Hotel LKF, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "interests in leasehold land" in the statement of financial position and is amortised over the lease term on a straight-line basis.

(f) Impairment of tangible assets other than goodwill

At the end of each reporting period, Hotel LKF reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(g) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Hotel LKF's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Hotel LKF expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated on first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as cost of sales in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as cost of sales in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is offset against the cost of sales in the period in which the reversal occurs.

(j) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Hotel LKF's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, deposit paid, amount due from a related company, amount due from a subsidiary, amounts due from fellow subsidiaries and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at financial assets at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty; or

(ii) breach of contract, such as a default or delinquency interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(iv) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Hotel LKF's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60-90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a company entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. An equity instrument issued by Hotel LKF is recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including trade and other payables, bank borrowings, obligation under finance lease, bank overdrafts, deposit received, accruals and other payables, amount due to a related company, amount due to a fellow subsidiary, amount due to immediate holding company, amounts due to shareholders and amount due to a subsidiary) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

Hotel LKF derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Hotel LKF neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Hotel LKF continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If Hotel LKF retains substantially all the risks and rewards of ownership of a transferred financial asset, Hotel LKF continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, Hotel LKF allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Hotel LKF derecognises financial liabilities when, and only when, Hotel LKF's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Foreign currencies

In preparing the Financial Information of Hotel LKF, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

(i) exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

(iii) exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting Financial Information, the assets and liabilities of Hotel LKF's foreign operations are translated into the presentation currency of Hotel LKF (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

(m) Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Hotel LKF as lessee

Assets held under finance leases are initially recognised as assets of Hotel LKF at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Hotel LKF's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Employee benefits

Bonuses

Hotel LKF recognises a liability for bonuses when there is a contractual obligation and the amount can be estimated reliably.

Retirement benefit obligations

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The employees employed by Hotel LKF are members of the government-managed retirement benefits schemes operated by the Macau government. The Macau operations are required to pay a monthly fixed contribution to the retirement benefits schemes to fund the benefits. The only obligation of Hotel LKF with respect to the retirement benefits schemes operated by the Macau government is to make the required contributions under the schemes.

(o) Provisions

Provisions are recognised when Hotel LKF has a present obligation (legal or constructive) as a result of a past event, it is probable that Hotel LKF will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(p) Related party transactions

A party is considered to be related to Hotel LKF if:

(a) A person, or a close member of that person's family, is related to Hotel LKF if that person:

(i) has control or joint control over Hotel LKF;

(ii) has significant influence over Hotel LKF; or

(iii) is a member of the key management personnel of Hotel LKF or Hotel LKF's parent.

(b) An entity is related to Hotel LKF if any of the following conditions applies:

(i) the entity and Hotel LKF are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either Hotel LKF or an entity related to Hotel LKF;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influenced by, that person in their dealings with the entity.

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to Hotel LKF's most senior executive management for the purposes of allocating resources to, and assessing the performance of, Hotel LKF's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Hotel LKF's accounting policies, which are described in note 3, the directors of Hotel LKF are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying Hotel LKF's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

(a) *Trade receivables*

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivable balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, Hotel LKF may experience delays in collection. Where recoverability of trade receivable balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the consolidated income statement. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(b) *Useful lives of property, plant and equipment*

In accordance with HKAS 16, Hotel LKF estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. Hotel LKF also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables (including cash and bank balances)	86,300	169,329	199,146
Financial liabilities			
Amortised cost	757,089	704,236	548,175

(b) Financial risk management objectives and policies

Hotel LKF's major financial instruments include, bank borrowings, trade receivables, deposits and other receivables, amount due from a related company, amount due from a subsidiary, amounts due from fellow subsidiaries, obligation under finance lease, bank overdrafts, trade payables, deposits received, accruals and other payables, amount due to a related company, amount due to a fellow subsidiary, amount due to immediate holding company, amounts due to shareholders and amount due to a subsidiary and cash and bank balance. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign exchange risk

Hotel LKF operates mainly in Macau and majority of transactions are dominated in Macau Pataca ("MOP"). Hotel LKF is exposed to foreign exchange risk in respect of exchange fluctuation of HK$ against MOP. Hotel LKF currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. Hotel LKF will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of Hotel LKF's foreign currency denominated monetary assets and monetary liabilities at reporting data are as follows:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
MOP	86,300	169,329	199,146
Liabilities			
MOP	757,089	704,236	548,175

Sensitivity analysis on foreign currency risk

The following table details Hotel LKF's sensitivity to a 5% increase and decrease in the HK$ against MOP. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where the relevant currencies strengthen 5% against the HK$. For a 5% weakening of the relevant currencies against the HK$, there would be an equal and opposite impact on the profit and the balances below would be negative.

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Impact of MOP			
Profit or loss	33,539	26,745	17,451

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the Relevant Years.

(ii) Cash flow and fair value interest rate risk

Hotel LKF is exposured to changes in interest rates is mainly attributable to its time deposits and bank borrowings. Bank borrowings at variable rates expose Hotel LKF to fair value interest rate risk (see note 24 for details of these bank borrowings). Hotel LKF's income and operating cash flows are substantially independent of changes in market interest rates. Hotel LKF currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the Relevant Year. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease is used in the Relevant Years when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At 31 December 2009, 2010 and 2011, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease Hotel LKF's profit before tax by approximately HK$2,025,000, HK$2,500,000 and HK$2,250,000 respectively.

Credit risk

Hotel LKF's maximum exposure to credit risk which will cause a financial loss to Hotel LKF due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

In order to minimise the credit risk, the management of Hotel LKF has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, Hotel LKF reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Hotel LKF consider that Hotel LKF's credit risk is significantly reduced.

Hotel LKF's credit risk is primarily attributable to trade or other receivables. Hotel LKF does not have any other significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Liquidity risk

Hotel LKF manages liquidity risk by maintaining adequate bank deposits and cash, monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by management. Reports with maturity dates of bank borrowings and thus the liquidity requirement are provided to management for review periodically. Management will raise or refinance bank borrowings whenever necessary.

At 31 December 2009, 2010 and 2011, Hotel LKF has banking facilities amounting to HK$535,600,000, HK$536,000,000 and HK$536,000,000 respectively.

The following table details Hotel LKF's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Hotel LKF can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The amounts disclosed in the table are based on the contractual undiscounted payments, are as follows:

		At 31 December 2009				
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings	2.0-3.0%	238,556	179,735	–	418,291	405,000
Bank overdrafts	3.05%	184,217	–	–	184,217	178,764
Obligation under finance lease	5.99%	125	396	–	521	401
Trade payables	–	3,892	–	–	3,892	3,892
Deposits received, accruals and other payables	–	81,266	–	–	81,266	81,266
Amount due to a related company	–	8,533	–	–	8,533	8,533
Amount due to immediate holding company	–	38,731	–	–	38,731	38,731
Amounts due to shareholders	–	40,502	–	–	40,502	40,502
Total		595,822	180,131	–	775,953	757,089

		At 31 December 2010				
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Bank borrowings	3.5%	51,750	465,750	–	517,500	500,000
Obligation under finance lease	5.99%	125	271	–	396	297
Trade payables	–	6,189	–	–	6,189	6,189
Deposits received, accruals and other payables	–	40,933	–	–	40,933	40,933
Amount due to a related company	–	25,766	–	–	25,766	25,766
Amount due to immediate holding company	–	65,549	–	–	65,549	65,549
Amounts due to shareholders	–	65,502	–	–	65,502	65,502
Total		255,814	466,021	–	721,835	704,236

	Weighted average effective interest rate	At 31 December 2011 On demand or within 1 year *HK$'000*	Within 2-5 years *HK$'000*	Over 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Total carrying amount *HK$'000*
Non-derivative financial liabilities						
Bank borrowings	3.5%	51,750	414,000	–	465,750	450,000
Obligation under finance lease	5.99%	122	131	–	253	200
Trade payables	–	11,845	–	–	11,845	11,845
Deposits received, accruals and other payables	–	27,887	–	–	27,887	27,887
Amount due to a related company	–	34,908	–	–	34,908	34,908
Amount due to a fellow subsidiary	–	124	–	–	124	124
Amount due to a subsidiary	–	23,211	–	–	23,211	23,211
Total		149,847	414,131	–	563,978	548,175

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid price and ask prices respectively;

- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and

- the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of Hotel LKF consider that the carrying amounts of financial assets and financial liabilities recognised in the Financial Information approximate to their fair value.

(d) Capital management

Hotel LKF manages its capital to ensure that entities in Hotel LKF will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Hotel LKF's overall strategy remains unchanged in the Relevant Years.

The capital structure of Hotel LKF consists of net debts (which include bank borrowings and obligation under finance lease) and equity attributable to owners of the Company, comprising issued capital and reserves.

The directors of Hotel LKF review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and other sources of the risks associates with each class of capital. Based on recommendations of the directors, Hotel LKF will balance its overall capital structure through issue of new debt or the redemption of existing debt.

The gearing ratios as at 31 December 2009, 2010 and 2011 are as follows:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Total debts (i)	584,165	500,297	450,200
Less: Cash and bank balances	(11,704)	(118,026)	(177,053)
Net debt	572,461	382,271	273,147
Equity (ii)	(74,201)	9,090	89,362
Net debt to equity ratio	N/A	4,205%	306%
Total debt to equity ratio	N/A	5,504%	504%

Notes:

(i) Debt comprises bank overdrafts, bank borrowings and obligation under finance lease as detailed in notes 24 and 25 respectively.

(ii) Equity includes all capital and reserves of Hotel LKF.

6. SEGMENT INFORMATION

As per HKRFS 8 "Operating Segments", Hotel LKF has only one single operating segment as Hotel LKF is primarily engaged in provision of hotel services and related business which is the basis to allocate resources and assess performance. No geographical information is presented as Hotel LKF's customers and operations are located in Macau.

Information about major customers

Included in turnover arising from hotel service of HK$7,759,000, HK$30,278,000 and HK$24,892,000 in the Relevant Years which arose from sales to single customer.

7. TURNOVER

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Hotel room income	18,611	52,426	64,955
Food and beverage sales	3,972	12,931	16,769
	22,583	65,357	81,724

8. OTHER REVENUE

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	–	30	1,022
Management fee income *(note)*	71,438	280,387	275,658
Other ancillary hotel revenue	3,501	19,539	10,344
	74,939	299,956	287,024

Note: Hotel LKF entitled to receive management fee income from its subsidiary and associate of its ultimate holding company by rendering management services included but not limited to marketing, guest service, property management, human resources and finance operation services.

9. OTHER INCOME

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Net foreign exchange gain	–	547	415

10. FINANCE COSTS

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Interest on:			
Bank borrowings-wholly repayable within five years	12,715	15,553	16,756
Finance lease	23	31	28
	12,738	15,584	16,784

11. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax has been arrived at after charging:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Amortisation of interests in leasehold land	1,646	1,653	1,656
Auditors' remuneration	218	232	183
Cost of inventories (included in cost of sales)	11,605	5,048	9,024
Depreciation of property, plant and equipment	39,444	88,898	93,807
Staff costs (including directors' remuneration)			
– Salaries and other benefits	51,539	69,644	80,256
– Retirement benefits scheme contributions	442	1,099	614
Loss on disposal of property, plant and equipment	611	665	256
Operating lease rental in respect of rented premises	1,038	554	1,244
Utilities expenses	7,657	16,238	16,440

12. TAXATION CHARGE

Hotel LKF is subject to Macau Complementary Tax at 9% to 12% for the Relevant Years.

No Macau Complementary Tax has been provided in the Relevant Years as assessable profits for the Relevant Years were set off against the tax losses brought forward from previous years and exempt for tax liability up to the limit of MOP200,000.

The tax charge for the Relevant Years can be reconciled to the (loss)/profit per the statement of comprehensive income as follows:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit before tax	(68,888)	83,291	80,272
Tax at Macau Complementary Tax rate (2009, 2010 and 2011: 12%)	(8,267)	9,995	9,633
Tax effect of:			
Utilisation of tax losses previously not recognised	–	(9,995)	(9,609)
Estimated tax losses not recognised	8,267	–	–
Exemption for tax liability in Macau Complementary Tax	–	–	(24)
Tax charge for the Relevant Years	–	–	–

13. DIVIDENDS

The directors of Hotel LKF do not recommend the payment of any dividends for the Relevant Years.

