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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2013

The board of directors (the “Board”) of China Star Entertainment Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2013 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2013

	<i>Notes</i>	Six months ended 30th June	
		2013	2012
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	4	713,130	593,521
Cost of sales		(346,461)	(286,404)
Gross profit		366,669	307,117
Other revenue	5	5,066	12,700
Other income	6	1,137	173
Administrative expenses		(211,660)	(217,035)
Marketing, selling and distribution expenses		(35,072)	(22,823)
Loss arising on change in fair value of investment property		(257)	–
Gain/(loss) arising on change in fair value of financial assets classified as held for trading investments		6,471	(8,188)
Share-based payment expenses		(8,747)	–
Impairment loss recognised in respect of intangible asset	12	(41,036)	(7,300)

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30th June 2013

		Six months ended 30th June	
		2013	2012
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit from operations		82,571	64,644
Finance costs	7	(22,109)	(22,817)
Share of results of jointly controlled entities		33	(2)
		<hr/>	<hr/>
Profit before tax	8	60,495	41,825
Taxation credit	9	294	256
		<hr/>	<hr/>
Profit for the period		60,789	42,081
		<hr/>	<hr/>
Profit for the period attributable to:			
Owners of the Company		61,742	2,691
Non-controlling interests		(953)	39,390
		<hr/>	<hr/>
		60,789	42,081
		<hr/>	<hr/>
Earnings per share			
Basic	10	HK cents 1.15	HK cents 0.05
		<hr/>	<hr/>
Diluted	10	HK cents 0.87	HK cents 0.04
		<hr/>	<hr/>

Details of dividend and distribution are set out in note 11 to the condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME**

For the six months ended 30th June 2013

	Six months ended 30th June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	<u>60,789</u>	<u>42,081</u>
Other comprehensive income		
Exchange differences on transaction of foreign operations		
Exchange differences arising during the period	<u>(18)</u>	<u>(29)</u>
Other comprehensive loss for the period	<u>(18)</u>	<u>(29)</u>
Total comprehensive income for the period	<u>60,771</u>	<u>42,052</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	61,728	2,664
Non-controlling interests	<u>(957)</u>	<u>39,388</u>
	<u>60,771</u>	<u>42,052</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2013

	<i>Notes</i>	At 30th June 2013 <i>HK\$'000</i> (Unaudited)	At 31st December 2012 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		598,541	547,062
Interests in leasehold land		473,059	484,492
Investment property		6,180	–
Goodwill		3,941	3,030
Intangible assets		33,527	75,176
Interests in jointly controlled entities		28,672	28,639
Interests in associates		2,377	2,377
		1,146,297	1,140,776
Current assets			
Inventories		55,373	53,345
Stock of properties		562,888	561,976
Film rights		18,156	18,156
Films in progress		5,760	3,190
Trade receivables	13	124,031	329,937
Deposits, prepayments and other receivables		55,212	42,822
Held for trading investments		43,420	30,189
Amounts due from associates		7,890	21,176
Prepaid tax		169	176
Pledged bank deposits		8,870	–
Cash and cash equivalents		485,368	578,863
		1,367,137	1,639,830
Total assets		2,513,434	2,780,606
Capital and reserves			
Share capital		35,034	16,859
Reserves		1,460,432	1,570,542
Equity attributable to owners of the Company		1,495,466	1,587,401
Non-controlling interests		(7,074)	(191)
Total equity		1,488,392	1,587,210

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

At 30th June 2013

	<i>Notes</i>	At 30th June 2013 HK\$'000 (Unaudited)	At 31st December 2012 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings		325,000	350,000
Amount due to an associate		1,682	–
Obligations under finance leases		28	43
Convertible bonds		342,400	341,231
Deferred tax liabilities		83,420	83,714
		752,530	774,988
Current liabilities			
Bank borrowings		71,377	70,875
Obligations under finance leases		79	111
Trade payables	14	118,579	251,821
Deposits received, accruals and other payables		64,087	75,166
Tax payables		4	4
Amount due to an associate		18,065	20,279
Amount due to non-controlling interests		321	152
		272,512	418,408
Total liabilities		1,025,042	1,193,396
Total equity and liabilities		2,513,434	2,780,606
Net current assets		1,094,625	1,221,422
Total assets less current liabilities		2,240,922	2,362,198

NOTES:

1. BASIS OF PREPARATION

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

The Interim Financial Statements should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2012.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and interpretations described below.

