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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 2014

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 2014 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2014

		Six months ended 30th June	
		2014	2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Continuing operations			
Turnover	4	601,674	635,744
Cost of sales		(281,218)	(294,503)
		<hr/>	<hr/>
Gross profit		320,456	341,241
Other revenue	5	16,261	5,061
Other income	6	38	1,082
Administrative expenses		(194,465)	(207,379)
Marketing, selling and distribution expenses		(21,592)	(15,457)
Other operating expenses		(6,634)	(41,293)
Gain on disposal of subsidiaries		1,286	–
Gain arising on change in fair value of financial assets classified as held for trading investments		12,578	6,471
Share-based payment expenses		–	(8,747)
		<hr/>	<hr/>

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30th June 2014

		Six months ended 30th June	
	<i>Notes</i>	2014	2013
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit from operations		127,928	80,979
Finance costs	7	(10,547)	(21,881)
Share of results of joint ventures		(642)	33
		<hr/>	<hr/>
Profit before tax	8	116,739	59,131
Income tax credit	9	59	193
		<hr/>	<hr/>
Profit for the period from continuing operations		116,798	59,324
Discontinued operation			
(Loss)/profit for the period from discontinued operation	10	(1,660)	1,465
		<hr/>	<hr/>
Profit for the period		115,138	60,789
		<hr/>	<hr/>
Profit for the period attributable to:			
Owners of the Company		114,790	61,742
Non-controlling interests		348	(953)
		<hr/>	<hr/>
		115,138	60,789
		<hr/>	<hr/>
Earnings/(loss) per share			
From continuing and discontinued operations			
Basic	11	HK cents1.03	HK cents 1.15
		<hr/>	<hr/>
Diluted	11	HK cents1.03	HK cents 0.87
		<hr/>	<hr/>
From continuing operations			
Basic	11	HK cents1.04	HK cents 1.12
		<hr/>	<hr/>
Diluted	11	HK cents1.04	HK cents 0.85
		<hr/>	<hr/>
From discontinued operation			
Basic	11	HK cents(0.01)	HK cents 0.03
		<hr/>	<hr/>
Diluted	11	HK cents(0.01)	HK cents 0.02
		<hr/>	<hr/>

Details of dividend and distribution are set out in note 12.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30th June 2014

	Six months ended 30th June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	115,138	60,789
Other comprehensive income		
<i>Items that may be reclassified subsequently to condensed consolidated income statement:</i>		
Exchange differences arising on translation of foreign operations:		
Exchange differences arising during the period	46	(18)
Reclassification adjustments relating to foreign operations disposed of during the period	(79)	–
Other comprehensive loss for the period	(33)	(18)
Total comprehensive income for the period	115,105	60,771
Total comprehensive income/(loss) for the period attributable to:		
Owners of the Company	114,737	61,728
Non-controlling interests	368	(957)
	115,105	60,771

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2014

	<i>Notes</i>	At 30th June 2014 <i>HK\$'000</i> (Unaudited)	At 31st December 2013 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		534,120	646,470
Interests in leasehold land		450,205	461,625
Investment property		6,190	6,190
Goodwill		–	3,030
Intangible assets		17,499	31,223
Interests in joint ventures		27,675	28,317
		1,035,689	1,176,855
Current assets			
Inventories		6,090	81,979
Stock of properties		563,742	563,742
Film rights		17,621	17,867
Films in progress		–	2,140
Trade receivables	13	169,310	278,918
Deposits, prepayments and other receivables	14	693,723	50,057
Loan receivables	15	400,000	–
Held for trading investments		40,799	57,576
Amount due from a joint venture		4	–
Amounts due from non-controlling interests		–	19
Prepaid tax		258	179
Cash and bank balances		263,571	390,241
		2,155,118	1,442,718
Total assets		3,190,807	2,619,573
Capital and reserves			
Share capital		144,397	65,673
Reserves		2,549,577	1,569,041
		2,693,974	1,634,714
Equity attributable to owners of the Company		2,693,974	1,634,714
Non-controlling interests		–	(2,228)
		2,693,974	1,632,486
Total equity		2,693,974	1,632,486

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

At 30th June 2014

	<i>Notes</i>	At 30th June 2014 HK\$'000 (Unaudited)	At 31st December 2013 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings		275,000	300,000
Amounts due to non-controlling interests		–	127,503
Obligations under finance leases		12	20
Convertible bonds		–	220,869
Deferred tax liabilities		80,888	82,746
		355,900	731,138
Current liabilities			
Bank borrowings		50,000	67,292
Obligations under finance leases		16	23
Trade payables	16	32,044	98,367
Deposits received, accruals and other payables		58,873	90,267
		140,933	255,949
Total liabilities		496,833	987,087
Total equity and liabilities		3,190,807	2,619,573
Net current assets		2,014,185	1,186,769
Total assets less current liabilities		3,049,874	2,363,624

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 have been prepared in accordance with the same accounting policies adopted in 2013 annual financial statement.

The Interim Financial Statements have been prepared on the historical cost basis except for certain property and financial instrument that are measured at fair values at the end of the reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Interim Financial Statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in 2013 annual financial statement, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and interpretations (collectively referred to as the “new and revised HKFRSs”) described below.

In the current period, the Group has applied, for the first time, the following new and revised HKFRSs issued by the HKICPA, which are effective for the Group’s financial period beginning from 1st January 2014. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HK(IFRIC) – Int 21	Levies

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

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the current accounting period.

3. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resources allocation and assessment of segment performance between segments and that are used to make strategic decisions.

The Group’s reportable segments are strategic business units that operate different activities. They are managed separately because each business has different markets and requires different marketing strategies.

