

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 (collectively referred to as the "Group") for the six months ended 30th June 2017 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2017

	Notes	Six months ended 30th June	
		2017	2016
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Continuing operations			
Revenue	4	335,631	363,020
Cost of sales		(179,924)	(207,571)
		<hr/>	<hr/>
Gross profit		155,707	155,449
Other revenue and other income	5	58,447	63,986
Administrative expenses		(182,015)	(184,308)
Marketing, selling and distribution expenses		(19,187)	(20,213)
Other operating expenses		(51,414)	(25,370)
Loss arising on change in fair value of financial assets at fair value through profit or loss		(57,186)	(12,688)
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Loss from operations		(95,648)	(23,144)
Finance costs	6	(31,835)	(15,571)
Share of results of joint ventures		83	(252)
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Loss before tax	7	(127,400)	(38,967)
Income tax expense	8	(12)	–
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Loss for the period from continuing operations		(127,412)	(38,967)
Discontinued operations			
Profit/(loss) for the period from discontinued operations	9	270	(119)
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Loss for the period		(127,142)	(39,086)
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Loss for the period attributable to:			
Owners of the Company		(127,184)	(39,086)
Non-controlling interests		42	–
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		(127,142)	(39,086)
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CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

For the six months ended 30th June 2017

	Notes	Six months ended 30th June 2017 HK cents (Unaudited)	2016 HK cents (Unaudited)
(Loss)/earnings per share	10		
From continuing and discontinued operations			
Basic		<u><u>(14.07)</u></u>	<u><u>(5.18)</u></u>
Diluted		<u><u>(14.07)</u></u>	<u><u>(5.18)</u></u>
From continuing operations			
Basic		<u><u>(14.10)</u></u>	<u><u>(5.17)</u></u>
Diluted		<u><u>(14.10)</u></u>	<u><u>(5.17)</u></u>
From discontinued operations			
Basic		<u><u>0.03</u></u>	<u><u>(0.01)</u></u>
Diluted		<u><u>0.03</u></u>	<u><u>(0.01)</u></u>

The accompanying notes form an integral part of these condensed consolidated financial statements.



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2017

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(127,142)	(39,086)
Other comprehensive (loss)/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	(75)	(2)
Reclassification adjustments relating to foreign operations disposed of during the period	58	–
Other comprehensive loss for the period	(17)	(2)
Total comprehensive loss for the period	(127,159)	(39,088)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(127,201)	(39,088)
Non-controlling interests	42	–
	(127,159)	(39,088)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2017

	Notes	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	338,606	361,857
Interests in leasehold land		384,404	395,297
Investment properties	12	77,900	82,620
Available-for-sale financial assets		173	–
Intangible assets		–	7,582
Loan to a director	13	278,654	–
Deposit paid for investment		–	400,000
Interests in joint ventures		244	161
		1,079,981	1,247,517
Current assets			
Inventories		7,129	66,006
Stock of properties	14	1,978,970	583,240
Film rights		21,446	21,446
Films in progress		93,632	81,461
Investment in film		–	11,325
Trade receivables	15	209,218	231,777
Deposits, prepayment and other receivables		141,871	152,560
Financial assets at fair value through profit or loss	16	457,838	286,933
Loan receivables	17	200,000	825,000
Amount due from a joint venture		250	–
Cash and cash equivalents		611,717	769,939
		3,722,071	3,029,687
Assets classified as held for sale	18	5,696	–
		3,727,767	3,029,687
Total assets		4,807,748	4,277,204



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30th June 2017

	Notes	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Capital and reserves			
Share capital	19	9,037	9,037
Reserves		3,072,026	3,199,325
Equity attributable to owners of the Company			
Non-controlling interests		3,081,063 (96)	3,208,362 (435)
Total equity		3,080,967	3,207,927
Non-current liabilities			
Bank borrowings	20	610,000	670,000
Promissory note	21	247,695	–
Obligations under finance leases		237	353
Deferred tax liabilities		80,888	82,948
		938,820	753,301
Current liabilities			
Bank borrowings	20	120,000	133,513
Obligations under finance leases		231	231
Trade payables	22	24,587	43,820
Deposits received, accruals and other payables		140,005	138,202
Amounts due to non-controlling interests		503,116	210
Tax payable		12	–
		787,951	315,976
Liability classified as held for sale	18	10	–
		787,961	315,976
Total liabilities		1,726,781	1,069,277
Total equity and liabilities		4,807,748	4,277,204
Net current assets		2,939,806	2,713,711
Total assets less current liabilities		4,019,787	3,961,228

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2017

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Share-based payment reserve HK\$'000	Bonus convertible bonds reserve HK\$'000	Capital reduction reserve HK\$'000	Property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st January 2016 (Audited)	7,531	1,411,925	1,925,439	733	291	88,834	1,132	316,008	48,171	(333,874)	3,466,190	(433)	3,465,757
Loss for the period	-	-	-	-	-	-	-	-	-	(39,086)	(39,086)	-	(39,086)
Other comprehensive loss for the period	-	-	-	(2)	-	-	-	-	-	-	(2)	-	(2)
Total comprehensive loss for the period	-	-	-	(2)	-	-	-	-	-	(39,086)	(39,088)	-	(39,088)
Expiry of share options	-	-	-	-	-	(8,747)	-	-	-	8,747	-	-	-
At 30th June 2016 (Unaudited)	7,531	1,411,925	1,925,439	731	291	80,087	1,132	316,008	48,171	(364,213)	3,427,102	(433)	3,426,669
At 1st January 2017 (Audited)	9,037	1,488,186	1,925,439	747	291	76,144	1,132	316,008	48,171	(656,793)	3,208,362	(435)	3,207,927
(Loss)/profit for the period	-	-	-	-	-	-	-	-	-	(127,184)	(127,184)	42	(127,142)
Other comprehensive loss for the period	-	-	-	(17)	-	-	-	-	-	-	(17)	-	(17)
Total comprehensive (loss)/income for the period	-	-	-	(17)	-	-	-	-	-	(127,184)	(127,201)	42	(127,159)
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	-	(98)	(98)	(58)	(156)
Non-controlling interests arising on acquisition	-	-	-	-	-	-	-	-	-	-	-	(70)	(70)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	425	425
Lapsed of share options	-	-	-	-	-	(6,284)	-	-	-	6,284	-	-	-
Expiry of share options	-	-	-	-	-	(10,070)	-	-	-	10,070	-	-	-
At 30th June 2017 (Unaudited)	9,037	1,488,186	1,925,439	730	291	59,790	1,132	316,008	48,171	(767,721)	3,081,063	(96)	3,080,967



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2017

	Six months ended 30th June 2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from/(used in) operations	11,584	(254,732)
Tax refund	-	153
Net cash generated from/(used in) operating activities	11,584	(254,579)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	35,404	54,141
Loan advanced to a director	(500,000)	-
Repayment of loan receivables	625,000	60,000
Net cash inflow arising on disposal of subsidiaries	65,498	-
Net cash outflow arising on other investing activities	(8,387)	(7,953)
Net cash generated from investing activities	217,515	106,188
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(13,570)	(15,901)
Repayment of promissory note	(300,000)	-
New bank borrowings raised	-	29,908
Repayment of bank borrowings	(73,513)	(96,393)
Net cash outflow arising on other financing activities	(272)	(120)
Net cash used in financing activities	(387,355)	(82,506)
Decrease in cash and cash equivalents	(158,256)	(230,897)
Cash and cash equivalents at the beginning of the reporting period	769,939	1,051,692
Reclassification to assets held for sale	(46)	-
Effect of foreign exchange rate changes	80	(2)
Cash and cash equivalents at the end of the reporting period	611,717	820,793

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2017

I. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group (the "Interim Financial Information") 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 "Stock Exchange").

The Interim Financial Information have been prepared in accordance with the same accounting policies applied in 2016 annual financial statements.

The Interim Financial Information have been prepared on the historical cost basis except for certain properties and financial instruments 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 Information 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 Information have been prepared in accordance with the same accounting policies applied in 2016 annual financial statements, except for the impact of the application of the new and revised standards, amendments and Interpretations (collectively referred to as the "new and amendments to HKFRSs") described below.

In the current period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA, which are effective for the Group's financial period beginning from 1st January 2017. A summary of the new and amendments to HKFRSs applied by the Group is set out as follows:

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014-2016 Cycle

The application of the new and amendments to HKFRSs has no material impact on the Interim Financial Information for the current and/or prior periods.

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

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 purpose of monitoring segment performance and allocating resources between segments and that are used to make strategic decisions.