14. EMPLOYEE BENEFIT EXPENSES

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Director's remuneration	–	–	1,920
Salaries and other allowances	47,187	56,499	64,778
Retirement benefits scheme contributions	442	1,099	614
Staff welfare expenses	4,352	13,145	13,558
	51,981	70,743	80,870

(a) Directors' emoluments

The emoluments of directors, on a named basis for the Relevant Years are set out below:

For the year ended 31 December 2009

	Fees	Salaries and other allowances	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Heung Wah Keung *(note i)*	–	–	–	–
Chen Ming Yin, Tiffany *(note ii)*	–	–	–	–
Wong Hoi Ping *(note iii)*	–	–	–	–
Li Chi Keung *(note iii)*	–	–	–	–
Ho, Stanley Hung Sun *(note iii)*	–	–	–	–
	–	–	–	–

For the year ended 31 December 2010

	Fees	Salaries and other allowances	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Heung Wah Keung *(note i)*	–	–	–	–
Chen Ming Yin, Tiffany *(note ii)*	–	–	–	–
Wong Hoi Ping *(note iii)*	–	–	–	–
Li Chi Keung *(note iii)*	–	–	–	–
Ho, Stanley Hung Sun *(note iii)*	–	–	–	–
	–	–	–	–

For the year ended 31 December 2011

	Fees	Salaries and other allowances	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Heung Wah Keung *(note i)*	–	960	–	960
Chen Ming Yin, Tiffany *(note ii)*	–	960	–	960
Wong Hoi Ping *(note iii)*	–	–	–	–
Li Chi Keung *(note iii)*	–	–	–	–
Ho, Stanley Hung Sun *(note iii)*	–	–	–	–
	–	1,920	–	1,920

Notes:

(i) Heung Wah Keung was appointed on 2 April 2007
(ii) Chen Ming Yin, Tiffany was appointed on 30 May 2007
(iii) Wong Hoi Ping, Li Chi Keung and Ho, Stanley Hung Sun were appointed on 22 June 2007

During the Relevant Years, no emoluments were paid by Hotel LKF to the directors of Hotel LKF as an inducement to join or upon joining Hotel LKF or as compensation for loss of office. None of the directors of Hotel LKF has waived any emoluments during the Relevant Years.

(b) Five highest paid individual

Of the five highest paid individuals, 2 of them were directors of Hotel LKF as at 31 December 2011 whose emoluments are reflected in note (a) above and amounted to HK$1,920,000 and none were directors of Hotel LKF as at 31 December 2010 and 2009. The emoluments payable to remaining individuals during the Relevant Years were as follow:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other allowances	4,267	3,797	2,618
Retirement benefits scheme contributions	19	58	35
	4,286	3,855	2,653

There emoluments are within the following bands:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Nil – HK$1,000,000	4	5	3
HK$1,000,001 – HK$1,500,000	1	–	–
	5	5	3

(c) Retirement benefits schemes

(i) The employees of Hotel LKF is members of the government-managed retirement benefits schemes to fund the benefits. The only obligation of Hotel LKF with respect to the retirement benefits schemes operated by the Macau government is to make the required contributions under the schemes.

(ii) At 31 December 2011, the retirement benefits schemes contributions net forfeited contributions of HK$390,000 amounted to approximately HK$498,000. There is no forfeited contributions for retirement benefits schemes contributions at 31 December 2009 and 2010.

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Leasehold improvements	Furniture, fixtures and Equipment	Motor vehicle	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1 January 2009	407,785	3,049	–	1,064	441	412,339
Additions	302,876	–	–	14,155	–	317,031
Transfer upon completion	(710,661)	213,382	366,383	130,896	–	–
Disposals	–	(148)	(12,310)	(770)	(177)	(13,405)
At 31 December 2009 and 1 January 2010	–	216,283	354,073	145,345	264	715,965
Additions	–	2,233	5,365	34,888	–	42,486
Disposals	–	–	(180)	(1,177)	–	(1,357)
At 31 December 2010 and 1 January 2011	–	218,516	359,258	179,056	264	757,094
Additions	–	–	738	3,135	606	4,479
Disposals	–	–	(103)	(467)	–	(570)
At 31 December 2011	–	218,516	359,893	181,724	870	761,003
Accumulated depreciation						
At 1 January 2009	–	127,595	11,741	668	333	140,337
Charge for the year	–	7,805	15,945	15,626	68	39,444
Eliminated on disposals	–	(148)	(11,751)	(624)	(177)	(12,700)
At 31 December 2009 and 1 January 2010	–	135,252	15,935	15,670	224	167,081
Charge for the year	–	7,836	38,602	42,420	40	88,898
Eliminated on disposals	–	–	(21)	(282)	–	(303)
At 31 December 2010 and 1 January 2011	–	143,088	54,516	57,808	264	255,676
Charge for the year	–	7,850	38,550	47,327	80	93,807
Eliminated on disposals	–	–	(20)	(294)	–	(314)
At 31 December 2011	–	150,938	93,046	104,841	344	349,169
Carrying amount						
At 31 December 2009	–	81,031	338,138	129,675	40	548,884
At 31 December 2010	–	75,428	304,742	121,248	–	501,418
At 31 December 2011	–	67,578	266,847	76,883	526	411,834

For the Relevant Years, buildings have been pledged to secure general banking facilities granted to the Hotel LKF (note 29).

At 31 December 2009, 2010 and 2011, the carrying amount at furniture, fixtures and equipment includes an amount of approximately HK$441,000, HK$273,000 and HK$249,000 in respect of assets held under finance leases.

16. INTERESTS IN LEASEHOLD LAND

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January	54,450	54,450	54,691
Additions	–	241	–
At 31 December	54,450	54,691	54,691
Accumulated amortisation			
At 1 January	27,891	29,537	31,190
Charge for the year	1,646	1,653	1,656
At 31 December	29,537	31,190	32,846
Carrying amount			
At 31 December	24,913	23,501	21,845

The carrying amounts of interests in leasehold land shown above comprise:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Land in Macau, held on medium-term leases	24,913	23,501	21,845

For the Relevant Years, interests in leasehold land have been pledged to secure general banking facilities granted to the Hotel LKF (note 29).

For the Relevant Years, amortisation expenses on prepaid lease payments of approximately HK$1,646,000, HK$1,653,000 and HK$1,656,000 have been charged to statement of comprehensive income for Relevant Years.

17. INVESTMENT IN A SUBSIDIARY

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	96	96	96

Details of Hotel LKF's subsidiary as at 31 December 2011 is as follows:

Name of subsidiary	Form of business structure	Place of incorporation	Quota capital	Proportion of nominal value of issued capital held by the Company %	Issued and fully paid share capital	Principal activities
Classic Management & Services Company Limited	Incorporated	Macau	Quota capital	99	MOP100,000	Provision of casino management service

No consolidated financial statements have been prepared in accordance with the exemption granted by HKAS 27 (Revised) "Consolidated and Separate Financial Statements" as Hotel LKF is not incorporated in Hong Kong and it is a partially-owned subsidiary and its other owner has been informed and do not object to Hotel LKF not presenting consolidated financial statements. In addition, Hotel LKF's ultimate holding company has prepared consolidated financial statements available for public use that comply with HKFRSs.

18. INVENTORIES

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Food material and supplies	937	1,504	2,097

19. TRADE RECEIVABLES

Hotel LKF's trade receivables arose from hotel service for the Relevant Years.

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables from:			
Hotel service	16,209	1,057	1,534

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

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	4,088	936	1,468
31 to 60 days	7,645	95	49
61 to 90 days	4,336	–	16
91 to 180 days	140	–	–
Over 180 days	–	26	1
	16,209	1,057	1,534

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

Trade receivables disclosed above included amounts (see below for aging analysis) which are past due at the end of the reporting period for which Hotel LKF has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Aging of trade receivables which are past due but not impaired:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Over 90 days	140	26	1

As at 31 December 2009, 2010 and 2011, included in Hotel LKF's trade receivable balance are debtors with aggregate carrying amount of approximately HK$140,000, HK$26,000 and HK$1,000 respectively, which are past due at the reporting date for which Hotel LKF has not provided for impairment loss. Hotel LKF does not hold any collateral over these balances.

In determining the recoverability of trade receivables, the directors of Hotel LKF consider any change in the credit quality of the trade receivables from the date credit were initially granted up to the end of the Relevant Years.

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Deposits paid	1,680	1,529	10,932
Prepayments	21,758	17,478	2,519
Other receivables	83	698	301
	23,521	19,705	13,752

The directors of Hotel LKF believe that no provision for impairment is necessary in respect of these balances as the balances are considered fully recoverable. Hotel LKF does not hold any collateral over these balances.

21. AMOUNTS DUE FROM/(TO) A RELATED COMPANY/A SUBSIDIARY/FELLOW SUBSIDIARIES/ IMMEDIATE HOLDING COMPANY/SHAREHOLDERS

(a) Amount due from a related company

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Merit Noble Company Limited	16,435	5,850	8,981

For the Relevant Years, the maximum amount outstanding from Merit Noble Company Limited is approximately HK$18,666,000, HK$21,584,000 and HK$8,981,000 respectively.

(b) Amount due from a subsidiary

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Classic Management & Services Company Limited	40,189	42,169	–

For the Relevant Years, the maximum amount outstanding from Classic Management & Services Company Limited is approximately HK$40,189,000, HK$42,169,000 and HK$42,169,000 respectively.

(c) Amounts due from fellow subsidiaries

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
China Star Creative Development Limited	–	–	325
China Star Management Company Limited	–	–	20
	–	–	345

For the year ended 31 December 2011, the maximum amount outstanding from China Star Creative Development Limited and China Star Management Company Limited is approximately HK$325,000 and HK$20,000 respectively.

(d) Amount due to a related company

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Avatar Limited	8,533	25,766	34,908

(e) Amount due to a fellow subsidiary

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
China Star Laser Disc Company Limited	–	–	124

(f) Amount due to immediate holding company

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Exceptional Gain Profits Limited	38,731	65,549	–

(g) Amount due to shareholders

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Most Famous Enterprises Limited	39,692	64,192	–
SJM-Investment Limited	810	1,310	–
	40,502	65,502	–

(h) Amount due to a subsidiary

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Classic Management & Services Company Limited	–	–	23,211

For the Relevant Years, amounts due from/(to) a related company/a subsidiary/fellow subsidiaries/immediate holding company/shareholders are unsecured, interest-free, receivables and repayable on demand.

22. CASH AND CASH EQUIVALENTS

Bank balances carry interest at floating rates based on daily bank deposit rates and placed with creditworthy banks with no recent history of default. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of Hotel LKF, and earn interest at the respective short-term time deposit rates.

For the purpose of the statement of cash flows, cash and bank balances include cash on hand and at banks. Cash and bank balances at the Relevant Years as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Cash and bank balances	11,704	118,026	177,053
Bank overdraft	(178,764)	–	–
	(167,060)	118,026	177,053

Bank overdraft carried interest at market rates which ranged from 3.25% to 4.25% per annum for the year ended 31 December 2009.

23. SHARE CAPITAL

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Registered of quota capital	485	485	485

24. BANK BORROWINGS

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Secured bank loan	405,000	500,000	450,000
Carrying amount repayable:			
Within one year	230,000	50,000	50,000
More than one year, but not exceeding two years	100,305	50,000	50,000
More than two years, but not more than five years	74,695	400,000	350,000
Over five years	–	–	–
	405,000	500,000	450,000

As at the Relevant Years, Hotel LKF had bank term loan secured by leasehold land and buildings with carrying amount as follows:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Buildings	81,031	75,428	67,578
Leasehold land	24,913	23,501	21,845
	105,944	98,929	89,423

The secured bank term loan is interest bearing at 3.5% per annum (Hong Kong Prime Rate 5.25% less margin 1.75%) at 31 December 2010 and 2011 and interest bearing at ranging from 2.0% – 3.5% per annum at 31 December 2009 respectively.

As at 31 December 2011, the secured bank term loan is repayable within 5 years by 15 equal consecutive quarterly installments of HK$12,500,000 each and a final repayment of HK$262,500,000 at the maturity date of the loan. Amount of HK$50,000,000 in 2010 had been repaid during 2011 and amount of HK405,000,000 in 2009 had been fully repaid during 2010.

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

25. OBLIGATIONS UNDER FINANCE LEASE

	Minimum lease payment			Present value of minimum lease payments		
	2009	2010	2011	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable under finance lease:						
Within one year	125	125	122	96	96	96
In the second to fifth years	396	271	131	305	201	104
	521	396	253	401	297	200
Less: Future finance charges	(120)	(99)	(53)	–	–	–
	401	297	200	401	297	200
Less: Amount shown under current liabilities				(96)	(96)	(96)
				305	201	104

It is Hotel LKF's policy to lease certain of its machinery and equipment under finance lease. The average lease term is 5 years. Interest rates are charged at commercial rates and fixed at the respective contract dates of 5.99% per annum in the Relevant Years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Hotel LKF's obligations under finance lease are secured by the lessor's charge over the leased assets. Obligations under finance lease are denominated in Hong Kong dollars.

