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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 2018

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 2018 together with the comparative figure for 2017 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Continuing operations			
Revenue	5	3,493	9,272
Cost of sales		<u>—</u>	<u>(8,402)</u>
Gross profit		3,493	870
Other revenue and other income	6	84,725	96,385
Administrative expenses		(84,312)	(68,931)
Distribution expenses		(91)	(2,392)
(Loss)/gain arising on change in fair value of financial assets at fair value through profit or loss		(360,209)	210,791
Other operating expenses		<u>(45,993)</u>	<u>(63,014)</u>
(Loss)/profit from operations		(402,387)	173,709
Finance costs	7	(2,835)	(63,896)
Share of (loss)/profit of a joint venture		<u>(114)</u>	<u>223</u>

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31st December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(Loss)/profit before tax	8	(405,336)	110,036
Income tax expense	9	<u>—</u>	<u>(5)</u>
(Loss)/profit for the year from continuing operations		(405,336)	110,031
Discontinued operations	11		
Profit/(loss) for the year from discontinued operations		<u>1,458,855</u>	<u>(36,695)</u>
Profit for the year		<u>1,053,519</u>	<u>73,336</u>
Profit/(loss) for the year attributable to:			
Owners of the Company		1,053,530	73,312
Non-controlling interests		<u>(11)</u>	<u>24</u>
		<u>1,053,519</u>	<u>73,336</u>
		2018 <i>HK cents</i>	2017 <i>HK cents</i> (restated)
Earnings/(loss) per share	12		
From continuing and discontinued operations			
Basic and diluted		<u>62.90</u>	<u>7.70</u>
From continuing operations			
Basic and diluted		<u>(24.20)</u>	<u>11.56</u>
From discontinued operations			
Basic and diluted		<u>87.10</u>	<u>(3.86)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2018

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit for the year	<u>1,053,519</u>	<u>73,336</u>
Other comprehensive income/(loss)		
<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	90	(60)
Reclassification adjustments relating to foreign operations disposed of during the year	<u>–</u>	<u>58</u>
Other comprehensive income/(loss) for the year	<u>90</u>	<u>(2)</u>
Total comprehensive income for the year	<u>1,053,609</u>	<u>73,334</u>
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	1,053,620	73,310
Non-controlling interests	<u>(11)</u>	<u>24</u>
	<u>1,053,609</u>	<u>73,334</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December 2018

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment		88,608	12,190
Interests in leasehold land		53,409	55,282
Investment properties		–	81,100
Available-for-sale financial assets		–	173
Goodwill		–	–
Intangible assets		–	–
Loan to a director		327,903	293,371
Interest in a joint venture		270	384
		470,190	442,500
Current assets			
Stock of properties		2,508,568	2,107,376
Film rights		11,478	12,049
Films in progress		201,005	168,992
Investment in film		29,939	–
Trade receivables	13	–	3,099
Deposits, prepayment and other receivables		451,826	289,981
Financial assets at fair value through profit or loss		453,481	725,816
Loan receivables		200,000	200,000
Time deposits		269	155
Cash and bank balances		1,156,466	424,200
		5,013,032	3,931,668
Assets classified as held for sale		–	725,635
		5,013,032	4,657,303
Total assets		5,483,222	5,099,803
Capital and reserves			
Share capital		28,011	9,037
Reserves		4,403,951	3,272,537
Equity attributable to owners of the Company			
Non-controlling interests		4,431,962	3,281,574
		(125)	(114)
Total equity		4,431,837	3,281,460

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31st December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current liabilities			
Promissory note		–	173,817
Deferred tax liabilities		–	–
		<u>–</u>	<u>173,817</u>
Current liabilities			
Trade payables	14	38,421	26,589
Deposits received, accruals and other payables		509,848	294,070
Amounts due to non-controlling interests		503,116	503,116
		<u>1,051,385</u>	<u>823,775</u>
Liabilities associated with assets classified as held for sale		–	820,751
		<u>1,051,385</u>	<u>1,644,526</u>
Total liabilities		<u>1,051,385</u>	<u>1,818,343</u>
Total equity and liabilities		<u>5,483,222</u>	<u>5,099,803</u>
Net current assets		<u>3,961,647</u>	<u>3,012,777</u>
Total assets less current liabilities		<u>4,431,837</u>	<u>3,455,277</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 2018

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 2018. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 <i>Financial Instruments</i> with HKFRS 4 <i>Insurance Contracts</i>
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

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

(a) Application of new and revised HKFRSs – effective on 1st January 2018 (Continued)