In the current period, the Group has applied, for the first time, the following new and revised standards and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial period beginning from 1st January 2013. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (Revised)	Employee Benefits
HKAS 27 (Revised)	Separate Financial Statements
HKAS 28 (Revised)	Investments in Associates and Joint Ventures
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle Issued in June 2012
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Group has not applied any new and revised HKFRSs that is not yet effective for the current accounting period.

3. SEGMENT INFORMATION

The Group has identified the following operating segments:

- | | |
|-------------------------------------|--|
| Hotel and gaming service operations | – Provision of hotel services, food and beverage operation services, gaming operation services and related gaming promotion business in Hotel Lan Kwai Fong Macau |
| Gaming promotion operations | – Investing in operations which receive profit streams from the gaming promotion business |
| Film distribution operations | – Production and distribution of motion pictures and television drama series and provision of other film related services |
| Property development operations | – Investing and development of properties located in Hong Kong and Macau |
| Nam Pei Hong operations | – Sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailer as well as Chinese clinical services |

Segment information about these businesses is presented as below:

3. SEGMENT INFORMATION (CONTINUED)

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

	Segment revenue		Segment results	
	Six months ended		Six months ended	
	30th June		30th June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hotel and gaming service operations	631,745	521,662	136,630	80,156
Gaming promotion operations	3,688	8,648	(37,949)	1,719
Film distribution operations	311	33	213	(203)
Property development operations	–	–	(1,538)	(33)
Nam Pei Hong operations	77,386	63,178	1,364	(524)
	<u>713,130</u>	<u>593,521</u>	<u>98,720</u>	<u>81,115</u>

Reconciliation from segment results
to profit before tax

Unallocated corporate income		533	2,162
Gain/(loss) arising on change in fair value of financial assets classified as held for trading investments		6,471	(8,188)
Unallocated corporate expenses		(45,229)	(33,264)
Profit before tax		<u>60,495</u>	<u>41,825</u>

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

Segment results represent the profit/(loss) earned/(suffered) by each segment without allocation of central administration costs, partial finance costs, share-based payment expenses and share of losses of jointly controlled entities under the heading of “unallocated corporate expenses”, partial other revenue, partial other income and share of profits of jointly controlled entities under the heading of “unallocated corporate income” and “gain/(loss) arising on change in fair value of financial assets classified as held for trading investments”. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

(b) Geographical information

The Group's turnover from external customers is mainly derived from its operations in Hong Kong and Macau and the Group's non-current assets is mainly located in Macau.

4. TURNOVER

	Six months ended 30th June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Film distribution fee income	311	33
Hotel room income	53,414	42,936
Food and beverage sales	15,878	12,176
Service income from mass table gaming operations	482,711	359,950
Service income from VIP table gaming operations	73,929	98,386
Service income from slot machine operations	5,813	8,214
Receive profit streams from gaming promotion business	3,688	8,648
Sales of health products	77,386	63,178
	<hr/>	<hr/>
	713,130	593,521
	<hr/> <hr/>	<hr/> <hr/>

5. OTHER REVENUE

	Six months ended 30th June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	1,344	4,450
Management fee income	678	1,165
Other ancillary hotel revenue	3,044	7,085
	<hr/>	<hr/>
	5,066	12,700
	<hr/> <hr/>	<hr/> <hr/>

6. OTHER INCOME

	Six months ended 30th June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net foreign exchange gain	181	153
Others	956	20
	<hr/>	<hr/>
	1,137	173
	<hr/> <hr/>	<hr/> <hr/>

