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CHINA STAR ENTERTAINMENT LIMITED

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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2016

FINAL RESULTS

The board of directors (the “Board”) of China Star Entertainment Limited (the “Company”) presents the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2016 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Continuing operations			
Revenue	5	1,102,464	1,039,758
Cost of sales		(986,542)	(581,784)
Gross profit		115,922	457,974
Other revenue and other income	6	123,729	109,297
Administrative expenses		(394,358)	(381,851)
Marketing, selling and distribution expenses		(90,128)	(85,515)
(Loss)/gain arising on change in fair value of financial assets classified as held for trading investments		(18,879)	99,638
Other operating expenses		(43,794)	(65,599)

CONSOLIDATED INCOME STATEMENT (CONTINUED)*For the year ended 31st December 2016*

		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit from operations		(307,508)	133,944
Finance costs	7	(30,543)	(29,314)
Share of results of joint ventures		(90)	138
		<hr/>	<hr/>
(Loss)/profit before tax	8	(338,141)	104,768
Income tax credit	9	–	149
		<hr/>	<hr/>
(Loss)/profit for the year from continuing operations		(338,141)	104,917
Discontinued operation	11		
Profit for the year from discontinued operation		2,530	2,947
		<hr/>	<hr/>
(Loss)/profit for the year		(335,611)	107,864
		<hr/> <hr/>	<hr/> <hr/>
(Loss)/profit for the year attributable to:			
Owners of the Company		(335,609)	107,871
Non-controlling interests		(2)	(7)
		<hr/>	<hr/>
		(335,611)	107,864
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31st December 2016

	<i>Notes</i>	2016 <i>HK cents</i>	2015 <i>HK cents</i>
(Loss)/earnings per share	12		
From continuing and discontinued operations			
Basic		<u>(42.98)</u>	<u>15.25</u>
Diluted		<u>(42.98)</u>	<u>14.31</u>
From continuing operations			
Basic		<u>(43.30)</u>	<u>14.83</u>
Diluted		<u>(43.30)</u>	<u>13.92</u>
From discontinued operation			
Basic		<u>0.32</u>	<u>0.42</u>
Diluted		<u>0.32</u>	<u>0.39</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2016

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit for the year	<u>(335,611)</u>	<u>107,864</u>
Other comprehensive income		
<i>Items that will not reclassified to profit or loss:</i>		
Gain on revaluation of property	–	48,171
<i>Items that may be reclassified subsequently to consolidated income statement:</i>		
<i>Exchange differences arising on translation of foreign operations:</i>		
Exchange differences arising during the year	<u>14</u>	<u>(103)</u>
Other comprehensive income for the year	<u>14</u>	<u>48,068</u>
Total comprehensive (loss)/income for the year	<u><u>(335,597)</u></u>	<u><u>155,932</u></u>
Total comprehensive (loss)/income for the year attributable to:		
Owners of the Company	<u>(335,595)</u>	155,939
Non-controlling interests	<u>(2)</u>	<u>(7)</u>
	<u><u>(335,597)</u></u>	<u><u>155,932</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		361,857	426,633
Interests in leasehold land		395,297	418,455
Investment properties		82,620	116,060
Goodwill		–	–
Intangible assets		7,582	17,911
Deposit paid for investment	13	400,000	–
Interests in joint ventures		161	251
		<hr/> 1,247,517 <hr/>	<hr/> 979,310 <hr/>
Current assets			
Inventories		66,006	70,209
Stock of properties		583,240	567,973
Film rights		21,446	12,545
Films in progress		81,461	380,606
Investment in film		11,325	11,325
Trade receivables	14	231,777	119,427
Deposits, prepayment and other receivables		152,560	67,068
Held for trading investments		286,933	305,812
Loan receivables		825,000	1,225,000
Amounts due from non-controlling interests		–	329
Amount due from a joint venture		–	12
Prepaid tax		–	153
Cash and bank balances		769,939	1,051,692
		<hr/> 3,029,687 <hr/>	<hr/> 3,812,151 <hr/>
Total assets		<hr/> 4,277,204 <hr/>	<hr/> 4,791,461 <hr/>
Capital and reserves			
Share capital		9,037	7,531
Reserves		3,199,325	3,458,659
		<hr/> 3,208,362 <hr/>	<hr/> 3,466,190 <hr/>
Equity attributable to owners of the Company		<hr/> 3,208,362 <hr/>	<hr/> 3,466,190 <hr/>
Non-controlling interests		<hr/> (435) <hr/>	<hr/> (433) <hr/>
Total equity		<hr/> 3,207,927 <hr/>	<hr/> 3,465,757 <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31st December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current liabilities			
Bank borrowings		670,000	790,000
Obligations under finance leases		353	584
Deferred tax liabilities		82,948	82,948
		753,301	873,532
Current liabilities			
Bank borrowings		133,513	134,928
Obligations under finance leases		231	235
Trade payables	15	43,820	39,648
Deposits received, accruals and other payables		138,202	277,336
Amounts due to joint ventures		–	25
Amounts due to non-controlling interests		210	–
		315,976	452,172
Total liabilities		1,069,277	1,325,704
Total equity and liabilities		4,277,204	4,791,461
Net current assets		2,713,711	3,359,979
Total assets less current liabilities		3,961,228	4,339,289

