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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 2020

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 2020 together with the comparative figure for 2019 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	5	5,026	7,053
Cost of sales		(1,351)	(1,998)
Gross profit		3,675	5,055
Other revenue and other income	6	97,403	95,252
Administrative expenses		(71,476)	(78,546)
Marketing and distribution expenses		(2,458)	(29,167)
Loss arising on change in fair value of financial assets at fair value through profit or loss		(97,204)	(183,582)
Other operating expenses		(40,167)	(144,030)
Loss from operations		(110,227)	(335,018)
Finance costs	7	(250)	(408)
Share of result of a joint venture		2	(270)

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31st December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss before tax	8	(110,475)	(335,696)
Income tax credit/(expense)	9	<u>32</u>	<u>(35)</u>
Loss for the year		<u>(110,443)</u>	<u>(335,731)</u>
Loss for the year attributable to:			
Owners of the Company		(110,430)	(335,226)
Non-controlling interests		<u>(13)</u>	<u>(505)</u>
		<u>(110,443)</u>	<u>(335,731)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	11		
Basic and diluted		<u>(4.15)</u>	<u>(12.17)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss for the year	<u>(110,443)</u>	<u>(335,731)</u>
Other comprehensive loss		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(852)	(205)
Reclassification of cumulative exchange reserve upon deregistration of a foreign subsidiary	<u>764</u>	<u>–</u>
Other comprehensive loss for the year	<u>(88)</u>	<u>(205)</u>
Total comprehensive loss for the year	<u><u>(110,531)</u></u>	<u><u>(335,936)</u></u>
Total comprehensive loss for the year attributable to:		
Owners of the Company	(110,518)	(335,431)
Non-controlling interests	<u>(13)</u>	<u>(505)</u>
	<u><u>(110,531)</u></u>	<u><u>(335,936)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		128,960	151,144
Deposits and prepayment		33,664	16,000
Loan to a director		420,504	369,974
Interest in a joint venture		2	–
		<u>583,130</u>	<u>537,118</u>
Current assets			
Inventories		128	101
Stock of properties		3,275,151	3,047,123
Film rights		11,828	12,792
Films in progress		77,634	115,156
Investment in film		29,939	29,939
Trade receivables	12	290	1,377
Deposits, prepayment and other receivables		653,255	644,169
Financial assets at fair value through profit or loss		208,460	313,284
Amount due from a joint venture		30	–
Loan receivables		–	199,127
Time deposits		276	272
Cash and bank balances		503,450	497,748
		<u>4,760,441</u>	<u>4,861,088</u>
Total assets		<u>5,343,571</u>	<u>5,398,206</u>
Capital and reserves			
Share capital		26,306	27,110
Reserves		3,409,608	3,660,429
Equity attributable to owners of the Company		3,435,914	3,687,539
Non-controlling interests		(643)	(630)
Total equity		<u>3,435,271</u>	<u>3,686,909</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31st December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		981	7,100
Bank borrowings		1,293,880	–
		<u>1,294,861</u>	<u>7,100</u>
Current liabilities			
Trade payables	13	22,710	78,251
Deposits received, accruals and other payables		82,908	87,254
Lease liabilities		4,704	5,394
Bank borrowings		–	1,030,150
Amounts due to non-controlling interests		503,116	503,116
Tax payable		1	32
		<u>613,439</u>	<u>1,704,197</u>
Total liabilities		<u>1,908,300</u>	<u>1,711,297</u>
Total equity and liabilities		<u>5,343,571</u>	<u>5,398,206</u>
Net current assets		<u>4,147,002</u>	<u>3,156,891</u>
Total assets less current liabilities		<u>4,730,132</u>	<u>3,694,009</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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda and Unit 3409, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

Its ultimate parent is Heung Wah Keung Family Endowment Limited which is equally owned by Mr. Heung Wah Keung (“Mr. Heung”) and Ms. Chen Ming Yin, Tiffany (“Ms. Chen”), spouse of Mr. Heung.

The consolidated 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, distribution and licensing of films and television drama series, provision of artist management services, properties development and investment and provision of catering services.