7. FINANCE COSTS

	Six months ended 30th June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests on:		
Bank borrowings – wholly repayable within five years	7,040	7,914
Finance leases	15	16
Imputed interest on convertible bonds	15,054	14,881
Other finance cost	–	6
	<u>22,109</u>	<u>22,817</u>

8. PROFIT BEFORE TAX

	Six months ended 30th June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before tax is arrived at after charging/(crediting):		
Amortisation of interests in leasehold land	11,433	11,433
Amortisation of intangible assets	613	613
Cost of inventories sold (included in cost of sales)	55,134	44,788
Depreciation of property, plant and equipment	46,337	52,245
Employee benefit expenses	77,232	65,407
Impairment loss recognised in respect of intangible asset	41,036	7,300
Loss on disposal of property, plant and equipment	86	189
(Gain)/loss arising on change in fair value of financial assets classified as held for trading investments	(6,471)	8,188
Operating lease rental in respect of premises	10,472	7,103
	<u>10,472</u>	<u>7,103</u>

9. TAXATION CREDIT

	Six months ended 30th June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The taxation credit is as follow:		
Current tax:		
PRC Enterprise Income Tax	–	(9)
Deferred tax:		
Current period	294	265
	<u>294</u>	<u>265</u>
	<u><u>294</u></u>	<u><u>256</u></u>

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

No provision for PRC Enterprise Income Tax has been made for the period ended 30th June 2013 as the Group has no assessable profits arising in PRC.

No provision for Hong Kong Profit Tax and Macau Complementary Tax have been made for both periods as the Group has no assessable profits arising in Hong Kong and Macau or assessable profits were exempt for tax liabilities or taxable profits were wholly absorbed by estimated tax losses brought forward.

10. EARNINGS PER SHARE

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

	Six months ended 30th June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	61,742	2,691
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds, net of income tax	15,054	–
	<u>76,796</u>	<u>2,691</u>
Earnings for the purpose of diluted earnings per share	<u>76,796</u>	<u>2,691</u>
Number of shares		
Six months ended 30th June		
	2013	2012
	'000	'000
		(Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,386,450	5,904,878
Effect of dilutive potential ordinary shares:		
Share options	188,420	–
Warrants	–	864,719
Convertible bonds	3,290,223	–
	<u>8,865,093</u>	<u>6,769,597</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>8,865,093</u>	<u>6,769,597</u>

The weighted average number of ordinary shares for the six months ended 30th June 2013 and 30th June 2012 for the purposes of calculating basic and diluted earnings per share have been retrospectively adjusted for the issuance of bonus shares and bonus convertible bonds which took place on 9th January 2013.

10. EARNINGS PER SHARE (CONTINUED)

Pursuant to the deed poll of the bonus convertible bonds, the bonus convertible bonds will confer the holders with the same economic interests attached to the shareholders of the Company. Accordingly, 1,946,549,342 fully paid ordinary share of HK\$0.01 each which shall be convertible from an aggregated amount of approximately HK\$19,465,000 outstanding bonus convertible bonds are included in the weighted average number of ordinary shares for calculating the basic earning per share for the period ended 30th June 2013 and 30th June 2012.

As the Company's outstanding convertible bonds and share options where applicable had an anti-dilutive effect to the basic earnings per share calculation for the prior period, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted earnings per share.

11. DIVIDEND AND DISTRIBUTION

Dividend

No interim dividend was paid or proposed during 2013 and 2012, nor any dividend been proposed by the board of directors subsequent to the end of the reporting period.

Distribution

	Six months ended 30th June	
	2013	2012
	HK\$'000	HK\$'000
Special distribution made out in 2013		
– HK4 cents per share on 3,502,888,015 shares held by shareholders	140,116	–
– HK4 cents per share on 1,947,024,934 new shares to be issued to the holders of bonus convertible bonds	77,880	–
	<u>217,996</u>	<u>–</u>

The special distribution was made out of the contributed surplus account of the Company to the shareholders whose names appear on the Company's register of member on 6th May 2013.