NOTES:

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda and Unit 3409, Shun Tak Centre, West Tower, 168–200 Connaught Road Central, Hong Kong respectively.

The financial statements are presented in Hong Kong dollar (“HK\$”), which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK\$’000) except otherwise indicated.

The principal activities of the Group are investment, production and distribution of films and television drama series, provision of artist management services, sales of health products, property and hotel investment, food and beverage operations and property development.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Application of new and amendments to HKFRSs – effective on 1st January 2016

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (collectively referred to as the “new and amendments to HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are effective for the Group’s financial year beginning from 1st January 2016. A summary of the new and amendments to HKFRSs applied by the Group is set out as follows:

HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Method of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012–2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisition of Interest in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and financial positions for the current and prior years and/or on the disclosures set out in these financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(b) New and amendments to HKFRSs that have been issued but are not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKAS 7 (Amendments)	Disclosure Initiative ¹
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses ¹
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014–2016 cycle ⁵
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions ²
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²
HKFRS 9	Financial Instruments ²
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers ²
HKFRS 16	Leases ³

¹ Effective for annual periods beginning on or after 1st January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1st January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1st January 2019, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1st January 2017 or 2018, with earlier application permitted.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(b) New and amendments to HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirement of HKFRS 9 are described below:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading investments) in other comprehensive income, with only dividend income generally recognised in the consolidated income statement.
- with regard to the measurement of financial liabilities designated at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss is presented in the consolidated income statement.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(b) New and amendments to HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 *Financial Instruments* (Continued)

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

Based on the Group’s financial instruments and risk management policies at 31st December 2016, the application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group’s financial assets. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(b) New and amendments to HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the financial statements.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(b) New and amendments to HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 Leases (Continued)

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31st December 2016, the Group has non-cancellable operating lease commitments of approximately HK\$25,659,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Except disclosed above, the directors of the Company did not anticipate that the application of other new and amendments to HKFRSs will have a material impact on the Group’s financial performance and financial positions.

3. STATEMENT OF COMPLIANCE

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

4. 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 year – hotel and gaming service operations, gaming promotion operations, film related business operations, property development operations and Nam Pei Hong 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
Nam Pei Hong operations	–	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

Discontinued operation

Gaming promotion operations	–	Investing in operations which receive profit streams from the gaming promotion business
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The segment information of gaming promotion operations is disclosed in note 11.

4. 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	
	2016	2015	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hotel and gaming service operations	686,431	877,909	(44,958)	62,279
Film related business operations	266,240	1,217	(257,264)	(4,959)
Property development operations	180	180	(35,840)	(6,439)
Nam Pei Hong operations	149,613	160,452	(1,255)	(8,519)
	<u>1,102,464</u>	<u>1,039,758</u>	<u>(339,317)</u>	<u>42,362</u>
Reconciliation from segment results to (loss)/profit before tax				
Unallocated corporate income			100,868	94,692
(Loss)/gain arising on change in fair value of financial assets classified as held for trading investments			(18,879)	99,638
Share of results of joint venture			(90)	138
Unallocated corporate expenses			<u>(80,723)</u>	<u>(132,062)</u>
(Loss)/profit before tax			<u>(338,141)</u>	<u>104,768</u>

Segment revenue reported above represents revenue generated from external customers.

