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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 2017

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 2017 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2017

| | <i>Notes</i> | 2017 HK\$'000 | 2016 HK\$'000 |
|--|--------------|--------------------------------|------------------|
| Continuing operations | | | |
| Revenue | 5 | 9,272 | 266,420 |
| Cost of sales | | (8,402) | (487,593) |
| Gross profit/(loss) | | 870 | (221,173) |
| Other revenue and other income | 6 | 96,385 | 102,933 |
| Administrative expenses | | (68,931) | (76,066) |
| Distribution expenses | | (2,392) | (4,650) |
| Gain/(loss) arising on change in fair value of financial assets at fair value through profit or loss | | 210,791 | (18,879) |
| Other operating expenses | | (63,014) | (43,783) |

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31st December 2017

| | <i>Notes</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Profit/(loss) from operations | | 173,709 | (261,618) |
| Finance costs | 7 | (63,896) | (30,220) |
| Share of result of a joint venture | | 223 | (90) |
| Profit/(loss) before tax | 8 | 110,036 | (291,928) |
| Income tax expense | 9 | (5) | – |
| Profit/(loss) for the year from continuing operations | | 110,031 | (291,928) |
| Discontinued operations | | | |
| Loss for the year from discontinued operations | 11 | (36,695) | (43,683) |
| Profit/(loss) for the year | | 73,336 | (335,611) |
| Profit/(loss) for the year attributable to: | | | |
| Owners of the Company | | 73,312 | (335,609) |
| Non-controlling interests | | 24 | (2) |
| | | 73,336 | (335,611) |
| Earnings/(loss) per share | 12 | | |
| From continuing and discontinued operations | | <i>HK cents</i> | <i>HK cents</i> |
| Basic | | 8.10 | (42.98) |
| Diluted | | 8.10 | (42.98) |
| From continuing operations | | | |
| Basic | | 12.16 | (37.38) |
| Diluted | | 12.16 | (37.38) |
| From discontinued operations | | | |
| Basic | | (4.06) | (5.60) |
| Diluted | | (4.06) | (5.60) |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2017

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit/(loss) for the year | <u>73,336</u> | <u>(335,611)</u> |
| Other comprehensive (loss)/income | | |
| <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 | (60) | 14 |
| Reclassification adjustments relating to foreign operations disposed of during the year | <u>58</u> | <u>–</u> |
| Other comprehensive (loss)/income for the year | <u>(2)</u> | <u>14</u> |
| Total comprehensive income/(loss) for the year | <u><u>73,334</u></u> | <u><u>(335,597)</u></u> |
| Total comprehensive income/(loss) for the year attributable to: | | |
| Owners of the Company | 73,310 | (335,595) |
| Non-controlling interests | <u>24</u> | <u>(2)</u> |
| | <u><u>73,334</u></u> | <u><u>(335,597)</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December 2017

| | <i>Notes</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|--------------|-------------------------|-------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 12,190 | 361,857 |
| Interests in leasehold land | | 55,282 | 395,297 |
| Investment properties | | 81,100 | 82,620 |
| Available-for-sale financial assets | | 173 | – |
| Goodwill | | – | – |
| Intangible assets | | – | 7,582 |
| Loan to a director | | 293,371 | – |
| Deposit paid for investment | | – | 400,000 |
| Interest in a joint venture | | 384 | 161 |
| | | 442,500 | 1,247,517 |
| Current assets | | | |
| Inventories | | – | 66,006 |
| Stock of properties | | 2,107,376 | 583,240 |
| Film rights | | 12,049 | 21,446 |
| Films in progress | | 168,992 | 81,461 |
| Investment in film | | – | 11,325 |
| Trade receivables | 13 | 3,099 | 231,777 |
| Deposits, prepayment and other receivables | | 289,981 | 152,560 |
| Financial assets at fair value through profit or loss | | 725,816 | 286,933 |
| Loan receivables | | 200,000 | 825,000 |
| Time deposits | | 155 | – |
| Cash and bank balances | | 424,200 | 769,939 |
| | | 3,931,668 | 3,029,687 |
| Assets classified as held for sale | | 725,635 | – |
| | | 4,657,303 | 3,029,687 |
| Total assets | | 5,099,803 | 4,277,204 |
| Capital and reserves | | | |
| Share capital | | 9,037 | 9,037 |
| Reserves | | 3,272,537 | 3,199,325 |
| Equity attributable to owners of the Company | | | |
| Non-controlling interests | | 3,281,574 (114) | 3,208,362 (435) |
| Total equity | | 3,281,460 | 3,207,927 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31st December 2017