26. TRADE PAYABLES

Hotel LKF's trade payables arose from hotel service for the Relevant Years.

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Trade payables from:			
hotel service	3,892	6,189	11,845

The aging analysis of the trade payables is as follow:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	2,231	2,527	9,976
31 to 60 days	1,630	1,980	1,858
61 to 90 days	31	92	11
Over 90 days	–	1,590	–
	3,892	6,189	11,845

27. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Deposits received	1,338	1,195	1,245
Accruals	77,622	35,865	25,911
Other payables	2,306	3,873	731
	81,266	40,933	27,887

28. LEASE COMMITMENTS

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Minimum lease payments paid under operating leases during the Relevant Years:			
Premises	1,038	554	1,244

At the end of the Relevant Years, Hotel LKF had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Within one year	85	16	133
In the second to fifth year inclusive	–	–	58
	85	16	191

Operating lease payments represented rentals payable by Hotel LKF for its office premises. Leases are mainly negotiated for an average term of two years and rentals are fixed for an average of two years. Hotel LKF does not have an option to purchase the leased asset at the expiry of the lease period.

29. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings of Hotel LKF:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Buildings	81,031	75,428	67,578
Leasehold land	24,913	23,501	21,845
	105,944	98,929	89,423

30. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, during the Relevant Years, Hotel LKF had entered into the following material related party transactions:

(a) Remuneration for key management personnel

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other allowances	825	1,444	1,639
Retirement benefits scheme contributions	5	23	23
	830	1,467	1,662

(b) The amounts due from/(to) a related company/a subsidiary/fellow subsidiaries/immediate holding company/ shareholders at the end of the Relevant Years is set out on note 21 to the Financial Information.

(c) During the Relevant Years, Hotel LKF entered into the following significant transactions with related parties which are carried out on normal commercial terms and in the normal course of Hotel LKF's business:

Nature of related parties relationships	**Nature of transactions**	**2009**	**2010**	**2011**
		HK$'000	*HK$'000*	*HK$'000*
Subsidiary	Management fee income	71,438	280,227	273,813
Fellow subsidiary	Commission fee paid	–	–	70
Associate of the ultimate holding company	Management fee income	–	160	1,845
	Renal and utilities fee income	1,306	5,249	5,141
	Entertainment and staff messing paid	4,876	11,679	10,071

31. EVENTS AFTER THE REPORTING PERIOD

(a) On 11 January 2012, Hotel LKF's immediate holding company entered into agreements with SJM-Investment Limited to purchase, 1% equity interest of the issued quotas in Hotel LKF and 1 % equity interest in the issued share capital of Charm Faith Holdings Limited, a company beneficially owned 1% of the issued quotas of Classic Management & Services Company Limited, at a total consideration of approximately HK$13,000,000. The agreements were completed on 31 January 2012 and Hotel LKF's immediate holding company becomes interested in 51% equity interest in Hotel LKF, Charm Faith Holdings Limited and Classic Management & Services Company Limited. Details of the transaction are set out in the Company's announcement dated 11 January 2012; and

(b) Apart from the Acquisition, no significant events took place to the Relevant Years.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Hotel LKF in respect of any period subsequent to 31 December 2011 and up to the date of this report. In addition, no dividends or other distributions have been declared, made or paid by Hotel LKF in respect of any period subsequent to 31 December 2011.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 June 2012

The Directors
China Star Entertainment Limited
Unit 3409 Shun Tak Centre,
West Tower,
168-200 Connaught Road Central,
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Charm Faith Holdings Limited ("Charm Faith") set out in Section A and B below, for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 27 June 2012 (the "Circular") in connection with the proposed acquisition (the "Acquisition') of entire equity interests of Most Famous Enterprises Limited, which one of the principal assets of it is 49% equity interest in Charm Faith. The Financial Information comprises the statement of financial position of Charm Faith as at 31 December 2009, 2010 and 2011 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 19 May 2009 (date of incorporation) to 31 December 2009 and each of the years ended 31 December 2010 and 2011 (the "Relevant Years") and a summary of significant accounting policies and other explanatory information.

Charm Faith was incorporated in British Virgin Islands ("BVI") on 19 May 2009 with limited liability and is engaged in investment holding.

No statutory financial statements have been prepared for Charm Faith since its date of incorporation as there is no statutory requirement in BVI.

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING ACCOUNTANTS

The directors of Charm Faith are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with accounting policies set out in Note 3 to the Financial Information below (the "Underlying Financial Statements") and the Underlying Financial Statements in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (" HKICPA"), the disclosure requirement of the Hong Kong Companies Ordinance and the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and for such internal control as the directors of Charm Faith determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information for the Relevant Years, for the purpose of this report, gives a true and fair view of the state of affairs of Charm Faith as at 31 December 2009, 2010 and 2011, and the results and cash flows for the Relevant Years then ended.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 3(a) to the Financial Information which indicates that Charm Faith incurred accumulated losses of approximately HK$7,000, HK$21,000 and HK$29,000 as at 31 December 2009, 2010 and 2011 respectively and, as of that date, Charm Faith has net liabilities of approximately HK$6,000, HK$20,000 and HK$28,000. These conditions, along with other matters as set forth in note 3(a) to the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about Charm Faith's ability to continue as a going concern.

A. FINANCIAL INFORMATION OF CHARM FAITH HOLDINGS LIMITED

STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the period from 19 May 2009 (date of incorporation) to 31 December 2009 HK$'000	For the year ended 31 December 2010 HK$'000	For the year ended 31 December 2011 HK$'000
Turnover	7	–	–	–
Administrative expenses		(7)	(14)	(8)
Loss before tax	8	(7)	(14)	(8)
Taxation charge	9	–	–	–
Loss for the year		(7)	(14)	(8)
Other comprehensive income for the year		–	–	–
Total comprehensive loss for the year		(7)	(14)	(8)
Loss and total comprehensive loss attributable to:				
Owners of Charm Faith		(7)	(14)	(8)

The accompanying notes form an integral part of the Financial Information of Charm Faith.

STATEMENT OF FINANCIAL POSITION

		At 31 December		
		2009	2010	2011
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current asset				
Available-for-sale financial assets	12	1	1	1
Current asset				
Amounts due from immediate holding company and shareholders	13	1	1	1
Total assets		2	2	2
Capital and reserves				
Share capital	14	1	1	1
Reserve		(7)	(21)	(29)
Total equity		(6)	(20)	(28)
Current liabilities				
Accruals		–	3	3
Amount due to ultimate holding company	13	7	18	26
Amount due to a fellow subsidiary	13	1	1	1
Total liabilities		8	22	30
Total equity and liabilities		2	2	2
Net current liabilities		(7)	(21)	(29)
Total assets less current liabilities		(6)	(20)	(28)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
Issue of shares at 19 May 2009 (date of incorporation)	1	–	1
Total comprehensive loss for the period	–	(7)	(7)
At 31 December 2009 and 1 January 2010	1	(7)	(6)
Total comprehensive loss for the year	–	(14)	(14)
At 31 December 2010 and 1 January 2011	1	(21)	(20)
Total comprehensive loss for the year	–	(8)	(8)
At 31 December 2011	1	(29)	(28)

STATEMENT OF CASH FLOWS

	For the period from 19 May 2009 (date of incorporation) to 31 December	For the year ended 31 December	
	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax and operating cash flows before movements in working capital	(7)	(14)	(8)
Increase in amounts due from immediate holding company and shareholders	(1)	–	–
Increase in accruals	–	3	–
Increase in amount due to ultimate holding company	7	11	8
Increase in amount due to a fellow subsidiary	1	–	–
Net cash generated from operating activities	–	–	–
CASH FLOWS FROM INVESTING ACTIVITY			
Purchases of available-for-sale financial assets	(1)	–	–
Net cash used in investing activity	(1)	–	–
CASH FLOWS FROM FINANCING ACTIVITY			
Proceed from issue of new shares	1	–	–
Net cash generated from financing activity	1	–	–
Net effect in cash and cash equivalents	–	–	–
Cash and cash equivalents at the beginning of the year	–	–	–
Cash and cash equivalents at the end of the year	–	–	–

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Charm Faith was incorporated in BVI with limited liability on 19 May 2009. The address of its registered office is P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The ultimate holding company is China Star Entertainment Limited, a company incorporated in Bermuda with its share listed on the Stock Exchange of Hong Kong Limited. (the "Stock Exchange")

The principal activity of Charm Faith is engaged in investment holding.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Years, Charm Faith has applied the HKFRSs, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for Charm Faith's annual period beginning on or before 1 January 2011 consistently for the Relevant Years. At the date of this report, Charm Faith has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective for the Relevant Years:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[2]
HKAS 19 (Revised)	Employee Benefits[4]
HKAS 27 (Revised)	Separate Financial Statements[4]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangement[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The directors of Charm Faith has commenced their assessments of the impact of the above new and revised HKFRSs, but it is not yet in a position to state whether these new and revised HKFRSs, would have a material impact on the results and the financial position of Charm Faith.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information of Charm Faith are set out below. These policies have been consistently applied to the Relevant Years presented, unless otherwise stated.

(a) Basis of preparation

The Financial Information has been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the disclosure requirement of the Hong Kong Companies Ordinance.

The Financial Information is presented in Hong Kong dollars ("HK$"), which is the same functional currency of Charm Faith. All Financial Information presented HK$ has been rounded to the nearest thousand (HK$'000) except otherwise stated.

The Financial Information has been prepared on the historical cost basis. The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Charm Faith's accounting policy.

In preparing the Financial Information, the directors of Charm Faith have given careful consideration to the future liquidity of Charm Faith in light of incurred accumulated losses of approximately HK$7,000, HK$21,000 and HK$29,000 as at 31 December 2009, 2010 and 2011 respectively and as of that date, Charm Faith has net liabilities of approximately HK$6,000, HK$20,000 and HK$28,000. The Financial Information has been prepared on a going concern basis because the ultimate holding company of Charm Faith has confirmed to provide continuing financial support to Charm Faith to enable it to continue as a going concern and to settle its liabilities as and when they fall due for the foreseeable future.

(b) Impairment of tangible assets other than goodwill

At the end of each reporting period, Charm Faith reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(c) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Charm Faith's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Charm Faith expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(d) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Charm Faith's financial assets are classified into available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including amounts due from immediate holding company and shareholders) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at financial assets at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty; or

(ii) breach of contract, such as a default or delinquency interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(iv) the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are classified to profit or loss in the Relevant Years.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a company entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. An equity instrument issued by Charm Faith is recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including accruals, amount due to ultimate holding company and amount due to a fellow subsidiary) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derecognition

Charm Faith derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Charm Faith neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Charm Faith continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If Charm Faith retains substantially all the risks and rewards of ownership of a transferred financial asset, Charm Faith continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, Charm Faith allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Charm Faith derecognises financial liabilities when, and only when, Charm Faith's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(e) Provisions

Provisions are recognised when Charm Faith has a present obligation (legal or constructive) as a result of a past event, it is probable that Charm Faith will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(f) Related party transactions

A party is considered to be related to Charm Faith if:

(a) A person, or a close member of that person's family, is related to Charm Faith if that person:

(i) has control or joint control over Charm Faith;

(ii) has significant influence over Charm Faith; or

(iii) is a member of the key management personnel of Charm Faith or Charm Faith's parent.

(b) An entity is related to Charm Faith if any of the following conditions applies:

(i) the entity and Charm Faith are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either Charm Faith or an entity related to Charm Faith;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influenced by, that person in their dealings with the entity.

(g) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to Charm Faith's most senior executive management for the purposes of allocating resources to, and assessing the performance of, Charm Faith's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Charm Faith's accounting policies, which are described in note 3, the directors of Charm Faith are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	2009	2010	2011
	HK$000	*HK$000*	*HK$000*
Financial assets			
Available-for-sale financial assets	1	1	1
Loans and receivables	1	1	1
Financial liabilities			
Amortised cost	8	22	25

(b) Financial risk management objectives and policies

Charm Faith's major financial instruments include equity investments, amounts due from immediate holding company and shareholders, accruals and amount due to ultimate holding company/a fellow subsidiary. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign exchange risk

Charm Faith has no significant exposure to foreign currency risk as substantially all of Charm Faith transactions are denominated in HK$.

(ii) Cash flow and fair value interest rate risk

Charm Faith has no significant interest-bearing liabilities, no significant cash flow and fair value interest-rate risk.

Credit risk

At the end of the Relevant Years, Charm Faith has no significant exposure to credit risk.

