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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2020

The board of directors (the “Board”) of China Star Entertainment Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th June 2020 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2020

	<i>Notes</i>	Six months ended 30th June	
		2020	2019
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	3,088	1,528
Cost of sales		(1,178)	–
Gross profit		1,910	1,528
Other revenue and other income	5	46,152	47,191
Administrative expenses		(37,081)	(36,367)
Marketing and distribution expenses		(2,445)	(36)
Loss arising on change in fair value of financial assets at fair value through profit or loss		(71,755)	(28,758)
Loss from operations		(63,219)	(16,442)
Finance costs	6	(146)	(224)
Share of result of a joint venture		3	(274)

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)*For the six months ended 30th June 2020*

		Six months ended 30th June	
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Loss before tax	7	(63,362)	(16,940)
Income tax credit/(expense)	8	34	(3)
		<hr/>	<hr/>
Loss for the period		(63,328)	(16,943)
		<hr/> <hr/>	<hr/> <hr/>
Loss for the period attributable to:			
Owners of the Company		(63,319)	(16,888)
Non-controlling interests		(9)	(55)
		<hr/>	<hr/>
		(63,328)	(16,943)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share	9		
Basic and diluted		HK(2.36) cents	HK(0.60) cents
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2020

	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(63,328)	(16,943)
Other comprehensive loss		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>(184)</u>	<u>(13)</u>
Total comprehensive loss for the period	<u>(63,512)</u>	<u>(16,956)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	(63,503)	(16,901)
Non-controlling interests	<u>(9)</u>	<u>(55)</u>
	<u>(63,512)</u>	<u>(16,956)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2020

	<i>Notes</i>	At 30th June 2020 <i>HK\$'000</i> (Unaudited)	At 31st December 2019 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		144,811	151,144
Loan to a director		393,712	369,974
Prepayment		16,000	16,000
Interest in a joint venture		3	–
		554,526	537,118
Current assets			
Inventories		120	101
Stock of properties		3,141,745	3,047,123
Film rights		11,828	12,792
Films in progress		115,581	115,156
Investment in film		29,939	29,939
Trade receivables	11	1,769	1,377
Deposits, prepayment and other receivables		653,303	644,169
Financial assets at fair value through profit or loss		238,827	313,284
Amount due from a joint venture		30	–
Loan receivables		99,568	199,127
Time deposits		275	272
Cash and bank balances		414,700	497,748
		4,707,685	4,861,088
Total assets		5,262,211	5,398,206

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)**

At 30th June 2020

	<i>Notes</i>	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
Capital and reserves			
Share capital		26,331	27,110
Reserves		<u>3,460,643</u>	<u>3,660,429</u>
Equity attributable to owners of the Company			
Non-controlling interests		<u>3,486,974</u> (639)	3,687,539 (630)
Total equity		<u>3,486,335</u>	<u>3,686,909</u>
Non-current liabilities			
Lease liabilities		<u>4,346</u>	<u>7,100</u>
Current liabilities			
Trade payables	12	35,022	78,251
Deposits received, accruals and other payables		82,636	87,254
Lease liabilities		5,446	5,394
Bank borrowings		1,145,310	1,030,150
Amounts due to non-controlling interests		503,116	503,116
Tax payable		<u>-</u>	<u>32</u>
		<u>1,771,530</u>	<u>1,704,197</u>
Total liabilities		<u>1,775,876</u>	<u>1,711,297</u>
Total equity and liabilities		<u>5,262,211</u>	<u>5,398,206</u>
Net current assets		<u>2,936,155</u>	<u>3,156,891</u>
Total assets less current liabilities		<u>3,490,681</u>	<u>3,694,009</u>

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group (the “Interim Financial Information”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Interim Financial Information have been prepared in accordance with the same accounting policies applied in 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group are set out in note 2.

The preparation of the Interim Financial Information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and financial performance of the Group since the 2019 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the HKFRSs.

The Interim Financial Information have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of the reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Interim Financial Information are presented in Hong Kong dollar and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

2. PRINCIPAL ACCOUNTING POLICIES

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1st January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policy which became relevant to the Group in the current interim period.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "Other revenue and other income". Grants relating to compensation of expenses are deducted from the related expenses.

3. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the directors of the Company, being the chief operating decision maker (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 three reportable segments – film related business operations, property development and investment operations and restaurant operations. The reportable segments 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.