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

(a) Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (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 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 year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

(b) New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1st January 2023.

² Effective for annual periods beginning on or after 1st January 2022.

³ Effective for annual periods beginning on or after 1st January 2021.

⁴ Effective for annual periods beginning on or after 1st June 2020.

⁵ Effective for annual periods beginning on or after a date to be determined.

The directors anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION

The consolidated 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 requirement of the Hong Kong Companies Ordinance.

4. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the directors of the Company, being the chief operating decision maker (the “CODM”), for the purpose of monitoring segment performance and allocating resources between segments and that are used to make strategic decisions.

The Group has three reportable segments - film related business operations, property development and investment operations and restaurant 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 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	–	Investment and development of properties
Restaurant operations	–	Provision of catering services through a restaurant

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	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Film related business operations	3,647	6,466	(28,900)	(169,199)
Property development and investment operations	–	–	(24,153)	(14,071)
Restaurant operations	1,379	587	(3,116)	(4,083)
	<u>5,026</u>	<u>7,053</u>	<u>(56,169)</u>	<u>(187,353)</u>
Reconciliation from segment results to loss before tax				
Unallocated corporate income			88,578	87,517
Loss arising on change in fair value of financial assets at fair value through profit or loss ("FVTPL")			(97,204)	(183,582)
Share of result of a joint venture			2	(270)
Unallocated corporate expenses			<u>(45,682)</u>	<u>(52,008)</u>
Loss before tax			<u>(110,475)</u>	<u>(335,696)</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 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 arising on change in fair value of financial assets at FVTPL and share of result of a joint venture. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. SEGMENT INFORMATION (CONTINUED)

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
ASSETS		
Segment assets		
– Film related business operations	643,497	660,535
– Property development and investment operations	3,467,790	3,234,065
– Restaurant operations	7,603	7,071
	<u>4,118,890</u>	<u>3,901,671</u>
Total segment assets	4,118,890	3,901,671
Unallocated assets	1,224,681	1,496,535
	<u>5,343,571</u>	<u>5,398,206</u>
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LIABILITIES		
Segment liabilities		
– Film related business operations	71,946	88,118
– Property development and investment operations	1,816,827	1,597,986
– Restaurant operations	754	2,227
	<u>1,889,527</u>	<u>1,688,331</u>
Total segment liabilities	1,889,527	1,688,331
Unallocated liabilities	18,773	22,966
	<u>1,908,300</u>	<u>1,711,297</u>

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

- all assets are allocated to reportable segments, other than loan to a director, interest in a joint venture, partial deposits, prepayment and other receivables, financial assets at FVTPL, amount due from a joint venture, loan receivables, partial cash and bank balances and 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.

4. SEGMENT INFORMATION (CONTINUED)

(c) Other segment information

	Film related		Property development and investment				Unallocated		Consolidated	
	business operations		operations		Restaurant operations					
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts included in the measure of segment results or segment assets:										
Amortisation of film rights	964	1,747	-	-	-	-	-	-	964	1,747
Gain on reassessment of lease term	-	-	(108)	-	-	-	-	-	(108)	-
Depreciation of property, plant and equipment	1,082	1,085	3,244	4,161	1,688	612	7,011	8,161	13,025	14,019
Impairment loss recognised in respect of film rights	-	125,246	-	-	-	-	-	-	-	125,246
Impairment loss recognised in respect of films in progress	26,384	10,275	-	-	-	-	-	-	26,384	10,275
Impairment loss recognised in respect of property, plant and equipment	-	-	8,356	6,814	-	-	-	-	8,356	6,814
Impairment loss recognised in respect of loan receivables	-	-	-	-	-	-	-	873	-	873
Impairment loss recognised in respect of deposits and other receivables	5,035	-	-	-	-	-	392	822	5,427	822
Reversal of impairment loss recognised in respect of trade receivables	-	(230)	-	-	-	-	-	-	-	(230)
Reversal of impairment loss recognised in respect of loan receivables	-	-	-	-	-	-	(873)	-	(873)	-
Written off of property, plant and equipment	-	-	2,142	-	3	-	-	14	2,145	14
Additions to property, plant and equipment	-	7	579	3,799	2,182	7,336	13	115	2,774	11,257
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:										
Bank interest income	1,258	2,737	887	3,791	-	-	1,574	8,016	3,719	14,544
Loan interest income	-	-	-	-	-	-	84,599	77,559	84,599	77,559
Other interest income	-	-	-	-	-	-	-	70	-	70
Finance costs	-	56	44	81	-	-	206	271	250	408
Share of result of a joint venture	-	-	-	-	-	-	(2)	270	(2)	270
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4. SEGMENT INFORMATION (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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Film related business operations		
Customer A	–	794
Customer B	<u>1,240</u>	<u>–</u>