Liquidity risk

Charm Faith manages liquidity risk by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by management. Management will raise bank borrowings whenever necessary.

The following table details Charm Faith's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Charm Faith can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The amounts disclosed in the table are based on the contractual undiscounted payments, are as follows:

	At 31 December 2009					
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$000	*HK$000*	*HK$000*	*HK$000*	*HK$000*
Non-derivative financial liabilities						
Amount due to ultimate holding company	–	7	–	–	7	7
Amount due to a fellow subsidiary	–	1	–	–	1	1
Total		8	–	–	8	8

	At 31 December 2010					
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$000	*HK$000*	*HK$000*	*HK$000*	*HK$000*
Non-derivative financial liabilities						
Accruals	–	3	–	–	3	3
Amount due to ultimate holding company	–	18	–	–	18	18
Amount due to a fellow subsidiary	–	1	–	–	1	1
Total		22	–	–	22	22

	At 31 December 2011					
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$000	*HK$000*	*HK$000*	*HK$000*	*HK$000*
Non-derivative financial liabilities						
Accruals	–	3	–	–	3	3
Amount due to ultimate holding company	–	26	–	–	26	26
Amount due to a fellow subsidiary	–	1	–	–	1	1
Total		30	–	–	30	30

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid price and ask prices respectively;
- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of Charm Faith consider that the carrying amounts of financial assets and financial liabilities recognised in the Financial Information approximate to their fair value.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the Relevant Years, the financial instruments of Charm Faith carried at fair value included AFS financial assets.

	Level 1	Level 2	Level 3	Total
	HK$000	*HK$000*	*HK$000*	*HK$000*
At 31 December 2009				
Available for sale financial assets				
– Unlisted equity securities	–	1	–	1

	Level 1	Level 2	Level 3	Total
	HK$000	*HK$000*	*HK$000*	*HK$000*
At 31 December 2010				
Available for sale financial assets				
– Unlisted equity securities	–	1	–	1

	Level 1	Level 2	Level 3	Total
	HK$000	*HK$000*	*HK$000*	*HK$000*
At 31 December 2011				
Available for sale financial assets				
– Unlisted equity securities	–	1	–	1

There were no transfer between Levels 1, 2 and 3 in the Relevant Years.

(d) Capital management

Charm Faith manages its capital to ensure that entities in Charm Faith will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Charm Faith's overall strategy remains unchanged in the Relevant Years.

The capital structure of Charm Faith consists of net debts (after cash and bank balances) and equity attributable to owners of Charm Faith, comprising issued capital and reserves.

The directors of Charm Faith review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and other sources of the risks associates with each class of capital. Based on recommendations of the directors, Charm Faith will balance its overall capital structure through issue of new debt or the redemption of existing debt.

Gearing ratio

Charm Faith has adopted a capital structure policy primary not to finance its operation through borrowings. Based on Charm Faith's policy, the gearing ratio at the end of the Relevant Years was as zero.

6. SEGMENT INFORMATION

As per HKRFS 8 "Operating Segments", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown as Charm Faith only engaged in investment holding.

7. TURNOVER

Charm Faith did not generate any revenue during the Relevant Years.

8. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	2009	**2010**	**2011**
	HK$000	*HK$000*	*HK$000*
Auditors' remuneration	–	3	3
Staff costs (including directors' remuneration)			
– Salaries and other benefits	–	–	–
– Retirement benefits scheme contributions	–	–	–

9. TAXATION CHARGE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Years.

No provision for Hong Kong Profits Tax has been made for both years as Charm Faith has no assessable profits arising in Hong Kong or taxable profits were wholly absorbed by estimated tax losses brought forward.

The tax charge for the Relevant Years can be reconciled to the loss per the statement of comprehensive income as follows:

	2009	**2010**	**2011**
	HK$000	*HK$000*	*HK$000*
Loss before tax	(7)	(14)	(8)
Tax at Hong Kong Profit Tax rate (2009, 2010 and 2011: 16.5%)	(1)	(2)	(1)
Tax effect of:			
Estimated tax losses not recognised	1	2	1
Tax charge for the Relevant Years	–	–	–

10. DIVIDENDS

The directors of Charm Faith do not recommend the payment of any dividends for the Relevant Years.

11. DIRECTORS' EMOLUMENTS

No emoluments were paid to the directors of Charm Faith for the Relevant Years.

For the Relevant Years:

	Fees	Salaries and other allowances	Retirement benefits schemes contributions	Total
	HK$000	*HK$000*	*HK$000*	*HK$000*
Heung Wah Keung	–	–	–	–
Chen Ming Yin, Tiffany	–	–	–	–
Wong Hoi Ping	–	–	–	–
Li Chi Keung	–	–	–	–
Tam Chan Sing, Joseph	–	–	–	–
	–	–	–	–

Note: All directors of Charm Faith were appointed on 10 July 2009.

During the Relevant Years, no emoluments were paid by Charm Faith to the directors of Charm Faith as an inducement to join or upon joining Charm Faith or as compensation for loss of office. None of the directors of Charm Faith has waived any emoluments during the Relevant Years.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	2010	2011
	HK$000	*HK$000*	*HK$000*
Unlisted investments:			
– Equity securities	1	1	1

Charm Faith holds 1% equity interests of Classic Management Service Company Limited ("Classic Management"), a company engaged in provision of casino management service at the Relevant Years. The directors of Charm Faith do not believe that Charm Faith is able to exercise significant influence over Classic Management as the remaining ordinary share capital is held by one shareholder, who also manages the day-to-day operations of Classic Management.

13. AMOUNTS DUE FROM/(TO) IMMEDIATE HOLDING COMPANY AND SHAREHOLDERS/ULTIMATE HOLDING COMPANY/A FELLOW SUBSIDIARY

(a) Amounts due from immediate holding company and shareholders

	2009	2010	2011
	HK$000	*HK$000*	*HK$000*
Amounts due from immediate holding company and shareholders	1	1	1

For the Relevant Years, amount due from immediate holding company represented HK$390 due from Exceptional Gain Profits Limited, amounts due from shareholders represented HK$382 due from Most Famous Enterprises Limited and HK$8 due from SJM-Investment Limited.

For the Relevant Years, the maximum amount outstanding from Exceptional Gain Profits Limited is HK$390, the maximum amount outstanding from Most Famous Enterprises Limited is HK$382 and the maximum amount outstanding from SJM-Investment Limited is HK$8.

(b) Amount due to ultimate holding company

	2009	2010	2011
	HK$000	*HK$000*	*HK$000*
China Star Entertainment Limited	7	18	26

(c) Amount due to a fellow subsidiary

	2009	2010	2011
	HK$000	*HK$000*	*HK$000*
Classic Management & Services Company Limited	1	1	1

For the Relevant Years, amounts due from/(to) immediate holding company and shareholders/ultimate holding company/a fellow subsidiary are unsecured, interest-free, receivable and repayable on demand.

14. SHARE CAPITAL

	2009	2010	2011
	HK$000	*HK$000*	*HK$000*
Authorised:			
50,000 ordinary shares of US$1 each	390	390	390
Issued and fully paid:			
100 ordinary shares of US$1 each	1	1	1

15. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, during the Relevant Years, Charm Faith had entered into the following material related party transactions:

(a) Compensation to key management personnel of Charm Faith represented directors' remuneration as disclosed in note 11 to the Financial Information.

(b) The amount due from/(to) immediate holding company and shareholders/ultimate holding company/a fellow subsidiary at the end of the Relevant Years is set out on note 13 to the Financial Information.

16. **EVENTS AFTER THE REPORTING PERIOD**

(a) On 11 January 2012, Charm Faith's immediate holding company entered into agreements with SJM-Investment Limited to purchase, 1% equity interest of the issued quotas in Hotel Lan Kwai Fong (Macau) Limited and 1% equity interest in the issued share capital of Charm Faith, a company beneficially owned 1% of the issued quotas of Classic Management & Services Company Limited, at a total consideration of approximately HK$13,000,000. The agreements were completed on 31 January 2012 and Charm Faith's immediate holding company becomes interested in 51% equity interest in Hotel Lan Kwai Fong (Macau) Limited, Charm Faith and Classic Management & Services Company Limited. Details of the transaction are set out in the Company's announcement dated 11 January 2012; and

(b) Apart from the Acquisition, no significant events took place to the Relevant Years.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Charm Faith in respect of any period subsequent to 31 December 2011 and up to the date of this report. In addition, no dividends or other distributions have been declared, made or paid by Charm Faith in respect of any period subsequent to 31 December 2011.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 June 2012

The Directors
China Star Entertainment Limited
Unit 3409 Shun Tak Centre,
West Tower,
168-200 Connaught Road Central,
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Classic Management & Services Company Limited ("Classic Management") set out in Section A and B below, for inclusion in the circular of China Star Entertainment Limited (the "Company") dated 27 June 2012 (the "Circular") in connection with the proposed acquisition (the "Acquisition') of entire equity interests of Most Famous Enterprises Limited, which principal assets of it is 49% equity interest in Hotel Lan Kwai Fong (Macau) Limited and Charm Faith Holdings Limited and indirectly hold 49% equity interests in Classic Management. The Financial Information comprises the statement of financial position of Classic Management as at 31 December 2009, 2010 and 2011 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 28 July 2009 (date of incorporation) to 31 December 2009 and each of the years ended 31 December 2010 and 2011 (the "Relevant Years") and a summary of significant accounting policies and other explanatory information.

Classic Management was incorporated in Macau on 28 July 2009 with limited liability and is engaged in provision of casino management service.

Classic Management has adopted 31 December as its financial year end date and the statutory financial statements of Classic Management for the year ended 31 December 2009, 2010 and 2011 were audited by CSC & Associados in accordance with General Financial Reporting Standards approved by Macau Administrative Regulation.

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING ACCOUNTANTS

The directors of Classic Management are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with accounting policies set out in Note 3 to the Financial Information below (the "Underlying Financial Statements") and the Underlying Financial Statements in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (" HKICPA"), the disclosure requirement of the Hong Kong Companies Ordinance and the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and for such internal control as the directors of Classic Management determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information for the Relevant Years, for the purpose of this report, gives a true and fair view of the state of affairs of Classic Management as at 31 December 2009, 2010 and 2011, and the results and cash flows for the Relevant Years then ended.

A. FINANCIAL INFORMATION OF CLASSIC MANAGEMENT & SERVICES COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the period from 28 July 2009 (date of incorporation) to 31 December 2009 HK$'000	For the year ended 31 December 2010 HK$'000	For the year ended 31 December 2011 HK$'000
Turnover	7	199,460	659,773	867,536
Cost of sales		(52,517)	(198,979)	(437,710)
Gross profit		146,943	460,794	429,826
Administrative expenses		(142,403)	(460,475)	(427,297)
Marketing and distribution expenses		(4,503)	(179)	(2,291)
Profit before tax	8	37	140	238
Taxation charge	9	–	–	(4)
Profit for the year		37	140	234
Other comprehensive income for the year		–	–	–
Total comprehensive income for the year		37	140	234
Profit and total comprehensive income attributable to:				
Owners of Classic Management		37	140	234

The accompanying notes form an integral part of the Financial Information of Classic Management.

STATEMENT OF FINANCIAL POSITION

		At 31 December		
		2009	**2010**	**2011**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current asset				
Property, plant and equipment	12	28	22	16
Current assets				
Trade receivables	13	56,246	53,253	85,661
Amount due from immediate holding company	14	–	–	23,211
Amount due from a shareholder		1	1	1
Cash and bank balances	15	1,388	863	2,323
		57,635	54,117	111,196
Total assets		57,663	54,139	111,212
Capital and reserves				
Share capital	16	97	97	97
Reserve		37	177	411
Total equity		134	274	508
Current liabilities				
Trade payables	17	17,340	11,696	110,700
Tax payables		–	–	4
Amount due to immediate holding company	14	40,189	42,169	–
		57,529	53,865	110,704
Total liabilities		57,529	53,865	110,704
Total equity and liabilities		57,663	54,139	111,212
Net current assets		106	252	492
Total assets less current liabilities		134	274	508

STATEMENT OF CHANGES IN EQUITY

	Share capital *HK$'000*	Statutory reserve *HK$'000* *(Note)*	Retained earnings *HK$'000*	Total *HK$'000*
Issue of shares at 28 July 2009 (date of incorporation)	97	–	–	97
Total comprehensive income for the year	–	–	37	37
At 31 December 2009 and 1 January 2010	97	–	37	134
Transfer to statutory reserve	–	9	(9)	–
Total comprehensive income for the year	–	–	140	140
At 31 December 2010 and 1 January 2011	97	9	168	274
Transfer to statutory reserve	–	35	(35)	–
Total comprehensive income for the year	–	–	234	234
At 31 December 2011	97	44	367	508

Note: In accordance with the provisions of Macau Commercial Code, Classic Management incorporated in Macau is required to transfer a minimum of 25% of the annual net profits to a statutory reserve until that reserve equals 50% of the nominal value of its capital. The statutory reserve may not be distributed in the form of cash dividends or otherwise, during the life of Classic Management.