Segment results represent the (loss)/profit (suffered)/earned by each segment without allocation of central administration costs, partial finance costs, share-based payment expenses, 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)/gain arising on change in fair value of financial assets classified as held for trading investments and share of results of joint venture. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. SEGMENT INFORMATION (CONTINUED)

Continuing operations (Continued)

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
ASSETS		
<i>Segment assets</i>		
– Hotel and gaming service operations	926,040	1,033,596
– Film related business operations	355,941	490,374
– Property development operations	672,984	700,675
– Nam Pei Hong operations	119,795	117,436
	<hr/>	<hr/>
Total segment assets	2,074,760	2,342,081
Assets related to discontinued operation	–	10,689
Unallocated assets	2,202,444	2,438,691
	<hr/>	<hr/>
	4,277,204	4,791,461
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
<i>Segment liabilities</i>		
– Hotel and gaming service operations	69,945	89,810
– Film related business operations	74,315	193,911
– Property development operations	3,174	2,700
– Nam Pei Hong operations	33,461	30,350
	<hr/>	<hr/>
Total segment liabilities	180,895	316,771
Liabilities related to discontinued operation	–	5
Unallocated liabilities	888,382	1,008,928
	<hr/>	<hr/>
	1,069,277	1,325,704
	<hr/> <hr/>	<hr/> <hr/>

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

- all assets are allocated to reportable segments, other than interests in joint ventures, partial deposits, prepayment and other receivables, held for trading investments, loan receivables, amounts due from non-controlling interests, amount due from a joint venture, prepaid tax, partial cash and bank balances, 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, partial obligations under finance leases, deferred tax liabilities, partial deposits received, accruals and other payables, amounts due to joint ventures and amounts due to non-controlling interests.

4. SEGMENT INFORMATION (CONTINUED)

Continuing operations (Continued)

(c) Other segment information

	Hotel and gaming service operations		Film related business operations		Property development operations		Nam Pei Hong operations		Unallocated		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts included in the measure of segment results or segment assets:												
Amortisation of films rights	-	-	487,578	241	-	-	-	-	-	-	487,578	241
Amortisation of intangible assets	-	-	-	-	-	-	-	577	-	-	-	577
Amortisation of interests in leasehold land	21,285	21,285	-	-	-	-	-	-	1,873	1,873	23,158	23,158
Depreciation of property, plant and equipment	65,074	62,806	-	-	250	994	1,968	2,732	2,818	3,724	70,110	70,256
Impairment loss recognised in respect of amount due from a joint venture	-	-	-	-	-	-	-	-	12	-	12	-
Impairment loss recognised in respect of film rights	-	-	4,877	2,405	-	-	-	-	-	-	4,877	2,405
Impairment loss recognised in respect of films in progress	-	-	422	-	-	-	-	-	-	-	422	-
Impairment loss recognised in respect of trade receivables	-	-	1,132	-	-	-	11	-	-	-	1,143	-
Impairment loss recognised in respect of intangible assets	-	-	-	-	-	-	-	6,278	-	-	-	6,278
Impairment loss recognised in respect of deposits, prepayment, and other receivables	-	-	3,900	-	-	-	-	-	-	-	3,900	-
(Gain)/loss on disposal of property, plant and equipment	(972)	(388)	-	-	1,794	-	97	1	(33)	(5)	886	(392)
Loss on fair value change of investment properties	-	-	-	-	33,440	4,930	-	-	-	-	33,440	4,930
Additions to property, plant and equipment	11,763	42,090	-	-	-	12	863	1,220	1,129	6,348	13,755	49,670
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:												
Interests in joint ventures	-	-	-	-	-	-	-	-	161	251	161	251
Interest income	463	451	1,139	1,147	6	34	20	7	98,097	94,271	99,725	95,910
Finance costs	35	2,268	-	85	-	-	288	327	30,220	26,634	30,543	29,314
Share of losses/(profits) of joint ventures	-	-	-	-	-	-	-	-	90	(138)	90	(138)

4. SEGMENT INFORMATION (CONTINUED)

Continuing operations (Continued)

(d) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Hotel and gaming service operations		
Customer A	560,480	724,602
Film related business operations		
Customer B (<i>Note</i>)	<u>185,931</u>	<u>N/A</u>

No other customers contributed 10% or more to the Group's revenue for both years.

Note: Revenue derived from Customer B did not contribute over 10% of revenue of the Group during the year ended 31st December 2015.

(e) 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		Non-current assets	
	external customers		Non-current assets	
	2016	2015	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	151,673	158,762	561,877	208,723
Macau	688,819	880,756	685,640	770,586
The People's Republic of China (the "PRC")	252,252	12	–	1
Others	<u>9,720</u>	<u>228</u>	<u>–</u>	<u>–</u>
	<u>1,102,464</u>	<u>1,039,758</u>	<u>1,247,517</u>	<u>979,310</u>

5. REVENUE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Continuing operations		
Hotel accommodation income	86,501	115,069
Food and beverage sales	39,450	38,239
Service income from mass market table gaming operations	535,819	684,740
Service income from VIP rooms table gaming operations	20,405	32,584
Service income from slot machines operations	4,256	7,277
Distribution fee income	264,334	18
Artist management service income	1,906	1,199
Gross rental income	180	180
Sales of health products	149,613	160,452
	<u>1,102,464</u>	<u>1,039,758</u>