| | <i>Notes</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Non-current liabilities | | | |
| Bank borrowings | | – | 670,000 |
| Promissory note | | 173,817 | – |
| Obligations under finance leases | | – | 353 |
| Deferred tax liabilities | | – | 82,948 |
| | | <u>173,817</u> | <u>753,301</u> |
| Current liabilities | | | |
| Bank borrowings | | – | 133,513 |
| Obligations under finance leases | | – | 231 |
| Trade payables | 14 | 26,589 | 43,820 |
| Deposits received, accruals and other payables | | 294,070 | 138,202 |
| Amounts due to non-controlling interests | | 503,116 | 210 |
| | | <u>823,775</u> | <u>315,976</u> |
| Liabilities associated with assets classified as held for sale | | <u>820,751</u> | – |
| | | <u>1,644,526</u> | <u>315,976</u> |
| Total liabilities | | <u>1,818,343</u> | <u>1,069,277</u> |
| Total equity and liabilities | | <u>5,099,803</u> | <u>4,277,204</u> |
| Net current assets | | <u>3,012,777</u> | <u>2,713,711</u> |
| Total assets less current liabilities | | <u>3,455,277</u> | <u>3,961,228</u> |

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 and properties development and investment.

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

(a) Application of new and revised HKFRSs – effective on 1st January 2017

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 revised 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 2017. A summary of the new and revised 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 relating to amendments to HKFRS 12 <i>Disclosure of Interests in Other Entities</i> |

HKAS 7 (Amendments) Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

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

(a) Application of new and revised HKFRSs – effective on 1st January 2017 (Continued)

HKAS 7 (Amendments) Disclosure Initiative (Continued)

A reconciliation between the opening and closing balances of these items is provided in note to the financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note to the financial statements, the application of these amendments has had no impact on the Group’s consolidated financial statements.

Except as described above, the application of the new and revised 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.

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

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

| | |
|-----------------------------------|--|
| HKAS 28 (Amendments) | Long-term interests in Associates and Joint Ventures ² |
| HKAS 40 (Amendments) | Transfer of Investment Property ¹ |
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2014-2016 Cycle except HKFRS 12 (Amendments) ¹ |
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2015-2017 Cycle ² |
| HKFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions ¹ |
| HKFRS 4 (Amendments) | Applying HKFRS 9 <i>Financial Instruments</i> with HKFRS 4 <i>Insurance Contracts</i> ¹ |
| HKFRS 9 | Financial Instruments ¹ |
| HKFRS 9 (Amendments) | Prepayment Features with Negative Compensation 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 and the related Amendments ¹ |
| HKFRS 16 | Leases ² |
| HKFRS 17 | Insurance Contracts ³ |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration ¹ |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments ² |

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

² Effective for annual periods beginning on or after 1st January 2019, with earlier application permitted.

³ Effective for annual periods beginning on or after 1st January 2021, with earlier application permitted.

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

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 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 the 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 (the “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 – 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

- Film related business operations – Investment, production, distribution and licensing of films and television drama series and provision of other film related services including artist management services
- Property development operations – Investment and development of properties located in Hong Kong and Macau

Discontinued 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
- 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 reported below does not include any amounts for the discontinued operations, which are disclosed more detail 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 | |
|--|-----------------|-----------------|------------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Film related business operations | 9,264 | 266,240 | 3,817 | (257,264) |
| Property development operations | 8 | 180 | 3,935 | (35,840) |
| | 9,272 | 266,420 | 7,752 | (293,104) |
| Reconciliation from segment results to profit/(loss) before tax | | | | |
| Unallocated corporate income | | | 75,147 | 100,868 |
| Gain/(loss) arising on change in fair value of financial assets at fair value through profit or loss ("FVTPL") | | | 210,791 | (18,879) |
| Share of result of a joint venture | | | 223 | (90) |
| Unallocated corporate expenses | | | (183,877) | (80,723) |
| Profit/(loss) before tax | | | 110,036 | (291,928) |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both years.

Segment results represent the profit earned/(loss suffered) by each segment without allocation of central administrative expenses, partial finance costs, and partial other operating expenses under the heading of "unallocated corporate expenses", partial other revenue and other income under the heading of "unallocated corporate income", gain/(loss) arising on change in fair value of financial assets at FVTPL and share of result of a 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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| ASSETS | | |
| <i>Segment assets</i> | | |
| – Film related business operations | 296,211 | 355,941 |
| – Property development operations | 2,216,602 | 672,984 |
| | <u>2,512,813</u> | <u>1,028,925</u> |
| Total segment assets | 2,512,813 | 1,028,925 |
| Assets relating to discontinued operations | 725,635 | 1,045,835 |
| Unallocated assets | 1,861,355 | 2,202,444 |
| | <u>5,099,803</u> | <u>4,277,204</u> |
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| LIABILITIES | | |
| <i>Segment liabilities</i> | | |
| – Film related business operations | 76,967 | 74,315 |
| – Property development operations | 528,303 | 3,174 |
| | <u>605,270</u> | <u>77,489</u> |
| Total segment liabilities | 605,270 | 77,489 |
| Liabilities relating to discontinued operations | 820,751 | 103,406 |
| Unallocated liabilities | 392,322 | 888,382 |
| | <u>1,818,343</u> | <u>1,069,277</u> |

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

- all assets are allocated to reportable segments, other than loan to a director, interest in a joint venture, partial deposits, prepayment and other receivables, financial assets at FVTPL, loan receivables, partial cash and bank balances, partial property, plant and equipment and interests in leasehold land for central administrative purposes; and
- all liabilities are allocated to reportable segments, other than partial bank borrowings, promissory note, partial deposits received, accruals and other payables, deferred tax liabilities and partial amounts due to non-controlling interests.