	At 31st December 2017 <i>HK\$'000</i>	Impact on initial application of HKFRS 9 <i>HK\$'000</i>	At 1st January 2018 <i>HK\$'000</i>
<i>Financial assets</i>			
Available-for-sale financial assets	173	(173)	–
Loan to a director	293,371	–	293,371
Trade receivables	3,099	–	3,099
Deposits, prepayment and other receivables	289,981	–	289,981
Financial assets at fair value through profit or loss	725,816	173	725,989
Loan receivables	200,000	–	200,000
Time deposits	155	–	155
Cash and bank balances	424,200	–	424,200
	<u>1,936,795</u>	<u>–</u>	<u>1,936,795</u>
<i>Financial liabilities</i>			
Promissory note	173,817	–	173,817
Trade payables	26,589	–	26,589
Deposits received, accruals and other payables	294,070	–	294,070
Amounts due to non-controlling interests	503,116	–	503,116
	<u>997,592</u>	<u>–</u>	<u>997,592</u>

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

(a) Application of new and revised HKFRSs – effective on 1st January 2018 (Continued)

HKFRS 9 Financial instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1st January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1st January 2018. The difference between carrying amounts at 31st December 2017 and the carrying amounts at 1st January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1st January 2018.

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

(a) Application of new and revised HKFRSs – effective on 1st January 2018 (Continued)

HKFRS 9 Financial instruments (Continued)

	HKAS 39 carrying amounts at 31st December 2017 HK\$'000	Reclassification HK\$'000	HKFRS 9 carrying amounts at 1st January 2018 HK\$'000
<i>Financial assets at fair value through profit or loss ("FVTPL")</i>			
Unlisted club debenture (note a)	–	173	173
Call option embedded in loan to a director (note b)	213,944	–	213,944
Listed securities classified as held for trading investments (note c)	<u>511,872</u>	<u>–</u>	<u>511,872</u>
	<u>725,816</u>	<u>173</u>	<u>725,989</u>
<i>Financial assets classified as available-for-sale ("AFS") financial assets under HKAS 39</i>			
Unlisted club debenture (note a)	<u>173</u>	<u>(173)</u>	<u>–</u>

Notes:

(a) Unlisted club debenture

The unlisted club debenture with the carrying amount of approximately HK\$173,000 were reclassified from AFS financial assets to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the HKFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding.

There was no material impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

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

(a) Application of new and revised HKFRSs – effective on 1st January 2018 (Continued)

HKFRS 9 Financial instruments (Continued)

Notes: (Continued)

(b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the call option embedded in loan to a director and the call option is managed and its performance is evaluated on a fair value basis, as these financial asset is required to be measured at FVTPL under HKFRS 9. As a result, these investments of HK\$213,944,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

(c) Financial assets at FVTPL classified as held for trading investments

The Group has reassessed its investments in equity securities classified as held for trading investments under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK\$511,872,000 of the Group’s investments were held for trading investments and continued to be measured at FVTPL.

(d) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including trade receivables, deposit paid, other receivables, loan to a director, loan receivables, time deposits and cash and bank balances, are assessed on 12-month ECL (“12m ECL”) basis as there had been no significant increase in credit risk since initial recognition.

(e) Financial liabilities

There is no impact on the Group’s accounting for financial liabilities previously carried at amortised costs remained to be measured at amortised costs under HKFRS 9.

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

(a) Application of new and revised HKFRSs – effective on 1st January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1st January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1st January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Artist management service income
- Distribution fee income

The application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1st January 2018.

Except as described above, the application of other 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.

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

(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 1 and HKAS 8 (Amendments)	Definition of Material ³
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement ¹
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures ¹
HKFRS (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle ¹
HKFRS 3 (Amendments)	Definition of a business ²
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation ¹
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ⁴
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹

¹ Effective for annual periods beginning on or after 1st January 2019.

² Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January 2020.

³ Effective for annual periods beginning on or after 1st January 2020.

⁴ Effective for annual periods beginning on or after 1st January 2021.

⁵ 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 HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) 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.

For the year ended 31st December 2017 and 2018, the Group has four reportable segments – film related business operations, property development and investment operations, hotel and gaming service 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.