According to the deed poll of the bonus convertible bonds, the holders of the bonus convertible bonds also entitled to the special distribution as if their outstanding bonus convertible bonds had been converted on 6th May 2013.

12. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INTANGIBLE ASSET

As at 30th June 2013, the directors of the Company have assessed the recoverable amount of intangible asset by reference to the valuation report issued by Grant Sherman Appraisal Limited, a firm of independent qualified professional valuers, which valued the rights in sharing of profit streams pursuant to the respective junket representative agreement using the discounted cash flow method and determined that intangible asset associated with it was impaired by approximately HK\$41,036,000 (30th June 2012: HK\$7,300,000).

13. TRADE RECEIVABLES

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

	At 30th June 2013 HK\$'000 (Unaudited)	At 31st December 2012 HK\$'000 (Audited)
0 to 30 days	118,896	326,074
31 to 60 days	2,761	1,138
61 to 90 days	580	702
Over 90 days	1,794	2,023
	<u>124,031</u>	<u>329,937</u>

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

14. TRADE PAYABLES

The following is an aging analysis of trade payables at the end of the reporting period:

	At 30th June 2013 HK\$'000 (Unaudited)	At 31st December 2012 HK\$'000 (Audited)
0 to 30 days	100,864	230,385
31 to 60 days	3,917	5,358
61 to 90 days	1,188	2,659
Over 90 days	12,610	13,419
	<u>118,579</u>	<u>251,821</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30th June 2013, the Group's turnover increased by 20% to approximately HK\$713,130,000 as compared to HK\$593,521,000 for the same period in the previous year.

Profit from operations and profit for the period amounted to approximately HK\$82,571,000 and HK\$60,789,000 respectively as compared to HK\$64,644,000 and HK\$42,081,000 respectively for the last corresponding period. The increase in the current period's profit was mainly attributable to the outstanding operation performance of Hotel Lan Kwai Fong Macau and the effect is partially offset by the impairment loss of HK\$41,036,000 as compared to HK\$7,300,000 for the last corresponding period recognised in respect of the intangible asset in the gaming promotion operations with regard to the sharing of profit streams from investments in gaming and entertainment business in Macau from Best Mind International Inc. ("Best Mind"). Best Mind is a wholly owned subsidiary of the Company and the profit receiving company from Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the leading gaming junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau.

The profit attributable to owners of the Company for the six months ended 30th June 2013 was HK\$61,742,000, representing an increase of 22 times from HK\$2,691,000 for the last corresponding period.

Dividend and Distribution

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2013 (2012: nil).

The Board proposed and paid a special distribution out of the contributed surplus account of the Company of HK4 cents per share to the shareholders and the bonus convertible bonds holders of the Company whose names appear on the registers of member and convertible bonds holders of the Company respectively on 6th May 2013, amounted to an aggregate of HK\$217,996,000.

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) Nam Pei Hong operations.

Of the total turnover amount for the period, HK\$631,745,000 or 88% was generated from hotel and gaming service operations, HK\$3,688,000 or 1% was generated from gaming promotion operations, HK\$311,000 or 0% was generated from film distribution operations, nil or 0% was generated from property development operations and HK\$77,386,000 or 11% was generated from Nam Pei Hong 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”); services provided to the casino situated in Lan Kwai Fong (“Casino LKF”) which was recorded in an indirect subsidiary of the Group, Classic Management & Services Company Limited (“Classic”); and other ancillary services provided in Lan Kwai Fong. Lan Kwai Fong presents a total of 209 guest rooms, casino situated in the ground, first and 18th floors, restaurants, flower shop, retail shop and spa and medical clinic.

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. (“SJM”). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will share certain percentage of service income from SJM based on the gross wins of the mass table gaming, VIP table gaming and slot machines in Casino LKF. As at 30th June 2013, Casino LKF operated a total of 84 gaming tables, targeting both for the VIP market and the mass market. It also operated a total of 123 slot machines.