The Group has five reportable segments during the six months ended 30th June 2017 and 30th June 2016 – hotel and gaming service operations, film related business operations, property development operations, Nam Pei Hong operations and gaming promotion operations. The segmentations are based on the information about the operations of the Group that management uses to make 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, provision of right to occupy site and marketing services for gaming operation in Hotel Lan Kwai Fong Macau |
| Film related business operations | – | Investment, production and distribution of films and television drama series, provision of other film related services including artist management services |
| Property development operations | – | Investing and development of properties located in Hong Kong and Macau |

Discontinued operations

- | | | |
|-----------------------------|---|--|
| 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 |
| Gaming promotion operations | – | Investing in operations which receive profit streams from the gaming promotion business |

The segment information of Nam Pei Hong operations and gaming promotion operations are disclosed in note 9 to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

3. SEGMENT INFORMATION (Continued)**Continuing operations**

Segment information about these operations is presented as below:

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

	Segment revenue		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hotel and gaming service operations	334,274	362,166	674	(21,672)
Film related business operations	1,349	764	(3,062)	(2,560)
Property development operations	8	90	352	(25,544)
	335,631	363,020	(2,036)	(49,776)
Reconciliation from segment results to loss before tax from continuing operations				
Unallocated corporate income			41,941	47,271
Loss arising on change in fair value of financial assets at fair value through profit or loss			(57,186)	(12,688)
Share of results of joint ventures			83	(252)
Unallocated corporate expenses			(110,202)	(23,522)
Loss before tax			(127,400)	(38,967)

Segment revenue reported above represents revenue generated from external customers.

Segment results represent the profit earned/(loss suffered) by each segment without allocation of central administrative expenses, partial finance costs, loss on early redemption on promissory note and impairment loss recognised in respect of amount due from a joint venture under the heading of "unallocated corporate expenses", partial other revenue and other income under the heading of "unallocated corporate income", loss arising on change in fair value of financial assets at fair value through profit or loss and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

3. SEGMENT INFORMATION (Continued)

Continuing operations (Continued)

(b) An analysis of the Group's financial position by operating segments

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
ASSETS		
<i>Segment assets</i>		
– Hotel and gaming service operations	1,045,136	926,040
– Film related business operations	276,701	355,941
– Property development operations	2,071,218	672,984
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Total segment assets	3,393,055	1,954,965
Assets classified as held for sale	5,696	–
Assets related to discontinued operations	–	119,795
Unallocated assets	1,408,997	2,202,444
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	4,807,748	4,277,204
	<hr/> <hr/>	<hr/> <hr/>
	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
LIABILITIES		
<i>Segment liabilities</i>		
– Hotel and gaming service operations	64,712	69,945
– Film related business operations	77,111	74,315
– Property development operations	506,052	3,174
	<hr/>	<hr/>
Total segment liabilities	647,875	147,434
Liability classified as held for sale	10	–
Liabilities related to discontinued operations	–	33,461
Unallocated liabilities	1,078,896	888,382
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	1,726,781	1,069,277
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

3. SEGMENT INFORMATION (Continued)**Continuing operations (Continued)****(b) An analysis of the Group's financial position by operating segments (Continued)**

For the purposes of resource allocation and performance assessment between segments:

- all assets are allocated to reportable segments, other than available-for-sale financial assets, loan to a director, deposit paid for investment, interests in joint ventures, partial deposits, prepayment and other receivables, financial assets at fair value through profit or loss, loan receivables, amount due from a joint venture, partial cash and cash equivalents, partial property, plant and equipment and interests in leasehold land for central administration purposes; and
- all liabilities are allocated to reportable segments, other than partial bank borrowings, promissory note, partial obligations under finance leases, deferred tax liabilities, partial deposits received, accruals and other payables and tax payable.

(c) Geographical information

The following table sets out information about geographical location of (i) revenue from external customers and (ii) non-current assets. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of non-current assets are based on the physical location of the assets.

	Revenue from external customers		Non-current assets	
	Six months ended		At 30th	At 31st
	30th June		June	December
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Hong Kong	231	128	426,605	561,877
Macau	334,274	362,166	653,376	685,640
The People's Republic of China (the "PRC")	1,047	726	-	-
Others	79	-	-	-
	335,631	363,020	1,079,981	1,247,517



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

4. REVENUE

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Hotel accommodation income	33,912	53,417
Food and beverage sales	20,418	19,758
Service income from mass market table gaming operations	268,175	275,867
Service income from VIP rooms table gaming operations	9,943	10,822
Service income from slot machines operations	1,826	2,302
Distribution fee income	12	311
Artist management service income	1,024	453
Income from investment in film	313	–
Gross rental income	8	90
	<hr/> 335,631 <hr/>	<hr/> 363,020 <hr/>

5. OTHER REVENUE AND OTHER INCOME

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Interest income	41,117	53,125
Dividend income	3	3
Consultancy service income	473	486
Reversal of impairment loss recognised in respect of trade receivables	85	–
Management fee income	280	1,014
Other ancillary hotel revenue	9,268	5,083
Gain on disposal of property, plant and equipment	691	1,012
Net foreign exchange gain	6,347	–
Sundry income	183	3,263
	<hr/> 58,447 <hr/>	<hr/> 63,986 <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

6. FINANCE COSTS

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Interest on:		
Bank borrowings	13,383	15,553
Promissory note	18,434	–
Finance leases	18	18
	31,835	15,571

7. LOSS BEFORE TAX

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Loss before tax has been arrived at after charging/(crediting):		
Amortisation of interests in leasehold land	10,893	11,579
Cost of inventories sold (included in cost of sales)	6,155	6,472
Depreciation of property, plant and equipment	29,984	35,477
Employee benefit expenses (included directors' remunerations)	86,098	81,188
Impairment loss recognised in respect of amount due from a joint venture	–	12
(Gain)/loss on fair value change of investment properties (included in other operating expenses)	(920)	25,370
Loss arising on change in fair value of financial assets at fair value through profit or loss	57,186	12,688
Loss on early redemption on promissory note (included in other operating expenses)	52,334	–
Net foreign exchange (gain)/loss	(6,347)	1,559
Operating lease rental in respect of premises	3,247	2,592
Write-down of obsolete inventories	18	35
Gross rental income from investment properties	(8)	(90)
Less: Direct operating expenses incurred for investment properties during the period	68	70
	60	(20)



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

8. INCOME TAX EXPENSE

Six months ended 30th June	
2017	2016
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Continuing operations

Macau Complementary Tax:

– Under provision in prior years

12	–
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Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. The PRC subsidiaries are subject to the 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 have 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 profit arising in Macau.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

9. DISCONTINUED OPERATIONS

On 29th March 2017, the Group entered into a conditional sale and purchase agreement to dispose of the entire equity interest in Ace Season Holdings Limited ("Ace Season"), a wholly-owned subsidiary of the Company, and its subsidiaries which carried out the Nam Pei Hong operations, and a sale loan due by Ace Season at total consideration of HK\$85,000,000. The disposal of Nam Pei Hong operations was consistent with the Group's long-term policy to focus its activities on the Group's other business. The disposal was completed on 30th June 2017, on which date the control of Nam Pei Hong operations passed to the acquirer. Details of the assets and liabilities disposed of and the calculation of the loss on disposal, are disclosed in note 24 to the condensed consolidated financial statements.

On 25th October 2016, the Group entered into a termination agreement pursuant to which the Group agreed to terminate the rights in sharing of profit streams from the gaming promotion business represented the rights in sharing of 0.4% of rolling turnover generated from a casino VIP room located in Macau at an amount of HK\$10,000,000. The termination of gaming promotion operations was consistent with the Group's long-term policy to focus its activities on the Group's other business. The termination was completed on 30th October 2016, on which date the rights in sharing of profit streams ceased and the intangible assets associated with this gaming promotion operations no longer existed.

Profit/(loss) for the period from the discontinued operations are analysed as follows:

	Period from 1st January 2017 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2016 HK\$'000 (Unaudited)
Profit/(loss) for the period from Nam Pei Hong operations	869	(1,427)
Loss on disposal of Nam Pei Hong operations	(599)	-
	270	(1,427)
Profit for the period from gaming promotion operations	-	1,308
Profit/(loss) for the period from discontinued operations	270	(119)
Profit/(loss) for the period from discontinued operations attributable to:		
Owners of the Company	264	(119)
Non-controlling interests	6	-
	270	(119)



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

9. DISCONTINUED OPERATIONS (Continued)

Profit/(loss) of the Nam Pei Hong operations and gaming promotion operations for the period, which have been included in the condensed consolidated income statement, were as follows:

	Period from 1st January 2017 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2016 HK\$'000 (Unaudited)
Revenue	74,805	79,179
Cost of sales	(49,904)	(52,133)
	<hr/>	<hr/>
Gross profit	24,901	27,046
Other revenue and other income	52	9
Administrative expenses	(4,285)	(4,786)
Marketing, selling and distribution expenses	(19,769)	(21,786)
Other operating expenses	-	(449)
	<hr/>	<hr/>
Profit from operations	899	34
Finance costs	(30)	(153)
	<hr/>	<hr/>
Profit/(loss) before tax	869	(119)
Income tax expenses	-	-
	<hr/>	<hr/>
Profit/(loss) for the period from discontinued operations	869	(119)
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

9. DISCONTINUED OPERATIONS (Continued)

Profit/(loss) for the period from discontinued operations has been arrived at after charging/(crediting):

	Period from 1st January 2017 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2016 HK\$'000 (Unaudited)
Cost of inventories sold (included in cost of sales)	46,098	48,522
Depreciation of property, plant and equipment	463	1,498
Employee benefit expenses (included directors' remunerations)	9,364	8,917
Impairment loss recognised in respect of intangible assets (included in other operating expenses)	-	449
Net foreign exchange (gain)/loss	(21)	69
Loss on disposal of property, plant and equipment	1	3
Operating lease rental in respect of premises	8,235	8,439
	_____	_____

Cash flows of the discontinued operations for the period were as follows:

	Period from 1st January 2017 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2016 HK\$'000 (Unaudited)
Net cash (outflow)/inflow from operating activities	(6,650)	7,472
Net cash outflow from investing activities	(291)	(375)
Net cash outflow from financing activities	(13,543)	(6,638)
	_____	_____
Net cash (outflow)/inflow	(20,484)	459
	_____	_____



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

10. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations

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

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share		
(loss for the period attributable to owners of the Company)	(127,184)	(39,086)
	<u><u> </u></u>	<u><u> </u></u>
	Six months ended 30th June	
	2017	2016
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	903,764	754,164
	<u><u> </u></u>	<u><u> </u></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, 1,060,317 (30th June 2016: 1,060,317) fully paid ordinary shares of HK\$0.01 each which shall be convertible from an aggregated amount of approximately HK\$265,000 (30th June 2016: HK\$265,000) outstanding bonus convertible bonds are included in the weighted average number of ordinary shares for calculating the basic loss per share for the six months ended 30th June 2017 and 30th June 2016.