3. SEGMENT INFORMATION (Continued)

Particulars of the Group's reportable segments are summarised as follows:

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	–	Investing and development of properties located in Macau
Restaurant operations	–	Provision of catering services through a restaurant in Hong Kong

The Group commenced restaurant operations in Hong Kong during the third quarter of the year ended 31st December 2019.

Segment information about these operations is presented as below:

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

	Segment revenue		Segment results	
	Six months ended 30th June 2020	2019	Six months ended 30th June 2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Film related business operations	2,367	1,528	(4,034)	(2,656)
Property development and investment operations	–	–	(6,941)	(3,405)
Restaurant operations	721	–	(2,336)	–
	<u>3,088</u>	<u>1,528</u>	<u>(13,311)</u>	<u>(6,061)</u>
Reconciliation from segment results to loss before tax				
Unallocated corporate income			44,538	42,104
Loss arising on change in fair value of financial assets at fair value through profit or loss ("FVTPL")			(71,755)	(28,758)
Share of result of a joint venture			3	(274)
Unallocated corporate expenses			<u>(22,837)</u>	<u>(23,951)</u>
Loss before tax			<u>(63,362)</u>	<u>(16,940)</u>

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

3. SEGMENT INFORMATION (Continued)

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

Segment results represent the loss suffered by each segment without allocation of central administrative expenses and partial finance costs under the heading of “unallocated corporate expenses”, partial other revenue and other income under the heading of “unallocated corporate income”, loss arising on change in fair value of financial assets at 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.

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

	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
ASSETS		
Segment assets		
– Film related business operations	661,788	660,535
– Property development and investment operations	3,280,271	3,234,065
– Restaurant operations	7,912	7,071
	<hr/>	<hr/>
Total segment assets	3,949,971	3,901,671
Unallocated assets	1,312,240	1,496,535
	<hr/>	<hr/>
	5,262,211	5,398,206
	<hr/> <hr/>	<hr/> <hr/>
	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
LIABILITIES		
Segment liabilities		
– Film related business operations	75,347	88,118
– Property development and investment operations	1,681,110	1,597,986
– Restaurant operations	152	2,227
	<hr/>	<hr/>
Total segment liabilities	1,756,609	1,688,331
Unallocated liabilities	19,267	22,966
	<hr/>	<hr/>
	1,775,876	1,711,297
	<hr/> <hr/>	<hr/> <hr/>

3. SEGMENT INFORMATION (Continued)

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

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

- all assets are allocated to reportable segments, other than loan to a director, interest in a joint venture, amount due from 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 for central administrative purposes; and
- all liabilities are allocated to reportable segments, other than partial deposits received, accruals and other payables and partial lease liabilities.

(c) *Geographical information*

The following table sets out information about geographical location of (i) revenue from external customers and (ii) non-current assets (excluding prepayment and 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 asset are based on the physical location of the assets.

	Revenue from		Non-current assets	
	external customers		(excluding prepayment	
	Six months ended		and financial instruments)	
	30th June		At 30th	At 31st
2020	2019	June	December	
HK\$'000	HK\$'000	2020	2019	
(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	
Hong Kong	792	161	139,380	145,015
Macau	–	–	5,434	6,128
The People's Republic of China (the "PRC")	2,296	1,367	–	1
	3,088	1,528	144,814	151,144

4. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Distribution fee income	2,296	–
Artist management service income	71	1,528
Restaurant operations	721	–
	<u>3,088</u>	<u>1,528</u>

All revenue recognised during the six months ended 30th June 2020 and 30th June 2019 are recognised at a point in time.

5. OTHER REVENUE AND OTHER INCOME

	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income		
– Bank interest income	2,956	9,635
– Loan interest income	41,182	36,376
– Other interest income	–	51
Dividend income	132	217
Consultancy service income	–	486
Reversal of allowance for expected credit losses of loan receivables	441	–
Reversal of allowance for expected credit losses of trade receivables	–	30
Management fee income	30	330
Government grants	394	–
Sundry income	1,017	66
	<u>46,152</u>	<u>47,191</u>

6. FINANCE COSTS

	Six months ended 30th June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest on:		
Bank borrowings	31,450	8,515
Lease liabilities	146	224
	<u>31,596</u>	<u>8,739</u>
Less: interest capitalised to stock of properties	<u>(31,450)</u>	<u>(8,515)</u>
	<u>146</u>	<u>224</u>

7. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	Six months ended 30th June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Amortisation of film rights (included in cost of sales)	964	–
Cost of inventories sold (included in cost of sales)	214	–
Depreciation of property, plant and equipment	6,714	6,735
Employee benefit expenses (included directors' remunerations)	22,642	20,162
Expense relating to short-term leases and other leases with lease terms end within 12 months	284	–
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	48	47
Allowance for expected credit losses of trade receivables	160	–
Realised loss arising on change in fair value of financial assets at FVTPL	167	369
Unrealised loss arising on change in fair value of financial assets at FVTPL	71,588	28,389
	<u>71,755</u>	<u>28,758</u>
Loss on disposal of property, plant and equipment	–	15
Net foreign exchange loss	1,209	98
Written off of property, plant and equipment	219	–

8. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprise Income Tax	2	3
Over provision in prior year:		
– PRC Enterprise Income Tax	(4)	–
– Hong Kong Profits Tax	(32)	–
	<u>(34)</u>	<u>3</u>

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, 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 condensed consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

No provision for Hong Kong Profits Tax has been made for both periods 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 periods.

Macau subsidiaries are subject to Macau Complementary Tax at the maximum progressive rate of 12% on the estimated assessable profit for both periods.

No provision for Macau Complementary Tax has been made for both periods as the Group has no assessable profits arising in Macau.

9. LOSS PER SHARE

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

	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share (loss for the period attributable to owners of the Company)	<u>63,319</u>	<u>16,888</u>

9. LOSS PER SHARE (Continued)

	Six months ended 30th June	
	2020	2019
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	2,686,407	2,796,197

Pursuant to the deed polls of the bonus convertible bonds (“Bonus CBs”), the Bonus CBs conferred the holders with the same economic interests attached to the shareholders of the Company. Accordingly, 1,060,317 (30th June 2019: 1,060,317) fully paid ordinary shares of HK\$0.01 each which shall be convertible from an aggregated amount of approximately HK\$265,000 (30th June 2019: HK\$265,000) outstanding Bonus CBs are included in the weighted average number of ordinary shares for calculating the basic loss per share for the six months ended 30th June 2020 and 30th June 2019.

The Company did not have any potential dilutive shares throughout the six months ended 30th June 2020 and 30th June 2019. Accordingly, diluted loss per share is the same as basic loss per share.

10. INTERIM DIVIDEND

No interim dividend was paid or proposed during the six months ended 30th June 2020.

On 30th August 2019, the Board recommended a special interim dividend to be made out of the Company’s contributed surplus account of HK12.5 cents per ordinary share to the shareholders whose names appeared on the Company’s register of members and the Bonus CBs holders whose names appeared on the Company’s register of Bonus CBs holders (holders conferred the holders with the same economic interests attached to the shareholders of the Company) on 8th October 2019 subject to the approval of the shareholders of the Company. The special interim dividend was paid on 18th October 2019.

11. TRADE RECEIVABLES

	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
Credit card receivables	4	16
Other trade receivables	2,404	2,324
Less: allowance for expected credit losses	(639)	(963)
	1,769	1,377

11. TRADE RECEIVABLES (Continued)

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 expected credit losses:

	At 30th June 2020 <i>HK\$'000</i> (Unaudited)	At 31st December 2019 <i>HK\$'000</i> (Audited)
0 to 30 days	598	1,097
31 to 60 days	–	–
61 to 90 days	–	–
Over 90 days	<u>1,171</u>	<u>280</u>
	<u>1,769</u>	<u>1,377</u>

The Group's trading terms with its customers from restaurant operations are mainly by cash and credit card settlement. The settlement terms of credit card companies are usually 7 days after the service rendered date.

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

12. TRADE PAYABLES

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

	At 30th June 2020 <i>HK\$'000</i> (Unaudited)	At 31st December 2019 <i>HK\$'000</i> (Audited)
0 to 30 days	27,127	45,170
31 to 60 days	–	25,012
61 to 90 days	9	2,431
Over 90 days	<u>7,886</u>	<u>5,638</u>
	<u>35,022</u>	<u>78,251</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30th June 2020, the Group recorded revenue of HK\$3,088,000, representing an increase of 102% from HK\$1,528,000 for the last corresponding period.

Loss for the period amounted to HK\$63,328,000, representing an increase of 274% from HK\$16,943,000 for the last corresponding period. Such increase in loss is mainly attributable to the substantial increase in the recognition of loss arising on change in fair value of financial assets at fair value through profit or loss of HK\$71,755,000 for the six months ended 30th June 2020 from HK\$28,758,000 for the last corresponding period.