During the short 3-year period since launching, Lan Kwai Fong has been awarded with several international accolades, which included the “5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China” and the “2012 TripAdvisor Travelers’ Choice – Top 25 Trendiest Hotels in China”. In respect of promoting the notion of environmental protection, Lan Kwai Fong has won the “AHF Asia Awards 2010 – Leading Green Hotel of Asia” and the “Macao Green Hotel Award 2010 – Bronze Award”.

The Group had shared revenue and segment profit of approximately HK\$631,745,000 (2012: HK\$521,662,000) and HK\$136,630,000 (2012: HK\$80,156,000) from the hotel and gaming service operations, an increase of 21% and 70% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel room income of HK\$53,414,000 (2012: HK\$42,936,000), food and beverage sales of HK\$15,878,000 (2012: HK\$12,176,000) and services income received from mass table gaming, VIP table gaming and slot machines of HK\$482,711,000 (2012: HK\$359,950,000), HK\$73,929,000 (2012: HK\$98,386,000) and HK\$5,813,000 (2012: HK\$8,214,000) respectively. This period, the performance of Lan Kwai Fong was also encouraging. Both the revenue and the profit margin from this operation have been improved as a result of effective marketing plan and cost control measures. Mass table gaming operations are more profitable than VIP table gaming operations and thus Casino LKF had spend resources to expand its market share in the mass table gaming operations and targeted the high end customers in the mass table gaming and was continued to be successful during this period. The average monthly revenue from the hotel and gaming service operations increased to approximately HK\$105,291,000 per month from HK\$86,944,000 per month for the same period in the previous year, mainly reflecting 34% increase in monthly service income from mass table gaming to HK\$80,452,000 per month from HK\$59,992,000 per month for the same period in the previous year, which was partly offset by 25% decrease in monthly service income from VIP table gaming to HK\$12,322,000 per month from HK\$16,398,000 per month for the same period in the previous year. Besides, the occupancy rate of Hotel LKF during the period increased by 15% to about 94%.

Gaming Promotion Operations

The Group had shared revenue of approximately HK\$3,688,000 (2012: HK\$8,648,000) and segment loss of HK\$37,949,000 as compared to segment profit of HK\$1,719,000 from the gaming promotion operations for the last corresponding period, a decrease of 57% and 23 times respectively.

Since the end of the last year, the revenue from Ocho in the casino VIP room had apparently decreased. One of the characteristic of the VIP gaming is that the majority of the business volume is highly volatile. Ocho had lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers as they were attracted by other large and well equipped new hotels and casinos in Macau. The decrease in revenue sharing also impact and decreased the expected cash inflow from this operation and thus impairment loss in respect of the intangible asset of HK\$41,036,000 (2012: HK\$7,300,000) was recognised.

Film Distribution Operations

Film distribution operations included production and distribution of motion pictures and television drama series and provision of other film related services. During the six months ended 30th June 2013, the Group did not distributed any new film and new productions are in planning stage. The Group will plan well before engage in any new production.

In the first half of the year 2013, turnover for film distribution operations amounted to HK\$311,000 (2012: HK\$33,000) and its segment profit amounted to HK\$213,000 as compared to segment loss of HK\$203,000 for the last corresponding period.

Property Development Operations

Property development operations included investing and development of properties in Macau and Hong Kong. Development of properties in Macau represented sales of properties located in Macau after the completion of the acquisition of the property leasehold right over Lot 6B, Lot 6C, Lot 6D and Lot 6E, located in Macau at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites"). The Sites will developed into commercial units and residential apartments for sale. The development plan of the Sites is in the process of seeking approval from relevant authority.

During the six months ended 30th June 2013, the Group had completed the acquisition of properties located at the 4th Floor, Cockloft Floor and the Ground Floor of Nos. 1 and 3 Mercer Street, Hong Kong. The Group intended to develop Cockloft Floor and the Ground Floor of Nos. 1 and 3 Mercer Street, Hong Kong as the flagship store of retail chain of Nam Pei Hong in Hong Kong and the 4th Floor will be rent out for investment purpose.