4. SEGMENT INFORMATION (CONTINUED)

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 and investment 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 |

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	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Film related business operations	3,493	9,264	(14,477)	3,817
Property development and investment operations	—	8	(9,206)	3,935
	<u>3,493</u>	<u>9,272</u>	<u>(23,683)</u>	<u>7,752</u>
Reconciliation from segment results to (loss)/profit before tax from continuing operations				
Unallocated corporate income			83,437	75,147
(Loss)/gain arising on change in fair value of financial assets at FVTPL			(360,209)	210,791
Share of (loss)/profit of a joint venture			(114)	223
Unallocated corporate expenses			<u>(104,767)</u>	<u>(183,877)</u>
(Loss)/profit before tax			<u>(405,336)</u>	<u>110,036</u>

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

Segment results represent the (loss suffered)/profit earned 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”, (loss)/gain arising on change in fair value of financial assets at FVTPL and share of (loss)/profit 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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
ASSETS		
Segment assets		
– Film related business operations	526,100	296,211
– Property development and investment operations	<u>2,596,602</u>	<u>2,216,602</u>
Total segment assets	3,122,702	2,512,813
Assets related to discontinued operations	–	725,635
Unallocated assets	<u>2,360,520</u>	<u>1,861,355</u>
	<u><u>5,483,222</u></u>	<u><u>5,099,803</u></u>
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
LIABILITIES		
Segment liabilities		
– Film related business operations	76,074	76,967
– Property development and investment operations	<u>538,365</u>	<u>528,303</u>
Total segment liabilities	614,439	605,270
Liabilities related to discontinued operations	–	820,751
Unallocated liabilities	<u>436,946</u>	<u>392,322</u>
	<u><u>1,051,385</u></u>	<u><u>1,818,343</u></u>

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

- all assets are allocated to reportable segments, other than AFS financial assets, 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 promissory note, partial deposits received and accruals and other payables.

4. SEGMENT INFORMATION (CONTINUED)

Continuing operations (Continued)

(c) Other segment information

	Film related		Property development		Unallocated		Consolidated	
	business operations		and investment					
	2018	2017	2018	2017	2018	2017	2018	2017
	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	-	-	-	-	-	8,373
Amortisation of interests in leasehold land	-	-	-	-	1,873	1,873	1,873	1,873
Depreciation of property, plant and equipment	193	146	1,350	112	2,750	2,839	4,293	3,097
Impairment loss recognised in respect of film rights	571	1,024	-	-	-	-	571	1,024
Impairment loss recognised in respect of property, plant and equipment	-	-	3,601	-	-	-	3,601	-
Reversal of impairment loss recognised in respect of trade receivables	(120)	(135)	-	-	-	-	(120)	(135)
Reversal of impairment loss recognised in respect of deposits paid and other receivables	-	(3,152)	-	-	-	-	-	(3,152)
Loss/(gain) on disposal of property, plant and equipment	-	-	1	-	(10)	(225)	(9)	(225)
Gain on fair value change of investment properties	-	-	(1,300)	(4,120)	-	-	(1,300)	(4,120)
Additions to property, plant and equipment	1	960	1,015	163	1,333	2,021	2,349	3,144
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:								
Interest in a joint venture	-	-	-	-	270	384	270	384
Bank interest income	291	47	15	10	14,938	8,865	15,244	8,922
Loan interest income	-	-	-	-	65,532	63,202	65,532	63,202
Other interest income	-	-	-	-	87	120	87	120
Finance costs	-	-	-	-	2,835	63,896	2,835	63,896
Share of (loss)/profit of a joint venture	-	-	-	-	(114)	223	(114)	223

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:

	2018	2017
	HK\$'000	HK\$'000
Film related business operations		
Customer A	1,541	4,446
Customer B (note (i))	718	N/A
Customer C (note (i))	358	N/A
Customer D (note (i))	360	N/A
Customer E (note (ii))	N/A	1,664
	<u><u> </u></u>	<u><u> </u></u>

Except disclosed above, no other customers contributed 10% or more to the Group's revenue for both years.

Notes:

- (i) Revenue derived from Customer B, Customer C and Customer D did not contribute over 10% of revenue of the Group during the year ended 31st December 2017.
- (ii) Revenue derived from Customer E did not contribute over 10% of revenue of the Group during the year ended 31st December 2018.

(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		Non-current assets	
	external customers		(excluded financial instruments)	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	719	768	141,289	148,809
Macau	–	–	995	141
The People's Republic of China (the "PRC")	1,233	2,260	3	6
Southeast Asia (including Taiwan)	–	1,723	–	–
Others	1,541	4,521	–	–
	<u><u>3,493</u></u>	<u><u>9,272</u></u>	<u><u>142,287</u></u>	<u><u>148,956</u></u>

5. REVENUE

For the year ended 31st December 2018

(i) Disaggregation of revenue from contracts with customers

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	2018 <i>HK\$'000</i>
Continuing operations	
Distribution fee income	1,541
Artist management service income	1,952
	<hr/>
Revenue from contracts with customers	3,493
	<hr/> <hr/>

	2018 <i>HK\$'000</i>
Continuing operations	
Timing of revenue recognition	
A point in time	3,493
	<hr/> <hr/>

(ii) Transaction allocated to the remaining performance obligation for contracts with customers

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its artist management service income such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the artist management contracts as all contract works have an original expected duration of one year or less.