STATEMENT OF CASH FLOWS

	Notes	For the period from 28 July 2009 (date of incorporation) to 31 December 2009 HK$'000	For the year ended 31 December 2010 HK$'000	For the year ended 31 December 2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		37	140	238
Adjustments for:				
Depreciation and amortisation of property, plant and equipment and leasehold land		3	6	6
Operating cash flows before movements in working capital		40	146	244
(Increase)/decrease in trade receivables		(56,246)	2,993	(32,408)
Increase in amount due from immediate holding company		–	–	(23,211)
Increase in amount due from a shareholder		(1)	–	–
Increase/(decrease) in trade payables		17,340	(5,644)	99,004
Increase/(decrease) in amount due to immediate holding company		40,189	1,980	(42,169)
Net cash generated from/(used in) operating activities		1,322	(525)	1,460
CASH FLOWS FROM INVESTING ACTIVITY				
Purchases of property, plant and equipment		(31)	–	–
Net cash used in investing activity		(31)	–	–
CASH FLOWS FROM FINANCING ACTIVITY				
Proceed from issue of new shares		97	–	–
Net cash generated from financing activity		97	–	–
Increase/(decrease) in cash and cash equivalents		1,388	(525)	1,460
Cash and cash equivalents at the beginning of the year		–	1,388	863
Cash and cash equivalents at the end of the year	15	1,388	863	2,323

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Classic Management was incorporated in Macau with limited liability on 28 July 2009. The address of its registered office is Rua de Xiamen, no.59, r/c freguesia da Se, em Macau. The ultimate holding company is China Star Entertainment Limited, a company incorporated in Bermuda with its share listed on The Stock Exchange of Hong Kong Limited. (the "Stock Exchange")

The principal activity of Classic Management is engaged in provision of casino management service.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Years, Classic Management has applied the HKFRSs, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for Classic Management annual period beginning on or before 1 January 2011 consistently for the Relevant Years. At the date of this report, Charm Faith has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective for the Relevant Years:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets[2]
HKAS 19 (Revised)	Employee Benefits[4]
HKAS 27 (Revised)	Separate Financial Statements[4]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangement[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The directors of Classic Management has commenced their assessments of the impact of the above new and revised HKFRSs, but it is not yet in a position to state whether these new and revised HKFRSs, would have a material impact on the results and the financial position of Classic Management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information of Classic Management are set out below. These policies have been consistently applied to the Relevant Years presented, unless otherwise stated.

(a) Basis of preparation

The Financial Information has been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the disclosure requirement of the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Classic Management's accounting policy.

Items included in the Financial Information in Classic Management are measured using Macau Pataca ("MOP") that best reflects the economic substance of the underlying events and circumstances relevant to Classic Management ("functional currency"). The Financial Information are presented in Hong Kong dollars ("HK$") ("presentation currency"). All Financial Information presented HK$ has been rounded to the nearest thousand (HK$'000) except otherwise indicated.

(b) Revenue recognition

Revenue arising from service provided for gaming operations in mass market hall, slot machine hall and VIP rooms is recognised when the relevant services have been rendered and Classic Management is entitled to the share of gaming wins from the gaming operator.

(c) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the reporting period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is recognised so as to write off the cost of items or property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The principal annual rates are as follows:

Furniture, fixtures and equipment	10% – 50%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(d) Impairment of tangible assets other than goodwill

At the end of each reporting period, Classic Management reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(e) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Classic Management's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Classic Management expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(f) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Classic Management's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, amount due from immediate holding company, amount due from a shareholder and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at financial assets at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty; or

(ii) breach of contract, such as a default or delinquency interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(iv) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Classic Management's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60-90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a company entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. An equity instrument issued by Classic Management is recognised at the proceeds received, net of direct issue costs.

Other financial liability

Other financial liability (including trade payables and amount due to immediate holding company) is subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derecognition

Classic Management derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Classic Management neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Classic Management continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If Classic Management retains substantially all the risks and rewards of ownership of a transferred financial asset, Classic Management continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, Classic Management allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Classic Management derecognises financial liabilities when, and only when, Classic Management's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) Foreign currencies

In preparing the Financial Information of Classic Management, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

(i) exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

(iii) exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting Financial Information, the assets and liabilities of Classic Management's foreign operations are translated into the presentation currency of Classic Management (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

(i) Provisions

Provisions are recognised when Classic Management has a present obligation (legal or constructive) as a result of a past event, it is probable that Classic Management will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(j) Related party transactions

A party is considered to be related to Classic Management if:

(a) A person, or a close member of that person's family, is related to Classic Management if that person:

(i) has control or joint control over Classic Management;

(ii) has significant influence over Classic Management; or

(iii) is a member of the key management personnel of Classic Management or Classic Management's parent.

(b) An entity is related to Classic Management if any of the following conditions applies:

(i) the entity and Classic Management are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either Classic Management or an entity related to Classic Management;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influenced by, that person in their dealings with the entity.

(k) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to Classic Management's most senior executive management for the purposes of allocating resources to, and assessing the performance of, Classic Management's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Classic Management's accounting policies, which are described in note 3, the directors of Classic Management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying Classic Management's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

(a) *Trade receivables*

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivable balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, Classic Management may experience delays in collection. Where recoverability of trade receivable balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the consolidated income statement. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(b) *Useful lives of property, plant and equipment*

In accordance with HKAS 16, Classic Management estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. Classic Management also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables (including cash and bank balances)	57,635	54,117	111,196
Financial liabilities			
Amortised cost	57,529	53,865	110,700

(b) Financial risk management objectives and policies

Classic Management's major financial instruments include trade receivables, amount due from immediate holding company, amount due from a shareholder trade payables, amount due to immediate holding company and cash and bank balances. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign exchange risk

Classic Management operates mainly in Macau and majority of transactions are dominated in Macau Pataca ("MOP"). Classic Management is exposed to foreign exchange risk in respect of exchange fluctuation of HK$ against MOP. Classic Management currently does not have a foreign currency hedging policy in respect of foreign current assets and liabilities. Classic Management will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of Classic Management's foreign currency denominated monetary assets and monetary liabilities at reporting data are as follows:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Assets			
MOP	57,635	54,117	111,196
Liabilities			
MOP	57,529	53,865	110,700

Sensitivity analysis on foreign currency risk

The following table details Classic Management's sensitivity to a 5% increase and decrease in the HK$ against MOP. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where the relevant currencies strengthen 5% against the HK$. For a 5% weakening of the relevant currencies against the HK$, there would be an equal and opposite impact on the profit and the balances below would be negative.

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Impact of MOP			
Profit or loss	5	13	25

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the Relevant Years.

(ii) Cash flow and fair value interest rate risk

Classic Management has no significant interest-bearing liabilities, no significant cash flow and fair value interest rate risk.

Credit risk

Classic Management's maximum exposure to credit risk which will cause a financial loss to Classic Management due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

In order to minimise the credit risk, the management of Classic Management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, Classic Management reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Classic Management consider that Classic Management's credit risk is significantly reduced.

Classic Management's credit risk is primarily attributable to trade or other receivables. Classic Management does not have any other significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Liquidity risk

Classic Management manages liquidity risk by maintaining adequate bank deposits and cash, monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The liquidity risk is under continuous monitoring by management. Management will raise bank borrowings whenever necessary.

The following table details Classic Management's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Classic Management can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The amounts disclosed in the table are based on the contractual undiscounted payments, are as follows:

	At 31 December 2009					
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Trade payables	–	17,340	–	–	17,340	17,340
Amount due to immediate holding company	–	40,189	–	–	40,189	40,189
Total		57,529	–	–	57,529	57,529

	At 31 December 2010					
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Trade payables	–	11,696	–	–	11,696	11,696
Amount due to immediate holding company	–	42,169	–	–	42,169	42,169
Total		53,865	–	–	53,865	53,865

	At 31 December 2011					
	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2-5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Trade payables	–	110,700	–	–	110,700	110,700

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid price and ask prices respectively;

- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and

- the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of Classic Management consider that the carrying amounts of financial assets and financial liabilities recognised in the Financial Information approximate to their fair value.

(d) Capital management

Classic Management manages its capital to ensure that entities in Classic Management will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Classic Management overall strategy remains unchanged in the Relevant Years.

The capital structure of Classic Management consists of net debts (after cash and bank balances) and equity attributable to owners of Classic Management, comprising issued capital and reserves.

The directors of Classic Management review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and other sources of the risks associates with each class of capital. Based on recommendations of the directors, Classic Management will balance its overall capital structure through issue of new debt or the redemption of existing debt.

Gearing ratio

Classic Management has adopted a capital structure policy primary not to finance its operation through borrowings. Based on Classic Management's policy, the gearing ratio at the end of the Relevant Years was zero.

6. SEGMENT INFORMATION

As per HKRFS 8 "Operating Segments", Classic Management has only one single operating segment as Classic Management is primarily engaged in provision of gaming services operation and related business which is the basis to allocate resources and assess performance. No geographical information is presented as Classic Management's customers and operations are located in Macau.

Information about major customers

Included in turnover arising from gaming services operation of HK$199,460,000, HK$659,773,000 and HK$867,536,000 in the Relevant Years which arose from sales to single customers.

7. TURNOVER

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Service income from VIP gaming operations	134,787	351,015	307,178
Service income from mass table gaming operations	62,240	302,681	548,390
Service income from slot machine operations	2,433	6,077	11,968
	199,460	659,773	867,536

8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Auditors' remuneration	105	119	124
Depreciation of property, plant and equipment	3	6	6
Management fee expense	134,976	444,709	285,523
Promotional incentive	–	–	141,774
Staff costs (including directors' remuneration)			
– Salaries and other benefits	–	–	–
– Retirement benefits scheme contributions	–	–	–

9. TAXATION CHARGE

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Taxation charge	–	–	4

Classic Management is subject to Macau Complementary Tax from 9% to 12% for the Relevant Years.

No Macau Complementary Tax has been provided in the Relevant Years as assessable profit for the Relevant Years were set off against the tax losses brought forward from previous years and exempt for tax liability up to the limit of MOP200,000.

The tax charge for the Relevant Years can be reconciled to the profit per the statement of comprehensive income as follows:

	2009	2010	2011
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	37	140	238
Tax at Macau Complementary Tax rate (2009, 2010 and 2011: 12%)	4	17	29
Tax effect of:			
Utilisation of tax losses previously not recognised	–	–	(1)
Exemption for tax liability in Macau Complementary Tax	(4)	(17)	(24)
Tax charge for the Relevant Years	–	–	4

10. DIVIDENDS

The directors of Classic Management do not recommend the payment of any dividends for the Relevant Years.

11. EMPLOYEE BENEFIT EXPENSES

(a) Directors' emoluments

The emoluments of directors, on a named basis for the Relevant Years are set out below:

For the Relevant Year:

	Fees	**Salaries and other allowance**	**Retirement benefit scheme contribution**	**Total**
	HK'000	*HK'000*	*HK$'000*	*HK$'000*
Heung Wah Keung	–	–	–	–
Chen Ming Yin, Tiffany	–	–	–	–
Wong Hoi Ping	–	–	–	–
Li Chi Keung	–	–	–	–
Tam Chan Sing, Joseph	–	–	–	–
	–	–	–	–

Note: All directors of Classic Management were appointed on 28 July 2009.

During the Relevant Years, no emoluments were paid by Classic Management to the directors of Classic Management as an inducement to join or upon joining Classic Management or as compensation for loss of office. None of the directors of Classic Management has waived any emoluments during the Relevant Years.

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment *HK$'000*
Cost	
At 28 July 2009	–
Additions	31
At 31 December 2009, 31 December 2010 and 31 December 2011	31
Accumulated depreciation	
At 28 July 2009	–
Charge for the year	3
At 31 December 2009	3
Charge for the year	6
At 31 December 2010	9
Charge for the year	6
At 31 December 2011	15
Carrying amount	
At 31 December 2009	28
At 31 December 2010	22
At 31 December 2011	16

13. TRADE RECEIVABLES

Classic Management's trade receivables arose from gaming services operation for the Relevant Years.

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables from:			
gaming services operation	56,246	53,253	85,661

The following is an aging analysis of trade receivables, presented based on the invoice date:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	56,246	53,253	85,661

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

In determining the recoverability of trade receivables, the directors of Classic Management consider any change in the credit quality of the trade receivables from the date credit were initially granted up to the end of the Relevant Years.