Particulars of the Group’s reportable segments for continuing and discontinued operations are summarised as follows:

Continuing operations

- | | | |
|-------------------------------------|---|---|
| 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 |

Discontinued operation

- | | | |
|-------------------------|---|--|
| 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 |
|-------------------------|---|--|

The segment information of Nam Pei Hong operations are disclosed in note 10.

3. SEGMENT INFORMATION (CONTINUED)

(a) Segments revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

Continuing operations

	Segment revenue		Segment results	
	Six months ended 30th June 2014	2013	Six months ended 30th June 2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hotel and gaming service operations	597,992	631,745	128,149	136,630
Gaming promotion operations	2,464	3,688	(4,710)	(37,949)
Film distribution operations	1,135	311	153	213
Property development operations	83	–	(1,714)	(1,538)
	<u>601,674</u>	<u>635,744</u>	<u>121,878</u>	<u>97,356</u>
Reconciliation from segment results to profit before tax from continuing operations				
Unallocated corporate income			9,101	533
Gain on disposal of subsidiaries			1,286	–
Gain arising on change in fair value of financial assets classified as held for trading investments			12,578	6,471
Unallocated corporate expenses			(28,104)	(45,229)
Profit before tax			<u>116,739</u>	<u>59,131</u>

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

Segment results represent the profit/(loss) earned/(suffered) by each segment without allocation of central administrative expenses, partial finance costs, share-based payment expenses and share of results of joint ventures under the heading of “unallocated corporate expenses”, partial other revenue and other income under the heading of “unallocated corporate income”, gain on disposal of subsidiaries and gain arising on change in fair value of financial assets classified as held for trading investments. This is the measure reported to the CODM for the purposes of resources allocation and assessment of segment performance.

(b) Geographical information

The Group's revenue from external customers is mainly derived from its operations in Macau, and non-current assets of the Group are mainly located in Macau.

4. TURNOVER

	Six months ended 30th June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Continuing operations		
Film distribution fee income	1,135	311
Hotel rooms income	56,666	53,414
Food and beverage sales	19,244	15,878
Services income from mass market table gaming operations	465,637	482,711
Services income from VIP rooms table gaming operations	47,702	73,929
Services income from slot machines operations	8,743	5,813
Receive profit streams from gaming promotion business	2,464	3,688
Gross rental income	83	–
	<u>601,674</u>	<u>635,744</u>
	For the period from	
	1st January 2014 to	Six months
	respective date of	ended
	disposal of subsidiaries	30th June 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Discontinued operation		
Sales of health products	<u>79,510</u>	<u>77,386</u>

5. OTHER REVENUE

	Six months ended 30th June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Continuing operations		
Bank interest income	1,473	1,339
Loan interest income	8,086	–
Management fee income	280	678
Other ancillary hotel revenue	6,422	3,044
	<u>16,261</u>	<u>5,061</u>

5. OTHER REVENUE (CONTINUED)

For the period from 1st January 2014 to respective date of disposal of subsidiaries	Six months ended 30th June 2013
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Discontinued operation

Bank interest income	2	5
	<u>2</u>	<u>5</u>

6. OTHER INCOME

Six months ended 30th June	
2014	2013
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Continuing operations

Net foreign exchange gain	–	131
Others	38	951
	<u>38</u>	<u>1,082</u>

For the period from 1st January 2014 to respective date of disposal of subsidiaries	Six months ended 30th June 2013
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

Discontinued operation

Net foreign exchange gain	–	50
Others	2	5
	<u>2</u>	<u>55</u>

7. FINANCE COSTS

	Six months ended 30th June	
	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Continuing operations		
Interest on:		
Bank borrowings – wholly repayable within five years	5,944	6,812
Finance leases	3	15
Imputed interest on convertible bonds	4,600	15,054
	10,547	21,881
	10,547	21,881
	For the period from	
	1st January 2014 to	Six months
	respective date of	ended
	disposal of subsidiaries	30th June 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Discontinued operation		
Interest on:		
Bank borrowings – wholly repayable within five years	157	228
	157	228

8. PROFIT BEFORE TAX

	Six months ended 30th June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Continuing operations		
Profit before tax has been arrived at after charging/(crediting):		
Amortisation of film rights (included in cost of sales)	246	–
Amortisation of interests in leasehold land	11,420	11,433
Cost of inventories sold (included in cost of sales)	7,157	6,862
Depreciation of property, plant and equipment	39,888	45,738
Employee benefit expenses	73,333	74,508
Gain on disposal of subsidiaries	(1,286)	–
Gain on disposal of financial assets classified as held for trading investments	(18,799)	–
Impairment loss recognised in respect of films in progress (included in other operating expenses)	40	–
Impairment loss recognised in respect of intangible assets (included in other operating expenses)	6,594	41,036
Loss on disposal of property, plant and equipment	5	55
Loss on fair value change of investment property (included in other operating expenses)	–	257
Loss/(gain) arising on change in fair value of financial assets classified as held for trading investment	6,221	(6,471)
Net foreign exchange loss/(gain)	163	(131)
Operating lease rental in respect of premises	2,174	2,145
Share-based payment expenses in respect of consultancy services	–	3,361
Gross rental income from investment property	(83)	–
Less: Direct operating expenses incurred for investment property that did not generate rental income during the period	26	–
	<u>(57)</u>	<u>–</u>
	For the period from 1st January 2014 to respective date of disposal of subsidiaries	Six months ended 30th June 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)