For the year ended 31st December 2017

	2017 <i>HK\$'000</i>
Continuing operations	
Distribution fee income	6,559
Artist management service income	2,392
Income from investment in film	313
Gross rental income	8
	<hr/>
	9,272
	<hr/> <hr/>

6. OTHER REVENUE AND OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Continuing operations		
Consultancy service income	972	959
Dividend income	1,366	1,722
Gain on disposal of property, plant and equipment	9	225
Gain on disposal of a subsidiary	639	1,150
Bank interest income	15,244	8,922
Loan interest income	65,532	63,202
Other interest income	87	120
Management fee income	720	340
Net foreign exchange gain	–	16,237
Reversal of impairment loss recognised in respect of trade receivables	120	135
Reversal of impairment loss recognised in respect of deposits paid and other receivables	–	3,152
Sundry income	36	221
	<u>84,725</u>	<u>96,385</u>

7. FINANCE COSTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Continuing operations		
Interests on bank borrowings	964	25,933
Interest on promissory note	1,871	37,963
	<u>2,835</u>	<u>63,896</u>

8. (LOSS)/PROFIT BEFORE TAX

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

	2018 <i>HK\$'000</i>	2017 <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
Auditors' remuneration and other services:		
– audit services	1,219	1,002
– non-audit services	186	1,207
	1,405	2,209
Depreciation of property, plant and equipment	4,293	3,097
Employee benefit expenses (included directors' remunerations)	58,740	40,789
Impairment loss recognised in respect of film rights (included in other operating expenses)	571	1,024
Impairment loss recognised in respect of property, plant and equipment (include in other operating expenses)	3,601	–
Loss on early redemption of promissory note (included in other operating expenses)	24,778	66,110
Gain on fair value change of investment properties (included in other operating expenses)	(1,300)	(4,120)
Loss/(gain) arising on change in fair value of financial assets at FVTPL	360,209	(210,791)
Net foreign exchange loss/(gain)	4,253	(16,237)
Operating lease rental in respect of premises	5,791	4,823
Share-based payment expenses in respect of consultancy fee	1,839	–
Gross rental income from investment properties	–	(8)
Less: Direct operating expenses incurred for investment properties during the year	–	127
	–	119
	–	119

9. INCOME TAX EXPENSE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Continuing operations		
Current tax:		
– PRC Enterprise Income Tax	<u>–</u>	<u>5</u>

On 21st March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

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 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.

10. DIVIDEND

Dividend declared and to be paid for ordinary shareholders of the Company during the year:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Special dividend of HK15 cents	<u>420,326</u>	<u>–</u>

On 18th December 2018, the board of the directors declared the payment of a special dividend of HK15 cents per ordinary share of the Company to the shareholders whose names appear on the Company’s register of members and the bonus convertible bondholders (the “Bonus CBs holders”) whose names appear on the Company’s register of Bonus CBs holder (holders conferred the holders with the same economic interests attached to the shareholders of the Company) on 9th January 2019. The special dividend will be paid on or around 25th January 2019.

No final dividend was paid or proposed during the year, nor any dividend has been proposed by the board of directors subsequent to the end of the reporting period (2017: 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 is 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 at 31st December 2017.

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

	From 1st January 2018 to respective date of disposal of subsidiaries HK\$'000	From 1st January 2017 to 31st December 2017 HK\$'000
Loss for the year from hotel and gaming service operations	(6,376)	(36,965)
Gain on disposal of hotel and gaming service operations	1,465,231	–
Profit for the year from Nam Pei Hong operations	–	869
Loss on disposal of Nam Pei Hong operations	–	(599)
	<hr/>	<hr/>
Profit/(loss) for the year from discontinued operations	1,458,855	(36,695)

11. DISCONTINUED OPERATIONS (CONTINUED)

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

	From 1st January 2018 to respective date of disposal of subsidiaries HK\$'000	From 1st January 2017 to 31st December 2017 HK\$'000
Revenue	3,957	715,494
Cost of sales	(1,985)	(403,056)
Gross profit	1,972	312,438
Other revenue and other income	465	17,393
Administrative expenses	(8,561)	(308,445)
Marketing, selling and distribution expenses	(252)	(57,405)
Loss from operations	(6,376)	(36,019)
Finance costs	–	(65)
Loss before tax	(6,376)	(36,084)
Income tax expense	–	(12)
Gain/(loss) on disposal of discontinued operations	(6,376) 1,465,231	(36,096) (599)
Profit/(loss) for the year from discontinued operations	1,458,855	(36,695)
Profit/(loss) for the year from discontinued operations attributable to:		
Owners of the Company	1,458,855	(36,701)
Non-controlling interests	–	6
	1,458,855	(36,695)