6. OTHER REVENUE AND OTHER INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Continuing operations		
Consultancy service income	972	67
Dividend income	1,679	134
Gain on disposal of property, plant and equipment	–	392
Interest income	99,725	95,910
Management fee income	1,200	769
Other ancillary hotel revenue	19,811	11,110
Sundry income	342	915
	<u>123,729</u>	<u>109,297</u>

7. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Continuing operations		
Interests on:		
Bank borrowings	30,508	29,278
Finance leases	35	36
	<u>30,543</u>	<u>29,314</u>

8. (LOSS)/PROFIT BEFORE TAX

Continuing operations

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Amortisation of interests in leasehold land	23,158	23,158
Amortisation of intangible assets	–	577
Amortisation of film rights (included in cost of sales)	487,578	241
Auditors' remuneration and other services		
– audit services	1,539	1,544
– non-audit services	557	157
	2,096	1,701
Cost of inventories sold (included in cost of sales)	106,495	106,743
Depreciation of property, plant and equipment	70,110	70,256
Employee benefit expenses	186,277	221,278
Impairment loss recognised in respect of deposits, prepayment and other receivables (included in other operating expenses)	3,900	–
Impairment loss recognised in respect of film rights (included in other operating expenses)	4,877	2,405
Impairment loss recognised in respect of trade receivables (included in other operating expenses)	1,143	–
Impairment loss recognised in respect of films in progress (include in other operating expenses)	422	–
Impairment loss recognised in respect of amount due from a joint venture (included in other operating expenses)	12	–
Impairment loss recognised in respect of intangible assets (included in other operating expenses)	–	6,278
Loss/(gain) on disposal of property, plant and equipment	886	(392)
Loss on fair value change of investment properties (included in other operating expenses)	33,440	4,930
Gain on disposal of financial assets classified as held for trading investments	–	(21,991)
Loss/(gain) arising on change in fair value of financial assets classified as held for trading investments	18,879	(77,647)
	18,879	(99,638)
Operating lease rental in respect of premises	21,662	21,975
Share-based payment expenses in respect of consultancy services (included in other operating expenses)	–	15,059
Write-down of obsolete inventories	58	10
Gross rental income from investment properties	(180)	(180)
Less: Direct operating expenses incurred for investment properties during the year	167	317
	(13)	137

9. INCOME TAX CREDIT

Continuing operations

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
The income tax credit is as follow:		
Under provision in prior years:		
Macau Complementary Tax	–	173
Deferred tax:		
Current year	–	(322)
	<hr/>	<hr/>
Total income tax credit for the year	–	(149)
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. The PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% for both years. Macau subsidiaries are subject to Macau Complementary Tax at the maximum progressive rate of 12% on the estimated assessable profit for both years. 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 years 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 years as the Group has no assessable profit arising in Macau.

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

10. DIVIDEND

No final dividend was paid or proposed during the year, nor any dividend been proposed by the board of directors subsequent to the end of the reporting period.

11. DISCONTINUED OPERATION

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 is 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 operation no longer existed.

11. DISCONTINUED OPERATION (CONTINUED)

The profit for the year from the discontinued operation is analysed as follows:

	For the period from 1st January 2016 to date of termination HK\$'000	For the year ended 31st December 2015 HK\$'000
Profit for the year from gaming promotion operations	2,410	2,947
Gain on derecognition of intangible assets	120	–
	<u>2,530</u>	<u>2,947</u>

The result of the gaming promotion operations for the period from 1st January 2016 to date of termination of the operation, which have been included in the consolidated income statement, were as follows:

	For the period from 1st January 2016 to date of termination HK\$'000	For the year ended 31st December 2015 HK\$'000
Revenue	3,874	4,748
Administrative expenses	(1,015)	(1,214)
Other operating expenses	(449)	(587)
	<u>2,410</u>	<u>2,947</u>
Profit before tax	2,410	2,947
Income tax expense	–	–
	<u>2,410</u>	<u>2,947</u>

Profit for the year from discontinued operation has been arrived at after charging:

	For the period from 1st January 2016 to date of termination HK\$'000	For the year ended 31st December 2015 HK\$'000
Auditors' remuneration – audit services	5	5
Impairment loss recognised in respect of intangible assets (included in other operating expenses)	449	587
	<u>454</u>	<u>592</u>

There is no movement in net cash inflow/outflow in discontinued operation.

12. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share ((loss)/profit for the year attributable to owners of the Company)	<u>(335,609)</u>	<u>107,871</u>
	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	780,910	707,467
Effect of dilutive potential ordinary shares:		
Share options	<u>—</u>	<u>46,192</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<u>780,910</u>	<u>753,659</u>

Pursuant to the deed poll of the bonus convertible bonds, the bonus convertible bonds will confer the holders with the same economic interests attached to the shareholders of the Company. Accordingly, 1,060,317 (2015: 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 (2015: HK\$265,000) outstanding bonus convertible bonds are included in the weighted average number of ordinary shares for computation the basic (loss)/earnings per share for the year ended 31st December 2016 and 31st December 2015.

As the Company's outstanding share options where applicable had an anti-dilutive effect to the basic loss per share computation for the year ended 31st December 2016, the exercise of the above potential dilutive shares is not assumed in the computation of diluted loss per share for the year ended 31st December 2016.

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

From continuing operations

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share ((loss)/profit for the year from continuing operations attributable to owners of the Company)	<u>(338,139)</u>	<u>104,924</u>

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

From discontinued operation

The computation of basic and diluted earnings per share from discontinued operation attributable to the owners of the Company is based on the following data:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year from discontinued operations attributable to owners of the Company)	<u>2,530</u>	<u>2,947</u>

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

13. DEPOSIT PAID FOR INVESTMENT

At 31st December 2016, deposit paid for investment with the amount of HK\$400,000,000 represented cash deposit paid by the Group in respect of acquisition of the entire equity interest of Modern Vision (Asia) Limited and its subsidiaries pursuant to a conditional sale and purchase agreement dated 29th November 2016.

14. TRADE RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	233,214	119,732
Less: Allowance for doubtful debts	<u>(1,437)</u>	<u>(305)</u>
	<u>231,777</u>	<u>119,427</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 30 days	181,366	116,048
31 to 60 days	3,978	1,245
61 to 90 days	538	759
Over 90 days	<u>45,895</u>	<u>1,375</u>
	<u>231,777</u>	<u>119,427</u>

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

At 31st December 2016, trade receivables with the amounts of approximately HK\$224,903,000 (2015: HK\$111,553,000) is due from the Group's three (2015: two) largest customers.

The movement in the allowance for doubtful debts during the year is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1st January	305	1,565
Impairment loss recognised	1,143	–
Amount written off as uncollectible	–	(1,225)
Foreign exchange translation gain	<u>(11)</u>	<u>(35)</u>
At 31st December	<u>1,437</u>	<u>305</u>

At 31st December 2016, included in the allowance for doubtful debts are individually impaired trade receivables with a balance of HK\$1,143,000 (2015: nil) which are past due at the end of the reporting period. The allowance for doubtful debts are recognised because there has been a significant change in credit quality and the amounts are considered irrecoverable.

14. TRADE RECEIVABLES (CONTINUED)

Trade receivables disclosed above include amounts (see below for aging analysis) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Over 90 days	45,895	1,375

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

15. TRADE PAYABLES

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 30 days	19,659	14,596
31 to 60 days	6,611	5,616
61 to 90 days	92	99
Over 90 days	17,458	19,337
	43,820	39,648

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

16. COMPARATIVES FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st December 2016, the Group's revenue from continuing operations increased by 6% to HK\$1,102,464,000 (2015: HK\$1,039,758,000).

Loss for the year amounted to HK\$335,611,000, representing a decrease of 411% as compared to profit of HK\$107,864,000. Such loss is mainly attributable to (i) the gross profit for the year ended 31st December 2016 decreased by approximately 75% to HK\$115,922,000 as compared to HK\$457,974,000 in the previous year (after deducting gross profit from the discontinued operation of approximately HK\$4,748,000) due to significant decrease in revenue from service income from gaming operations as a result of the recession in gaming industry in Macau and the gross loss incurred in the new film released during the year in the amount of approximately HK\$222,933,000; (ii) the recognition of loss of approximately HK\$18,879,000 arising on change in fair value of financial assets classified as held for trading investments as compared to gain of HK\$99,638,000 recognised in the previous year which represented the decrease in market values of the Group's equity securities listed in Hong Kong as at 31st December 2016; and (iii) the recognition of loss on fair value change of investment properties of approximately HK\$33,440,000 during this year (2015: HK\$4,930,000).

Loss for the year from continuing operations amounted to HK\$338,141,000, representing a decrease of 422% as compared to profit of HK\$104,917,000. Profit for the year from discontinued operation amounted to HK\$2,530,000 (2015: HK\$2,947,000).