As the Company's outstanding share options where applicable had an anti-dilutive effect to the basic loss per share computation for the six months ended 30th June 2017 and 30th June 2016, the exercise of the above potential dilutive shares is not assumed in the computation of diluted loss per share for the six months ended 30th June 2017 and 30th June 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

10. (LOSS)/EARNINGS PER SHARE (Continued)**From continuing operations**

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

Six months ended 30th June	
2017	2016
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Loss

Loss for the purpose of basic and diluted loss per share
(loss for the period from continuing operations
attributable to owners of the Company)

(127,448)	(38,967)
<u><u>(127,448)</u></u>	<u><u>(38,967)</u></u>

The weighted average number of ordinary shares used herein are same as those detailed above for the purpose of basic and diluted loss per share from continuing and discontinued operations respectively.

From discontinued operations

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

Period from 1st January 2017 to respective date of disposal of subsidiaries 2017	Six months ended 30th June 2016
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Earnings/(loss)

Earnings/(loss) for the purpose of basic and diluted
earnings/(loss) per share (profit/(loss) for the period from
discontinued operations attributable to owners of the
Company)

264	(119)
<u><u>264</u></u>	<u><u>(119)</u></u>

The weighted average number of ordinary shares used herein are same as those detailed above for the purpose of basic and diluted loss per share from continuing and discontinued operations respectively.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the six months ended 30th June 2017

11. DIVIDEND

No interim dividend was paid or proposed during the six months ended 30th June 2017 and 30th June 2016, nor any dividend been proposed by the Board subsequent to the end of the reporting period.

12. PROPERTY, PLANT AND EQUIPMENT / INVESTMENT PROPERTIES**(a) Acquisition**

During the period under review, the Group acquired property, plant and equipment with a cost of approximately HK\$9,308,000 (six months ended 30th June 2016: HK\$8,988,000).

(b) Valuation

The valuation of investment properties carried at fair value were updated at 30th June 2017 by an independent firm of surveyors, JP Assets Consultancy Limited, using the same valuation techniques as were used by the surveyors when carrying out valuations on 31st December 2016. As a result of the update, gain on fair value change of investment properties of approximately HK\$920,000 (six months ended 30th June 2016: loss of approximately HK\$25,370,000) has been recognised in the condensed consolidated income statement for the six months ended 30th June 2017 in respect of investment properties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

13. LOAN TO A DIRECTOR

	At	At
	30th June	31st December
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
At the beginning of the reporting period	–	–
Loan portion advanced at initial recognition	271,908	–
Imputed interest income	12,636	–
Interest received and receivables	(5,890)	–
	<hr/>	<hr/>
At the end of the reporting period	278,654	–
	<hr/> <hr/>	<hr/> <hr/>

On 29th November 2016, Best Combo Limited ("Best Combo"), a wholly-owned subsidiary of the Company, as a lender, and Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), the director of the Company, as a borrower, entered into a loan agreement (the "Loan Agreement") pursuant to which Best Combo has agreed to grant to Ms. Chen a fixed term loan (the "Loan") in the principal amount of HK\$500,000,000 (subject to the loan amount adjustment). The Loan is interest bearing at 5% per annum, repayable on the date falling 60 months from the drawdown date of the Loan and secured by way of a share charge over the entire issued share capital of Reform Base Holdings Limited ("Reform Base"), a company incorporated in the British Virgin Islands and wholly owned by Ms. Chen.

Pursuant to the Loan Agreement, Ms. Chen has agreed to grant the call option (the "Call Option") to Best Combo which allows Best Combo to require Ms. Chen to sell the entire issued share capital of Reform Base at HK\$500,000,000 (subject to the loan amount adjustment) during the exercise period falling on the expiry of 60 months from the drawdown date of the Loan.

On 6th April 2017, the drawdown date of the Loan, the directors of the Company has recognised the amount of approximately HK\$271,908,000 and HK\$228,092,000 for the loan portion and the call option portion respectively by reference to the fair value arrived on the basis of valuation carried out by Graval Consulting Limited, an independent qualified professional valuers. The effective interest rate of loan to a director on initial recognition is 20.76%.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

14. STOCK OF PROPERTIES

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Properties under development held for sales		
At the beginning of the reporting period	583,240	567,973
Additions	7,645	15,267
Acquisition of assets through acquisition of subsidiaries (note 23)	<u>1,388,085</u>	<u>–</u>
At the end of the reporting period	<u><u>1,978,970</u></u>	<u><u>583,240</u></u>

The stock of properties is located in Macau and held under medium-term leases.

Properties under development held for sales are expected to be recovered after more than one year.

In September 2013, the government of Macau Special Administrative Region (the "Macau SAR Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to the delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the property located in Lot 6B at Zona de Aterros do Porto Exterior (ZAPE) ("Lot 6B"), Lot 6B could not commence development and the Macau SAR Government has started the administrative work to reclaim it. Lot 6B is one of the four lots of land held under development and is intended to be developed as recreational area in front of Hotel Lan Kwai Fong Macau. The Group has filed an appeal to the president of the Macau Second Instance Court on 30th December 2016 and the Second Instance Court has not ruled on this matter yet.

Based on a legal opinion obtained by the Group, the Group has sufficient grounds to apply to the courts of the Macau for remedies in all aspects. A few legal actions have been initiated by the legal representatives of the Group and are now in progress. Based on the opinion of the legal expert, the Courts will consider and judge on the essential points regarding the delays caused by the Macau SAR Government and the right of the Group to claim for compensation of loss.

As the outcome of the appeal is still uncertain, the directors of the Company have taken into account all available evidence, including the opinion of legal experts and believe that the Group has strong legal grounds to obtain a favourable judgement and seek for legal compensation. No impairment loss should be recognised in respect of stock of properties was considered necessary at 30th June 2017 and at 31st December 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

15. TRADE RECEIVABLES

The following is 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 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
0 to 30 days	145,940	181,366
31 to 60 days	818	3,978
61 to 90 days	764	538
Over 90 days	61,696	45,895
	209,218	231,777

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

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Listed securities classified as held for trading investments:		
– Equity securities listed in Hong Kong, at fair value	234,034	286,933
Derivative financial instruments:		
– Call Option embedded in loan to a director	223,804	–
	457,838	286,933



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

At the end of the reporting period, all financial assets at fair value through profit or loss are stated at fair value. Fair value of listed securities classified as held for trading investments are determined with reference to quoted market closing price.

At the end of the reporting period, the fair value of the Call Option with the amount of approximately HK\$223,804,000 was arrived on the basis of valuation carried out by Graval Consulting Limited, an independent qualified professional valuers. The fair value of the Call Option was valued by using the discounted cash flow method with discount rate of 21.22% at 30th June 2017. A discount rate is the expected rate of return (or yield) that an investor would have to give up by investing in the subject investment instead of other available alternative investments that are comparable in terms of risk and other investment characteristics.

17. LOAN RECEIVABLES

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Fixed-rate loan receivables	200,000	825,000

Loan receivables are interest bearing at 3% per annum (31st December 2016: 3% to 12%) and repayable after the date falling 24 months (31st December 2016: 24 months) from the first drawdown date. Loan receivables contain a clause of repayable on demand and thus classified as current assets.

At the end of the reporting period, loan receivables with amounts of nil (31st December 2016: HK\$150,000,000) are secured by the personal guarantees of the sole beneficial owner and director of the respective borrowers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*For the six months ended 30th June 2017***18. ASSETS AND LIABILITY CLASSIFIED AS HELD FOR SALE**

On 9th May 2017, the Group entered into a conditional sale and purchase agreement, in which the Group agreed to sale and the purchaser agreed to buy, the entire equity interest in Rainbow Profit Limited ("Rainbow Profit"), a wholly-owned subsidiary of the Company, and a sale loan due by Rainbow Profit at total consideration of HK\$6,800,000. Rainbow Profit is engaged in property investment operations in Hong Kong. The assets and liability attributable to Rainbow Profit, which the disposal of Rainbow Profit has been completed on 18th July 2017, have been classified as held for sale and are presented separately in the condensed consolidated statement of financial position.