11. DISCONTINUED OPERATIONS (CONTINUED)

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

	From 1st January 2018 to respective date of disposal of subsidiaries HK\$'000	From 1st January 2017 to 31st December 2017 HK\$'000
Discontinued operations		
Amortisation of interests in leasehold land	–	19,776
Auditors' remuneration and other services:		
– audit services	–	292
– non-audit services	–	–
	–	292
Cost of inventories sold (included in cost of sales)	110	65,397
Depreciation of property, plant and equipment	–	56,717
Employee benefit expenses (included directors' remunerations)	813	140,596
Gain on disposal of property, plant and equipment	–	(507)
Net foreign exchange gain	(1)	(1,132)
Operating lease rental in respect of premises	16	10,191
Write-down of obsolete inventories	45	30
	=====	=====

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

	From 1st January 2018 to respective date of disposal of subsidiaries HK\$'000	From 1st January 2017 to 31st December 2017 HK\$'000
Net cash generated from/(used in) operating activities	34,719	(320,158)
Net cash generated from investing activities	–	392,972
Net cash used in financing activities	(966)	(159,880)
	=====	=====
Net cash inflow/(outflow)	33,753	(87,066)

12. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>1,053,530</u>	<u>73,312</u>
	2018 '000	2017 '000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>1,674,902</u>	<u>951,765</u>

Pursuant to the deed poll of the bonus convertible bonds (the "Bonus CBs"), the Bonus CBs conferred the holders with the same economic interests attached to the shareholders of the Company. Accordingly, 1,060,317 (2017: 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 (2017: HK\$265,000) outstanding Bonus CBs are included in the weighted average number of ordinary shares for calculating the basic earnings/(loss) per share.

The weighted average number of ordinary shares for the year ended 31st December 2017 for the purposes of calculating basic and diluted earnings per share have been adjusted for the issue of new shares by way of rights issue which took place on 6th August 2018.

As the Company's outstanding share options where applicable had an anti-dilutive effect to the basic earnings per share calculation, the exercise of the above potential dilutive shares is not assumed in the calculation of diluted earnings per share for the years ended 31st December 2017 and 2018.

From continuing operations

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

	2018 <i>HK\$'000</i>	2017 <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>(405,325)</u>	<u>110,013</u>

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

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

From discontinued operations

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

	2018 <i>HK\$'000</i>	2017 <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 discontinued operations attributable to owners of the Company)	<u>1,458,855</u>	<u>(36,701)</u>

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

13. TRADE RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	1,201	4,435
Less: Allowance for credit losses	<u>(1,201)</u>	<u>(1,336)</u>
	<u>–</u>	<u>3,099</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 credit losses:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 30 days	–	2,758
31 to 60 days	–	–
61 to 90 days	–	–
Over 90 days	<u>–</u>	<u>341</u>
	<u>–</u>	<u>3,099</u>

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

14. TRADE PAYABLES

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

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	34,932	23,328
31 to 60 days	225	211
61 to 90 days	–	–
Over 90 days	3,264	3,050
	<hr/> 38,421 <hr/>	<hr/> 26,589 <hr/>

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

15. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1st January 2018. Under the transition methods, comparative information is not restated.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st December 2018, the Group recorded revenue from continuing operations of HK\$3,493,000, representing a decrease of 62% as compared to HK\$9,272,000 for the year ended 31st December 2017.

Profit for the year amounted to HK\$1,053,519,000, as compared to HK\$73,336,000 for the year ended 31st December 2017. Such substantial increase in profit is mainly attributable to the gain on disposal on the entire equity interest in Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited and their respective subsidiaries of HK\$1,465,231,000 which represented the hotel and gaming service operations of the Group. Such profit is partially offset by the substantial increase in the recognition of loss of HK\$360,209,000 (2017: gain of HK\$210,791,000) arising on change in fair value of financial assets at fair value through profit or loss which mainly represented the decrease in market value of the Group's equity securities listed in Hong Kong of HK\$365,544,000.

Loss for the year from continuing operations amounted to HK\$405,336,000, as compared to profit of HK\$110,031,000 for the last year. Profit for the year from discontinued operations amounted to HK\$1,458,855,000 as compared to loss of HK\$36,695,000 for the year ended 31st December 2017.