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

(e) Geographical information

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

	Revenue from external customers		Non-current assets (excluded prepayment and financial instruments)	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	1,450	752	127,628	145,015
Macau	–	–	1,334	6,128
The People's Republic of China ("PRC")	3,537	5,861	–	1
Others	<u>39</u>	<u>440</u>	<u>33,664</u>	<u>–</u>
	<u>5,026</u>	<u>7,053</u>	<u>162,626</u>	<u>151,144</u>

5. REVENUE

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.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Distribution fee income	3,576	4,174
Artist management service income	71	2,292
Restaurant operations	1,379	587
	<u>5,026</u>	<u>7,053</u>
Revenue from contracts with customers	<u>5,026</u>	<u>7,053</u>
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Timing of revenue recognition		
A point in time	<u>5,026</u>	<u>7,053</u>

6. OTHER REVENUE AND OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Consultancy service income	–	972
Dividend income	775	1,344
Bank interest income	3,719	14,544
Loan interest income	84,599	77,559
Other interest income	–	70
Management fee income	30	390
Government grants (<i>Note</i>)	444	–
Gain on deregistration of a subsidiary	764	–
Gain on reassessment of lease term	108	–
Foreign exchange gain	4,750	–
Reversal of impairment loss recognised in respect of trade receivables	–	230
Reversal of impairment loss recognised in respect of loan receivables	873	–
Sundry income	1,341	143
	<u>97,403</u>	<u>95,252</u>

Note: During the year ended 31st December 2020, the Group recognised government grants of approximately HK\$444,000 in respect of Covid-19-related subsidies provided by Hong Kong government and Macau government.

7. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interests on bank borrowings	63,896	36,723
Interests on lease liabilities	250	408
	<u>64,146</u>	<u>37,131</u>
Interests capitalised to stock of properties	<u>(63,896)</u>	<u>(36,723)</u>
	<u>250</u>	<u>408</u>

8. LOSS BEFORE TAX

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Amortisation of film rights (included in cost of sales)	964	1,747
Auditors' remuneration and other services:		
Auditors of the Company		
– audit services	840	1,273
– non-audit services	138	187
Other auditor	–	282
	978	1,742
Cost of inventories sold (included in cost of sales)	387	251
Depreciation of property, plant and equipment	13,025	14,019
Employee benefit expenses	43,455	43,886
Expense relating to short-term leases	676	7
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	98	95
Impairment loss recognised in respect of film rights (included in other operating expenses)	–	125,246
Impairment loss recognised in respect of films in progress (included in other operating expenses)	26,384	10,275
Impairment loss recognised in respect of property, plant and equipment (included in other operating expenses)	8,356	6,814
Impairment loss recognised in respect of loan receivables (included in other operating expenses)	–	873
Impairment loss recognised in respect of deposits and other receivables (included in other operating expenses)	5,427	822
Loss arising on change in fair value of financial assets at FVTPL	97,204	183,582
Net foreign exchange (gain)/loss	(4,750)	261
Reversal of impairment loss recognised in respect of trade receivables	–	(230)
Reversal of impairment loss recognised in respect of loan receivables	(873)	–
Written off of property, plant and equipment	2,145	14

9. INCOME TAX CREDIT/(EXPENSE)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax:		
– Hong Kong Profits Tax	–	(32)
– PRC Enterprise Income Tax	–	(3)
	<u>–</u>	<u>(35)</u>
Over-provision in prior year	<u>32</u>	<u>–</u>
	<u><u>32</u></u>	<u><u>(35)</u></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 the year ended 31st December 2020 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%. The Taiwan subsidiary is subject to Taiwan corporate tax, the first NT\$120,000 taxable income of Taiwan subsidiary is exempted from corporate tax and taxable income above NT\$120,000 is taxed at 20%.