In the first half of the year 2013, the Group had shared no revenue (2012: nil) and segment loss of approximately HK\$1,538,000 (2012: HK\$33,000) from the property development operations.

Nam Pei Hong Operations

Nam Pei Hong 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. One of the Group's subsidiary, Nam Pei Hong Sum Yung Drugs Company Limited has engaged in the business of trading and retail of "Sum Yung" and dried seafood products since 1977 and the brand name of "Nam Pei Hong" is highly recognised in Hong Kong and Southern Mainland China.

The Group had shared revenue of approximately HK\$77,386,000 (2012: HK\$63,178,000) and segment profit of HK\$1,364,000 (net of amortisation of intangible assets in aggregate of HK\$613,000 in respect of trademark and customer relationship) as compared to a segment loss of HK\$524,000 (net of amortisation of intangible assets in aggregate of HK\$613,000 in respect of trademark and customer relationship) from Nam Pei Hong operations, an increase of 22% and 360% respectively.

With self-owned retail shops, Nam Pei Hong can achieved better profit margin with less influence by high rent. In the near future, the Board will continue to seek suitable location of retail shops to expand the business of Nam Pei Hong with budgeted overheads and will review and adjust the current shop locations. In order to provide our customers with a much comprehensive range of products to select, we did best to increase the varieties of our products during this period so that more new healthy products are directly imported from Korea and Taiwan, etc. The Group will continue to seek other suitable healthy products to meet our customers' needs.

Geographical segments

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

Administration Expenses

For the six months ended 30th June 2013, administrative expenses (net of amortisation of leasehold land and depreciation on property, plant and equipment of HK\$57,770,000 (2012: HK\$63,678,000)) amounted to HK\$153,890,000 (2012: HK\$153,357,000). The minor change was mainly attributable to the decrease in casino management fees paid by Casino LKF, which were partly offset by the increase in staffs costs and overhead expenses in the hotel and gaming service operations during the period. Such management fees decreased because it was based on a fixed percentage of service income from VIP table gaming that had decreased by 25% for the same period in previous year. Employee benefit expenses increased 18% to HK\$77,232,000 from HK\$65,407,000 for the same period in previous year.

Liquidity and Financial Resources

As at 30th June 2013, the Group had total assets of approximately HK\$2,513,434,000 and a net current assets of HK\$1,094,625,000, representing a current ratio of 5.0 (31st December 2012: 3.9). The Group had cash and bank balances of approximately HK\$494,238,000 (31st December 2012: HK\$578,863,000) which included pledged bank deposits of HK\$8,870,000 (31st December 2012: nil). As at 30th June 2013, the Group had total borrowings of HK\$738,884,000 which comprised a secured bank term loan with remaining balance of HK\$375,000,000 (the “Term Loan”), a secured mortgage loan of HK\$2,185,000 (the “Installment Loan”), unsecured bank loans in aggregate amount of HK\$19,192,000, an outstanding convertible bonds with liabilities component of HK\$342,400,000 and obligations under finance leases of HK\$107,000.

The Term Loan was secured by the Group’s leasehold land and buildings with carrying amount of HK\$655,916,000, interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank and repayable by remaining of 9 equal consecutive quarterly installments of HK\$12,500,000 each and a final repayment for the remaining balance of HK\$262,500,000. The Installment Loan was secured by the Group’s buildings with carrying amount of HK\$79,381,000, pledged bank deposits with carrying amount of HK\$8,870,000 and held for trading investments with carrying amount of HK\$7,346,000, and was interest bearing at 2.9% per annum below Hong Kong Dollar Best Lending Rate and repayable by consecutive monthly installments of approximately HK\$29,000 per month and contained a clause of repayable on demand. The unsecured bank loans comprised import trade loan (the “Import Loan”) of HK\$14,482,000 and two unsecured bank loans of HK\$3,310,000 (the “Loan I”) and HK\$1,400,000 (the “Loan II”) granted under the Special Loan Guarantee Scheme of the Government of HKSAR. The Import Loan was interest bearing at 2% per annum over one month HIBOR, repayable on demand and guaranteed by an ex-shareholder of a subsidiary of the Company. The Loan I was interest bearing at 2.5% per annum over one month HIBOR and repayable by remaining of 31 equal consecutive monthly installments of approximately HK\$105,000 per month and a final repayment for the remaining balance. The Loan II was interest bearing at 2.5% per annum over one month HIBOR and repayable by remaining of 20 equal consecutive monthly installments of HK\$100,000 each. Loan I and Loan II were 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\$0.11 per share as of 30th June 2013.