Profit attributable to owners of the Company for the year ended 31st December 2018 amounted to HK\$1,053,530,000 as compared to HK\$73,312,000 in the previous year.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31st December 2018 (2017: nil).

During the year, the Group declared a special dividend of HK15 cents per share in aggregate amount of HK\$420,326,000 to the shareholders and the bonus convertible bondholders of the Company. The special dividend has been paid on 25th January 2019.

BUSINESS REVIEW

Continuing Operations

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

Of the total revenue for the year, HK\$3,493,000 or 100% was generated from film related business operations. No revenue was generated from property development and investment 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 2018, revenue from film related business operations amounted to HK\$3,493,000 (2017: HK\$9,264,000) and its segment loss amounted to HK\$14,477,000 (2017: segment profit of HK\$3,817,000). During the year ended 31st December 2018, 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 and has completed shooting in February 2018. The plot of this film is about love story. The post production period will take around a few months and the film is expected to release in the year 2019. 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 less human resource are required to contribute.

For television drama series, the Group has prepared a few story board of television drama series and assessing the feasibility of these story board. A television drama series of around 6 episodes has passed its feasibility study recently and shooting for this television drama series is expected to start in the second half of 2019. This television drama series is expected to be released in internet platform.

Property Development and Investment Operations

Property development and investment operations included investing and development of properties located in Macau. Currently, the Group has two projects under development in Macau, namely (i) Lot C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam Van Lakes Zone, at Avenida Doutor Stanley Ho, registered with the Macau Land and Real Estate Registry under no. 23070 (the “Property C7”); and (ii) the combined site at Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior, Macau (the “Combined Site”).

In year 2018, revenue from property development and investment operations amounted to nil (2017: HK\$8,000) and its segment loss amounted to HK\$9,206,000 (2017: profit of HK\$3,935,000). The segment loss for this year mainly represented increase in administrative expenses in this segment as the Combined Site is in construction stage and will be completed in the third quarter of 2019. Besides, this segment had recognised gain on fair value change of investment properties of HK\$1,300,000 (2017: HK\$4,120,000).

Under the Urbanistic Conditions Plan, the Property C7 which is a lot of land with the site area of 4,669 square meters, will be developed for residential and parking purpose, with the maximum allowed height of the building of 34.5 meters above sea level and maximum utilization rate of 5.58 (parking not included). An architect has been engaged and is still in the process to compile a development plan of the Property C7 in accordance with the parameters for submission to the Land, Public Works and Transport Bureau of Macau (“DSSOPT”) for approval. The very preliminary development plan is to develop a building under strata title with gross floor areas (in square meters) for residential of 26,047 and parking of 5,200. The development of the Property C7 is expected to start after the development of the Combined Site.

The Group acquired the property leasehold rights (and the inherent transfer to China Star Creative Development Limited, a subsidiary of the Company (“CSCDL”) of the legal titles) of Lot 6B, Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior (ZAPE) (the “Sites”) from Sociedade de Turismo e Diversoes de Macau, S. A. (“STDM”). Lot 6B is in trapezium shape with a site area of 1,420 square meters next to Hotel Lan Kwai Fong (the hotel was owned by the Group at that time) 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 had 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 would be developed into recreational area between the Combined Site and Hotel Lan Kwai Fong Macau (the hotel owned by the Group and disposed during this year), which was 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 responded strongly to the local planning authorities requirements for connectivity with the existing city and thus considerable portions of the area of the Sites have been dedicated to public use. Finally, the DSSOPT has approved the combination of development of the Combined Site of Lot 6C, Lot 6D and Lot 6E in July 2016. The total gross floor area of the Combined Site are (a) residential – 28,422 square meters, (b) clubhouse – 1,927 square meters, (c) commercial – 4,132 square meters and (d) parking – 11,508 square meters. The expiry date of land concession of Lot 6C, Lot 6D and Lot 6E is 21st December 2019 and the development period of the Combined Site has also granted an extension until 20th December 2019. Construction works started in June 2017 and is expected to complete construction in the third quarter of year 2019.

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. On 11th June 2018, the Company received a letter dated 8th June 2018 from the Tribunal de Ultima Instancia (終審法院) of the Macau Government, in which the Tribunal de Ultima Instancia (終審法院) rejected the application of the final appeal (the "Decision"). Accordingly, Lot 6B will be reclaimed by the Macau Government. According to the legal opinion obtained by the Company, the Group has strong legal ground to seek compensation for damages sustained by the Group as a result and the Court will consider and rule taking into account all the essential points including delays caused by the Macau Government. As such, the Group has seek legal advice from its Macau legal representative and consider to make an application in this regard if necessary. As at 31st December 2018, the Group is still considering the possibility of seeking civil claims against the Macau Government and have to assess its damages in this situation before it can proceed with any actions.