No provision for Macau Complementary Tax, Netherland corporate tax and Taiwan corporate tax has been made for both years as the Group has no assessable profit arising in Macau, Netherland and Taiwan.

No provision for the PRC Enterprise Income Tax has been made for the year ended 31st December 2020 as the Group has no assessable profits arising in the PRC.

10. DIVIDEND

No final dividend was paid or proposed during the year, nor any dividend has been proposed by the board of directors subsequent to the end of the reporting period (2019: nil).

On 30th August 2019, the board of the directors declared the payment of a special interim dividend of HK12.5 cents per ordinary share of the Company to the shareholders whose names appear on the Company's register of members and the holders of the bonus convertible bonds ("Bonus CBs") 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 8th October 2019. The special interim dividend of HK\$339,008,000 was paid on 18th October 2019 out of the Company's contributed surplus.

11. LOSS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss		
Loss for the purpose of basic loss per share (loss for the year attributable to owners of the Company)	<u>(110,430)</u>	<u>(335,226)</u>
	2020 '000	2019 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>2,659,166</u>	<u>2,754,030</u>

Pursuant to the deed polls of 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 (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 (2019: HK\$265,000) outstanding Bonus CBs are included in the weighted average number of ordinary shares for calculating the basic loss per share.

No diluted loss per share were presented as there were no potential ordinary shares for both years.

12. TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Credit card receivables	5	16
Other trade receivables	925	2,324
Less: allowance for credit losses	<u>(640)</u>	<u>(963)</u>
	<u>290</u>	<u>1,377</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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 to 30 days	5	1,097
31 to 60 days	–	–
61 to 90 days	–	–
Over 90 days	<u>285</u>	<u>280</u>
	<u>290</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.

The movement in the allowance for credit losses in respect of trade receivables during the year is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1st January	963	1,201
Reversal	–	(230)
Written off	(323)	–
Foreign exchange translation gain	<u>–</u>	<u>(8)</u>
At 31st December	<u>640</u>	<u>963</u>

13. TRADE PAYABLES

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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	17	45,170
31 to 60 days	–	25,012
61 to 90 days	–	2,431
Over 90 days	22,693	5,638
	<hr/> 22,710 <hr/>	<hr/> 78,251 <hr/>

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31st December 2020, the Group recorded revenue of HK\$5,026,000, representing a decrease of 29% from HK\$7,053,000 for the year ended 31st December 2019.

Loss for the year amounted to HK\$110,443,000, representing a decrease of 67% from HK\$335,731,000 for the year ended 31st December 2019. The decrease in loss is mainly attributable to the substantial decrease in: (i) impairment loss recognised in respect of film rights and film in progress of HK\$26,384,000 for the year ended 31st December 2020 from HK\$135,521,000 for the year ended 31st December 2019; and (ii) recognition of loss arising on change in fair value of financial assets at fair value through profit or loss of HK\$97,204,000 for the year ended 31st December 2020 from HK\$183,582,000 for the year ended 31st December 2019.

Loss attributable to owners of the Company for the year ended 31st December 2020 amounted to HK\$110,430,000, representing a decrease of 67% from HK\$335,226,000 in the previous year.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31st December 2020 (2019: nil).