14. AMOUNTS DUE FROM/(TO) IMMEDIATE HOLDING COMPANIES

(a) Amount due from immediate holding company

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Hotel Lan Kwai Fong (Macau) Limited	–	–	23,211

At 31 December 2011, the maximum amount outstanding from Hotel Lan Kwai Fong (Macau) Limited is approximately HK$334,494,000.

(b) Amount due from a shareholder

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Charm Faith Holdings Limited	1	1	1

For the Relevant Years, the maximum amount outstanding from Charm Faith Holdings Limited is approximately HK$1,000.

(c) Amount due to immediate holding company

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Hotel Lan Kwai Fong (Macau) Limited	40,189	42,169	–

For the Relevant Years, amounts due from/(to) immediate holding company/a shareholder are unsecured, interest-free, receivable and repayable on demand.

15. CASH AND BANK BALANCES

Bank balance carry interest at floating rates based on daily bank deposit rates and placed with creditworthy banks with no recent history of default. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of Classic Management, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and bank balances approximate to their fair values.

For the purpose of the statement of cash flows, cash and bank balances include cash on hand and at banks. Cash and bank balances at the Relevant Years as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Cash and bank balances	1,388	863	2,323

16. SHARE CAPITAL

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Registered of quota capital	97	97	97

17. TRADE PAYABLES

Classic Management's trade payables arose from gaming services operation for the Relevant Years.

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables from:			
gaming services operation	17,340	11,696	110,700

The aging analysis of the trade payables is as follow:

	2009	**2010**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	17,340	11,696	110,700

18. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, during the Relevant Years, Classic Management had entered into the following material related party transactions:

(a) The amount due from/(to) immediate holding company/a shareholder at the end of the Relevant Years is set out on Notes 14 to the Financial Information.

(b) During the Relevant Years, Classic Management entered into the following significant transactions with related parties which are carried out on normal commercial terms and in the normal course of Classic Management's business:

Nature of related parties relationship	Nature of transactions	2009	2010	2011
		HK$'000	*HK$'000*	*HK$'000*
Immediate holding company	Management fee expenses	71,438	280,227	273,813

19. EVENTS AFTER THE REPORTING PERIOD

(a) On 11 January 2012, Exceptional Gain Profits Limited ("Exceptional Gain") entered into agreements with SJM-Investment Limited to purchase, 1% equity interest of the issued quotas in Hotel Lan Kwai Fong (Macau) Limited and 1 % equity interest in the issued share capital of Charm Faith Holdings Limited, a company beneficially owned 1% of the issued quotas of Classic Management, at a total consideration of approximately HK$13,000,000. The agreements were completed on 31 January 2012 and Exceptional Gain become interested in 51% equity interest in Hotel Lan Kwai Fong (Macau) Limited, Charm Faith Holdings Limited and Classic Management. Details of the transaction are set out in the Company's announcement dated 11 January 2012; and

(b) Apart from the Acquisition, no significant events took place to the Relevant Years.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Classic Management in respect of any period subsequent to 31 December 2011 and up to the date of this report. In addition, no dividends or other distributions have been declared, made or paid by Classic Management in respect of any period subsequent to 31 December 2011.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

INDEBTEDNESS OF THE ENLARGED GROUP

Indebtedness

As at the close of business on 30 April 2012, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$826,745,000 which comprised of (i) bank borrowing of HK$453,114,000 in which HK$437,500,000 are secured by the leasehold land and buildings of the Enlarged Group, bank deposits and quota capital of a subsidiary in Macau; (ii) amount due to a non-controlling interest of approximately HK$24,000 which are unsecured, interest-free and repayable on demand; (iii) amount due to an associate of approximately HK$34,141,000 which is unsecured, interest-free and repayable on demand; (iv) obligation under finance lease of approximately HK$253,000; and (v) the liability component of the convertible bonds of approximately HK$339,213,000.

Contingent liabilities

As at 30 April 2012, the Company provided a corporate guarantee for securing general banking facilities granted by a bank to a subsidiary of the Company to the extent of HK$563,000,000, the Enlarged Group had no other material contingent liabilities.

Disclaimer

Save as referred to as above and apart from intra-group liabilities, the Enlarged Group did not have, as at 30 April 2012, any debt securities issued and outstanding or authorised or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors are of the opinion that, taking into account (i) the internal resources available to the Enlarged Group; (ii) the payment of the consideration in connection with the Acquisition; and (iii) the presently available banking and other facilities, and in the absence of unforeseeable circumstances, the Enlarged Group will have sufficient working capital for its present requirement for at least twelve months from the date of this circular.

MATERIAL CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date of which the latest published audited financial statements of the Company were made up.

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of China Star Entertainment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") (the "Unaudited Pro Forma Financial Information") have been prepared to illustrate the effect of the proposed acquisition (the "Acquisition") of entire equity interests in Most Famous Enterprises Limited ("Most Famous"), which principal assets of it is 49% equity interests in Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF") and Charm Faith Holdings Limited ("Charm Faith") and indirectly hold 49% equity interests in Classic Management & Services Company Limited ("Classic Management") (collectively referred to as the "Target Companies") might have affected the financial information of the Group after completion on acquisition of 1% equity interest in Hotel LKF, Charm Faith and indirectly 1% equity interest in Classic Management from SJM-Investment Limited ("SJM-I") by the Company. The Group immediately after the completion of the Acquisition is referred to as the "Enlarged Group".

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared on the assumption that the Acquisition has been completed on 31 December 2011 in the case of the unaudited pro forma consolidated statement of financial position, and on 1 January 2011 in the case of the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is based on certain assumption, estimates, uncertainties and other currently available financial information, and is provided for illustrative purposes only because of its hypothetical nature, it may not give a true picture of the actual financial position and financial results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in the annual report of the Company for the year ended 31 December 2011 and other financial information included elsewhere in this circular.

(A) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming that the Acquisition has been completed on 31 December 2011. The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the consolidated financial statements of the Group for the year ended 31 December 2011, which has been extracted from the annual report of the Group for the year ended 31 December 2011 and acquisition of (a) 1% equity interests in Hotel LKF and Charm Faith and indirectly 1% equity interests in Classic Management from SJM-I and (b) 49% equity interests in Hotel LKF and Charm Faith and indirectly 49% equity interests in Classic Management from Mr. Heung Wah Keung ("Mr. Heung") who is a sole shareholder of Most Famous and Mr. Heung also is an executive director and substantial shareholder of the Enlarged Group. Such information is adjusted to reflect the effect of the Acquisition.

I. Unaudited pro forma consolidated statement of financial position

	The Group at 31 December 2011	**Pro forma adjustments**		**The Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(note 1)	*(note 2)*	
Non-current assets				
Property, plant and equipment	637,702			637,702
Interests in leasehold land	507,359			507,359
Goodwill	3,030			3,030
Intangible assets	100,729			100,729
Interests in jointly controlled entities	28,656			28,656
Interests in associates	7,977			7,977
	1,285,453			1,285,453

	The Group at 31 December 2011	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(note 1)	*(note 2)*	
Current assets				
Inventories	38,639			38,639
Stock of properties	550,312			550,312
Film rights	19,761			19,761
Films in progress	3,150			3,150
Trade receivables	143,008			143,008
Deposits, prepayments and other receivables	396,386		(335,000)	61,386
Held for trading investments	50,797			50,797
Amounts due from associates	16,854			16,854
Prepaid tax	86			86
Cash and bank balances	903,094	(13,000)	(285,000)	605,094
	2,122,087			1,489,087
Total assets	3,407,540			2,774,540
Capital and reserves				
Share capital	19,647			19,647
Reserves	1,948,945	(6,873)	(319,784)	1,622,288
Equity attributable to owners of the Company	1,968,592			1,641,935
Non-controlling interests	306,317	(6,127)	(300,216)	(26)
Total equity	2,274,909			1,641,909

	The Group at 31 December 2011	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(note 1)	*(note 2)*	
Non-current liabilities				
Bank borrowings	400,000			400,000
Obligation under finance lease	153			153
Convertible bonds	339,187			339,187
Deferred tax liabilities	84,253			84,253
	823,593			823,593
Current liabilities				
Bank borrowings	66,674			66,674
Obligation under finance lease	128			128
Trade payables	139,080			139,080
Deposits received, accruals and other payables	68,244			68,244
Tax payables	4			4
Amount due to an associate	34,906			34,906
Amounts due-to non-controlling interests	2			2
	309,038			309,038
Total liabilities	1,132,631			1,132,631
Total equity and liabilities	3,407,540			2,774,540
Net current assets	1,813,049			1,180,049
Total assets less current liabilities	3,098,502			2,465,502

II. Notes to the unaudited pro forma consolidated statement of financial position

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

   The pro forma adjustment represents the completion of the acquisition of 1% equity interest of Hotel LKF, Charm Faith and indirectly 1% of equity interest in Classic Management from SJM-I.

   As at 31 December 2011, the ultimate holding company of Hotel LKF, Charm Faith and Classic Management is the Company. Therefore, the acquisition was accounted for in accordance with Hong Kong Accounting Standard 27(revised) Consolidated and Separate Financial Statements, paragraph 30 and 31, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent.

   The fair value of the consideration as at 31 December 2011 amounted to approximately HK$13,000,000 for acquisition of 1% equity interest in Hotel LKF, Charm Faith and indirectly 1% of equity interest in Classic Management.

   An amount of approximately HK$6,127,000 was adjusted to reflect the 1% decrease in non-controlling interests, representing less interest in Hotel LKF, Charm Faith and indirectly 1% of equity interest in Classic Management as a result of the completion of the acquisition of 1% as at 31 December 2011.

   An amount of approximately HK$6,873,000 was recognised directly in reserves and attributed to the owners of the Company to represent a difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid, assuming that if acquisition of 1% had been completed as at 31 December 2011.

2. On 15 February 2012, China Star Entertainment (BVI) Limited ("CSBVI") and Mr. Heung entered into a conditional sale and purchase agreement pursuant to which Mr. Heung has conditionally agreed to sell and CSBVI has conditionally agreed to purchase the entire issued share capital of Most Famous and a sale loan amounted to approximately HK$277,420,000 at total consideration of HK$618,000,000. The major assets of Most Famous are its 49% equity interests in Hotel LKF and 49% interest in Charm Faith, and indirectly hold 49% equity interests in Classic Management. As the Company has already owned 51% equity interest in Hotel LKF, Charm Faith and and indirectly 51% equity interests in Classic Management as at the date of this agreement, Most Famous, Hotel LKF, Charm Faith and Classic Management will become wholly owned subsidiaries of the Company upon completion of the Acquisition.

   The pro forma adjustment represents the completion of the Acquisition.

   The principal assets of Most Famous are 49% equity interests in Hotel LKF and Charm Faith and indirectly hold 49% equity interests in Classic Management. As at 31 December 2011, the ultimate holding company of Hotel LKF, Charm Faith and Classic Management is the Company. Therefore, the Acquisition was accounted for in accordance with Hong Kong Accounting Standard 27(revised) Consolidated and Separate Financial Statements, paragraph 30 and 31, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent.

The fair value of the consideration as at 31 December 2011 amounted to HK$618,000,000, which satisfy by an amount of approximately HK$335,000,000 as refund from deposit paid and an amount of approximately HK$283,000,000 cash on hand. All together were for acquisition of 49% equity interest in Hotel LKF, Charm Faith and indirectly hold 49% equity interests in Classic Management.

An amount of approximately HK$300,216,000 was adjusted to reflect the 49% decrease in non-controlling interests, representing nil interest in Hotel LKF, Charm Faith and Classic Management as a result of the completion of the Acquisition as at 31 December 2011.

An amount of approximately HK$317,784,000 was recognised directly in reserves and attributed to the owners of the Company to represent a difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid, assuming that if the Acquisition had been completed as at 31 December 2011.

An amount of approximately HK$2,000,000 was estimated as professional fee and expenses incurred in connection with the Acquisition and included in cash and bank balances and reserves.

(B) Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group

The following is the unaudited pro forma consolidated income statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2011. The unaudited pro forma consolidated income statement of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2011, which has been extracted from the annual report of the Group for the year ended 31 December 2011 and acquisition of (a) 1% equity interests in Hotel LKF and Charm Faith and indirectly 1% equity interests in Classic Management from SJM-I and (b) 49% equity interests in Hotel LKF and Charm Faith and indirectly 49% equity interests in Classic Management from Mr. Heung respectively. Such information is adjusted to reflect the effect of the Acquisition.