As stated above, Lot 6B is planned to develop into a recreational area besides the Combined Site and the Group treated the development of the Sites (i.e. the Combined Site and Lot 6B collectively) as one development project in its financial position since the acquisition of the property leasehold rights of the Sites. In addition, in order to increase the chance of combined the development of Lot 6C, Lot 6D and Lot 6E, one of the conditions for DSSOPT to approve the combination of development of the Combined Site was to keep Lot 6B as an undeveloped land. Although Lot 6B will be reclaim by the Macau Government, based on the property valuation report as at 31st December 2018, the market value of the Combined Site at existing condition is approximately HK\$3,177 million (no value added factor of the recreational area of Lot 6B was included in this

valuation) which together is higher than the carrying amount of the Combined Site and Lot 6B. Given that the valuation of the Sites is higher than its carrying amount, no impairment loss is recognised in respect of the stock of properties as a result of the Decision.

The Group will closely monitor the development on the Combined Site and considers that the development of the Combined Site with higher development value can secure our investment cost in the project and will contribute considerable investment return to the Group.

Discontinued Operations

Hotel and Gaming Service Operations

Hotel and gaming service operations was discontinued during the year ended 31st December 2018.

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.

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.

As 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, the Company ceased to have any interests in Disposal Group (as defined herein) and their financial results were no longer be consolidated into the Company’s consolidated income statement upon completion. The assets and liabilities attributable to the Disposal Group have been reclassified as held for sale and are presented separately in the consolidated statement of financial position as at 31st December 2017.

The Group had shared revenue and segment loss for the period from 1st January 2018 to 3rd January 2018 (completion date of disposal) of HK\$3,957,000 (2017: HK\$640,689,000) and HK\$6,376,000 (2017: HK\$36,965,000) from the hotel and gaming service operations and recorded a gain on disposal of the hotel and gaming services operations of HK\$1,465,231,000.

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 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 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 ended 31st December 2017.

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

Geographical Segments

For the geographical segments from the continuing operations, revenue of HK\$719,000 or 21% (2017: HK\$768,000 or 8%) was sourced from Hong Kong, HK\$1,233,000 or 35% (2017: HK\$2,260,000 or 24%) was sourced from China, nil or 0% (2017: HK\$1,723,000 or 19%) was sourced from Southeast Asia including Taiwan and HK\$1,541,000 or 44% (2017: HK\$4,521,000 or 49%) was sourced from other territories.

Administrative Expenses

For the year ended 31st December 2018, administrative expenses from continuing operations amounted to HK\$84,312,000 (2017: HK\$68,931,000), representing an increase of 22%. The increase was mainly caused by the net foreign exchange loss of HK\$4,253,000 in this year which is a gain of HK\$16,237,000 in last year and the increase in general expenses due to the construction work of the Combined Site.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2018, the Group had total assets of HK\$5,483,222,000 (2017: HK\$5,099,803,000) and a net current assets of HK\$3,961,647,000 (2017: HK\$3,012,777,000), representing a current ratio of 4.8 (2017: 2.8). The Group had cash and bank balances and time deposits of HK\$1,156,735,000 (2017: HK\$424,355,000).

As at 31st December 2018, the Group did not have any borrowings (2017: HK\$844,170,000).

As at 31st December 2018, the Group had banking facilities amounting to HK\$1,600,000,000 (the “Banking Facilities”) which were not yet utilised. The Banking Facilities will be utilised to finance the construction costs and related expenses of the Combined Site. The Group’s gearing ratio was zero (2017: 26%), calculated in the basis of the Group’s total borrowings over owners’ equity. Subsequent to the reporting date and up to the date of this result announcement, the Group has drawn loan in aggregate amount of HK\$660,510,000 from the Banking Facilities.

On 19th April 2018, the Company announced that it proposed to raise approximately HK\$451,850,000 before expenses by way of rights issue of 1,807,406,986 rights shares at a subscription price of HK\$0.25 each on the basis of two rights shares for every one existing share held on 11th July 2018 (the “Rights Issue”). The estimated net proceeds were approximately HK\$448,850,000, of which approximately HK\$350,000,000 (the “Proceed A”) will be applied to finance the business operation of the property development and investment; and approximately HK\$98,850,000 will be applied to fund the film and television drama series related business operations. On 28th June 2018, the necessary resolution was passed by the independent shareholders of the Company at the special general meeting of the Company. The rights shares were then allotted and issued on 6th August 2018 and the Rights Issue was completed on the same date. During the year, the net proceeds of approximately HK\$15,532,000 from the Rights Issue were used in film production for payment of production and investment cost for film and television drama series, the remaining balance of approximately HK\$83,318,000 will be applied to fund the film and television drama series related business operations as intended. The Proceed A will be applied to finance the business operation of the property development and investment as intended purposes. As the major construction costs for the Combined Site will be financed by the Banking Facilities, the Proceed A is expected to finance the costs for the development of the Combined Site which are not covered by the Banking Facilities and other business operation of the property development and investment of the Group as its intended purpose in the Rights Issue.