4. SEGMENT INFORMATION (CONTINUED)

Continuing operations (Continued)

(c) Other segment information

| | Film related | | Property development | | Unallocated | | Consolidated | |
|---|---------------------|----------|----------------------|----------|-------------|----------|--------------|----------|
| | business operations | | operations | | | | | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | 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 film rights | 8,373 | 487,578 | - | - | - | - | 8,373 | 487,578 |
| Amortisation of interests in leasehold land | - | - | - | - | 1,873 | 1,873 | 1,873 | 1,873 |
| Depreciation of property, plant and equipment | 146 | - | 112 | 250 | 2,839 | 2,818 | 3,097 | 3,068 |
| Impairment loss recognised in respect of amount due from a joint venture | - | - | - | - | - | 12 | - | 12 |
| Impairment loss recognised in respect of deposits, prepayment, and other receivables | - | 3,900 | - | - | - | - | - | 3,900 |
| Impairment loss recognised in respect of film rights | 1,024 | 4,877 | - | - | - | - | 1,024 | 4,877 |
| Impairment loss recognised in respect of films in progress | - | 422 | - | - | - | - | - | 422 |
| Impairment loss recognised in respect of trade receivables | - | 1,132 | - | - | - | - | - | 1,132 |
| Reversal of impairment loss recognised in respect of trade receivables | 135 | - | - | - | - | - | 135 | - |
| Reversal of impairment loss recognised in respect of deposits paid and other receivables | 3,152 | - | - | - | - | - | 3,152 | - |
| (Gain)/loss on disposal of property, plant and equipment | - | - | - | 1,794 | (225) | (33) | (225) | 1,761 |
| (Gain)/loss on fair value change of investment properties | - | - | (4,120) | 33,440 | - | - | (4,120) | 33,440 |
| Additions to property, plant and equipment | 960 | - | 163 | - | 2,021 | 1,129 | 3,144 | 1,129 |
| Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets: | | | | | | | | |
| Interest in a joint venture | - | - | - | - | 384 | 161 | 384 | 161 |
| Interest income | 47 | 1,139 | 10 | 6 | 72,187 | 98,097 | 72,244 | 99,242 |
| Finance costs | - | - | - | - | 63,896 | 30,220 | 63,896 | 30,220 |
| Share of profit/(loss) of a joint venture | - | - | - | - | 223 | (90) | 223 | (90) |

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:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Film related business operations | | |
| Customer A (<i>note (i)</i>) | N/A | 185,931 |
| Customer B (<i>note (ii)</i>) | 4,446 | N/A |
| Customer C (<i>note (ii)</i>) | 1,664 | N/A |
| | <u>1,664</u> | <u>N/A</u> |

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

Notes:

- (i) Revenue derived from Customer A did not contribute over 10% of revenue of the Group during the year ended 31st December 2017.
- (ii) Revenue derived from Customer B and Customer C did not contribute over 10% of revenue of the Group during the year ended 31st December 2016.

(e) Geographical information

The following table sets out information about geographical location of (i) revenue from external customers and (ii) non-current assets (excluded financial instruments). 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 is based on the physical location of the assets.

| | Revenue from external customers | | Non-current assets (excluded financial instruments) | |
|---|------------------------------------|-------------------------|---|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Hong Kong | 768 | 4,448 | 148,809 | 161,877 |
| Macau | - | - | 141 | 685,640 |
| The People's Republic of China (the "PRC") | 2,260 | 252,252 | 6 | - |
| Southeast Asia (including Taiwan) | 1,723 | 9,409 | - | - |
| Others | 4,521 | 311 | - | - |
| | <u>9,272</u> | <u>266,420</u> | <u>148,956</u> | <u>847,517</u> |

5. REVENUE

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|----------------------------------|-------------------------|-------------------------|
| Continuing operations | | |
| Distribution fee income | 6,559 | 264,334 |
| Artist management service income | 2,392 | 1,906 |
| Income from investment in film | 313 | – |
| Gross rental income | 8 | 180 |
| | <u>9,272</u> | <u>266,420</u> |

6. OTHER REVENUE AND OTHER INCOME

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Continuing operations | | |
| Consultancy service income | 959 | 972 |
| Dividend income | 1,722 | 1,679 |
| Gain on disposal of property, plant and equipment | 225 | – |
| Gain on disposal of a subsidiary | 1,150 | – |
| Interest income | 72,244 | 99,242 |
| Management fee income | 340 | 734 |
| Net foreign exchange gain | 16,237 | – |
| Reversal of impairment loss recognised in respect of trade receivables | 135 | – |
| Reversal of impairment loss recognised in respect of deposits paid and other receivables | 3,152 | – |
| Sundry income | 221 | 306 |
| | <u>96,385</u> | <u>102,933</u> |