Loss attributable to owners of the Company for the year ended 31st December 2016 amounted to HK\$335,609,000 representing a decrease of 411% as compared to profit of HK\$107,871,000 in the previous year.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31st December 2016 (2015: nil).

BUSINESS REVIEW

Continuing Operations

The Group has four continuing reportable segments – (1) hotel and gaming service operations; (2) film related business operations; (3) property development operations; and (4) Nam Pei Hong operations.

Of the total revenue for the year, HK\$686,431,000 or 62% was generated from hotel and gaming service operations, HK\$266,240,000 or 24% was generated from film related business operations, HK\$180,000 or 0% was generated from property development operations and HK\$149,613,000 or 14% was generated from Nam Pei Hong operations.

Hotel and Gaming Service Operations

Hotel and gaming service operations included the hotel operation in Hotel Lan Kwai Fong Macau (“Lan Kwai Fong”) which was recorded in an indirect wholly owned subsidiary of the Company, Hotel Lan Kwai Fong (Macau) Limited (“Hotel LKF”); services provided to the casino situated in Lan Kwai Fong (“Casino LKF”) which was recorded in an indirect 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 will shared 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 70 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 loss of approximately HK\$686,431,000 (2015: HK\$877,909,000) and HK\$44,958,000 (2015: segment profit of HK\$62,279,000) from the hotel and gaming service operations, decrease of 22% and 172% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel accommodation income of HK\$86,501,000 (2015: HK\$115,069,000), food and beverage sales of HK\$39,450,000 (2015: HK\$38,239,000), service income received from (i) mass market table gaming of HK\$535,819,000 (2015: HK\$684,740,000), representing decrease of 22%, (ii) VIP rooms table gaming of HK\$20,405,000 (2015: HK\$32,584,000), representing decrease of 37% and (iii) slot machines of HK\$4,256,000 (2015: HK\$7,277,000), representing decrease of 42%. Besides, the occupancy rate of Hotel LKF for the whole year was about 98% (2015: 99%).

For the year ended 31st December 2016, the total casino gross revenue in Macau market was approximately MOP223.21 billion (2015: MOP230.84 billion), decreased of 3.3% from the previous year. 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.

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 artist management services.

In year 2016, revenue from film related business operations amounted to HK\$266,240,000 (2015: HK\$1,217,000) and its segment loss amounted to HK\$257,264,000 (2015: HK\$4,959,000). The revenue was mainly come from the film released by the Group during the year. The segment loss was mainly attributable to the gross loss incurred by the new film of approximately HK\$222,933,000 and impairment loss recognised of HK\$4,877,000 (2015: HK\$2,405,000) for the film library held by the Group. The Group has released its new production, "League of Gods" in July 2016 which received positive feedback and sound recognition from the film industry. However, the box office revenue in China was below expectation. As majority revenue of Chinese film contributed by the China market, the Group incurred significant loss from this film. The Group also has investment in production of film which is co-financing with other production companies and will shared revenue from the invested film according to the investment percentage in the relevant agreement. The Group takes a passive role in this kind of co-production arrangement and thus may need longer time for ascertain its investment return.

Property Development Operations

In year 2016, revenue from property development operations amounted to HK\$180,000 (2015: HK\$180,000) and its segment loss amounted to approximately HK\$35,840,000 (2015: HK\$6,439,000). The segment loss mainly contributed by the recognition of loss on fair value change of investment properties of approximately HK\$33,440,000 during this year (2015: HK\$4,930,000).

Property development operations included investing and development of properties in Macau and Hong Kong. Development of properties in Macau represented properties located in 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. The Land, Public Works and Transport Bureau of Macau (“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 expected to be (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 and construction works will start once the permit is obtained and most likely in April 2017. 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.

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 as at the date of this report. 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 now 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 project and will contribute higher investment return to the Group.

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 NPH Holdings Limited. 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 1977 and the brand name of "Nam Pei Hong" is highly recognised in Hong Kong and Southern Mainland China.

According to the figure released by the Census and Statistics Department of Hong Kong, for 2016 as a whole, the value of total retail sales was \$436.6 billion, decreased by 8.1% in value compared with 2015. Nam Pei Hong's revenue and gross profit declined as compared with those for the previous year as a result of the continuous adverse market condition. It had struggled to survive by lower its margin in order to maintain higher turnover.

In year 2016, the Group had shared revenue of approximately HK\$149,613,000 (2015: HK\$160,452,000) and segment loss of approximately HK\$1,255,000 (2015: HK\$8,519,000), decrease of 7% and 85% respectively. The segment loss in the previous year was mainly attributable to impairment loss recognised in respect of the intangible assets on trademarks and exclusive distribution rights of HK\$4,901,000 and HK\$1,377,000 respectively. During the year, the retail shops of Nam Pei Hong decreased from 12 to 11.