The major classes of assets and liability of Rainbow Profit classified as held for sale are as follows:

	Total HK\$'000 (Unaudited)
<i>Assets of Rainbow Profit classified as held for sale at 30th June 2017</i>	
Investment property	5,640
Deposits and prepayment	10
Cash and bank balances	46
	<hr/>
	5,696
	<hr/> <hr/>
<i>Liability of Rainbow Profit classified as held for sale at 30th June 2017</i>	
Accruals	(10)
	<hr/> <hr/>
Net assets of Rainbow Profit classified as held for sale at 30th June 2017	5,686
	<hr/> <hr/>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

19. SHARE CAPITAL

	Number of shares		Amount	
	At 30th June 2017 '000 (Unaudited)	At 31st December 2016 '000 (Audited)	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Ordinary shares of HK\$0.01 each				
Authorised:				
At the beginning/end of the reporting period	50,000,000	50,000,000	500,000	500,000
	Number of shares		Amount	
	At 30th June 2017 '000 (Unaudited)	At 31st December 2016 '000 (Audited)	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Issued and fully paid:				
At the beginning of the reporting period	903,704	753,104	9,037	7,531
Placement of shares (note)	-	150,600	-	1,506
At the end of the reporting period	903,704	903,704	9,037	9,037

Note: On 28th October 2016, the Company allotted and issued an aggregate 150,600,000 new shares of HK\$0.01 each at a price of HK\$0.53 per share. The net proceeds of approximately HK\$77,767,000 were intended to be used for film production.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

20. BANK BORROWINGS

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Secured bank borrowing	730,000	790,000
Unsecured bank borrowings	–	13,513
	730,000	803,513
Carrying amount repayable:		
Within one year	120,000	133,513
More than one year, but not exceeding two years	120,000	120,000
More than two years, but not more than five years	360,000	360,000
Over five years	130,000	190,000
	730,000	803,513
Less: Amount shown under current liabilities	(120,000)	(133,513)
Amount shown under non-current liabilities	610,000	670,000

At 30th June 2017, the Group had secured bank borrowing with the remaining balance of HK\$730,000,000 (31st December 2016: HK\$790,000,000) which is secured by the Group's buildings and interests in leasehold land with carrying amounts of approximately HK\$204,909,000 (31st December 2016: HK\$207,896,000) and HK\$328,186,000 (31st December 2016: HK\$338,142,000) respectively, quota capital of Hotel Lan Kwai Fong (Macau) Limited and Classic Management & Services Company Limited ("Classic Management"). The secured bank borrowing is also guaranteed by the Company and Classic Management. The secured bank borrowing is interest bearing at 3.5% per annum (Hong Kong Prime Rate 5.25% less margin 1.75%) and repayable by remaining of 22 equal consecutive quarterly instalments of HK\$30,000,000 per quarter and a final repayment of HK\$70,000,000 at the maturity date of the secured bank borrowing.

At 31st December 2016, the Group had unsecured import trade loans of approximately HK\$13,513,000. The unsecured import trade loans are personally guaranteed by an ex-shareholder of NPH Holdings Limited, interest bearing at 2% per annum over one month Hong Kong Inter-bank Offered Rate and repayable on demand.

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

21. PROMISSORY NOTE

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
At the beginning of the reporting period	-	-
Issue of promissory note (note i and note 23)	483,913	-
Imputed interest on promissory note	18,434	-
Interest paid and payable	(6,986)	-
Repayment of promissory note (note ii)	(300,000)	-
Loss on early redemption on promissory note (note ii)	52,334	-
	<hr/>	<hr/>
At the end of the reporting period	247,695	-
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) On 6th April 2017, the Company acquired the entire equity interest in Modern Vision (Asia) Limited ("Modern Vision") and its subsidiaries and the sale loan due by Modern Vision with total consideration of HK\$1,000,000,000, in which HK\$600,000,000 was settled by issue of promissory note to Ms. Chen by the Company. The promissory note was unsecured, interest bearing at 5% per annum calculated on the basis of 365-day year and payable semi-annually in arrears and mature 24 months from the date of issue of the promissory note. The Company can give a notice to Ms. Chen not less than ten business day's prior notice in writing of its intention to repay any part of the outstanding principal amount of the promissory note. The early repayment option is closely related to the host contract. The fair value of promissory note with the amount of approximately HK\$483,913,000 have been arrived upon issue on the basis of valuation carried out by Graval Consulting Limited, an independent qualified professional valuers. The effective interest rate of the promissory note at the issuance date is 17.49%.
- (ii) On 29th June 2017, the Company has partially repaid promissory note with principal amount of HK\$300,000,000 to Ms. Chen and loss on early redemption on promissory note with the amount of approximately HK\$52,334,000 was recognised in the condensed consolidated income statement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

22. TRADE PAYABLES

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

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
0 to 30 days	6,776	19,659
31 to 60 days	2,532	6,611
61 to 90 days	92	92
Over 90 days	15,187	17,458
	24,587	43,820

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

23. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES**Acquisition of Modern Vision**

On 29th November 2016, Best Combo as purchaser and Ms. Chen as vendor, entered into a conditional sale and purchase agreement in relating to the acquisition of entire equity interest in Modern Vision and its subsidiaries and a sale loan due by Modern Vision at total consideration of HK\$1,000,000,000 (subject to purchase price adjustment), in which HK\$400,000,000 as a deposit was settled by cash and HK\$600,000,000 was settled by issue of a promissory note. Modern Vision is an investment holding company and the principal activities of Modern Vision and its subsidiaries is property investment and development and its major asset consist of stock of properties located in Macau. The acquisition was completed on 6th April 2017. The acquisition has been accounted for using the acquisition method.

Modern Vision was acquired for expanding the Group's property investment business in Macau.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

23. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of Modern Vision (Continued)

Consideration transferred:

	Face value HK\$'000	Fair value of the consideration HK\$'000
Deposit paid for investment (note)	400,000	400,000
Issue of promissory note (note 21)	600,000	483,913
	<hr/>	<hr/>
Total consideration	1,000,000	883,913
	<hr/> <hr/>	<hr/> <hr/>

The acquisition has been accounted for as an acquisition of assets and liabilities. The effect of the acquisition is summarised as follows:

	HK\$'000
Stock of properties (note 14)	1,388,085
Accruals	(1,126)
Amounts due to non-controlling interests	(503,116)
	<hr/>
Net assets	883,843
Non-controlling interests	70
	<hr/>
Total consideration transferred	883,913
	<hr/> <hr/>

Net cash outflow arising on acquisition of Modern Vision:

	HK\$'000
Net cash outflow	400,000
	<hr/> <hr/>

According to the deed of assignment of loan, the sale loan amounted to approximately HK\$499,909,000 was acquired by the Group upon completion of the acquisition.

Note: During the year ended 31st December 2016, the Group paid HK\$400,000,000 as a deposit for acquisition of Modern Vision.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

23. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES (Continued)**Acquisition of Riche Video Limited (“Riche Video”)**

On 17th February 2017, the Group completed the acquisition of the entire equity interest in Riche Video and a sale loan due by Riche Video at total consideration of HK\$173,000. The principal activity of Riche Video is distribution of films and television drama series. The acquisition has been accounted for using the acquisition method.

Consideration transferred:

	HK\$'000
Cash consideration	173

The acquisition has been accounted for as an acquisition of assets and liabilities. The effect of the acquisition is summarised as follows:

	HK\$'000
Available-for-sale financial assets	173
Cash and cash equivalents	1
Accruals	(1)
Net assets acquired of	173

Net cash outflow arising on acquisition of Riche Video:

	HK\$'000
Cash consideration paid	173
Less: Cash and cash equivalents acquired of	(1)
Net cash outflow	172

According to the deed of assignment of loan, the sale loan amounted to approximately HK\$39,851,000 was acquired by the Group upon completion of the acquisition.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

24. DISPOSAL OF SUBSIDIARIES

Disposal of Ace Season

On 29th March 2017, the Group entered into a conditional sale and purchase agreement to dispose the entire equity interest in Ace Season, which principally engaged in the Nam Pei Hong operations, and a sale loan due by Ace Season at total consideration of HK\$85,000,000. The disposal was completed on 30th June 2017.