As at the date of this result announcement and as at 31st December 2018, the fair value of the Group’s equity securities listed in Hong Kong held as at 31st December 2018 (excluding suspend trading securities as at 31st December 2018) was approximately HK\$249,733,000 and HK\$230,480,000 respectively.

During the year, the Group acquired HK\$87,700,000 equity securities listed in Hong Kong and did not disposed any equity securities listed in Hong Kong. The loss arising on change in fair value of financial assets at fair value through profit and loss of HK\$365,544,000 was resulted from change in fair values of equity securities listed in Hong Kong during the year ended 31st December 2018. As at 31st December 2018, no single equity security's fair value held by the Group accounted for 5% or more of the total assets of the Group.

As at 31st December 2018, the Group had loan receivables in principal amount of HK\$200 million which will matured within the next twelve months. 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 2018, 52,000,000 share options and 38,000,000 share options were granted on 5th October 2018 and 8th October 2018 respectively. On 5th October 2018, the Company issued 52,000,000 new shares at a price of HK\$0.56 per share pursuant to the exercise of share options granted to the Group's employees. On 10th October 2018, the Company issued 38,000,000 new shares at a price of HK\$0.56 per share pursuant to the exercise of share options granted to the Group's employees and consultant. The purpose for granting of the share options is to reward employees and consultant for their contribution and services to the Group in the past years. The net proceeds of HK\$50,400,000 from the allotment and issue of shares under 90,000,000 share options will be used to finance general working capital of the Group. As at 31st December 2018, these net proceeds are unused and will be used as its intended purpose. During the year, 53,720,000 share options and 196,714 share options were expired on 3rd May 2018 and 20th August 2018 respectively and no share options of the Company were 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 2018, outstanding commitments by the Group amounted to HK\$1,018,373,000, of which HK\$901,776,000 as development expenditure for stock of properties in Macau and HK\$116,597,000 for film rights, films in progress and film deposits.

CONTINGENT LIABILITIES

As at 31st December 2018, the Group had no material contingent liability.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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. The LKF Disposal completed on 3rd January 2018. After that, the Disposal Group ceased to be subsidiaries of the Group and their financial results ceased to be consolidated into the consolidated financial statements of the Group and thus classified as discontinued operation in both years. The assets and liabilities attributable to the Disposal Group have been reclassified as held for sale and are presented separately in the consolidated statement of financial position as at 31st December 2017.

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

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2018, the Group employed 52 staff (2017: 54 staff) with employee benefit expenses of HK\$58,740,000 (2017: HK\$40,789,000) from the continued 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

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

PROSPECT

2019 will be an important year for the Group as our first developed project, the Combined Site is going to complete construction in the third quarter of 2019. After obtaining the approval from DSSOPT, the construction work of the Combined Site has started in June 2017 and the progress of the construction work of the Combined Site is well monitored and on schedule. The Group expected that the whole Combined Site will complete by around September 2019. The Group is not plan to start selling the Combined Site in 2019 since the Group needs time to further decorate the flats to better condition for sale. Property C7 is in the process of preparing the development plan and will submit to DSSOPT for approval once ready. Recently, the residential property market of Macau shows a healthy growth trend, the Group is positive on the Macau property market and believes that there is strong demand for housing in Macau. The Group considers that property development and investment are more stable investment for maintaining stable future revenue.

The Group will continue its furtherance and development of its already well established film production and distribution business. Recently, the Group has started to co-operate with well-known film production companies to produce new films if their plot are attractive in order to increase our production capacity. Based on news report, Chinese domestic box office set a new high in global film history, making single-month record in February 2019, collected a record 11 billion yuan at the box office up from \$10.1 billion yuan in the same period last year. The Group is confident in the production of film/television drama series operations.

Looking forward, the Group will continue to strive to achieve healthy and stable growth by enhancing profitability, maximise 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 2018.

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 2018, 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 2018.

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 2018. The Model Code also applies to other specified senior management of the Group.

PUBLICATION OF ANNUAL REPORT

The Company's 2018 annual report will be despatched to the shareholders of the Company on or before 30th April 2019 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, 26th March 2019

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.