During the year ended 31st December 2019, the board of directors recommended a special interim dividend of HK12.5 cents per share in aggregate amount of HK\$339,008,000 to the shareholders and bonus convertible bondholders of the Company. The special interim dividend was approved by the shareholders of the Company in a special general meeting on 27th September 2019 and was paid out of the contributed surplus of the Company 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 for the year, HK\$3,647,000 or 73% was generated from film related business operations, nil or 0% was generated from property development and investment operations and HK\$1,379,000 or 27% 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 year 2020, revenue from film related business operations amounted to HK\$3,647,000 (2019: HK\$6,466,000) and its segment loss amounted to HK\$28,900,000 (2019: HK\$169,199,000). The Group did not distribute any new film during the year. The revenue for both years were mainly come from the film “Chasing Dream” which was released by the Group in last year. After the outbreak of Coronavirus Disease 2019 (“COVID-19”) in early 2020, all film productions have temporary suspended or slowed down. A film which started shooting in mid-year 2019 has suspended shooting and further production after due consideration by the Group and the production house in year 2020. The segment loss mainly included impairment loss recognised in respect of films in progress of HK\$26,384,000 (2019: HK\$10,275,000) related to this film. The segment loss in last year mainly included impairment loss recognised in respect of film rights of HK\$125,246,000 from the film released in last year. 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 share 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 on hand but no production of television drama series will start until the Group has more confident on the development of the market condition.

No film or television drama series are now in shooting stage. 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 mainly 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 from property development and investment operations for the years ended 31st December 2020 and 2019 and its segment loss amounted to HK\$24,153,000 (2019: HK\$14,071,000). The segment loss mainly represented impairment loss recognised in respect of property, plant and equipment of HK\$8,356,000 (2019: HK\$6,814,000) and administrative expenses incurred during the year.

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 Macao 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 is ready to sale anytime. Due to the current market condition and the Group wants to well prepared for the sale, Project Tiffany House is expected to launch for sale in the second half of year 2021.

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.. Lot 6B is in trapezium shape with a site area of 1,420 square meters next to Million Dragon Hotel (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, i.e. the Project Tiffany House and Lot 6B would be developed into recreational area in front of the Project Tiffany House, 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 Project Tiffany House in July 2016.

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 development of Lot 6B, Lot 6C, Lot 6D and Lot 6E. In May 2012, the Group submitted the architectural design and drawings of the Project Tiffany House 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 Project Tiffany House on traffic, environment and cultural heritage in the surrounding area, before the grant of an approval. Owing to the delay by the Macau Government in granting the proposed development of the combined development of Lot 6B, Lot 6C, Lot 6D and Lot 6E, 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.

As stated above, Lot 6B is planned to develop into a recreational area besides the Project Tiffany House and the Group treated the development of the Sites (i.e. the Project Tiffany House 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 Project Tiffany House was to keep Lot 6B as an undeveloped land. Although Lot 6B will be reclaimed by the Macau Government, based on the property valuation reports issued at each period end, the market value of the Project Tiffany House with no value added factor of the recreational area of Lot 6B is higher than the book value of the cost of the Project Tiffany House and Lot 6B. Given that the valuation of the Sites is higher than its book value, no impairment loss is recognised in respect of the stock of properties as a result of the Decision.

According to the legal opinion obtained by the Company, the Group has legal ground to seek civil claims against the Macau Government for compensation of damages sustained by the Group. In this situation, as Lot 6B is intended to develop as recreational area and the Macau Government has approved the development plan of the Project Tiffany House, the Group considers that it is difficult to sustain its damages incurred. As such, the Group will closely monitor the development of the Project Tiffany House and ensure to maximise its investment return from this project.

The Group always looks for suitable investment opportunities to strengthen its existing segment in property development and investment. On 24th December 2020, a wholly owned subsidiary of the Company entered into a sale and purchase agreement to purchase a property which comprises a luxury residential apartment with two car parking spaces, situated in a prime luxury residential location in Taipei, Taiwan (the “Property”) for consideration of approximately HK\$161,401,000. The Property will be held as an investment property for long term capital growth purposes and is expected to generate stable rental income. On 29th January 2021, the Group completed the acquisition of the Property.

Restaurant Operations

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

In year 2020, revenue from restaurant operations amounted to HK\$1,379,000 (2019: HK\$587,000) and its segment loss amounted to HK\$3,116,000 (2019: HK\$4,083,000).