7. FINANCE COSTS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------|-------------------------|-------------------------|
| Continuing operations | | |
| Interests on bank borrowings | 25,933 | 30,220 |
| Interest on promissory note | 37,963 | – |
| | <u>63,896</u> | <u>30,220</u> |

8. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging/(crediting):

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Continuing operations | | |
| Amortisation of interests in leasehold land | 1,873 | 1,873 |
| Amortisation of film rights (included in cost of sales) | 8,373 | 487,578 |
| Auditors' remuneration and other services: | | |
| – audit services | 1,002 | 1,012 |
| – non-audit services | 1,207 | 557 |
| | 2,209 | 1,569 |
| Depreciation of property, plant and equipment | 3,097 | 3,068 |
| Employee benefit expenses | 40,789 | 37,125 |
| Impairment loss recognised in respect of amount due from a joint venture (included in other operating expenses) | – | 12 |
| 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) | 1,024 | 4,877 |
| Impairment loss recognised in respect of films in progress (include in other operating expenses) | – | 422 |
| Impairment loss recognised in respect of trade receivables (included in other operating expenses) | – | 1,132 |
| (Gain)/loss on disposal of property, plant and equipment | (225) | 1,761 |
| Loss on early redemption of promissory note (included in other operating expenses) | 66,110 | – |
| (Gain)/loss on fair value change of investment properties (included in other operating expenses) | (4,120) | 33,440 |
| (Gain)/loss arising on change in fair value of financial assets at FVTPL | (210,791) | 18,879 |
| Net foreign exchange (gain)/loss | (16,237) | 15,989 |
| Operating lease rental in respect of premises | 4,823 | 3,360 |
| Write-down of obsolete inventories | – | 14 |
| Gross rental income from investment properties | (8) | (180) |
| Less: Direct operating expenses incurred for investment properties during the year | 127 | 167 |
| | 119 | (13) |

9. INCOME TAX EXPENSE

The income tax expense is as follow:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------|-------------------------|-------------------------|
| Continuing operations | | |
| Current tax: | | |
| PRC Enterprise Income Tax | <u>5</u> | <u>–</u> |

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. Netherland subsidiary is subject to the corporate tax at 20% of the taxable income up to and including EUR200,000, above which the rate is 25%.

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 and Netherland corporate tax has been made for both years as the Group has no assessable profit arising in Macau and Netherland.

No provision for the PRC Enterprise Income Tax has been made for the year ended 31st December 2016 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 (2016: nil).

11. DISCONTINUED OPERATIONS

On 29th March 2017, the Group entered into a conditional sale and purchase agreement to dispose 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 ceased.

On 10th October 2017, the Group entered into a conditional sale and purchase agreement, in which the Group agreed to sell and the purchaser agreed to buy the entire equity interest in Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited, wholly-owned subsidiaries of the Company, and their respective subsidiaries (collectively referred to as the “Disposal Group”), and sale loans due by the Disposal Group at total consideration of HK\$2,000,000,000 (subject to adjustment of actual working capital) (the “LKF Disposal”). The Disposal Group are engaged in hotel and gaming service operations in Macau. The LKF Disposal has been completed on 3rd January 2018 and the financial results for the hotel and gaming service operations have been classified as discontinued operation. The assets and liabilities attributable to the Disposal Group have been classified as assets held for sale and are presented separately in the consolidated statement of financial position.

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 and received an amount of HK\$10,000,000. The termination of gaming promotion operation 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 operation no longer existed.

The comparative figure for the consolidated income statement and related notes have been re-presented as if the operations of hotel and gaming service operations and Nam Pei Hong operations discontinued during the year had been discontinued at the beginning of the comparative period.

11. DISCONTINUED OPERATIONS (CONTINUED)

Loss for the year from the discontinued operations are analysed as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Loss for the year from hotel and gaming service operations | (36,965) | (44,958) |
| Profit/(loss) for the year from Nam Pei Hong operations | 869 | (1,255) |
| Loss on disposal of Nam Pei Hong operations | (599) | – |
| Profit for the year from gaming promotion operations | – | 2,410 |
| Gain on derecognition of intangible assets | – | 120 |
| | <u>–</u> | <u>–</u> |
| Loss for the year from discontinued operations | <u>(36,695)</u> | <u>(43,683)</u> |