Consideration transferred:

	<i>HK\$'000</i>
Cash consideration	85,000

Analysis of assets and liabilities over which control was lost:

	<i>HK\$'000</i>
Property, plant and equipment	1,709
Intangible assets	7,582
Inventories	52,185
Trade receivables	3,841
Deposits, prepayment and other receivables	7,213
Amount due from non-controlling interests	371
Cash and cash equivalents	19,502
Trade payables	(1,837)
Accruals and other payables	(3,274)
Amount due to immediate holding company	(92,724)
Deferred tax liabilities	(2,060)
Net liabilities disposed of	(7,492)

Loss on disposal of Ace Season:

	<i>HK\$'000</i>
Cash consideration received	85,000
Net liabilities disposed of	7,492
Amount due to immediate holding company assigned to the purchaser	(92,724)
Non-controlling interests	(425)
Release of exchange reserve upon disposal of subsidiaries	58
Loss on disposal of Ace Season	(599)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

24. DISPOSAL OF SUBSIDIARIES (Continued)**Disposal of Ace Season (Continued)****Net cash inflow arising on disposal of Ace Season:**

	HK\$'000
Cash consideration received	85,000
Less: cash and cash equivalents disposed of	(19,502)
	<hr/>
Net cash inflow	65,498
	<hr/> <hr/>

25. LEASE COMMITMENTS**The Group as lessee**

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

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Within one year	7,612	15,003
In the second to fifth year inclusive	20,270	10,656
	<hr/>	<hr/>
	27,882	25,659
	<hr/> <hr/>	<hr/> <hr/>

Operating lease payments represented rentals payable by the Group for its premises. Leases are mainly negotiated for a term of 1 to 5 years (31st December 2016: 1 to 5 years). The Group does not have an option to purchase the leased premises at the expiry of the lease period.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

25. LEASE COMMITMENTS (Continued)

The Group as lessor

Property rental income earned during the period was HK\$8,000 (30th June 2016: HK\$90,000). The Group's investment properties are held for rental purposes. They are expected to generate rental yields of 0.01% (30th June 2016: 0.1%) on an ongoing basis.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Within one year	-	8

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

26. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (see note 21 to the condensed consolidated financial statements) of the Group:

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Buildings	204,909	207,896
Interests in leasehold land	328,186	338,142
	533,095	546,038

At 30th June 2017, the Group's obligations under finance leases are secured by the lessors' title to the leased assets, which have carrying amounts of HK\$468,000 (31st December 2016: HK\$584,000).

27. COMMITMENTS

The Group had the following outstanding commitments at the end of the reporting period:

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Authorised and contracted, but not provided for:		
– Development expenditure for stock of properties in Macau	1,340,772	38,690
– Film rights, films in progress and film deposits	11,209	6,118
– Purchases and renovation expenses for property, plant and equipment	342	698
	1,352,323	45,506



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

28. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

	Quoted prices in active market for identical assets (Level 1) HK\$'000	Significant other observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
At 30th June 2017 (Unaudited)				
<i>Fair value on a recurring basis</i>				
Financial assets at fair value through profit or loss:				
– Equity securities listed in Hong Kong	234,034	–	–	234,034
– Call Option embedded in loan to a director	–	–	223,804	223,804
	<u>234,034</u>	<u>–</u>	<u>223,804</u>	<u>457,838</u>

At 31st December 2016 (Audited)

Fair value on a recurring basis

Financial assets at fair value through profit or loss:				
– Equity securities listed in Hong Kong	286,933	–	–	286,933
	<u>286,933</u>	<u>–</u>	<u>–</u>	<u>286,933</u>

The Group's policy is to recognise transfers into and out of fair value hierarchy at the end of the date of the events or change in circumstances that caused the transfer.

During the six months ended 30th June 2017 and during the year ended 31st December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*For the six months ended 30th June 2017***28. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)****(a) Fair value hierarchy (Continued)**

The following table presents the changes in Call Option which are classified as level 3 instruments for the six months ended 30th June 2017:

	Call option embedded in loan to a director HK\$'000
At the beginning of the reporting period	–
Call Option arising on advance of loan to a director	228,092
Loss arising on change in fair value of financial assets at fair value through profit or loss	(4,288)
	<hr/>
At the end of the reporting period	223,804
	<hr/> <hr/>

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable input	Relation of significant unobservable inputs to fair value
Call Option embedded in loan to a director	Binomial option pricing model	Underlying assets value	The underlying assets value is positively correlated to the fair value measurement of the Call Option
		Expected volatility	The expected volatility is positively correlated to the fair value measurement of the Call Option

In estimating the fair value of the Call Option, the management of the Company work closely with Graval Consulting Limited, an independent qualified professional valuers, to establish the appropriate valuation techniques and inputs to the model. The management of the Company reports the findings to the directors of the Company at the end of each reporting period to explain the cause of fluctuations in fair value of the Call Option.

Information about the valuation techniques and inputs used in determining the fair value of the Call Option are disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*For the six months ended 30th June 2017***28. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)****(a) Fair value hierarchy (Continued)**

Binomial option pricing model is used for valuation for the call option component. The inputs into the model at 30th June 2017 are as follows:

	At 30th June 2017	At 31st December 2016
Underlying assets value	HK\$391 million	N/A
Exercise price	HK\$500 million	N/A
Expected volatility	36.58%	N/A
Dividend yield	Nil	N/A
Option life	4.77 years	N/A
Risk free rate	1.10%	N/A

The following table demonstrates the sensitivity of the Group's loss before tax at 30th June 2017 to a reasonably possible change in the underlying assets value, risk-free rate and expected volatility of comparable companies:

	Increase/ (decrease) in percentage	Effect on loss before tax
Underlying assets value	10%	45,707,332
Underlying assets value	(10%)	(41,509,342)
Risk-free rate	10%	(2,145,288)
Risk-free rate	(10%)	2,157,305
Expected Volatility	10%	30,386,656
Expected Volatility	(10%)	(26,456,964)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

28. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)**(b) Fair values of financial assets and liabilities**

The carrying amounts of the Group's financial assets and financial liabilities recognised in the Interim Financial Information are not materially different from their fair values at 30th June 2017 and 31st December 2016, except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 30th June 2017		At 31st December 2016	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Loan to a director	278,654	279,806	—	—
Promissory note	247,695	260,143	—	—

29. TRANSACTION WITH NON-CONTROLLING INTERESTS**Acquisition of 40% equity interests in Turbo International Company Limited ("Turbo")**

On 23rd May 2017, the Group further acquired 40% equity interest of the issued share capital in Turbo at total consideration of HK\$156,000. As a result of the acquisition, the Group's shareholding in Turbo increased from 60% to 100%. The Group recognised a decrease in non-controlling interests of approximately HK\$58,000 and a decrease in equity attributable to owners of the Company of approximately HK\$98,000.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

30. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period under review, the Group entered into the following transactions with its related parties:

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Nature of transactions		
Income received from family member of the substantial shareholders and the directors of the company:		
Rental income	8	90
Income received from a joint venture:		
Management fee income	250	734
Income received and receivable from substantial shareholder and director of the Company:		
Loan interest income	12,636	–
Expense paid and payable to substantial shareholder and director of the Company:		
Interest on promissory note	18,434	–
	18,434	–

- (b) On 6th April 2017, Best Combo had granted the Loan with the amount of HK\$500,000,000 to Ms. Chen. The Loan is interest bearing at 5% per annum, repayable on the date falling 60 months from the drawdown date of the Loan and secured by way of a share charge over the entire issued share capital of Reform Base, a company incorporated in the British Virgin Islands and wholly owned by Ms. Chen. Pursuant to the Loan Agreement, Ms. Chen has agreed to grant the Call Option to Best Combo which allows Best Combo require Ms. Chen to sell the entire issued share capital of Reform Base at HK\$500,000,000 (subject to the loan amount adjustment). The Loan was also considered as a connected transaction pursuant Chapter 14A of the Listing Rules.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2017

30. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

- (c) On 6th April 2017, Best Combo, a wholly-owned subsidiary of the Company, had acquired the entire issued share capital of Modern Vision from Ms. Chen, and a sale loan with the amount of approximately HK\$499,909,000 (the "Acquisition") due to Ms. Chen at an aggregate consideration of HK\$1,000,000,000 (subject to purchase price adjustment) (the "Consideration"). The Consideration was satisfied by (i) the payment of HK\$400,000,000 as a deposit upon the signing of the S&P Agreement to Ms. Chen; and (ii) the issue of the promissory note with a principal amount of HK\$600,000,000 by the Company to Ms. Chen for the balance upon date of completion of the Acquisition. The promissory note is interest bearing at 5% per annum and will be matured after 24 months from the date of issue of the promissory note. The Acquisition was also considered as a connected transaction pursuant Chapter 14A of the Listing Rules.

31. MAJOR NON-CASH TRANSACTION

The Group entered into the following major non-cash investing and financing activity which are not reflected in the condensed consolidated statement of cash flows:

On 6th April 2017, Best Combo had acquired the entire equity interest in Modern Vision with an aggregate consideration of HK\$1,000,000,000 (subject to purchase price adjustment), in which amount of HK\$400,000,000 and HK\$600,000,000 was settled by deposit paid for investment and the issue of the promissory note to Ms. Chen respectively.

32. EVENTS AFTER THE REPORTING PERIOD

On 18th July 2017, the Group had completed to the disposal of the entire issued share capital of Rainbow Profit and the sale loan due by Rainbow Profit at total consideration of approximately HK\$6,800,000.