Discontinued operation

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

Amortisation of intangible assets	543	613
Cost of inventories sold (included in cost of sales)	52,746	48,272
Depreciation of property, plant and equipment	697	599
Employee benefit expenses	8,196	8,110
Loss on disposal of property, plant and equipment	–	31
Net foreign exchange loss/(gain)	61	(50)
Operating lease rental in respect of premises	6,914	8,327
	<u>6,914</u>	<u>8,327</u>

9. INCOME TAX CREDIT

	Six months ended 30th June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Deferred tax:		
Current period	<u>59</u>	<u>193</u>
	For the period from	
	1st January 2014 to	Six months
	respective date of	ended
	disposal of subsidiaries	30th June 2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Discontinued operation		
Deferred tax:		
Current period	<u>90</u>	<u>101</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods. The subsidiaries located in the People's Republic of China ("PRC") are subject to PRC Enterprise Income Tax at 25% for both periods. Macau subsidiaries are subject to Macau Complementary Tax at the maximum progressive rate of 12% on the estimated assessable profit for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

No provision for Macau Complementary Tax has been made for both periods as the Group has no assessable profits arising in Macau.

No provision for PRC Enterprise Income Tax has been made for both periods as the Group has no assessable profits arising in PRC.

10. DISCONTINUED OPERATION

Nam Pei Hong operations

On 11th June 2014, the Group entered into a sale and purchase agreement to dispose of non wholly owned subsidiaries, Ace Season Holdings Limited and its subsidiaries ("Ace Season"), which carried out the Nam Pei Hong operations. The disposal of Nam Pei Hong operations is consistent with the Group's long-term policy to focus its activities on the Group's other business. The disposal was completed on 11th June 2014, on which date control of Nam Pei Hong operations passed to the acquirer.

10. DISCONTINUED OPERATION (CONTINUED)

The (loss)/profit for the period from discontinued operation is analysed as follows:

	For the period from 1st January 2014 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2013 HK\$'000 (Unaudited)
Profit of Nam Pei Hong operations for the period	6	1,465
Loss on disposal of Nam Pei Hong operations	(1,666)	–
	<u>(1,660)</u>	<u>1,465</u>

The result of the Nam Pei Hong operations for the period from 1st January 2014 to respective date of disposal of subsidiaries, which have been included in the condensed consolidated income statement, were as follows:

	<i>Notes</i>	For the period from 1st January 2014 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2013 HK\$'000 (Unaudited)
Turnover	4	79,510	77,386
Cost of sales		(56,464)	(51,958)
Gross profit		23,046	25,428
Other revenue	5	2	5
Other income	6	2	55
Administrative expenses		(4,084)	(4,281)
Marketing, selling and distribution expenses		(18,893)	(19,615)
Profit from operations		73	1,592
Finance costs	7	(157)	(228)
(Loss)/profit before tax	8	(84)	1,364
Income tax credit	9	90	101
Profit for the period		<u>6</u>	<u>1,465</u>

11. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

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

	Six months ended 30th June	
	2014	2013
	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)	114,790	61,742
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds, net of income tax	–	15,054
Earnings for the purpose of diluted earnings per share	<u>114,790</u>	<u>76,796</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	11,165,013	5,386,450
Effect of dilutive potential ordinary shares:		
– Share options	–	188,420
– Convertible bonds	–	3,290,223
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>11,165,013</u>	<u>8,865,093</u>

Pursuant to the deed polls 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, 26,507,961 (30th June 2013: 1,946,549,342) fully paid ordinary share of HK\$0.01 each which shall be convertible from an aggregated amount of approximately HK\$265,000 (30th June 2013: HK\$19,465,000) outstanding bonus convertible bonds are included in the weighted average number of ordinary shares for calculating the basic earnings per share for the period ended 30th June 2014 and 30th June 2013.

As the Company's outstanding share options where applicable had an anti-dilutive effect to the basic earnings per share calculation for the period ended 30th June 2014, the exercise of the above potential dilutive shares is not assumed in the calculation of diluted earnings per share for the period ended 30th June 2014.

11. EARNINGS/(LOSS) PER SHARE (CONTINUED)

From continuing operations

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

	Six months ended 30th June	
	2014	2013
	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)	116,450	60,277
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds, net of income tax	—	15,054
Earnings for the purpose of diluted earnings per share	116,450	75,331

The denominators used are same as those detailed above for calculation of both basic and diluted earnings per share from continuing operations in both periods.

From discontinued operation

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

	For the period from	
	1st January 2014	Six months
	to respective date	ended
	of disposal of	30th June 2013
	subsidiaries	HK\$'000
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share ((loss)/profit attributable to owners of the Company)	(1,660)	1,465

The denominators used are same as those detailed above for calculation of both basic and diluted (loss)/earnings per share from discontinued operation in both periods.

12. DIVIDEND AND DISTRIBUTION

Dividend

No interim dividend was paid or proposed during the six months ended 30th June 2014 and 30th June 2013, nor any dividend been proposed by the Board subsequent to the end of the reporting period.

Distribution

	Six months ended 30th June	
	2014	2013
	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>–</u>	<u>217,996</u>
	<u>–</u>	<u>217,996</u>

No distribution was proposed to be made out of the contributed surplus account of the Company during the six months ended 30th June 2014, nor any distribution been proposed to be made out by the Board subsequent to the end of the reporting period.

The special distribution made out in 2013 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.