The result of the discontinued operations for the year, which have been included in the consolidated income statement, were as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Revenue | 715,494 | 839,918 |
| Cost of sales | (403,056) | (498,949) |
| | <u>–</u> | <u>–</u> |
| Gross profit | 312,438 | 340,969 |
| Other revenue and other income | 17,393 | 20,796 |
| Administrative expenses | (308,445) | (319,307) |
| Marketing, selling and distribution expenses | (57,405) | (85,478) |
| Other operating expenses | – | (460) |
| | <u>–</u> | <u>–</u> |
| Loss from operations | (36,019) | (43,480) |
| Finance costs | (65) | (323) |
| | <u>–</u> | <u>–</u> |
| Loss before tax | (36,084) | (43,803) |
| Income tax expense | (12) | – |
| | <u>–</u> | <u>–</u> |
| Loss on disposal of Nam Pei Hong operations | (599) | – |
| Gain on derecognition of intangible assets | – | 120 |
| | <u>–</u> | <u>–</u> |
| Loss for the year from discontinued operations | <u>(36,695)</u> | <u>(43,683)</u> |
| | <u>–</u> | <u>–</u> |
| (Loss)/profit for the year from discontinued operations attributable to: | | |
| Owners of the Company | (36,701) | (43,681) |
| Non-controlling interests | 6 | (2) |
| | <u>–</u> | <u>–</u> |
| | <u>(36,695)</u> | <u>(43,683)</u> |

11. DISCONTINUED OPERATIONS (CONTINUED)

Loss for the year from discontinued operations has been arrived at after charging/(crediting):

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Discontinued operations | | |
| Amortisation of interests in leasehold land | 19,776 | 21,285 |
| Auditors' remuneration and other services: | | |
| – audit services | 292 | 527 |
| – non-audit services | – | – |
| | 292 | 527 |
| Cost of inventories sold (included in cost of sales) | 65,397 | 106,495 |
| Depreciation of property, plant and equipment | 56,717 | 67,042 |
| Employee benefit expenses | 140,596 | 149,152 |
| Impairment loss recognised in respect of intangible assets (included in other operating expenses) | – | 449 |
| Impairment loss recognised in respect of trade receivables (included in other operating expenses) | – | 11 |
| Gain on disposal of property, plant and equipment | (507) | (875) |
| Net foreign exchange (gain)/loss | (1,132) | 747 |
| Operating lease rental in respect of premises | 10,191 | 18,302 |
| Write-down of obsolete inventories | 30 | 44 |
| | 197,880 | 298,302 |

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Net cash (outflow)/inflow from operating activities | (320,158) | 151,894 |
| Net cash inflow/(outflow) from investing activities | 392,972 | (4,466) |
| Net cash outflow from financing activities | (159,880) | (152,327) |
| Net cash outflow | (87,066) | (4,899) |

12. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Earnings/(loss) | | |
| Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share (profit/(loss) for the year attributable to owners of the Company) | <u>73,312</u> | <u>(335,609)</u> |
| | 2017 '000 | 2016 '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share | <u>904,764</u> | <u>780,910</u> |

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

As the Company's outstanding share options where applicable had an anti-dilutive effect to the basic earnings/(loss) per share calculation, the exercise of the above potential dilutive shares is not assumed in the calculation of diluted earnings/(loss) per share for both years.

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

From continuing operations

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Earnings/(loss) | | |
| Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share (profit/(loss) for the year from continuing operations attributable to owners of the Company) | <u><u>110,013</u></u> | <u><u>(291,928)</u></u> |

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

From discontinued operations

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Loss | | |
| Loss for the purpose of basic and diluted loss per share (loss for the year from discontinued operations attributable to owners of the Company) | <u><u>(36,701)</u></u> | <u><u>(43,681)</u></u> |

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

13. TRADE RECEIVABLES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------------|-------------------------|-------------------------|
| Trade receivables | 4,435 | 233,214 |
| Less: Allowance for doubtful debts | <u>(1,336)</u> | <u>(1,437)</u> |
| | <u>3,099</u> | <u>231,777</u> |

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------|-------------------------|-------------------------|
| 0 to 30 days | 2,758 | 181,366 |
| 31 to 60 days | – | 3,978 |
| 61 to 90 days | – | 538 |
| Over 90 days | <u>341</u> | <u>45,895</u> |
| | <u>3,099</u> | <u>231,777</u> |

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

At 31st December 2017, trade receivables with the amounts of approximately HK\$3,068,000 (2016: HK\$224,903,000) is due from the Group's top two (2016: three) customers.

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| At 1st January | 1,437 | 305 |
| Impairment loss recognised | – | 1,143 |
| Reversal of impairment | (135) | – |
| Disposal of subsidiaries | (11) | – |
| Foreign exchange translation loss/(gain) | <u>45</u> | <u>(11)</u> |
| At 31st December | <u>1,336</u> | <u>1,437</u> |

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

13. 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:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--------------|-------------------------|-------------------------|
| Over 90 days | <u>341</u> | <u>45,895</u> |

In determining the recoverability of a trade receivable, the directors of the Company consider 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.