33. APPROVAL AND AUTHORISATION FOR ISSUE OF INTERIM FINANCIAL INFORMATION

The Interim Financial Information were approved and authorised for issue by the Board of Directors on 29th August 2017.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

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11 Pedder Street
Central
Hong Kong

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 1 to 42, which comprise the condensed consolidated statement of financial position of China Star Entertainment Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") as of 30th June 2017 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on the interim financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of the interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENT REVIEW REPORT (Continued)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements is not prepared, in all material respects, in accordance with HKAS 34.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Hon Koon Fai, Alex

Practising Certificate Number: P05029

Hong Kong, 29th August 2017



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30th June 2017, the Group recorded revenue from continuing operations of approximately HK\$335,631,000 representing a decrease of 8% as compared to HK\$363,020,000 for the last corresponding period.

Loss for the period amounted to approximately HK\$127,142,000 representing an increase of 225% as compared to HK\$39,086,000 for the last corresponding period. Such significant increase in loss is mainly attributable to, including but not limited to (i) loss on early redemption on promissory note issued by the Company of approximately HK\$52,334,000; (ii) the recognition of unrealised loss of approximately HK\$57,186,000 arising on change in fair value of financial assets at fair value through profit or loss as compared to unrealised loss of HK\$12,688,000 recognised in the last corresponding period which mainly represented the decrease in market values of the Group's equity securities listed in Hong Kong as at 30 June 2017; and (iii) increase in finance costs by the amount of approximately HK\$16,264,000 from the last corresponding period. The effect of such increase is partially offset by the recognition of gain on fair value change of investment properties of approximately HK\$920,000 during this period as compared to loss of HK\$25,370,000 in the last corresponding period.

Loss for the period from continuing operations amounted to approximately HK\$127,412,000, representing an increase of 227% from HK\$38,967,000. Profit for the period from discontinued operations amounted to HK\$270,000 as compared to loss from discontinued operations of HK\$119,000 for the last corresponding period.

Loss attributable to owners of the Company for the six months ended 30th June 2017 amounted to HK\$127,184,000, representing an increase of 225% from HK\$39,086,000 for the last corresponding period.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2017 (2016: nil).

BUSINESS REVIEW

Continuing Operations

The Group has three continuing reportable segments – (1) hotel and gaming service operations; (2) film related business operations; and (3) property development operations.

Of the total revenue amount for the period, HK\$334,274,000 or 100% was generated from hotel and gaming service operations, HK\$1,349,000 or 0% was generated from film related business operations and HK\$8,000 or 0% was generated from property development operations.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 wholly owned 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 wholly owned 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 and spa centre.

Casino LKF is run by license holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into service and site license agreements with SJM. Under the agreements, Classic has granted to SJM a right to occupy and use spaces in Lan Kwai Fong to operate Casino LKF and Classic is responsible for the provision of marketing, promotion, publicity, customer development and introduction, co-ordination of activities and other services as agreed between Classic and SJM from time to time in Casino LKF. In return, Classic can share a fixed percentage of service income from SJM based on the monthly gross gaming wins of the mass market and VIP table gaming and slot machines in Casino LKF. Casino LKF operates a total of 84 gaming tables, targeting both for the VIP rooms table gaming and the mass market table gaming. It also operates a total of 65 slot machines.

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 – Bronze Award" for the year 2010 to 2016. "Macao Energy Saving Contest, Hotels Group B – Champion 2013 to 2014 and Bronze award 2016".

The Group had shared revenue and segment profit of approximately HK\$334,274,000 (2016: HK\$362,166,000), decrease of 8% and HK\$674,000 (2016: segment loss of HK\$21,672,000) from the hotel and gaming service operations. Revenue in the hotel and gaming service operations mainly comprised of hotel accommodation income of HK\$33,912,000 (2016: HK\$53,417,000), food and beverage sales of HK\$20,418,000 (2016: HK\$19,758,000), services income received from (i) mass market table gaming of approximately HK\$268,175,000 (2016: HK\$275,867,000) representing a decrease of 3%, (ii) VIP rooms table gaming of HK\$9,943,000 (2016: HK\$10,822,000) representing a decrease of 8% and (iii) slot machines of HK\$1,826,000 (2016: HK\$2,302,000) representing a decrease of 21%. Besides, the occupancy rate of Hotel LKF during the period was about 99% (2016: 99%).



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

For the six months ended 30th June 2017, the total casino gross revenue in Macau market was approximately MOP126 billion, increased by 17% from the last corresponding period. Following new resort hotels are continuing opened in Cotai, there is keen competition among hotels in Macau. The Macau government wants to attract more families and mass-market visitors interested in non-gaming entertainment as part of its program of economic diversification which favours those resort hotels in Cotai. Thus, our performance may temporarily diversified by these resort hotels. As a casino oriented hotel, hotel room in Lan Kwai Fong always serve to satisfy demand from casino patrons. Being a boutique hotel with customers' satisfaction as our top priority, we have confident that we can keep our existing customers and attract those casino customers. Our narrowing of decrease in revenue and obtained segment profit in this period has showed our move towards these missions.

Film Related Business Operations

Film related business operations included investment, production, distribution and licensing of films and television drama series and provision of other film related services including artists management services.

In the first half of the year 2017, revenue from film related business operations amounted to HK\$1,349,000 (2016: HK\$764,000) and its segment loss amounted to HK\$3,062,000 (2016: HK\$2,560,000). During the six months ended 30th June 2017, the Group did not distributed any new film. The latest new production of the Group, "League of Gods" has been on screen in July 2016 and thus its revenue had been reflected in the second half of the year in 2016. It is now the Company's policy to exercise extra caution in the investment and production of film or television drama series. After the distribution of "League of Gods" in the year 2016, the Group is still in the preparation stage of another new film which is scheduled to start production in September 2017. Besides, following the establishment of the production line in the television drama series, the Group is in the preliminary stage of writing story board for television drama series. The Group also has investment in production of film which is co-financing with other production companies and share revenue of approximately HK\$313,000 from this invested film in the period.

Property Development Operations

Property development operations included investing and development of properties located in Macau and Hong Kong. Development of properties in Macau represents 50% indirect beneficial interest of the Group in a lot of land with the area of 4,669 square meters, named Lot 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 "Property C7") and 100% indirect beneficial interest of the Group in the Combined Site (as defined below).

In the first half of the year 2017, revenue for property development operations amounted to approximately HK\$8,000 (2016: HK\$90,000) and its segment profit amounted to approximately HK\$352,000 (2016: segment loss of HK\$25,544,000). The change in segment result mainly caused by the recognition of gain on fair value change of investment properties in Hong Kong of approximately HK\$920,000 as compared to loss of approximately HK\$25,370,000 in the last corresponding period. This fair value change was based on the valuation reports issued by a firm of independent qualified professional valuers.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The Group completed the acquisition of the Property C7 on 6th April 2017. Under the Urbanistic Conditions Plan, the Property C7 will be developed for residential and parking purpose, with the maximum allowed height of the building of 34.5 meters above sea level and maximum utilization rate of 5.58 (parking not included). An architect has been engaged and is still in the process to compile a development plan of the Property C7 in accordance with the parameters for submission to the Land, Public Works and Transport Bureau of Macau ("DSSOPT") for approval. The very preliminary development plan is to develop a building under strata title with gross floor areas (in square meters) for residential of 26,047 and parking of 5,200.

The Group also has properties located in Macau which represents Lot 6B, Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites"). Lot 6B is in trapezium shape with a site area of 1,420 square meters next to Lan Kwai Fong and Lot 6C, Lot 6D and Lot 6E are in rectangular shape with each site area of 1,292 square meters next to Lot 6B and adjacent of each other with three six-meter width roads dividing them separately. In order to enhance the commercial value of the Sites, the Group has decided to build a luxury residential and commercial complex of two towers with spacious apartment units in Lot 6C, Lot 6D and Lot 6E (the "Combined Site") and Lot 6B will be developed into recreational area between the Combined Site and Lan Kwai Fong, which is expected to have higher selling prices than the existing development plan of the individual Lot 6B, Lot 6C, Lot 6D and Lot 6E. This new development plan also respond strongly to the local planning authorities requirements for connectivity with the existing city and thus considerable portions of the area of the Sites have been dedicated to public use. Finally, the DSSOPT has approved the combination of development of the Combined Site of Lot 6C, Lot 6D and Lot 6E in July 2016. The total gross floor area of the Combined Site are (a) residential – 28,422 square meters, (b) clubhouse – 1,927 square meters, (c) commercial – 4,132 square meters and (d) parking – 11,508 square meters. The expiry date of land concession of Lot 6C, Lot 6D and Lot 6E is 20th December 2019 and the development period of the Combined Site has also granted an extension until 20th December 2019. Construction works started in June 2017 and is expected to complete during year 2019. Based on a property valuation performed by an independent property valuer for accounting purpose as at 31st December 2016, the market value of the Combined Site is approximately HK\$1,974 million.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Immediately after the acquisition of the property leasehold rights of the Sites, the Group held meetings with various departments of Macau Government to seek their views on the proposed development of the Sites as the Combined Site. In May 2012, the Group submitted the architectural design and drawings of the Combined Site to the DSSOPT for approval. Following the submission, meetings have been held with various departments of Macau Government for following up the proposed development plan. Given that the location of the Sites is adjacent to Macao Polytechnic Institute and several tourist spots, Forum de Macao, Grand Prix Museum, Wine Museum and Golden Lotus Square, and is a couple of blocks away from Macau Fisherman's Wharf and Sands Casino, it is believed that the Macau Government required longer time to study the impacts of the proposed development of the Combined Site on traffic, environment and cultural heritage in the surrounding area, before the grant of an approval. Besides, Lot 6B, Lot 6C, Lot 6D and Lot 6E are properties classified as those of 65 properties which non-development are not the responsibility of the land concessioner announced in year 2011. Owing to the delay by the Macau Government in granting the proposed development of the Combined Site, the land concession of Lot 6B has expired on 25th December 2014. DSSOPT has started the administration work to reclaim it on dispatch 50/2016 published in the Official Gazette no. 47, II, of 23rd November 2016 according to Macau new Land Law effective in March 2014 for the reason that Lot 6B is undeveloped land on the expiry of the land concession on 25th December 2014. The Group has filed an appeal to the President of the Macau Second Instance Court on 30th December 2016 and the Second Instance Court has not ruled on this matter yet. According to the legal opinion obtained by the Company, the Group has strong legal ground to seek for a legal compensation for legal damages to the Macau Government and the Court will necessary have consider and rule taking into account all the essential points regarding the delays caused by the Macau Government.