I. Unaudited pro forma consolidated income statement

	The Group for the year ended 31 December 2011	**Pro forma adjustments**			**The Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 3)	*(note 4)*	*(note 5)*	
Turnover	1,096,762				1,096,762
Cost of sales	(481,744)				(481,744)
Gross profit	615,018				615,018
Other revenue	18,972				18,972
Other income	1,421				1,421
Administrative expenses	(462,600)	(2,000)			(464,600)
Marketing, selling and distribution expenses	(16,059)				(16,059)
Loss arising on change in fair value of financial assets classified as held for trading	(68,837)				(68,837)
Impairment loss recognised in respect of film rights	(619)				(619)
Impairment loss recognised in respect of films in progress	(15,928)				(15,928)
Impairment loss recognised in respect of intangible assets	(700,085)				(700,085)

	The Group for the year ended 31 December 2011	Pro forma adjustments			The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 3)	*(note 4)*	*(note 5)*	
Loss from operations	(628,717)				(630,717)
Finance costs	(31,456)				(31,456)
Share of losses of associates	(8)				(8)
Share of losses of jointly controlled entities	(1,344)				(1,344)
Loss before tax	(661,525)				(663,525)
Taxation credit	7,419				7,419
Loss for the year	(654,106)				(656,106)
Attributable to:					
Owners of the Company	(683,234)	(2,000)	583	28,580	(656,071)
Non-controlling interests	29,128		(583)	(28,580)	(35)
	(654,106)				(656,106)

II. *Notes to the unaudited pro forma consolidated income statement*

3. The pro forma adjustment represents the estimated professional fee and expenses incurred in connection with the Acquisition amounted to approximately HK$2,000,000. The adjustment has no continuing financial effect.

4. The pro forma adjustment represents the exclusion amounted to approximately HK$583,000 of share 1% result of Hotel LKF, Charm Faith and indirectly 1% equity interest in Classic Management from non-controlling interests, assuming that if this acquisition had been completed on 1 January 2011.

5. The pro forma adjustment represents the exclusion amounted to approximately HK$28,580,000 of share 49% result of Hotel LKF, Charm Faith and indirectly 49% equity interest in Classic Management from non-controlling interests, assuming that if the Acquisition had been completed on 1 January 2011.

(C) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

The following is the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2011. The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2011, which has been extracted from the annual report of the Group for the year ended 31 December 2011 and acquisition of (a) 1% equity interests in Hotel LKF and Charm Faith and indirectly 1% equity interests in Classic Management from SJM-I and (b) 49% equity interests in Hotel LKF and Charm Faith and indirectly 49% equity interests in Classic Management from Mr. Heung. Such information is adjusted to reflect the effect of the Acquisition.

I. Unaudited pro forma consolidated statement of comprehensive income

	The Group for the year ended 31 December 2011	**Pro forma adjustments**			**The Enlarged Group**
	HK$'000	*HK$'000* *(note 3)*	*HK$'000* *(note 4)*	*HK$'000* *(note 5)*	*HK$'000*
Loss for the year	(654,106)	(2,000)			(656,106)
Other comprehensive income					
Exchange differences arising on translation of foreign operations	16				16
Reclassification adjustments relating to foreign operations disposed during the year	24				24
Other comprehensive income for the year	40				40
Total comprehensive loss for the year	(654,066)				(656,066)
Attributable to:					
Owners of the Company	(683,196)	(2,000)	583	28,580	(656,033)
Non-controlling interests	29,130		(583)	(28,580)	(33)
	(654,066)				(656,066)

II. Notes to the unaudited pro forma consolidated statement of comprehensive income

3. The pro forma adjustment represents the estimated professional fee and expenses incurred in connection with the Acquisition amounted to approximately HK$2,000,000. The adjustment has no continuing financial effect.

4. The pro forma adjustment represents the exclusion amounted to approximately HK$583,000 of share 1% result of Hotel LKF, Charm Faith and indirectly 1% equity interest in Classic Management from non-controlling interests, assuming that if this acquisition had been completed on 1 January 2011.

5. The pro forma adjustment represents the exclusion amounted to approximately HK$28,580,000 of share 49% result of Hotel LKF, Charm Faith and indirectly 49% equity interest in Classic Management from non-controlling interests, assuming that if the Acquisition had been completed on 1 January 2011.

(D) Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

The following is the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2011. The unaudited pro forma consolidated statement of cash flows of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2011, which has been extracted from the annual report of the Group for the year ended 31 December 2011 and acquisition of (a) 1% equity interests in Hotel LKF and Charm Faith and indirectly 1% equity interests in Classic Management from SJM-I and (b) 49% equity interests in Hotel LKF and Charm Faith and indirectly 49% equity interests in Classic Management from Mr. Heung. Such information is adjusted to reflect the effect of the Acquisition.

I. Unaudited pro forma consolidated statement of cash flows

	The Group for the year ended 31 December 2011	**Pro forma adjustments**				**The Enlarged Group**
	HK$'000	*HK$'000* *(note 6)*	*HK$'000* *(note 7)*	*HK$'000* *(note 8)*	*HK$'000* *(note 9)*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax	(661,525)	(2,000)				(663,525)
Adjustments for:						
Interest expenses	31,456					31,456
Interest income	(6,783)					(6,783)
Amortisation of intangible assets	217					217
Depreciation and amortisation of property, plant and equipment and leasehold land	126,966					126,966
Loss on disposal of financial assets classified as held for trading	2,490					2,490
Loss arising on change in fair value of financial assets classified as held for trading	66,347					66,347
Impairment loss recognised in respect of trade receivables	394					394
Impairment loss recognised in respect of film rights	619					619
Impairment loss recognised in respect of films in progress	15,928					15,928
Impairment loss recognised in respect of intangible assets	700,085					700,085
Loss on disposal of property, plant and equipment	265					265
Loss on derecognition of a subsidiary	24					24
Share of losses of associates	8					8
Share of losses of jointly controlled entities	1,344					1,344

	The Group for the year ended 31 December 2011	Pro forma adjustments				The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 6)	*(note 7)*	*(note 8)*	*(note 9)*	
Operating cash flows before movements in working capital	277,835					275,835
Increase in stock of properties	(550,312)					(550,312)
Decrease in inventories	3,309					3,309
Decrease in film rights	941					941
Increase in films in progress	(40)					(40)
Increase in trade receivables	(71,470)					(71,470)
Decrease in deposits, prepayments and other receivables	4,942					4,942
Increase in amounts due from associates	(3,140)					(3,140)
Increase in trade payables	104,431					104,431
Decrease in deposits received, accruals and other payables	(14,658)					(14,658)
Increase in amount due to an associate	9,140					9,140
Decrease in amounts due to non-controlling interests	(65,520)					(65,520)
Cash used in operations	(304,542)					(306,542)
Tax refund	152					152
Net cash used in operating activities	(304,390)					(306,390)

	The Group for the year ended 31 December 2011	Pro forma adjustments				The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 6)	*(note 7)*	*(note 8)*	*(note 9)*	
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	6,783					6,783
Acquisition of interests in associates	(8)					(8)
Acquisition of jointly controlled entities	(30,000)					(30,000)
Acquisition of additional equity interests in subsidiaries	–		(13,000)	(618,000)		(631,000)
Acquisition of subsidiaries (net cash and cash equivalent)	(28,086)					(28,086)
Refund of deposit for investment	55,000			335,000		390,000
Proceeds from disposal of financial assets classified as held for trading	7,919					7,919
Purchase of financial assets classified as held for trading	(33,503)					(33,503)
Purchase of property, plant and equipment and leasehold land	(10,627)					(10,627)
Repayment from associates	8					8
Net cash used in investing activities	(32,514)					(328,514)

	The Group for the year ended 31 December 2011	Pro forma adjustments				The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 6)	*(note 7)*	*(note 8)*	*(note 9)*	
CASH FLOWS FROM FINANCING ACTIVITIES						
Interest paid	(16,843)					(16,843)
Dividend paid	(64,836)					(64,836)
Issue of convertible bonds	350,000					350,000
New obligation under finance lease	73					73
Proceeds from issue of shares	368,385					368,385
Proceeds from exercise of warrants	2					2
Proceeds from placement of shares	40,450					40,450
Proceeds from exercise of share options	1					1
Repayment of obligation under finance lease	(141)					(141)
Repayment of bank loans	(58,144)					(58,144)
Share issuing expenses	(4,792)					(4,792)
Net cash generated from financing activities	614,155					614,155
Increase/(decrease) in cash and cash equivalents	277,251					(20,749)
Cash and cash equivalents at the beginning of the year	625,827		(13,000)	(283,000)	296,000	625,827
Effect of foreign exchange rate changes	16					16
Cash and cash equivalents at the end of the year	903,094					605,094

II. Notes to the unaudited pro forma consolidated statement of cash flows

6. The pro forma adjustment represents the estimated professional fee and expenses incurred in connection with the Acquisition amounted to approximately HK$2,000,000. The adjustment has no continuing financial effect.

7. The pro forma adjustment represents the effect on the completion of the acquisition of 1% equity interest in Hotel LKF, Charm Faith and indirectly 1% equity interest in Classic Management from SJM-I, of which the fair value of the consideration as at 31 December 2011 amounted to approximately HK$13,000,000, assuming that if this acquisition had been completed on 1 January 2011.

8. The pro forma adjustment represents the effect on the completion of the Acquisition, of which the fair value of the consideration as at 31 December 2011 amounted to HK$618,000,000, assuming that if the Acquisition had been completed on 1 January 2011. The adjustment has no continuing financial effect.

   Part of the consideration of HK$618,000,000 was satisfy by an amount of HK$335,000,000, being refund of deposit from Ms. Chen Ming Yin, Tiffany.

9. For the purpose of unaudited pro forma consolidated statement of cash flows, pro forma adjustment for the cash outflow for the Acquisition if the Acquisition had been completed on 1 January 2011:

	HK$'000
Cash consideration paid for acquisition of 1% equity interest in Hotel LKF, Charm Faith and indirectly 1% equity interest in Classic Management from SJM-I and the Acquisition	(631,000)
Deposit paid for investment	335,000
	(296,000)

The following is the text of the report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 June 2012

The Directors
China Star Entertainment Limited
Unit 3409, Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Star Entertainment Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), and Most Famous Enterprises Limited ("Most Famous") (together with the Group hereinafter referred to as the "Enlarged Group") set out in Appendix IV on pages 162 to 176 of the circular dated 27 June 2012 (the "Circular") under the headings of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in connection with the proposed acquisition of the entire equity interests in Most Famous (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition, which will result in the formation of the Enlarged Group, might have affected the relevant financial information presented for inclusion in Appendix IV of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 162 of this Circular.

Respective responsibilities of the directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions made by the directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Enlarged Group as at 31 December 2011 or any future date; or

– the results and cash flows of the Enlarged Group for the year ended 31 December 2011 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of the letter and valuation certificate received from DTZ Debenham Tie Leung Limited in connection with its opinion of the market value of the Properties held by Hotel Lan Kwai Fong (Macau) Limited in Macau as at 30 April 2012 prepared for the purpose of incorporation in this circular.

Room 1601, 16th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

27 June 2012

The Directors
China Star Entertainment Limited
Unit 3409, Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We refer to your instructions for us to carry out market valuations of the properties which are held by Hotel Lan Kwai Fong (Macua) Limited, which is a 51% owned subsidiary of China Star Entertainment Limited (the "Company") in Macau. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the properties as at 30 April 2012 (the "date of valuation").

Our valuation of each property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

We have valued the properties on market value basis by making reference to comparable sales transactions as available in the relevant market and where appropriate by capitalising the rental income derived from the existing tenancies with due provision for any reversionary income potential of the properties.

In valuing the properties, we have complied with the requirement set out in Chapter 5 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of properties, particulars of occupancy, floor areas, floor plans, trading accounts, number of guest rooms and all other relevant matters. Dimensions and measurements are based on the copies of documents or other information provided to us by the Company and are therefore only approximations. No on-site measurement has been carried out.

We have not been provided with copies of the title documents relating to the properties but have caused searches to be made at the Land Registry in Macau. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

We have inspected the exterior of the properties. However, no structural survey has been made and we are unable to report on their structural conditions. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services.

Unless otherwise stated, all sums stated in our valuations are in Hong Kong Dollars. The exchange rate adopted in our valuations for the properties is approximately HK$1=MOP1.03 which was the approximate exchange rate prevailing as at the date of valuation.

We enclose herewith a summary of valuations and our valuation certificates for your attention.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
K. B. Wong
MHKIS, MRICS, RPS (GP)
Senior Director

Note: Mr. K.B. Wong is a Registered Professional Surveyor who has over 25 years' experience in valuation of properties in Hong Kong and Macau.