13. TRADE RECEIVABLES

The following is an aging analysis of trade receivables, presented based on the invoice date, which approximates the respective revenue recognition dates and net of allowance for doubtful debts:

	At 30th June 2014 HK\$'000 (Unaudited)	At 31st December 2013 HK\$'000 (Audited)
0 to 30 days	105,648	274,691
31 to 60 days	–	2,153
61 to 90 days	–	149
Over 90 days	63,662	1,925
	<hr/> 169,310 <hr/>	<hr/> 278,918 <hr/>

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

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30th June 2014 HK\$'000 (Unaudited)	At 31st December 2013 HK\$'000 (Audited)
Other deposits paid	10,865	15,423
Deposit paid for investment	600,000	–
Prepayments	21,535	25,105
Loan interest receivables	8,027	–
Other receivables	53,296	9,529
	<hr/> 693,723 <hr/>	<hr/> 50,057 <hr/>

Deposit paid for investment with the amount of HK\$600,000,000 represented the cash deposit paid by Classic Champion Holdings Limited, a wholly owned subsidiary of the Company in respect of acquisition of the entire equity interest of Protective Capital Group Limited pursuant to a conditional sale and purchase agreement.

15. LOAN RECEIVABLES

	At 30th June 2014 <i>HK\$'000</i> (Unaudited)	At 31st December 2013 <i>HK\$'000</i> (Audited)
Fixed-rate loan receivables	<u><u>400,000</u></u>	<u><u>–</u></u>

At the end of the reporting period, loan receivables are secured by the personal guarantees of the sole beneficial owner and director of the respective borrowers.

Loan receivables are interest bearing at 10% per annum and repayable after the date falling 24 months from the first drawdown date. Loan receivables contain a clause of repayable on demand and thus classified as current assets.

16. TRADE PAYABLES

The following is an aging analysis of trade payables, based on the invoice date:

	At 30th June 2014 <i>HK\$'000</i> (Unaudited)	At 31st December 2013 <i>HK\$'000</i> (Audited)
0 to 30 days	11,520	77,436
31 to 60 days	2,581	3,912
61 to 90 days	5	192
Over 90 days	<u>17,938</u>	<u>16,827</u>
	<u><u>32,044</u></u>	<u><u>98,367</u></u>

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

17. COMPARATIVE FIGURES

Certain comparative figures of the previous period have been re-presented to conform with current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30th June 2014, the Group recorded a turnover of approximately HK\$601,674,000 representing a decrease of 5% as compared to HK\$635,744,000 for the last corresponding period.

Profit for the period amounted to approximately HK\$115,138,000 representing an increase of 89% as compared to HK\$60,789,000 for the last corresponding period. Such increase is mainly attributable to (i) substantial decrease in impairment loss recognised in respect of intangible assets of the gaming promotion operations of HK\$6,594,000 by HK\$34,442,000 from HK\$41,036,000 in the corresponding period of the previous year; (ii) the absence of share-based payment expenses of HK\$8,747,000 recorded in the six months ended 30th June 2013; (iii) increase in other revenue of HK\$16,261,000 by HK\$11,200,000 from HK\$5,061,000 in the corresponding period of the previous year which mainly included increase in loan interest income; and (iv) decrease in finance costs of HK\$10,547,000 by HK\$11,334,000 from HK\$21,881,000 in the corresponding period of the previous year which mainly caused by the full conversion of the outstanding 8% convertible bonds of the Company into shares of the Company on 31st March 2014 and thus decrease the interest expenses for the period.

Profit attributable to owners of the Company for the six months ended 30th June 2014 amounted to HK\$114,790,000 representing an increase of 86% as compared to HK\$61,742,000 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 2014 (2013: nil).

During the period ended 30th June 2013, 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

Continuing Operations

The Group has four continuing reportable segments – (1) hotel and gaming service operations; (2) gaming promotion operations; (3) film distribution operations; and (4) property development operations.

Of the total turnover amount for the period, HK\$597,992,000 or 99% was generated from hotel and gaming service operations, HK\$2,464,000 or 1% was generated from gaming promotion operations, HK\$1,135,000 or 0% was generated from film distribution operations and HK\$83,000 or 0% was generated from property development 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 Company, Hotel Lan Kwai Fong (Macau) Limited (“Hotel LKF”); services provided to the casino situated in Lan Kwai Fong (the “Casino LKF”) which was recorded in an indirect subsidiary of the Company, 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 floor, restaurants, flower shop, retail shop, spa and medical clinic.

Casino LKF is run by licence holder Sociedade de Jogos de Macau, S.A. (“SJM”). Classic has entered into gaming operation service agreements with SJM. Under the agreements, Classic will shared certain percentage of service income from SJM based on the gross wins of mass market table gaming, VIP rooms table gaming and slot machines in Casino LKF. As at 30th June 2014, Casino LKF operated a total of 84 tables, targeting both for the VIP rooms table gaming and the mass market table gaming. It also operated a total of 128 slot machines.

During the short 5-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\$597,992,000 (2013: HK\$631,745,000) and HK\$128,149,000 (2013: HK\$136,630,000) from the hotel and gaming service operations, decreases of 5% and 6% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel room income of HK\$56,666,000 (2013: HK\$53,414,000), food and beverage sales of HK\$19,244,000 (2013: HK\$15,878,000), services income received from mass market table gaming of approximately HK\$465,637,000 (2013: HK\$482,711,000) representing a decrease of 4%, services income received from VIP rooms table gaming of HK\$47,702,000 (2013: HK\$73,929,000 representing a decrease of 35% and service income received from slot machines of HK\$8,743,000 (2013: HK\$5,813,000) representing an increase of 50%. For the six months ended 30 June 2014, the total casino revenue gross win in Macau market was approximately HK\$187.5 billion, increased by 12.6% from last corresponding period. Those casinos located in Cotai have achieved a higher growth rate than those located in Macau Peninsula in the first half of 2014. Despite market share migration from Macau Peninsula to Cotai, we were able to maintain our overall market share and profit margin in this segment by effective marketing plan and cost control measure. Mass market table gaming operations are more profitable than VIP rooms table gaming operations and thus Casino LKF had spent resources to expand its market share in the mass market table gaming operations and targeted the high end customers in the mass market table gaming and was continued to be successful during this period. During the period, the average monthly revenue from (i) mass market table gaming of approximately HK\$77,606,000 (2013: HK\$80,452,000) and (ii) VIP rooms table gaming of HK\$7,950,000 (2013: HK\$12,322,000). Besides, the occupancy rate of Hotel LKF during the period increased by 5% to an average of about 99%.