As at 30th June 2013, the Group had banking facilities amounting to HK\$578,000,000 which were utilised to the extent of HK\$526,482,000. The Group's gearing was acceptable during the period with total debts of HK\$738,884,000 against owners' equity of HK\$1,495,466,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 49% (31st December 2012: 48%).

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca, United States Dollars and Renminbi, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2013, the Group had no contingent liability.

On 2nd January 2013, 2,407,201 new shares were issued on the conversion of the warrants of the Company at the subscription price of HK\$0.069 per share. Thereafter, the Company has no more outstanding warrants.

On 9th January 2013, the Company issued 514,463,056 bonus shares (the "Bonus Shares") and HK\$28,471,249.34 bonus convertible bonds (the "Bonus CBs") on the basis of two bonus shares for every one existing share held on 6th December 2012 with an option to elect to receive the Bonus CBs in lieu of all or part of their entitlement to the Bonus Shares pursuant to a mandate granted by the shareholders of the Company at the special general meeting of the Company held on 25th October 2012. The Bonus CBs are convertible into 2,847,124,934 new shares at subscription price of HK\$0.01 per share (subject to adjustment in accordance with the deed poll of the Bonus CBs).

On 10th January 2013, the Company entered into a placing agreement with a placing agent to place on a best effort basis up to 400,000,000 new shares of HK\$0.01 each to independent investors at a price of HK\$0.14 per share. 400,000,000 new shares were issued on 30th January 2013 under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 28th June 2012. The net proceeds of approximately HK\$55,300,000 were used for property investment in Hong Kong.

During the period, 900,575,592 new shares were issued and allotted upon the exercise of the conversion rights of HK\$9,005,755.92 Bonus CBs at the subscription price of HK\$0.01 per share.

During the period, no share options of the Company were exercised.

Material Acquisitions

On 1st February 2013, Star Hope Investments Limited, a wholly owned subsidiary of the Company (the “Purchaser”) and Wing Shan Int’l Limited (the “Vendor”) entered into a sale and purchase agreement pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell 1 share of HK\$1.00 in the entire issued share capital of Well Full Limited (the “Target Co”) and a sale loan amounted to approximately HK\$29,603,000 at a total consideration of HK\$93,700,000. The major assets of the Target Co are properties located at Cockloft Floor and the Ground Floor of Nos. 1 and 3 Mercer Street, Hong Kong (the “Properties”), bank deposits of HK\$9,220,000 and Renminbi bonds of RMB5,400,000 (equivalent to approximately HK\$6,750,000). The acquisition was completed on 28th February 2013 and the Target Co became wholly owned subsidiary of the Company. The Board intended to develop the Properties into the flagship store of retail chain of Nam Pei Hong in Hong Kong.

On 5th April 2013, Smart Value Developments Limited, a wholly owned subsidiary of the Company (the “Purchaser A”) entered into a conditional sale and purchase agreement with a third party (the “Vendor A”, in its capacity as a confirmor) pursuant to which the Purchaser A has conditionally agreed to acquire the entire issued share capital of Big Century Limited (the “Target A”) and a sale loan (the “Sale Loan”) amounted to approximately HK\$10,730,000 at a total consideration of HK\$68,330,000. The major asset and liability of Target A are properties located at Ground Floor and its Cockloft, Nos. 20, 22, and 24 Mercer Street, Kam Tak Building, Hong Kong (the “Property A”) and the Sale Loan respectively. Of the total consideration, HK\$10,730,000 was paid to the Vendor A as deposit upon signing of the sale and purchase agreement, HK\$5,400,000 shall be paid to the Vendor A on or before 27th September 2013 and the balance of HK\$52,200,000 shall be paid by the Target A (financed by the Purchaser A) upon completion on or before 30th September 2013.