14. TRADE PAYABLES

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------|-------------------------|-------------------------|
| 0 to 30 days | 23,328 | 19,659 |
| 31 to 60 days | 211 | 6,611 |
| 61 to 90 days | – | 92 |
| Over 90 days | <u>3,050</u> | <u>17,458</u> |
| | <u>26,589</u> | <u>43,820</u> |

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

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the disclosure requirements in respect of the discontinued operations set out in note 11.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st December 2017, the Group recorded revenue from continuing operations of HK\$9,272,000, representing a decrease of 97% as compared to HK\$266,420,000 for the year ended 31st December 2016.

Profit for the year amounted to HK\$73,336,000 as compared to a loss of HK\$335,611,000 in the previous year. The improvement in performance is mainly attributable to (i) the substantial increase in the recognition of unrealised gain of HK\$210,791,000 arising on change in fair value of financial assets at fair value through profit or loss as compared to unrealised loss of HK\$18,879,000 recognised in the previous year which mainly represented the increase in market values of the Group's equity securities listed in Hong Kong as at 31st December 2017 and (ii) the absence of substantial gross loss incurred in the new film released in the previous year in the amount of HK\$222,933,000.

Profit for the year from continuing operations amounted to HK\$110,031,000 as compared to a loss of HK\$291,928,000 in the previous year. Loss for the year from discontinued operations amounted to HK\$36,695,000, representing a decrease of 16% as compared to HK\$43,683,000 for the year ended 31st December 2016.

Profit attributable to owners of the Company for the year ended 31st December 2017 amounted to HK\$73,312,000 as compared to a loss of HK\$335,609,000 in the previous year.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31st December 2017 (2016: nil).

BUSINESS REVIEW

Continuing Operations

The Group has two continuing reportable segments – (1) film related business operations; and (2) property development operations.

Of the total revenue for the year, HK\$9,264,000 was generated from film related business operations, HK\$8,000 was generated from property development operations.

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 2017, revenue from film related business operations amounted to HK\$9,264,000 (2016: HK\$266,240,000) and its segment profit amounted to HK\$3,817,000 (2016: segment loss of HK\$257,264,000). During the year ended 31st December 2017, the Group did not distribute any new film. The Group has been engaging in the film business for more than 20 years. Film production normally involves three stages including pre-production, production or shooting and post-production. From the pre-production stage to theatrical release of Chinese film in Hong Kong, it normally takes more than one year and sometimes several years to complete. The majority of revenue in film will record within the following two years after the film is released. As such, it is the characteristic of film production and distribution that revenue is not recognised evenly with time. Shooting for a new film which tentatively named “追夢男女” has started in mid-October 2017. The plot of this film is about love story. The shooting of this film commenced in mid-October 2017 and has completed in February 2018. The post production period will take around a few months and the film is expected to release before end of 2018. More films production will commence in coming years so long as the feasibility study for new films is satisfactory.

Recently, there is increasing demand for television drama series contents in China and investors have approached the Group for its interest in television drama series. Following the establishment of the production line in the television drama series in the beginning of 2017, the Group is in the preliminary stage of preparing the story board for its first production in television drama series after for more than 10 years from its last production in television drama series. This television drama series will be around 36 episodes which is expected to be released in internet platform. Shooting for this first television drama series is expected to start before end of 2018.

Property Development Operations

Property development operations included investment and development of properties in Macau and Hong Kong.

In year 2017, revenue from property development operations amounted to HK\$8,000 (2016: HK\$180,000) and its segment profit amounted to HK\$3,935,000 (2016: segment loss of HK\$35,840,000). The segment profit mainly contributed by the recognition of gain on fair value change of investment properties of HK\$4,120,000 during this year and the segment loss for the year ended 31st December 2016 was due to the recognition of loss on fair value change of investment properties of HK\$33,440,000.

The Group completed the acquisition of the Property C7 (as defined herein) 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.

Development of properties in Macau also included 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 Hotel Lan Kwai Fong Macau 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 Hotel Lan Kwai Fong Macau, 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 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. 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. Construction works has started in June 2017 and is expected to complete in 2019. Based on a property valuation performed by an independent property valuer for accounting purpose as at 31st December 2017, the market value of the Combined Site is approximately HK\$2,288 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 besides the Combined Site. 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 at this moment 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. Lot 6B is now served for storage purpose.

Discontinued Operations

Hotel and Gaming Service Operations

Hotel and gaming service operations included the hotel operation in Hotel Lan Kwai Fong Macau 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 Hotel Lan Kwai Fong Macau (“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 Hotel Lan Kwai Fong Macau. Hotel Lan Kwai Fong Macau 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 Hotel Lan Kwai Fong Macau 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 65 slot machines.

The LKF Disposal (as defined herein) has been approved by the shareholders of the Company in a special general meeting held on 11th December 2017 and completed on 3rd January 2018. Accordingly, the financial results of the Disposal Group (as defined herein) have been classified as discontinued operation in the consolidated financial statements and the assets and liabilities of the Disposal Group have been classified as held for sale and are presented separately in the consolidated statement of financial position in this year.