Summary of Valuations

	Property	Capital value in existing state as at 30 April 2012 *HK$*
1.	"Hotel Lan Kwai Fong, Macau", Rua de Luis Gonzaga Gomes No. 176-230, Rua de Nagasaki No. 64-A-82 and Rua de Xiamen No. 37-A-59, Macau.	1,330,000,000
2.	Units D and E on 3rd Floor of Block 5, Rua do Canal Novo No. 97, Units A, B, C, D, E, F, G and H on 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Rua Nova da Areia Preta No. 170, Edificio Kin Wa, Macau.	24,000,000
	Total:	1,354,000,000

Valuation Certificate

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012
1.	"Hotel Lan Kwai Fong, Macau", Rua de Luis Gonzaga Gomes No. 176-230, Rua de Nagasaki No. 64-A-82 and Rua de Xiamen No. 37-A-59, Macau.	The property comprises an 18-storey hotel block plus a carport basement. The property was completed in about 1992 and was renovated in August 2009. It was erected on a rectangular piece of land with a registered site area of approximately 4,504 sq.m. (48,481 sq.ft.). The accommodation of the subject hotel is as follows:– **Floor** — **Accommodation** Basement — 34 car parking spaces and back of house facilities. Ground — Hotel entrance and commercial areas. 1st — Commercial areas. 2nd — Commercial areas. 3rd — Hotel reception lobby, front desk, restaurants, cafe and lounge. 4th — Restaurant and kitchens. 5th — Hotel office and back of house facilities. 6th to 17th (no 14/F) — 209 hotel guest rooms. 18th — Commercial areas.	As at the date of valuation, the property was operated as a hotel. Portion of the property with a total floor area of approximately 1,503.34 sq.m. (16,182 sq.ft.) was let on various tenancies with the latest term due to expire in August 2018 at a total monthly rent of about HK$420,000.	HK$1,330,000,000

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012
1.		The total gross floor area of the property is approximately 25,299.7 sq.m. (272,326 sq.ft.) (inclusive of area of basement). The property is held under a lease from the Macau Government for the residue of a term of 25 years from 13 October 1989. In undertaking our valuation, we have assumed that the lease will be renewed in accordance with the prevailing government policy for successive terms of 10 years till 19 December 2049.	–	–

Notes:

(1) The registered owner of the property is Hotel Lan Kwai Fong (Macau), Limitada.

(2) The property is subject to a "Hipoteca Voluntaria" ("Legal Mortgage") and a "Consignacao de Rendimentos" ("Assignment of Rentals and Receivables") both in favour of Banco Industrial E Commercial da China (Macau), S.A..

Valuation Certificate

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012
2.	Units D and E on 3rd Floor of Block 5, Rua do Canal Novo No. 97, Units A, B, C, D, E, F, G and H on 3rd Floor and Units A, B, C, D, F and H on 4th Floor of Block 7, Rua Nova da Areia Preta No. 170, Edificio Kin Wa, Macau.	The property comprises a total of 16 domestic units in two 15-storey residential buildings which are erected upon a 3-level commercial and car parking podium completed in about 1991. The total saleable area of the property is approximately 859.66 sq.m. (9,253 sq.ft.). The property is held under a lease from the Macau Government for the residue of a term of 10 years from 13 March 2011. In undertaking our valuation, we have assumed that the lease will be renewed in accordance with the prevailing government policy for successive terms of 10 years till 19 December 2049.	As at the date of valuation, the property was occupied by the Company as staff quarters.	HK$24,000,000

Notes:

(1) The registered owner of the property is Hotel Lan Kwai Fong (Macau), Limitada.

(2) The property is subject to a "Hipoteca Voluntaria" ("Legal Mortgage") and a "Consignacao de Rendimentos" ("Assignment of Rentals and Receivables") both in favour of Banco Industrial E Commercial da China (Macau), S.A..

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests in the Company

As at the Latest Practicable Date, the interests of the Directors in the Shares and the underlying Shares and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of interest held
Mr. Heung Wah Keung	Beneficial owner/ interest of spouse/ interest of controlled corporation	898,699,702 *(Note a)*	211,117,747 *(Note b)*	1,109,817,449	54.74
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	898,699,702 *(Note a)*	211,117,747 *(Note b)*	1,109,817,449	54.74
Ms. Li Yuk Sheung	Beneficial owner	–	15,684	15,684	0.00

All interests stated above represent long positions.

Notes:

(a) These Shares are held as to 898,686,000 Shares by Heung Wah Keung Family Endowment Limited which is owned as to 50% by Ms. Chen and as to 50% by Mr. Heung and as to 13,702 Shares by Dorest Company Limited (a company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung).

(b) These underlying Shares comprised (i) outstanding options of the Company which are held as to 1,567 options by Mr. Heung and as to 1,567 options by Ms. Chen (the spouse of Mr. Heung). Therefore, Mr. Heung and Ms. Chen are deemed to be interested in the options of each other; and (ii) HK$43,700,725 warrants convertible into 211,114,613 Shares at an adjusted subscription price of HK$0.207 per Share held by Heung Wah Keung Family Endowment Limited.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

(b) Directors' interests in assets of the Company

Save for the interest of Mr. Heung and his associates in the Sale and Purchase Agreement, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Group.

Save for Mr. Heung and his associates, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up.

(c) Directors' Service Contracts

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Number of Shares or underlying Shares held	Approximate % of interest held
Eternity Investment Limited	Beneficial owner/ Interests of controlled corporation	1,970,349,582	97.19
Riche (BVI) Limited	Interests of controlled corporation	1,288,531,400	63.56
Heung Wah Keung Family Endowment Limited	Beneficial owner	1,109,800,613	54.74
Eternity Finance Group Limited (formerly known as Wingo Consultants Limited)	Beneficial owner	972,222,222	47.96
Simple View Investment Limited	Beneficial owner	248,309,178	12.25

All interests stated above represent long positions.

Other than disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or any persons (other than the Directors and chief executive of the Company) who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the right to vote in all circumstance at general meeting of any member of the Group.

4. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular:

(i) the warrant instrument dated 15 June 2010 signed by the Company relating to the issue of warrant on the basis of one warrant for every five Shares held at 8 June 2010 at an initial subscription price of HK$0.193 per Share;

(ii) the underwriting agreement dated 8 July 2010 entered into between the Company and Kingston Securities Limited relating to the issue of not less than 1,444,643,184 rights Shares and not more than 1,925,410,126 rights Shares at a subscription price of HK$0.10 each on the basis of one rights Share for every two existing Shares held on 20 July 2010;

(iii) a joint venture agreement dated 8 December 2010 entered into between China Star Entertainment (BVI) Limited, a wholly-owned subsidiary of the Company, KH Investment Holdings Limited and China Star Film Group Limited (formerly known as Zhou Zhou Company Limited) relating to formation of a joint venture company which is engaged in production and distribution of films at a total capital contribution of HK$60 million;

(iv) the conditional agreement dated 23 December 2010 entered into between Triumph Top Limited, an wholly owned subsidiary of the Company, and Sociedade de Turismo e Diversoes de Macau, S.A. relating to the sale and purchase of the property leasehold right hold by the Vendor under the leasehold of the sites granted by the Macau Government;

(v) the conditional placing agreement dated 14 January 2011 entered into between the Company and Kingston Securities Limited in relation to a placing of up to 577,855,000 new Shares on a best effort basis at a price of HK$0.07 per Share;

(vi) the conditional subscription agreement dated 21 January 2011 (as supplemented by supplemental agreement dated 28 March 2011) entered into between the Company and Eternity, pursuant to which the Company has conditionally agreed to issue and Eternity has conditionally agreed to subscribe or procure subscription for convertible bonds in the maximum principal amount of HK$650 million in two tranches at their face value;

(vii) the underwriting agreement dated 29 March 2011 (as supplemented by the supplemental agreement dated 18 April 2011) entered into between the Company, Mansion House Securities (F.E.) Limited and Heung Wah Keung Family Endowment Limited relating to the the issue of the rights Shares by way of rights issue on the basis of three rights Shares for every one Share held at the record date at the subscription price of HK$0.25 per rights Share, with bonus warrants on the basis of one bonus warrant for every five rights Shares taken up, details of which are set out in the announcement of the Company dated 18 April 2011;

(viii) the conditional sale and purchase agreement dated 19 October 2011 entered into between the China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company, and Well Gain (Asia) Limited relating to the acquisition of the entire issued share capital of the NPH Holdings Limited at a total consideration of HK$50,000,000;

(ix) the conditional sale and purchase agreement dated 11 January 2012 entered into between the Exceptional Gain Profits Limited, a wholly owned subsidiary of the Company, and SJM – Investimentos Limitada relating to the acquisition of 1% equity interest of the issued quotas of Lan Kwai Fong (Macau) and 1% equity interest in the issued share capital of Charm Faith at a total consideration of approximately HK$13,000,000;

(x) the deed of termination dated 15 February 2012 entered into between Bestjump Holdings Limited and Ms. Chen relation to the termination of the a conditional sale and purchase agreement entered into between Bestjump Holdings Limited and Ms. Chen dated 29 April 2009 relating to the termination of the proposed acquisition of the entire issued share capital of Modern Vision (Asia) Limited and Reform Base Holdings Limited; and

(xi) the Sale and Purchase Agreement.

6. MISCELLANEOUS

(i) The secretary and the qualified accountant of the Company is Ms. Wong Shuk Han, Dorothy. Ms. Wong is a member of the Hong Kong Institute of Certified Public Accountants.

(ii) The business address of all Directors is Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

(iii) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The head office and principal place of business is located at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal transfer office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.

(iv) The Hong Kong branch share registrar and transfer office of the Company are Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(v) As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Enlarged Group or have or may have any other conflicts of interest with the Enlarged Group pursuant to the Listing Rules.

(vi) The English text of this circular shall prevail over the Chinese text.

7. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Donvex Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
DTZ Debenham Tie Leung Limited	Independent Professional Valuer

Each of Donvex Capital Limited, HLB Hodgson Impey Cheng and DTZ Debenham Tie Leung Limited is not beneficially interested in the share capital of any member of the Enlarged Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

Each of Donvex Capital Limited, HLB Hodgson Impey Cheng and DTZ Debenham Tie Leung Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Donvex Capital Limited, HLB Hodgson Impey Cheng and DTZ Debenham Tie Leung Limited were not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to an member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2011, being the date to which the latest published audited accounts of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM:

(a) the Memorandum of Association and Bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" to this Appendix;

(c) the service contracts, if any, referred to in the paragraph headed "Directors' Service Contracts" to this Appendix;

(d) the annual reports of the Company for each of the two financial years ended 31 December 2010 and 2011;

(e) the accountants' reports of the Target Company, Lan Kwai Fong (Macau), Charm Faith and Classic Management, the text of which is set out on pages 56 to 160 to this circular;

(f) the unaudited pro forma financial information of the Group, the text of which is set out on pages 162 to 179 to this circular;

(g) all circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules which have been issued since 31 December 2011 (being the date to which the latest published audited consolidated financial statements of the Company was made up);

(h) the letter from the Independent Board Committee, the text of which is set out on page 17 to this circular;

(i) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 18 to 29 to this circular;

(j) the valuation report on the properties held by Lan Kwai Fang (Macau), the text of which is set out in Appendix V to this circular;

(k) the written consents of the experts referred to in the section headed "Expert and Consent" in this appendix; and

(l) this circular.

中国星

CHINA STAR ENTERTAINMENT GROUP

CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 326)
(Warrant Code: 1056)

NOTICE IS HEREBY GIVEN that the special general meeting of China Star Entertainment Limited (the "Company") will be held at Macau Jockey Club, 1/F Function Room, 1st Floor China Merchants Tower, Shun Tak Centre 168-200 Connaught Road Central, Hong Kong on Monday, 16 July 2012 at 11:30 a.m. for the purpose of consideration and, if thought fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional sale and purchase agreement (the "Sale and Purchase Agreement") dated 15 February 2012 and entered into between China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company and Mr. Heung Wah Keung, a copy of which has been produced to this meeting marked "A" and initialed by the chairman of this meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company be and is hereby authorised to do all other acts and things and execute all documents which he/she considers necessary or expedient for the implementation of and giving effect to the Sale and Purchase Agreement and the transactions contemplated respectively thereunder."

By Order of the Board
China Star Entertainment Limited
Heung Wah Keung
Chairman

Hong Kong, 27 June 2012

Registered office:	*Head office and principal place of business in Hong Kong:*
Canon's Court	Unit 3409, Shun Tak Centre, West Tower,
22 Victoria Street	168-200 Connaught Road Central, Hong Kong
Hamilton HM12	
Bermuda	

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.

5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.

6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.