Gaming Promotion Operations

The Group had shared revenue and segment loss of approximately HK\$2,464,000 (2013: HK\$3,688,000) and HK\$4,710,000 (2013: HK\$37,949,000) from the gaming promotion operations, decreases of 33% and 88% respectively.

Since years before, the revenue in sharing of profit streams from investments in the profit receiving company, Ocho Sociedade Unipessoal Limitada (“Ocho”), one of the gaming promoters at one of the VIP rooms at the Grand Lisboa Casino in Macau had apparently decreased. One of the characteristic of the VIP rooms 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 decrease the expected cash inflow from this operation and thus impairment loss in respect of intangible assets of HK\$6,594,000 (2013: HK\$41,036,000) was recognised. This impairment amount was based on the recoverable amount of intangible asset by reference to the valuation report issued by a firm of independent qualified professional valuers using discounted cash flow method each period.

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 30 June 2014, the Group did not distributed any new film.

In the first half of the year 2014, turnover for film distribution operations amounted to HK\$1,135,000 (2013: HK\$311,000) and its segment profit amounted to HK\$153,000 (2013: HK\$213,000). Due to the unsatisfactory performance of this business segment in the past years, the Group decided to allocate less resource in this business and thus the Group had disposed China Star Movie Limited and China Star International Movie Limited, the film production companies of the Group during the period. The Group considered that the disposal enabled the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau. The Group will engaged in new film production only when good opportunities arises.

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 develop into commercial units and residential apartments for sale. The development plan of the Sites is in the process of seeking approval from the relevant authority.

In the year 2013, the Group had acquired the properties located at the 4th Floor and the Ground Floor and its Cockloft of Nos. 1 and 3 Mercer Street, Hong Kong; and 1st Floor and the Ground Floor and its Cockloft of Nos. 20, 22 and 24 Mercer Street, Kam Tak Building, Hong Kong. The Group intended to develop the Ground Floor and its Cockloft of Nos. 1 and 3 Mercer Street, Hong Kong and 1st Floor and the Ground Floor and its Cockloft of Nos. 20, 22 and 24 Mercer Street, Kam Tak Building, Hong Kong as the flagship stores of retail chain of Nam Pei Hong in Hong Kong. Due to change of business strategy of the Group, the Group had sold the properties located at the Ground Floor and its Cockloft of Nos. 1 and 3 Mercer Street, Hong Kong during the period ended 30th June 2014. 4th Floor of Nos. 1 and 3 Mercer Street, Hong Kong is rent out for investment purpose. The Group is considering the usage of other properties in Hong Kong after the disposal of Nam Pei Hong operations.

In the first half of the year 2014, turnover for property development operations amounted to HK\$83,000 (2013: nil) and its segment loss amounted to approximately HK\$1,714,000 (2013: HK\$1,538,000).

Discontinued Operation

During the period ended 30th June 2014, the Group disposed of all its equity interest in the subsidiaries engaged in Nam Pei Hong operations.

In view of no significant improvement in performance of Nam Pei Hong operations in these years and it is expected that its performance will continue like this in the foreseeable future. The Group considered that the disposal would enable the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau.

Accordingly, Nam Pei Hong operations were treated as discontinued operation in the financial statements of the Group for the six months ended 30th June 2014.

Nam Pei Hong Operations

From 1st January 2014 to 11th June 2014 (date of disposal), the Group had shared revenue of approximately HK\$79,510,000 (2013: HK\$77,386,000) and segment loss of approximately HK\$1,660,000 as compared to segment profit of approximately HK\$1,465,000 for the six months ended 30th June 2013.

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 the period were mainly derived from Hong Kong and Macau.

Administrative Expenses

For the six months ended 30th June 2014, administrative expenses of HK\$194,465,000 (2013: HK\$207,379,000) after net of amortisation of interests in leasehold land and depreciation of property, plant and equipment in an aggregate of HK\$51,308,000 (2013: HK\$57,171,000) amounted to HK\$143,157,000 (2013: HK\$150,208,000), representing a 5% decrease. The decrease was mainly attributable to the decrease in casino management fees paid by Classic which were partly offset by the increase in staffs costs during the period. Such management fees decreased because it was based on a fixed percentage of service income from VIP rooms table gaming that had decreased by 35% for the same period in previous year. Employee benefit expenses recorded as administrative expenses increased 5% to HK\$69,718,000 from HK\$66,250,000 (net of share-based payment expenses of HK\$5,386,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2014, the Group had total assets of approximately HK\$3,190,807,000 and a net current assets of HK\$2,014,185,000, representing a current ratio of 15.3 (31st December 2013: 5.6). The Group had cash and bank balances of approximately HK\$263,571,000 (31st December 2013: HK\$390,241,000). As at 30th June 2014, the Group had total borrowings of HK\$325,028,000 which comprised a secured bank term loan with remaining balance of HK\$325,000,000 (the “Term Loan”) and obligations under finance leases of HK\$28,000.