As stated above, Lot 6B is planned to develop into recreational area between the Combined Site and Lan Kwai Fong. The action by the Macau Government is considered to have minimal effect on the development value of the Combined Site and it is uncertain that what ruling will be obtained from the Macau Government on Lot 6B. The Group will closely monitor the development on the Combined Site and consider that the development of the Combined Site with higher development value can secure the recovery of its investment cost on the Sites and will contribute higher investment return to the Group.

Discontinued Operations

The Group has two discontinued segments – (1) Nam Pei Hong operations, discontinued during the period; and (2) gaming promotion operations, discontinued in the year ended 31st December 2016.

Nam Pei Hong Operations

Nam Pei Hong operations included sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailers as well as Chinese clinical services which held by the group headed by Ace Season Holdings Limited ("Ace Season"). One of the group's subsidiary, Nam Pei Hong Sum Yung Drugs Company Limited ("Nam Pei Hong") has engaged in the business of trading and retail of "Sum Yung" and dried seafood products since year 1977 and the brand name of "Nam Pei Hong" is highly recognised in Hong Kong and Southern Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

On 29th March 2017, China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company ("CSBVI") entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with an independent third party in relation to the disposal of the entire issued share capital of Ace Season and the sale loan owed by Ace Season to CSBVI on completion at consideration of HK\$85,000,000 (the "Disposal"). The Disposal was completed on 30th June 2017. Upon completion of the Disposal, the Company ceased to have any interests in Ace Season and its subsidiaries and their financial results were no longer be consolidated into the Company's consolidated financial statements and thus classified as discontinued operation in this period. The Group considered that the Disposal can reallocate its resources to other business with better prospects.

In the period from 1st January 2017 to 30th June 2017, the Group had shared revenue of approximately HK\$74,805,000 (2016: HK\$76,817,000), decreased of 3% and segment profit of approximately HK\$869,000 (2016: segment loss of HK\$1,427,000) from the Nam Pei Hong operations and shared a loss on disposal of HK\$599,000.

Gaming Promotion Operations

Pursuant to a profit acquisition agreement dated 16th August 2007 ("Profit Acquisition Agreement") among Mr. Ng Cheuk Fai ("Mr. Ng"), Best Mind International Inc. ("Best Mind") and Ocho Sociedade Unipessoal Limitada ("Ocho"), Mr. Ng, as beneficial owner, has agreed to sell and/or assign to Best Mind absolutely Mr. Ng's right, title and interest and benefits in 100% of the sharing of profit streams from the gaming promotion business which represented the rights in sharing of 0.4% of rolling turnover generated from Ocho (the "Profit Streams") commencing from 16th August 2007. Ocho is one of the gaming promoters at one of the VIP rooms at the Grand Lisboa Casino in Macau.

Gaming promotion operations represented the revenue in sharing of Profit Streams. One of the characteristic of the VIP rooms table 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. Thus, its segment results in recent years are unsatisfactory.

On 25th October 2016, the parties to the Profit Acquisition Agreement agreed to terminate the Profit Acquisition Agreement at the consideration of HK\$10,000,000 and the termination was completed on 30th October 2016. Accordingly, the gaming promotion operations were treated as discontinued operation in the financial statements of the Group as at 31st December 2016. The Group considered that the termination can reallocate its resources to other business with better prospects.

During the period from 1st January 2016 to 30th June 2016, the Group had shared revenue of approximately HK\$2,362,000 and segment profit of approximately HK\$1,308,000 from the gaming promotion operations.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Geographical Segments

For the geographical segments, revenue of the Group during the period was mainly sourced from Macau.

Administrative Expenses

For the six months ended 30th June 2017, administrative expenses from continuing operations amounted to HK\$182,015,000 (2016: HK\$184,308,000), representing a decrease of 1%. No material fluctuation was recorded.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June 2017, the Group had total assets of approximately HK\$4,807,748,000 and a net current assets of HK\$2,939,806,000, representing a current ratio of 4.7 (31st December 2016: 9.6). The Group had cash and bank balances of approximately HK\$611,717,000 (31st December 2016: HK\$769,939,000). As at 30th June 2017, the Group had total borrowings of HK\$978,163,000 which comprised a secured bank term loan with remaining balance of HK\$730,000,000 (the "Term Loan"), the promissory note with carrying amount of HK\$247,695,000 (the "Promissory Note") and obligations under finance leases of HK\$468,000.

The Term Loan was secured by the Group's leasehold land and buildings with carrying amount of HK\$533,095,000, interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank and repayable by remaining of 22 equal consecutive quarterly installments of HK\$30,000,000 each and a final repayment for the remaining balance of HK\$70,000,000. The Promissory Note with outstanding principal amount of HK\$300,000,000 issued to Ms. Chen Ming Yin, Tiffany ("Ms. Chen"), a substantial shareholder and an executive director of the Company which carries interest at the rate of 5% per annum, unsecured and has maturity at a fixed term of 24 months from the date of issue of the Promissory Note.

As at 30th June 2017, the Group had banking facilities amounting to HK\$1,001,000,000 which were utilised to the extent of HK\$1,000,000,000. The Group's gearing was acceptable during the period with total debts of HK\$978,163,000 against owners' equity of HK\$3,080,967,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over equity attributable to owners of the Company of 32% (31st December 2016: 25%).

As at the date hereof and 30th June 2017, the fair value of the Group's equity securities listed in Hong Kong held at 30th June 2017 was approximately HK\$254,242,000 and HK\$234,034,000 respectively. During the period under review, the Group did not acquired or disposed any equity securities listed in Hong Kong. The loss arising on change in fair value of equity securities of HK\$52,899,000 was resulting from change in fair values of equity securities listed in Hong Kong during the period. As at 30th June 2017, there is no single one equity securities that the fair value of the equity securities accounted for 5% or more of the total assets of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As at 30th June 2017, the net proceeds from the issue and allotment of 150,600,000 placing shares at a price of HK\$0.53 per share on 28th October 2016 of approximately HK\$77,767,000 were unused and the Group intends to use the net proceeds as intended for the film production.

During the period, the Group had received loan receivables in principal amount of HK\$625,000,000 which matured during the period. All interest due from loan receivables were received in accordance with the terms in their corresponding agreements on due date. No new loan receivables were granted during the period.

During the period, there were 4,022,129 options lapsed and 41,690 options expired and no share options of the Company were granted, exercised or cancelled.

EXCHANGE RISK AND HEDGING

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 in Renminbi mainly arises from receipts and expenditure incurred and receivables in film investment, production and distribution. The Group has closely monitors its exposure to this fluctuation and consider appropriate hedging activities if necessary. The exposure to fluctuation in other currencies is considered to be minimal and no hedge activity is considered necessary.

COMMITMENTS

As at 30th June 2017, outstanding commitments by the Group amounted to approximately HK\$1,352,323,000, of which HK\$1,340,772,000 as project costs for the Combined Site and Property C7, HK\$342,000 as purchase and renovation of property, plant and equipment and HK\$11,209,000 for film rights, films in progress and film deposits.