Loss attributable to owners of the Company for the six months ended 30th June 2020 amounted to HK\$63,319,000, representing an increase of 275% from HK\$16,888,000 for the last corresponding period.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2020.

On 30th August 2019, the Board recommended a special interim dividend to be made out of the Company's contributed surplus account of HK12.5 cents per ordinary share to the shareholders whose names appeared on the Company's register of members and the bonus convertible bonds ("Bonus CBs") holders whose names appeared on the Company's register of Bonus CBs holders (holders conferred the holders with the same economic interests attached to the shareholders of the Company) on 8th October 2019 subject to the approval of the shareholders of the Company. The special interim dividend was paid on 18th October 2019.

BUSINESS REVIEW

The Group has three reportable segments - (1) film related business operations; (2) property development and investment operations; and (3) restaurant operations.

Of the total revenue amount for the period, HK\$2,367,000 or 77% was generated from film related business operations, none or 0% was generated from property development and investment operations and HK\$721,000 or 23% was generated from restaurant 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 the first half of the year 2020, revenue from film related business operations amounted to HK\$2,367,000 (Six months ended 30th June 2019: HK\$1,528,000) and its segment loss amounted to HK\$4,034,000 (Six months ended 30th June 2019: HK\$2,656,000). During the six months ended 30th June 2020, 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. 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 but needs to contribute less human resource.

For television drama series, the Group has prepared a few story board of television drama series and assessing the feasibility of these story board. No production of television drama series had started during this period.

After the outbreak of Coronavirus Disease 2019 (“COVID-19”) in early 2020, all film productions have temporary suspended or slowed down. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on our film related business operations.

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 which is named as “Tiffany House” (the “Project Tiffany House”).

No revenue was recorded for property development and investment operations in the first half of the year 2020 and 2019 and its segment loss amounted to HK\$6,941,000 (Six months ended 30th June 2019: HK\$3,405,000).

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 Project Tiffany House.

Project Tiffany House is located adjacent to Macao Polytechnic Institute and next to Golden Lotus Square, and is a couple of blocks away from Macau Fisherman’s Wharf and Sands Casino. Project Tiffany House has a gross floor area of (a) residential – 31,192 square meters, including approximately 1,900 square meters for clubhouse, (b) commercial – 3,716 square meters and (c) parking – 11,250 square meters and will provide 230 units in two towers, with units ranging from studio flats to four-bedroom apartments as well as special units. A prestigious clubhouse will provide a wide range of facilities and retail space at the podium will become a major shopping arcade in the neighbourhood. Construction works started in June 2017 and has obtained its occupational permit in December 2019. Project Tiffany House is now under final stage of internal renovation and ready to sale anytime. Due to the current market condition and the Group want to well prepared for the sale, Project Tiffany House is expected to launch for sale in the second quarter of year 2021. Upon completion of all renovation, the neighbourhood will be greatly upgraded which will provide its residents with a unique living and shopping experience.

Restaurant Operations

In the third quarter of year 2019, the Group opened a new café at Sheung Wan, Hong Kong in the Group’s owned property, serving various high-ended international cuisine in the brand name of “Obba Bar”.

In the first half of the year 2020, revenue from restaurant operations amounted to HK\$721,000 (Six months ended 30th June 2019: Nil) and its segment loss amounted to HK\$2,336,000 (Six months ended 30th June 2019: Nil).

By using our experience in the catering services in Hotel Lan Kwai Fong Macau in the past few years, the Group has extended its business to catering services which aims to deliver high quality food, luxury ambience and thoughtful service at affordable prices. Our customers are impressed by our services and food provided.

Our sales have experienced a significant drop following Hong Kong Government measures on dining arrangement implemented to control the outbreak of COVID-19. Nevertheless, we react quickly and effectively as possible to handle those social distancing regimes and implement control to protect our customers. Besides, we have placed a stronger focus on takeaway orders than we normally do in light of the situation, and encouraged customers to enjoy meal at home by offering discounts on takeaway orders.

Geographical Segments

For the geographical segments, revenue of HK\$792,000 or 26% was sourced from Hong Kong and HK\$2,296,000 or 74% was sourced from China during the period. Majority of Hong Kong sourced income came from restaurant operations and majority of China sourced income came from film related business operations.