The Term Loan was secured by the Group’s leasehold land and buildings with carrying amount of HK\$623,873,000, interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank and repayable by remaining of 5 equal consecutive quarterly installments of HK\$12,500,000 each and a final repayment for the remaining balance of HK\$262,500,000.

As at 30th June 2014, the Group had banking facilities amounting to HK\$531,000,000 which were utilised to the extent of HK\$500,000,000. The Group’s gearing was acceptable during the period with total debts of HK\$325,028,000 against owners’ equity of HK\$2,693,974,000. This represents a gearing ratio, calculated in the basis of the Group’s total borrowings over owners’ equity of 12% (31st December 2013: 36%).

As at 30th June 2014, capital expenditure commitments by the Group amounted to approximately HK\$229,247,000, which mainly comprised HK\$200,000,000 as the balancing payment of the Proposed Acquisition (as defined below) which will be settled by the issue of a promissory note upon completion and HK\$28,615,000 as professional fees for the preparation of the development plan of the Sites.

As the majority of the Group’s transactions, assets and liabilities are denominated in Hong Kong dollar, Macau Pataca, United States dollar 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 2014, the Group had no material contingent liability.

On 18th November 2013, the Company announced to raise not less than approximately HK\$328,370,000 and not more than approximately HK\$339,900,000 before expenses by way of open offer (the “Open Offer”) of not less than 2,626,923,658 and not more than 2,719,215,073 offer shares at a subscription price of HK\$0.125 per offer shares on the basis of two offer shares for every five existing shares held on 31st December 2013. 2,626,923,658 offer shares were issued and allotted on 22nd January 2014. The estimated net proceeds of approximately HK\$324,470,000 were intended to be used for property investment in Hong Kong and/or Macau when suitable opportunity arises. On 4th April 2014, the Board allocated the net proceeds of approximately HK\$200 million to be used for financing a loan agreement dated 4th April 2014 and the remaining balance of approximately HK\$124.47 million to be used for investment in gaming/

gaming related business and/or general working capital of the Company. On 8th April 2014, HK\$200 million has been utilized as reallocated upon drawing of the Loan 1 (as defined below). On 24th April 2014, the remaining balance of approximately HK\$124.47 million has been utilised as reallocated upon the drawing of Loan 2 (as defined below).

On the same date, the Company announced that it proposed the subscription of not more than 7,586,976 units of new bonus convertible bonds (the “New Bonus CBs”) in the aggregate principal amount of HK\$75,869.76 offered by the Company to the existing bonus convertible bonds of the Company (the “Bonus CBs”) which are convertible into new shares at the conversion price of HK\$0.01 per share on the basis of 2 New Bonus CBs for every 5 existing Bonus CBs held on 31st December 2013 at the subscription price of HK\$0.125 per New Bonus CB. The transaction was approved by the shareholders of the Company at the special general meeting of the Company held on 18th December 2013. On 22nd January 2014, 7,540,521 units of New Bonus CBs in the principal amount of HK\$75,405.21 were issued by the Company. The net proceeds of HK\$75,869.76 were intended to be used as general working capital of the Group and have been utilised as intended.

As at 31st December 2013, the Company and Eternity Investment Limited (“Eternity”) entered into a supplemental agreement pursuant to which both parties agreed to extend the completion date of the second tranche subscription for convertible bonds in the principal amount of HK\$300 million from 31st December 2013 further extend to 31st December 2015.

On 27th January 2014, the Company entered into a placing agreement with a placing agent to place on a best effort basis up to 3,200,000,000 new shares of HK\$0.01 each by a maximum of four tranches (in which each tranche shall not be less than 800,000,000 new shares, save for the last tranche) to independent investors at a price of HK\$0.125 per share (the “Placing”). The Placing was approved by the shareholders of the Company at the special general meeting of the Company held on 24th March 2014. The net proceeds of approximately HK\$395,470,000 were intended to be used for the Proposed Acquisition (as defined below) and were utilised as intended.

On 31st March 2014, 2,045,454,545 shares were allotted and issued upon the conversion of convertible bonds in the principal amount of HK\$225,000,000 at the adjusted conversion price of HK\$0.11 per share by Eternity Finance Group Limited, a wholly owned subsidiary of Eternity. Thereafter, the Group did not have any outstanding convertible bonds due to Eternity Finance Group Limited.

On 4th April 2014, a loan agreement was entered into between Classic Champion Holdings Limited (“Classic Champion”), a wholly owned subsidiary of the Company as lender and a junket company which engaged in gaming promotion business in Macau (the “Junket Company 1”) as borrower pursuant to which Classic Champion has conditionally agreed to grant the Junket Company 1 a loan of HK\$200.00 million (“Loan 1”) for a term of 24 months from the date of drawdown at the interest rate of 10% per

annum. The sole beneficial owner and director of the Junket Company 1 has given his personal guarantee to the Loan 1. In addition, he has undertaken, among others, not to sell, transfer or otherwise dispose of or create any third party rights on any of his interests in the Junket Company 1. The Loan 1 was drawn on 8th April 2014 and was wholly financed by part of net proceeds from the Open Offer. The Group considered that the Loan 1 provided the Group with a long period of time to negotiate the terms and conditions of acquisition of the Junket Company I exclusively, if a decision in acquiring the Junket Company 1 is made.