The Group had shared revenue and segment loss of HK\$640,689,000 (2016: HK\$686,431,000) and HK\$36,965,000 (2016: HK\$44,958,000) from the hotel and gaming service operations, decrease of 7% and 18% respectively.

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 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.

The NPH Disposal (as defined herein) was completed on 30th June 2017. Upon completion of the NPH 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 the year.

During the period from 1st January 2017 to 30th June 2017 (completion date of the NPH Disposal), the Group had shared revenue of HK\$74,805,000 (2016: HK\$149,613,000), segment profit of HK\$869,000 (2016: segment loss of HK\$1,255,000) and shared a loss on disposal of HK\$599,000.

Gaming Promotion Operations

Pursuant to a profit acquisition agreement dated 16th August 2007 (the "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 were unsatisfactory.

On 25th October 2016, the parties to the Profit Acquisition Agreement agreed to terminate the Profit Acquisition Agreement and received an amount 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.

For the year ended 31st December 2016, the Group had shared revenue of HK\$3,874,000 and segment profit of HK\$2,410,000 and gain on derecognition of intangible assets of HK\$120,000 from the gaming promotion operations.

Geographical Segments

For the geographical segments from the continuing operations, revenue of HK\$768,000 or 8% (2016: HK\$4,448,000 or 2%) was sourced from Hong Kong, HK\$2,260,000 or 24% (2016: HK\$252,252,000 or 95%) was sourced from China, HK\$1,723,000 or 19% (2016: HK\$9,409,000 or 3%) was sourced from Southeast Asia including Taiwan and HK\$4,521,000 or 49% (2016: HK\$311,000 or 0%) was sourced from other territories.

Administrative Expenses

For the year ended 31st December 2017, administrative expenses from continuing operations amounted to HK\$68,931,000 (2016: HK\$76,066,000), representing a decrease of 9%. The decrease was mainly caused by the net foreign exchange loss of HK\$15,989,000 in the previous year which is a gain in this year.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2017, the Group had total assets of HK\$5,099,803,000 and a net current assets of HK\$3,012,777,000, representing a current ratio of 2.8 (2016: 9.6). The Group had cash and bank balances and time deposits of HK\$424,355,000 (2016: HK\$769,939,000). As at 31st December 2017, the Group had total borrowings of HK\$844,170,000, of which HK\$670,353,000 were included in liabilities associated with assets classified as held for sale. Total borrowings comprised the promissory note with carrying amount of HK\$173,817,000 (the “Promissory Note”), a secured bank term loan with remaining balance of HK\$670,000,000 (the “Term Loan”) and obligations under finance leases of HK\$353,000.

The Promissory Note with outstanding principal amount of HK\$200,000,000 issued to Ms. Chen Ming Yin, Tiffany (“Ms. Chen”), a substantial shareholder and an executive director of the Company which carry 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. Included in liabilities associated with assets classified as held for sale, the Term Loan was secured by the Disposal Group’s leasehold land and buildings with carrying amount of HK\$520,791,000, interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank and repaid on 3rd January 2018 upon completion of the LKF Disposal.

As at 31st December 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 year with total debts of HK\$844,170,000 for continuing operations and discontinued operations against equity attributable to owners of the Company of HK\$3,281,574,000. This represents a gearing ratio, calculated in the basis of the Group’s total borrowings over owners’ equity of 26% (2016: 25%).

As at the date of this annual report and 31st December 2017, the fair value of the Group’s equity securities listed in Hong Kong held as at 31st December 2017 (excluded one suspended trading security as at 31st December 2017) was approximately HK\$257,938,000 and HK\$508,237,000 respectively.

During the year, the Group did not acquired or disposed any equity securities listed in Hong Kong. The gain arising on change in fair value of financial assets at fair value through profit or loss included an amount of HK\$224,939,000 which was resulted from change in fair values of equity securities listed in Hong Kong between the year ended 31st December 2016 and 31st December 2017. As at 31st December 2017, the fair value of one of the equity securities, Kingston Financial Group Limited (“Kingston”) accounted for approximately 9.5% of the total assets of the Group. Kingston is principally engaged in the provision of a wide range of financial services which includes securities brokerage, underwriting and placements, margin and initial public offering financing, corporate finance advisory services, futures brokerage and asset management services. Kingston also provides gaming and hospitality services in Macau. Detailed information of Kingston held by the Group are as follows:

| | |
|---|----------------------------------|
| Stock name: | Kingston Financial Group Limited |
| Stock code: | 1031 |
| Number of shares held as at 31st December 2017: | 64,580,000 |
| Fair value held by the Group as at 31st December 2017: | HK\$484,350,000 |
| Gain arising on change in fair value recognised in the year: | HK\$268,007,000 |
| Percentage of its shareholding held by the Group: | 0.47% |

As at 31st December 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 used for film production as intended.

