

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2009

The board of directors of China Star Entertainment Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2009 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2009

		Six months ended 30th June	
		2009	2008
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
			(Re-presented)
Turnover	4	146,733	95,834
Cost of sales		(8,512)	(15,844)
Gross profit		138,221	79,990
Other revenue	5	4,191	3,402
Other income	6	52,400	155
Administrative expenses		(45,394)	(37,584)
Marketing and distribution expenses		(182)	(247)
Net realised and unrealised gain on financial assets classified as held-for-trading		11,726	1,293
Impairment loss recognised in respect of goodwill		(24,862)	–
Change in fair value in respect of conversions option embedded in convertible bonds		(22,619)	–
Increase in fair value of investment properties		6,700	–

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

For the six months ended 30th June 2009

		Six months ended 30th June	
		2009	2008
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
			(Re-presented)
Profit from operations		120,181	47,009
Finance costs		(14,371)	(15,266)
Share of results of associates		–	(3,303)
(Loss)/gain on disposal of subsidiaries		(29,602)	476
Loss on deemed disposal of interest in an associate		–	(17,551)
		<hr/>	<hr/>
Profit before taxation	7	76,208	11,365
Taxation	8	(982)	235
		<hr/>	<hr/>
Profit for the period		<u>75,226</u>	<u>11,600</u>
Attributable to:			
Owners of the Company		101,236	17,865
Non-controlling interests		(26,010)	(6,265)
		<hr/>	<hr/>
		<u>75,226</u>	<u>11,600</u>
Earnings per share			
Basic	9	<u>HK\$0.50</u>	<u>HK\$0.92</u>
Diluted	9	<u>HK\$0.50</u>	<u>HK\$0.92</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2009

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2009

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

At 30th June 2009

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

NOTES:

1. BASIS OF PREPARATION

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

The Interim Financial Statements should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2008.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements of the Group for the year ended 31st December 2008, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and interpretations described below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s accounting period beginning on 1st January 2009.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of new and revised HKFRSs not yet effective

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

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

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

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

3. SEGMENT INFORMATION (Continued)

The Group has identified the following reportable segments:

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

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

Operating segment information is presented below:

For the six months ended 30th June 2009

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

3. SEGMENT INFORMATION (Continued)

For the six months ended 30th June 2008

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

4. TURNOVER

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

5. OTHER REVENUE

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

6. OTHER INCOME

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

7. PROFIT BEFORE TAXATION

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

8. TAXATION

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

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for both periods as the Company and its subsidiaries have no assessable profits arising in Hong Kong or taxable profits were wholly absorbed by estimated tax losses brought forward. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

9. EARNINGS PER SHARE

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

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

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

10. DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30th June 2009 (Six months ended 30th June 2008: Nil).

11. TRADE RECEIVABLES

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

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

12. TRADE PAYABLES

The aged analysis of the trade payables is as follows:

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

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

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

Profit from operations and profit for the period amounted to approximately HK\$120,181,000 and HK\$75,226,000 respectively as compared to profit from operations and profit for the period of HK\$47,009,000 and HK\$11,600,000 respectively for the last corresponding period. The improvement in the current period’s result was mainly attributable to substantial contribution from the sharing of profit streams from investments in gaming and entertainment business in Macau from Best Mind International Inc. (“Best Mind”). Best Mind is the profit receiving company from Ocho Sociedade Unipessoal Limitada (“Ocho”), one of the leading gaming junkets at one of the VIP gaming rooms at the Grand Lisboa Casino in Macau.

Profit attributable to equity owners of the Company for the six months ended 30th June 2009 was HK\$101,236,000, representing a 467% improvement over profit of HK\$17,865,000 for the last corresponding period.

Dividend

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

Business Review

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

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

Business Review (Continued)

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

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

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

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

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

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

Liquidity and Financial Resources

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

As the majority of the Group’s transactions, assets and liabilities are denominated in Hong Kong Dollars, Macau Pataca and United States Dollars, the exposure to fluctuation in exchange rates was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2009, the Group had no contingent liability.

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

Liquidity and Financial Resources (Continued)

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

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

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

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

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

Liquidity and Financial Resources (Continued)

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

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

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

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

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

Material Disposal

Disposal of equipments of China Star Production Services Limited

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

Material Disposal (Continued)

Disposal of Bingo Chance Limited

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

Material Acquisition after Balance Sheet Date

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

Employees

As at 30th June 2009, the Group employed 633 staffs (2008: 78 staffs), including 596 staffs (2008: 30 staffs) employed by Hotel LKF. The directors believe that the quality of its employees is the single most important factor in sustaining the Group’s reputation and improving its profitability. The staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staffs according to the assessment of individual performance.

Prospects

During the period under review, the gaming and entertainment business continues its dominant contribution and provides stable cash income to the Group. The Group believes that the Macau gaming and entertainment business would growth internationally when its infrastructural development becomes more matured. One of our major investment, Hotel LKF has its grand opening on 2nd August 2009 which has attracted wide attention of the hotel and casino market. Hotel LKF is a unique, contemporary and cozy hotel which features comfortable suites, exciting dining, cool bars and exclusive gaming rooms. The income stream of the Group will become more

Prospects (Continued)

solid and stable following the grand opening of Hotel LKF. The performance of the gaming and entertainment business has encouraged and strengthened the Group's confidence in the prospect and development in Macau. On 29th April 2009, the Group has entered into a sale and purchase agreement to purchase the Macau Land. It is intended that luxury residential apartments be developed on the Macau Land for sale. The development costs of the Macau Land are intended to be financed by proceeds from pre-sale of the apartments and bank borrowings.

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30th June 2009, except for the following deviation:

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

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code 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 2009. The Model Code also applies to other specified senior management of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2009.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

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

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

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

PUBLICATION OF INTERIM REPORT

The Company's 2009 interim report will be dispatched to the shareholders of the Company on or before 30th September 2009 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
Heung Wah Keung
Chairman

Hong Kong, 25th September 2009

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