On 5th April 2013, Well Star Investments Limited, a wholly owned subsidiary of the Company (the “Purchaser B”) entered into a provisional sale and purchase agreement with a third party (in its capacity as a confirmor) pursuant to which the Purchaser B has conditionally agreed to acquire a property located at First Floor, Nos. 20, 22, and 24 Mercer Street, Kam Tak Building, Hong Kong at a consideration of HK\$8,000,000, of which HK\$800,000 was paid as deposit upon the signing of provisional sale and purchase agreement and the balance shall be paid upon completion on or before 30th September 2013.

Employees

As at 30th June 2013, the Group employed 751 staffs (2012: 742 staffs) with employee benefit expenses of HK\$77,232,000 (2012: HK\$65,407,000). 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.

Event After the Reporting Period

No significant event took place subsequent to end of the reporting period.

Prospect

Hotel and gaming service operations in Lan Kwai Fong is considered to be the core profit and cash contributor of the Group in the coming few years. The successful transformation of Lan Kwai Fong to a boutique hotel that embraces gaming, recreation and tourist accommodation has solidified our role in Macau's hotel and gaming industry. The development of the Sites would also be benefited by the profit and cash flow derived from the principal core business of our Lan Kwai Fong. The foundation of the Group's various investments in Macau will be enhanced and synergistically boosted.

Lan Kwai Fong will continue its current marketing direction and do best to implement its goal "Our highest priority is guest satisfaction in a premium yet relaxed environment with outstanding service".

Capitalising on the profit and cash flow generated from Lan Kwai Fong and through the effective allocation of cash reserve, the Group managed to acquire Nam Pei Hong, speeding up the Group's debut into the Chinese healthcare products retailing market – an enormous potential market for growth. We envision that by entering into Hong Kong's retail market, our ultimate goal is to prepare ourselves for the even greater market in China's under-fledged healthcare industry in years to come. By acquiring and develop the Properties into the flagship store of retail chain of Nam Pei Hong, the Group intends to reposition the image of Nam Pei Hong and thus solidify its image and market share in Hong Kong and China. It aims to provide creditworthy products with bargain prices. The Board is now planning to expand the retail network of Nam Pei Hong to Macau in the second half of 2013.

The Group will strive to achieve healthy and stable growth by enhancing profitability and diversifying its businesses progressively.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is responsible for ensuring high standard of corporate governance are maintained and for accounting to shareholders. The Company has applied the principles and complied with all the applicable code provisions laid down in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “Code”) during the period from 1st January 2013 to 30th June 2013, except for the following deviations:

- a) Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. However, all the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company’s bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code; and
- (b) Under the code provision A.6.7 of the Code, all the independent non-executive directors should attend general meetings. Mr. Hung Cho Sing and Mr. Tang Chak Lam, Gilbert, both independent non-executive directors of the Company, were not able to attend the special general meeting of the Company held on 29th April 2013 due to another business engagement.

ADOPTION OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th June 2013. The Model Code also applies to other specified senior management of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30th June 2013.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at 30th June 2013 was comprising Messrs. Ho Wai Chi, Paul, Hung Cho Sing and Tang Chak Lam, Gilbert, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

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

The unaudited condensed consolidated interim financial statements for the six months ended 30th June 2013 have been reviewed by the audit committee of the Company and the Company's independent auditors.

PUBLICATION OF INTERIM REPORT

The Company's 2013 interim report will be despatched to the shareholders of the Company on or before 30th September 2013 and will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company's website (www.chinastar.com.hk or www.irasia.com/listco/hk/chinastar).

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

Hong Kong, 28th August 2013

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