On 17th April 2014, a loan agreement was entered into between Classic Champion as lender and a junket company which engaged in gaming promotion business in Macau (the “Junket Company 2”) as borrower pursuant to which Classic Champion has conditionally agreed to grant the Junket Company 2 the loan of HK\$200.00 million (“Loan 2”) for a term of 24 months from the date of drawdown at the interest rate of 10% per annum. The sole beneficial owner and director of the Junket Company 2 has given his personal guarantee to the Loan 2. In addition, he has undertaken, among others, not to sell, transfer or otherwise dispose of or create any third party rights on any of his interests in the Junket Company 2. The Loan 2 was drawn on 28th April 2014 and approximately HK\$124.47 million was financed by part of net proceeds from the Open Offer and approximately HK\$75.53 million was financed by the internal resources of the Group. The Group considered that the Loan 2 provided the Group with a long period of time to negotiate the terms and conditions of acquisition of the Junket Company 2 exclusively, if a decision in acquiring the Junket Company 2 is made.

During the period, no Bonus CBs and New Bonus CBs were converted.

During the period, no share options of the Company were granted, exercised, lapsed, expired or cancelled.

MATERIAL ACQUISITIONS AND DISPOSALS

Proposed acquisition of Protective Capital Group Limited

On 25th February 2014, Classic Champion and Mr. Kam Lap Sing, Kelvin, an independent third party of the Company (the “Vendor I”) entered into a conditional sale and purchase agreement (the “Agreement”), pursuant to which Classic Champion has conditionally agreed to acquire, and the Vendor I has conditionally agreed to sell, the entire issued share capital of Protective Capital Group Limited (“Target I”) and a sale loan (amounted to HK\$20 million at the date of Agreement) owned by Eight Elements Entertainment Limited (“Eight Elements”) upon completion for an aggregate consideration of HK\$800 million which shall be settled by Classic Champion: (a) as to HK\$300 million in cash as initial deposit upon the signing of the Agreement (“1st Deposit”); (b) as to HK\$300 million in cash on 24th April 2014 or upon completion of the Agreement, whichever is earlier (“2nd Deposit”); and (c) the balance of HK\$200 million by procuring the Company to issue a promissory note to the Vendor I on completion (the “Proposed Acquisition”). The major assets of Target I is its entitlement

to the economic benefits of Eight Elements. Eight Elements is a company incorporated in Macau with limited liability and carrying on gaming promoter operations (being activities undertaken to promote casino games by way of offering transportation, accommodation, food and beverage, entertainment) in exchange for a commission or other compensation paid by the gaming concessionaire in respect of the casino premises of Casino LKF and related businesses in Macau. Particulars of the Proposed Acquisition are disclosed in the announcement of the Company dated 25th February 2014. The Proposed Acquisition constitutes a major transaction of the Company pursuant to the Listing Rules and is subject to the approval of the shareholders of the Company. Up to the reporting date, the Proposed Acquisition is not yet completed and the Company is still in the process of preparing the circular of the Proposed Acquisition. The 1st Deposit and the 2nd Deposit were paid on 25th February 2014 and 24th April 2014 respectively and were financed by the net proceeds of the Placing and the internal resources of the Group.

Disposal of China Star Movie Limited

On 14th April 2014, China Star Entertainment Holding Limited, in indirect wholly owned subsidiary of the Company (“CS Holding”) and Dance Star Group Limited, a wholly owned subsidiary of China Media and Films Holdings Limited (“Dance Star”) entered into a conditional sale and purchase agreement pursuant to which CS Holding has agreed to sell and Dance Star has agreed to purchase the entire equity interest in China Star Movie Limited (“CS Movie”) and a sale loan amounted to approximately HK\$9,002,000 at an aggregate cash consideration of HK\$4,340,000. The principal activity of CS Movie is film production. The Group considered that the disposal enabled the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau.

Disposal of Star Hope Investments Limited

On 6th June 2014, Empowered Century Limited, in indirect non-wholly owned subsidiary of the Company (“Empowered”) and Wing Shan Int’l Limited (“Wing Shan”) entered into an unconditional sale and purchase agreement pursuant to which Empowered has agreed to sell and Wing Shan has agreed to purchase the entire equity interest in Star Hope Investments Limited (“Star Hope”) and a sale loan amounted to HK\$81,999,878.40 at a total consideration of HK\$82,282,048. Star Hope is the legal and beneficial owner of the entire share capital of Well Full Limited and the major assets of Well Full Limited are properties located at Cockloft Floor and the Ground Floor of Nos. 1 and 3 Mercer Street, Hong Kong. The disposal constituted a discloseable and connected transaction of the Company pursuant to Chapter 14 and Chapter 14A of the Listing Rules but was exempt from independent shareholders’ approval and was completed simultaneously. Upon completion, Star Hope and Well Full Limited ceased to be subsidiaries of the Company and their financial results were no longer be consolidated into the Company’s consolidated financial statements. The Directors consider that the disposal represented an opportunity for realisation of the Group’s

investment having considered the recent market sentiments towards property investment in Hong Kong and would enable the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau.