Discontinued Operation

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 Stream”) 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 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 have 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 considers that the termination can reallocate its resources to other business with better prospects.

During the period from 1st January 2016 to 30th October 2016, the Group had shared revenue and profit of approximately HK\$3,874,000 (2015: HK\$4,748,000) and HK\$2,530,000 (2015: HK\$2,947,000) respectively from the gaming promotion operations.

Geographical Segments

For the geographical segments, revenue of HK\$688,819,000 or 62% (2015: HK\$880,756,000 or 85%) was sourced from Macau, HK\$151,673,000 or 14% (2015: HK\$158,762,000 or 15%) was sourced from Hong Kong, HK\$252,252,000 or 23% (2015: HK\$12,000 or 0%) was sourced from China and HK\$9,720,000 or 1% (2015: HK\$228,000 or 0%) was sourced from other territories, of which revenue from hotel and gaming service operations are mainly sourced from Macau and revenue from Nam Pei Hong operations are mainly sourced from Hong Kong and the increase in revenue from China mainly contributed from film related business operations in China.

Administrative Expenses

For the year ended 31st December 2016, administrative expenses from continuing operations amounted to HK\$394,358,000 (2015: HK\$381,851,000), representing a 3% increase. No material fluctuation was recorded.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2016, the Group had total assets of approximately HK\$4,277,204,000 and a net current assets of HK\$2,713,711,000, representing a current ratio of 9.6 (2015: 8.4). The Group had cash and bank balances of approximately HK\$769,939,000 (2015: HK\$1,051,692,000). As at 31st December 2016, the Group had total borrowings of HK\$804,097,000 which comprised a secured bank term loan (the “Term Loan”) with remaining balance of HK\$790,000,000, import trade loans (the “Import Loan”) in aggregate amount of HK\$13,513,000 and obligations under finance leases of HK\$584,000.

The Term Loan was secured by the Group’s leasehold land and buildings with carrying amount of HK\$546,038,000, interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank and repayable by remaining of 24 equal consecutive quarterly installments of HK\$30,000,000 each and a final repayment for the remaining balance of HK\$70,000,000. The Import Loan was interest bearing at 2% per annum over one month Hong Kong Inter-bank Offered Rate, repayable on demand and guaranteed by an ex-shareholder of a subsidiary of the Company.

As at 31st December 2016, the Group had banking facilities amounting to HK\$1,066,000,000 which were utilised to the extent of HK\$1,013,513,000. The Group’s gearing was acceptable during the year with total debts of HK\$804,097,000 against owners’ equity of HK\$3,208,362,000. This represents a gearing ratio, calculated in the basis of the Group’s total borrowings over owners’ equity of 25% (2015: 27%).

As at the date of this annual report and 31st December 2016, the fair value of the Group’s equity securities listed in Hong Kong held at 31st December 2016 was approximately HK\$236,094,000 and HK\$286,933,000 respectively.

On 18th October 2016, the Company entered into a placing agreement with a placing agent to place on a best effort basis for a maximum of 150,600,000 new shares (the “Placing Shares” and each a “Placing Share”) of HK\$0.01 each (nominal value being HK\$1,506,000) to not less than six places which are independent of, and not connected with the Company, any directors, chief executives or substantial shareholders of the Company at a price of HK\$0.53 per share (the “Placing”). The closing price per share was HK\$0.58 as at 18th October 2016 and the net price per Placing Share was approximately HK\$0.52. The Placing Shares was allotted and issued under the general mandate granted to the directors by the shareholders of the Company at the annual general meeting of the Company held on 28th June 2016. The net proceeds of approximately HK\$77,767,000 from the Placing were intended to be used for the film production. The Placing was completed on 28th October 2016 and 150,600,000 Placing Shares were allotted and issued on the same date. As at 31st December 2016, the net proceeds of approximately HK\$77,767,000 were unused and the Group intends to use the net proceeds as intended.

As at 31st December 2016, all net proceeds from the issue and allotment of 2,887,900,000 new shares at a subscription price of HK\$0.12 per share on 9th June 2015 of approximately HK\$336.27 million were used in film production and general working capital of the Group as intended.

During the year ended 31st December 2016, the Group had received loan receivables in principal amount of HK\$400,000,000 which matured during the year. 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 year.