Administrative Expenses

For the six months ended 30th June 2020, administrative expenses amounted to HK\$37,081,000 (Six months ended 30th June 2019: HK\$36,367,000), representing a minor increase of 2%. No significant fluctuation was recognised.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June 2020, the Group had total assets of HK\$5,262,211,000 (31st December 2019: HK\$5,398,206,000) and a net current assets of HK\$2,936,155,000 (31st December 2019: HK\$3,156,891,000), representing a current ratio of 2.7 (31st December 2019: 2.9). The Group had cash and bank balances and time deposits of HK\$414,975,000 (31st December 2019: HK\$498,020,000).

As at 30th June 2020, the Group had total borrowing of HK\$1,155,102,000 (31st December 2019: HK\$1,042,644,000) which comprised a secured bank term loan (the “Term Loan”) of HK\$1,145,310,000 (31st December 2019: HK\$1,030,150,000) and lease liabilities of HK\$9,792,000 (31st December 2019: HK\$12,494,000). The purpose of the Term Loan is to finance the construction costs and any other soft costs in relation to the Project Tiffany House. The Term Loan is in multiple drawdown and secured by the leasehold land and properties to be erected on the land of the Project Tiffany House with carrying amount as stock of properties of HK\$1,746,165,000, interest bearing at Hong Kong Interbank Offered Rate (“HIBOR”) for three or six month period selected by the borrower plus margin of 3.35% per annum for each interest period and repayable by the earlier of (i) 36 months from date of the agreement of the Term Loan or (ii) 9 months after date of issuing of the occupation permit of the Project Tiffany House, i.e. 13th September 2020.

As at 30th June 2020, the Group had banking facilities amounting to HK\$1,600,000,000 (the “Bank Facilities”) which were utilised to the extent of HK\$1,145,310,000. The Group’s gearing was acceptable during the period with total debts of HK\$1,155,102,000 against owners’ equity of HK\$3,486,974,000. This represents a gearing ratio, calculated in the basis of the Group’s total borrowings over owners’ equity of 33% (31st December 2019: 28%).

As at the date of approving these interim results, the Group is still in negotiation with the bank to extend the Term Loan and the Bank Facilities for two years from the original maturity date, i.e. repayable by 13th September 2022. The bank has reviewed progress and status of the Project Tiffany House and carried out its site visit recently, it indicated that approval will be granted upon completion of its process on finalizing the loan documents. The Group has no doubt on the success extension of the Term Loan and the Bank Facilities.

As at 30th June 2020, the net proceeds from the allotment and issue of 1,807,406,986 rights shares at the subscription price of HK\$0.25 per share on 6th August 2018 of approximately HK\$448,850,000, of which HK\$350,000,000 was unused and will be used for its intended purpose to finance the business operations of the property development and investment; and HK\$98,850,000 was used to fund the film and television drama series related business operations as intended during the years ended 31st December 2018 and 2019.

As at 30th June 2020, the Group had loan receivable in carrying amount of HK\$99,568,000 which is interest bearing at 8% per annum and has been matured during the reporting period. The borrower stayed in China since this loan and its related interests were due and cannot come back to Hong Kong to settle it. With reference to the credit and wealth assessment of the borrower, the Group is confident on the recovery of this loan receivable. The Group will closely monitor this loan and take appropriate action if necessary.

As at the date of approving these interim results and as at 30th June 2020, the fair value of the Group’s equity securities listed in Hong Kong held at 30th June 2020 (excluding suspended trading securities as at 30th June 2020) was approximately HK\$139,938,000 and HK\$154,826,000 respectively. During the six months ended 30th June 2020, the Group did not acquired any equity securities listed in Hong Kong and disposed proceeds of HK\$2,703,000 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\$65,271,000 was resulted from change in fair values of equity securities listed in Hong Kong during the six months ended 30th June 2020. As at 30th June 2020, no single equity security’s fair value held by the Group accounted for 5% or more of the total assets of the Group.

During the period from April to June 2020, the Company repurchased a total of 78,020,000 ordinary shares of the Company at an aggregate price of HK\$136,529,800 on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). 77,930,000 ordinary shares were cancelled on 11th June 2020 and 90,000 ordinary shares were subsequently cancelled on 23rd July 2020. The total number of issued shares of the Company after its cancellation as at 30th June 2020 was reduced to 2,633,070,479 (31st December 2019: 2,711,000,479) and its issued share capital was HK\$26,330,704 (31st December 2019: HK\$27,110,004).