Disposal of Ace Season Holdings Limited

On 11th June 2014, China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company (“CSBVI”) and Attentive Wealth Investments Limited (“Attentive”) entered into an unconditional sale and purchase agreement (the “S&P Agreement”) pursuant to which CSBVI agreed to sell and Attentive agreed to purchase 50% of the equity interest and a sale loan amounted to approximately HK\$46,361,858 in Ace Season Holdings Limited (“Ace Season”) at a total consideration of HK\$45,000,000 which shall be settled in cash by Attentive: (a) as to HK\$9 million within two months from date of the S&P Agreement and (b) as to HK\$36 million within six months from date of the S&P Agreement. Ace Season is an investment holding company and its major subsidiaries are groups headed by NPH Holdings Limited which is engaged in the business of 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. The disposal constituted a discloseable transaction of the Company pursuant to the Listing Rules. Upon completion, Ace Season and its subsidiaries ceased to be subsidiaries of the Company and their financial results were no longer be consolidated into the Company’s consolidated financial statements. The Directors consider that the disposal would enable the Group to focus on its other principal businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2014, the Group employed 707 staffs (2013: 751 staffs) with employee benefit expenses from continuing operations of HK\$73,333,000 (2013: HK\$74,508,000) and from discontinued operation of HK\$8,196,000 (2013: HK\$8,110,000) respectively. 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 DATE

On 8th July 2014, the Company announced that:

- (i) the Company has appointed Mr. Mung Kin Keung (“Mr. Mung”) as Co-Chairman of the Board and executive director of the Company;

- (ii) the Company entered into the share subscription agreement with Long Joy Investments Limited, a wholly owned subsidiary of Well Way Group Limited (stock code: 8063), a company listed on the Growth Enterprise Market of the Stock Exchange (the “Share Subscriber”) pursuant to which the Share Subscriber has conditionally agreed to subscribe and the Company has conditionally agreed to allot and issue 1,500,000,000 new shares at subscription price of HK\$0.09 per subscription share (“Share Subscription”); and
- (iii) the Company entered into a subscription agreement with Mr. Mung pursuant to which the Company has conditionally agreed to issue and Mr. Mung has conditionally agreed to subscribe for convertible bonds of the Company in an aggregate principal amount of up to HK\$405.00 million by a maximum of five tranches during the period of 36 months commencing from the date of the special general meeting of the Company approving, among other, the issue of the convertible bonds (“CB Subscription”).

The Share Subscription is subject to the shareholders’ approval at a special general meeting of the Company. The CB Subscription is subject to independent shareholders’ approval at a special general meeting as it constitutes a connected transaction of the Company. The net proceeds from the Share Subscription of approximately HK\$134.30 million will be used for the investment in gaming/gaming-related business in Macau. The net proceeds from the CB Subscription of approximately HK\$404.0 million will be used for the construction and development of the Sites for expanding the operation of Lan Kwai Fong. As at the date of this report, the Share Subscription and the CB Subscription are not yet complete.

On 17th July 2014, a loan agreement was entered into between Classic Champion as lender and a junket company which engaged in gaming promotion business in Macau (the “Junket Company 3”) as borrower pursuant to which Classic Champion has conditionally agreed to grant the Junket Company 3 the loan of HK\$200.00 million (“Loan 3”) for a term of 24 months from the date of first drawdown at the interest rate of 10% per annum. The sole beneficial owner and director of the Junket Company 3 has given his personal guarantee to the Loan 3. In addition, he has undertaken, among others, not to sell, transfer or otherwise dispose of or create any third party rights on any of his interests in the Junket Company 3. HK\$100 million of the Loan 3 was drawn on 21st July 2014 and was financed by the internal resources of the Group. The remaining portion of Loan 3 will be financed by the internal resources of the Group. The Group considered that the Loan 3 provided the Group with a long period of time to negotiate the terms and conditions of acquisition of the Junket Company 3 exclusively, if a decision in acquiring the Junket Company 3 is made.

Other than those disclosed above, there is no significant event took place subsequent to end of the reporting date.

PROSPECT

During the first few months in the year 2014, the Group had carried out a number of restructuring procedures which intended to focus its resources on its high return businesses such as the hotel and gaming services operation and other gaming related services businesses in Macau instead of those poor performance and deteriorating businesses.

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.

The Group started to strive to achieve healthy and stable growth by enhancing profitability and diversifying its businesses progressively in other gaming related business.

Macau continues its strong upward growth with market-wide gaming revenue. For the six months ended 30th June 2014, the total casino revenue gross win in Macau market was approximately HK\$187.5 billion, increased by 12.6% from last corresponding period. The directors are confident with the gaming industry in Macau. The Company intends to participate in the gaming promotion business of VIP through the Proposed Acquisition as announced in 25th February 2014. The directors believe that the Proposed Acquisition will allow the Group to have greater control over the management and marketing of the VIP gaming floor in Casino LKF as well as to receive a higher percentage of gross gaming income generated by the VIP gaming floor.

The Group had entered Loan 1, Loan 2 and Loan 3 on 4th April 2014, 17th April 2014 and 17th July 2014 respectively which provided the Group with a long period of time to negotiate the terms and conditions of acquisition of those junket companies exclusively and to consider whether to invest in those junket companies in addition to stable and regular interest income from them.

The appointment of Mr. Mung as co-chairman of the Board has strengthened the expertise of the Board. Besides, the Share Subscription and the CB Subscription, if approved by the shareholders and independent shareholders of the Company respectively will introduce a strategic investor to the Company while strengthening the financial position of the Group.

With the expertise of the management of the Group in the casino industry, the Group is optimistic regarding its future investments in other gaming related businesses identified and in its performance for the rest of the year.

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 2014 to 30th June 2014, 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. Ho Wai Chi, Paul, an independent non-executive director of the Company, was not able to attend the annual general meeting of the Company held on 26th June 2014 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 2014. 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 2014.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company as at 30th June 2014 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 2014 have been reviewed by the audit committee of the Company and the Company's independent auditors.

PUBLICATION OF INTERIM REPORT

The Company's 2014 interim report will be despatched to the shareholders of the Company on or before 30th September 2014 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 **Mung Kin Keung**
Co-Chairman *Co-Chairman*

Hong Kong, 28th August 2014

As at the date of this announcement, the executive directors of the Company are Mr. Heung Wah Keung, Mr. Mung Kin 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.