During the year ended 31st December 2016, there were 7,934,513 share options expired and no share options of the Company were granted, exercised, lapsed 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 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 31st December 2016, outstanding commitments by the Group amounted to approximately HK\$45,506,000, of which HK\$38,690,000 as professional fees for the preparation of the development plan of the Combined Site, HK\$698,000 as purchase and renovation of property, plant and equipment and HK\$6,118,000 for film rights, films in progress and film deposits.

CONTINGENT LIABILITIES

As at 31st December 2016, the Group had no material contingent liability.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

On 29th November 2016, Best Combo Limited (“Best Combo”), a wholly owned subsidiary of the Company and Ms. Chen Ming Yin, Tiffany (“Ms. Chen”), a substantial shareholder and an executive director of the Company 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 (the “Target Company”) and the sale loan due by the Target Company to Ms. Chen upon completion at a purchase price of HK\$1,000 million (subject to adjustment). The major asset of the Target Company 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 the Macau Land and Real Estate Registry under no. 23070 (the “Macau Land”). The purchase price shall be 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 principle sum of HK\$600 million by the Company to Ms. Chen for the balance upon completion.

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 the 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 principle 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 are subject to independent shareholders’ approval in a special general meeting of the Company to be held on 31st March 2017. The Agreement and the Loan Agreement have not yet completed up to the reporting date.

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

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2016, the Group employed 744 staff (2015: 794 staff) with employee benefit expenses of HK\$186,277,000 (2015: HK\$221,278,000, which included approximately HK\$36,927,000 share-based payment expenses related to share options granted to employees of the Group). 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 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 Holdings Limited ("Ace Season") and the sale loan owed by Ace Season to CSBVI on completion at consideration of HK\$85,000,000 (the "Disposal"). Ace Season and its subsidiaries are principally engaged in 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 represents the business segment of Nam Pei Hong operations of the Group. The Disposal constitutes a discloseable transaction of the Company under the Listing Rules and the completion of the Disposal is subject to the satisfaction of the terms and conditions as set out in the Sale and Purchase Agreement. The Disposal has not been completed up to the reporting date. Upon completion of the Disposal, the Company will cease to have any interests in Ace Season and its subsidiaries and their financial results will no longer be consolidated into the Company's consolidated financial statements.

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

PROSPECT

The development of the Combined Site is our group's major future investment in Macau. After obtaining the approval from DSSOPT, the construction is expected to start in April 2017 and will complete in year 2019. Besides, the Group has announced to acquire 50% indirect beneficial interest in the Macau Land in December 2016 and obtain the call option to acquire the remaining 25% indirect beneficial interest in the Macau Land from Ms. Chen. 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. The Macau Land is located at the Nam Van Lake, which is one of the two man-made lakes in the Macau Peninsula and standing next to the Macau Tower. With its superb location and spectacular view overlooking the Macau Peninsula and the Cotai Island, the Group intends to develop it into high-end residential apartments for sale. The acquisition of Macau Land is expected to complete in April 2017. The Group considers that property development and investment are more stable investment for maintaining stable future revenue.

This 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. However, the drop in casino gross revenue in the beginning of 2017 has showed the trend of slowing down and gradually improved in the first two months. The total casino gross revenue in Macau market was approximately MOP42.25 billion in February 2017, an increase of 10.6% as compared to MOP38.20 billion for the last corresponding period. Being a boutique size hotel, we will continue to implement stringent cost control measure on operating expense and marketing expense and strengthen our marketing plan on development of close relationship with our customers in order to secure the return rate of them. Given the sign of improvement in casino gross revenue and recent infrastructure developments in Macau, the Group remains optimistic about its future prospects in the hotel and gaming service operations.

The Group will continue its furtherance and development of its already well established film production business. Recently, 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 production line in the television drama series in the beginning of year 2017 and has invited experienced staffs to join us. Given our experience in film and television drama series production and distribution network in the film and television drama series industry, the Group is confident in capture this golden opportunities in the film and television drama series industry and maximizing our value and return.

The Group will stay alert on our businesses and ready to utilize our strength by shifting our resources to our core businesses with positive future aspects.

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 year ended 31st December 2016.

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") for the year ended 31st December 2016, 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.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company comprises Messrs. Hung Cho Sing, Ho Wai Chi, Paul 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 of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control, risk management and financial reporting matters including the review of the Group's consolidated financial statements for the year ended 31st December 2016.

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 throughout the year ended 31st December 2016. The Model Code also applies to other specified senior management of the Group.

PUBLICATION OF ANNUAL REPORT

The Company's 2016 annual report will be despatched to the shareholders of the Company on or before 30th April 2017 and will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company's website (www.chinastar.com.hk or www.irasia.com/listco/hk/chinastar).

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

Hong Kong, 30th March 2017

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