During the period, no share options of the Company were granted, exercised, expired, lapsed or cancelled.

PLEDGE OF ASSETS

As at 30th June 2020, stock of properties with carrying amount of HK\$1,746,165,000 and quota capital of China Star Creative Development Limited, a wholly owned subsidiary of the Company which is engaged in the business of property development and investment had been pledged for Bank Facilities granted to the Group, and time deposits of the Group in amount of HK\$249,000 had been pledged as guarantee to Macau government for deposits in the development of stock of properties in Macau.

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 and assets and liabilities denominated in Renminbi. The Group has closely monitors its exposure to this fluctuation and consider appropriate hedging activities if necessary. The exposure to fluctuation in other currencies is considered to be minimal and no hedge activity is considered necessary.

COMMITMENTS

As at 30th June 2020, outstanding commitments by the Group amounted to HK\$588,565,000, of which HK\$317,451,000 as development expenditure for stock of properties in Macau, HK\$270,454,000 for film rights, films in progress and film deposits and HK\$660,000 as expenditure for leased improvement.

CONTINGENT LIABILITIES

As at 30th June 2020, the Group had no material contingent liability.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

There were no material investments, acquisitions or disposals during the period.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2020, the Group employed 66 staff (Six months ended 30th June 2019: 50 staff) with employee benefit expenses (included directors' remuneration) of HK\$22,642,000 (Six months ended 30th June 2019: HK\$20,162,000), an increase of 12%. The increase mainly included increase in headcount which are responsible for restaurant operations and preparation for sales and management of the Project Tiffany House in Macau. 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 the end of the reporting date.

Since COVID-19 continues to spread in Hong Kong, the restaurant operations of the Group during the period has been impacted by the regulatory restrictions against social gatherings, poor market conditions and weak consumer sentiment. The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group.

PROSPECT

Recently, Hong Kong has experienced one of its most challenging time in history. Although the COVID-19 outbreak will not have material impact on the Group's financial position, it slowed down the progress of our business operations. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on our operations and if necessary, rethink our business strategies.

Owing to the fact that film related business operations and property development and investment operations are not able to generate steady periodic revenue, the Group cannot provide stability in its yearly revenue. The Group has extended its business to restaurant operations last year which can provide relatively steady revenue but this operation is inevitably influenced by Hong Kong Government measures on dining arrangement implemented to control the outbreak of COVID-19. For the property development and investment operations, due to impact by the COVID-19, the expected sales of Project Tiffany House are delayed to the second quarter in year 2021. These sales are expected to offer sizeable cash flow to the Group. With Macau's calm, organised handling of coronavirus crisis and the launch by the People's Bank of China of series of finance facilitating measures (such as elevating the daily remittance limit for residents in Macau), the planned establishment of a stock exchange denominated in RMB in Macau and the accelerated implementation of the RMB settlement centre, the Group has an optimistic attitude towards the property market in Macau and has full confident in the prospects for the Greater Bay Area and Macau. The Group will continue its furtherance and development of production and distribution operations in its own established film and television drama series once the market condition of film industry is more optimistic.

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.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance practices. The Company has applied the principles and complied with all the applicable code provisions laid down in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “Code”) during the period from 1st January 2020 to 30th June 2020, except for the following deviation:

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

ADOPTION OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th June 2020. The Model Code also applies to other specified senior management of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30th June 2020, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
April 2020	37,910,000	1.75	1.72	66,341,800
May 2020	37,880,000	1.75	1.75	66,290,000
June 2020	2,230,000	1.75	1.70	3,898,000
	<u>78,020,000</u>			<u>136,529,800</u>

77,930,000 ordinary shares were cancelled on 11th June 2020 and 90,000 ordinary shares were subsequently cancelled on 23rd July 2020.

The directors considered that the Company's shares were trading at a discount to the net asset value per share, the repurchase would increase the net asset value per share of the Company.

Other than as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2020.

AUDIT COMMITTEE

The audit committee of the Company comprises Messrs. Ho Wai Chi, Paul, Hung Cho Sing and Tang Chak Lam, Gilbert, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

The audit committee of the Company has met and discussed with the Company's independent auditors, and has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June 2020 and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosure has been made.

PUBLICATION OF INTERIM REPORT

The Company's 2020 interim report will be despatched to the shareholders of the Company on or before 30th September 2020 and will be published on the website of the Stock Exchange (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, 28th August 2020

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.