CONTINGENT LIABILITIES

As at 30th June 2017, the Group had no material contingent liability.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Acquisition of Modern Vision (Asia) Limited and the Property C7

On 29th November 2016, Best Combo Limited ("Best Combo"), a wholly owned subsidiary of the Company and Ms. Chen entered into a conditional sale and purchase agreement (the "Agreement") pursuant to which Best Combo has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited ("Modern Vision") and the sale loan due by Modern Vision to Ms. Chen upon completion at a purchase price of HK\$1,000 million (subject to adjustment). The major asset of Modern Vision is its 50% equity interests in Over Profit International Limited ("Over Profit"). Over Profit indirectly owns 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 Macau Land and Real Estate Registry under no. 23070 (the "Property C7"). The purchase price was satisfied by Best Combo by: (i) the payment of initial deposit of HK\$400 million upon signing of the Agreement and (ii) the issue of a 2-year term 5% coupon promissory note in the principal sum of HK\$600 million by the Company to Ms. Chen upon completion.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

On 29th November 2016, Best Combo entered into a loan agreement (the "Loan Agreement") with Ms. Chen, pursuant to which (i) Best Combo has agreed to grant a loan in the principal amount of HK\$500 million (subject to adjustment) to Ms. Chen for a term of 60 months from the date of drawdown (the "Loan"); and (ii) Ms. Chen has agreed to grant an option to Best Combo to require Ms. Chen to sell the entire issued share capital of Reform Base Holdings Limited, which shall be exercisable by Best Combo at any time within 60 months after the date of drawdown of the Loan at a price of the principal amount of the Loan (subject to adjustment) (the "Call Option"). The Loan is interest bearing at 5% per annum and payable semi-annually in arrears. The major asset of Reform Base Holdings Limited is its 25% equity interests in Over Profit.

Details of the Agreement and the Loan Agreement were set out in the Company's circular dated 10th March 2017. The transactions in the Agreement and the Loan Agreement constitute very substantial acquisition and connected transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and were subject to independent shareholders' approval in a special general meeting of the Company held on 31st March 2017. The Agreement and the Loan Agreement were completed on 6th April 2017. After that, Modern Vision, Over Profit and its subsidiaries become subsidiaries of the Company and were consolidated into the result of the Group during the period under review.

Disposal of Ace Season Holdings Limited and the Nam Pei Hong Operations

On 29th March 2017, CSBVI entered into the Sale and Purchase Agreement with an independent third party in relation to the Disposal. The Disposal constituted a discloseable transaction of the Company under the Listing Rules and the completion of the Disposal was subject to the satisfaction of the terms and conditions as set out in the Sale and Purchase Agreement. The Disposal was completed on 30th June 2017. Upon completion of the Disposal, the Company ceased to have any interests in Ace Season and its subsidiaries and the Nam Pei Hong operations and their financial results were no longer be consolidated into the Company's consolidated financial statements and thus classified as discontinued operation in this period.

Other than those described above, there were no other material acquisitions or disposals during the period.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2017, the Group employed 683 staff (2016: 685 staff) with employee benefit expenses of HK\$86,098,000 (2016: HK\$81,188,000) from the continuing operations. 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 staff 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 staff according to the assessment of individual performance.

EVENT AFTER THE REPORTING DATE

On 18th July 2017, the Group had completed the disposal of the entire issued share capital of Rainbow Profit Limited and the sale loan due by Rainbow Profit Limited at consideration of approximately HK\$6,800,000. Rainbow Profit Limited's major asset is an investment property.

There is no other significant event took place subsequent to end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PROSPECT

In recent years, the performance of some of our business segment is not satisfactory, the Group intends to restructure and repositioning its business and this is consistent with the Group's long-term policy to focus its activities on the Group's business with better prospects.

As at 29th June 2017, the Group has entered into a letter of intent ("LOI") to indicated intent of the Group's proposed sale ("Proposed Disposal") of (i) the entire issued share capital in each of Most Famous Enterprises Limited, Exceptional Gain Profits Limited and Charming Era Investment Limited (collectively, the "Target Companies", all of which are presently wholly-owned subsidiaries of the Company), and (ii) the related shareholder loans to the Target Companies from the Group (excluding the Target Companies) for an aggregate consideration of HK\$2,380 million. The group of companies constituted by Target Companies and its subsidiaries owns and operates Lan Kwai Fong and a few other residential units in Macau which are currently being used as staff quarters of staff in Lan Kwai Fong which are classified as the hotel and gaming service operations. These two year's overall performance of the hotel and gaming service operations in Lan Kwai Fong is significantly influenced by the adverse market conditions in Macau. Although the drop in casino gross revenue in Lan Kwai Fong has showed the trend of slowing down and gradually improved during this period. Given there is an appropriate buyer for Lan Kwai Fong, we consider that it is right moment for the Group to realise considerable investment gain from this operation. If the Proposed Disposal can be materialize, part of proceeds from the Proposed Disposal will been used to finance its operation in property development and investment.

The development of the Combined Site and the Property C7 is our Group's major future investment in Macau. After obtaining the approval from DSSOPT, the construction work of the Combined Site started in June 2017 and is expected to complete during the year 2019. Property C7 is in the process of preparing the development plan and will submit to DSSOPT for approval once ready. In recent period, the residential property market of Macau shows a general growth trend. Given that land is a scarce resource in Macau and the land supply of Macau is limited, the Group is positive on the Macau property market and believes that there is strong demand for housing in Macau. The Group considers that property development and investment are more stable investment for maintaining stable future revenue.

The Group will continue its furtherance and development of its already well established film production business. Other than that, there is increasing demand for television drama series contents in China and investors have approach the Group for its interest in this production. In respond to this demand, the Group has formed our television drama series department in the beginning of year 2017 and has invited experienced staffs to join for the production and distribution of television drama series. Given our experience in film/television drama series production and our well established distribution network in the film/television drama series industry, the Group is confident in capture this golden opportunities in the film/television drama series industry and maximizing our value and return.

Looking forward, the Group will continue to strive to achieve healthy and stable growth by enhancing profitability, maximize its investment return and position to appropriate business opportunity.



DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2017, the interests of the directors and their associates in the shares and the underlying shares of the Company and its associated corporations, as recorded in the register ("Register of Interests") maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interests in ordinary shares of the Company

Name of director	Capacity	Number of shares held	Approximate percentage of interests held
Mr. Heung Wah Keung	Interest of controlled corporation	186,448,146*	20.63
Ms. Chen Ming Yin, Tiffany	Interest of controlled corporation	186,448,146*	20.63

All interests stated above represent long positions.

* These shares are held as to 186,446,502 shares by Heung Wah Keung Family Endowment Limited ("HWKFE") (a company owned as to 50% by Mr. Heung and as to 50% by Ms. Chen) and as to 1,644 shares by Dorest Company Limited (a company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung).

Other than as set out above, as at 30th June 2017, none of the directors or chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register of Interests or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or the spouse or children under 18 years of age of such director, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2017, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of shares or underlying shares held	Approximate percentage of interests held
HWKFE	Beneficial owner	186,446,502	20.63

All interests stated above represent long positions.

Other than as disclosed above, the Company had not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital as at 30th June 2017.

SHARE OPTION SCHEME

Pursuant to a resolution passed at a special general meeting of the Company held on 28th June 2012, a new share option scheme (the "New Option Scheme") was adopted by the Company.

The previous share option scheme of the Company (the "Old Option Scheme") was expired on 26th May 2012, no further share options can be granted under the Old Option Scheme thereafter. However, all outstanding share option granted under the Old Option Scheme prior to the said expiry shall remain valid and exercisable in accordance with the provisions of the Old Option Scheme.

Apart from the New Option Scheme, the Company has no other share option scheme in place as at 30th June 2017.



SHARE OPTION SCHEME (Continued)

Details of share options outstanding as at 30th June 2017 were as follows:

Category of participants	Name of scheme	Exercisable period ⁺	Exercise price per share HK\$	Number of share options			
				Outstanding as at 01.01.2017	Expired during the period	Lapsed during the period	Outstanding as at 30.06.2017
Employees of the Group	Old Option Scheme	25.05.2007 – 24.05.2017	776,575	20,329	(20,329)	–	–
		27.06.2007 – 26.06.2017	772,675	13,359	(13,359)	–	–
		23.10.2007 – 22.10.2017	367,050	46,675	–	(22,129)	24,546
		21.08.2008 – 20.08.2018	47,350	174,585	–	–	174,585
	New Option Scheme	04.05.2015 – 03.05.2018	3,150	41,000,000	–	(4,000,000)	37,000,000
				<u>41,254,948</u>	<u>(33,688)</u>	<u>(4,022,129)</u>	<u>37,199,131</u>
Other participants	Old Option Scheme	25.05.2007 – 24.05.2017	776,575	8,002	(8,002)	–	–
		23.10.2007 – 22.10.2017	367,050	9,495	–	–	9,495
		21.08.2008 – 20.08.2018	47,350	22,129	–	–	22,129
	New Option Scheme	04.05.2015 – 03.05.2018	3,150	16,720,000	–	–	16,720,000
					<u>16,759,626</u>	<u>(8,002)</u>	<u>–</u>
				<u>58,014,574</u>	<u>(41,690)</u>	<u>(4,022,129)</u>	<u>53,950,755</u>

⁺ The exercisable period commenced on the date of grant of the relevant share options.

No share option was granted, exercised or cancelled during the six months ended 30th June 2017.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance practices. 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 2017 to 30th June 2017, 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 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 2017. 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 2017.

AUDIT COMMITTEE

The Company established its audit committee with written terms of reference in compliance with the Listing Rules.

The audit committee of the Company comprises 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 audit committee has met and discussed with the Company's independent auditors, and has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June 2017.

BOARD OF DIRECTORS

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

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 29th August 2017