During the year ended 31st December 2017, the Group had received loan receivables in principal amount of HK\$625 million 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 2017, 75,731 share options and 4,022,129 share options were expired and lapsed respectively 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 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 2017, outstanding commitments by the Group amounted to approximately HK\$1,261,645,000, of which HK\$1,218,512,000 as project costs for the Combined Site and Property C7, and HK\$43,133,000 for film rights, films in progress and film deposits.

CONTINGENT LIABILITIES

As at 31st December 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 “C7 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 “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 C7 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.

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 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 C7 Agreement and the Loan Agreement were set out in the Company's circular dated 10th March 2017. The transactions contemplated in the C7 Agreement and the Loan Agreement constitute very substantial acquisitions and connected transactions of the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and were approved by the independent shareholders in a special general meeting of the Company held on 31st March 2017. The transactions contemplated in the C7 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 for the year ended 31st December 2017.

Disposal of Ace Season and the Nam Pei Hong Operations

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 "NPH 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 "NPH 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 represented the business segment of Nam Pei Hong operations of the Group. The NPH Disposal constituted a discloseable transaction of the Company under the Listing Rules and the completion of the NPH Disposal was subject to the satisfaction of the terms and conditions as set out in the NPH Agreement. The NPH Disposal was completed on 30th June 2017. Upon completion of the NPH 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 for the year ended 31st December 2017.

Disposal of Rainbow Profits Limited

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.

Disposal of Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited and the Hotel and Gaming Service Operations

On 10th October 2017, CSBVI and Mr. Chan Meng Kam (the “Buyer”) entered into a conditional sale and purchase agreement (the “SP Agreement”) pursuant to which CSBVI has agreed to sell and the Buyer has agreed to buy the entire issued share capital of each of Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited and their subsidiaries (the “Disposal Group”) and the related loans outstanding and owing to CSBVI as at completion at sale price of HK\$2,000 million (subject to adjustment in accordance with the terms of the SP Agreement) (the “LKF Disposal”). After the relevant adjustment, the adjusted sale price in accordance with the SP Agreement is approximately HK\$2,034.4 million. The Disposal Group is the owner and operator of Hotel Lan Kwai Fong Macau and is also the owner of 18 residential units in Macau, which are used as staff quarters.

The LKF Disposal constitutes very substantial disposal transaction of the Company under the Listing Rules and is subject to the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules. The SP Agreement and the transactions contemplated have been approved by the shareholders of the Company in a special general meeting held on 11th December 2017. Subsequent to the reporting date, the LKF Disposal completed on 3rd January 2018. After that, the Disposal Group will cease to be subsidiaries of the Group and their financial results will cease to be consolidated into the consolidated financial statements of the Group. As such, the hotel and gaming service operations are classified as discontinued operation for the year ended 31st December 2017. The assets and liabilities attributable to the Disposal Group have been classified as held for sale and are presented separately in the consolidated statement of financial position in this year.

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

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2017, the Group employed 54 staff (2016: 50 staff) with employee benefit expenses of HK\$40,789,000 (2016: HK\$37,125,000) 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

Subsequent to the reporting date, the Company completed the LKF Disposal on 3rd January 2018. After that, the Disposal Group ceased to be subsidiaries of the Group and their financial results would not be consolidated into the consolidated financial statements of the Group. According to the completion accounts of the Disposal Group and the working capital statement prepared by the Company and reviewed and confirmed by the Buyer, the adjustment of the actual working capital on the completion date on 3rd January 2018 was approximately HK\$34.4 million. Accordingly, the sale price of the SP Agreement is adjusted to approximately HK\$2,034.4 million.

On 18th January 2018, the Company had early redeemed the remaining outstanding Promissory Note with the principal amount of HK\$200,000,000 to Ms. Chen.

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

PROSPECT

Following the completion of the LKF Disposal, the Group has finished its recent restructure and repositioning of business and now focuses its resources to the remaining business, the property development and investment operations and the film related business operations.

The development of the Combined Site and the Property C7 is our group's major future investment in Macau. After the construction work of the Combined Site has started in June 2017, the Group has concentrated its resources to complete the project of the Combined Site in year 2019. Property C7 is in the process of preparing the development plan and will submit to DSSOPT for approval once ready. In recent years, 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. In regard to these development and investment, the Group is expected that substantial cash resources are required to invest in this business operation in the next few years. Besides, the Group will continue to source and invest in properties if proper opportunity arises.

China's culture and entertainment industry has entered into an unprecedented "golden age". Driven by policy, internet, and capital, "new giants" are emerging, in particular, internet companies have used resource advantages to gradually penetrate the entertainment industry and build an ecosystem. In respond to this golden age, the Group will continue its furtherance and development of its already well established film production business. The Group has also formed its 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 production of film/television drama series and the 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.

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 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") for the year ended 31st December 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.

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 2017.

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 2017. The Model Code also applies to other specified senior management of the Group.

PUBLICATION OF ANNUAL REPORT

The Company’s 2017 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.hkexnews.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, 26 March 2018

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