Obba Bar 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\$1,450,000 or 29% (2019: HK\$752,000 or 11%) was sourced from Hong Kong, HK\$3,537,000 or 70% (2019: HK\$5,861,000 or 83%) was sourced from China and HK\$39,000 or 1% (2019: HK\$440,000 or 6%) was sourced from other territories.

Administrative Expenses

For the year ended 31st December 2020, administrative expenses amounted to HK\$71,476,000 (2019: HK\$78,546,000), representing a decrease of 9%. The decrease mainly represented decrease in legal and professional fees incurred this year and minor decrease in other administrative expenses in the year.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2020, the Group had total assets of HK\$5,343,571,000 (2019: HK\$5,398,206,000) and a net current assets of HK\$4,147,002,000 (2019: HK\$3,156,891,000), representing a current ratio of 7.8 (2019: 2.9). The Group had cash and bank balances and time deposits of HK\$503,726,000 (2019: HK\$498,020,000).

As at 31st December 2020, the Group had total borrowing of HK\$1,299,565,000 (2019: HK\$1,042,644,000) which comprised a secured bank term loan (the “Term Loan”) of HK\$1,293,880,000 (2019: HK\$1,030,150,000) and lease liabilities of HK\$5,685,000 (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\$1,879,503,000, 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. During the year ended 31st December 2020, the maturity date of the Term Loan is extended to 15th September 2022.

As at 31st December 2020, the Group had banking facilities amounting to HK\$1,600,000,000 which were utilised to the extent of HK\$1,293,880,000. The Group’s gearing was acceptable during the year with total debts of HK\$1,299,565,000 against owners’ equity of HK\$3,435,914,000. This represents a gearing ratio, calculated in the basis of the Group’s total borrowings over owners’ equity of 38% (2019: 28%).

As at 31st December 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\$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; and HK\$350,000,000 was originally intended to be applied to finance the business operations of the property development and investment. On 21st December 2020, the Company announced that the Board has resolved to allocate approximately HK\$162,400,000 out of the unutilised proceeds of HK\$350,000,000 as consideration for the potential acquisition of the Property. On 24th December 2020, deposit of approximately HK\$33,430,000 was paid and utilised. As at 31st December 2020, proceeds of approximately HK\$316,570,000 was unused, of which approximately HK\$127,971,000 will be utilised to settle the remaining consideration of the Property.

As at the date of approving these annual results and as at 31st December 2020, the fair value of the Group's equity securities listed in Hong Kong held at 31st December 2020 (excluding suspended trading security as at 31st December 2020, the "Suspended Security") was approximately HK\$141,824,000 and HK\$142,908,000 respectively. During the year ended 31st December 2020, the Group did not acquired any equity securities listed in Hong Kong and disposed proceeds of HK\$7,620,000 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\$72,320,000 was resulted from change in fair values of equity securities listed in Hong Kong between the year ended 31st December 2019 and 31st December 2020. As at 31st December 2020, no single equity security's fair value held by the Group accounted for 5% or more of the total assets of the Group. The Suspended Security held by the Group which valued by an independent qualified professional valuer at valuation of HK\$2,642,000 as at 31st December 2020 resumed trading after the year end date. The fair value of the Suspended Security as at the date of approving these annual results was approximately HK\$15,400,000.

During the year, the Company repurchased a total of 80,390,000 ordinary shares of the Company at an aggregate price of approximately HK\$140,559,000 on the Stock Exchange. 77,930,000 ordinary shares and 2,460,000 ordinary shares were cancelled on 11th June 2020 and 23rd July 2020 respectively. The total number of issued shares of the Company after its cancellation as at 31st December 2020 was reduced to 2,630,610,479 (2019: 2,711,000,479) and its issued share capital was HK\$26,306,104 (2019: HK\$27,110,004).

Loan receivables in carrying amount of HK\$199,127,000 in the previous year had fully repaid during the year ended 31st December 2020.

During the year ended 31st December 2020, no share options of the Company were granted, exercised, lapsed, expired or cancelled.

PLEDGE OF ASSETS

As at 31st December 2020, stock of properties in amount of HK\$1,879,503,000 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 banking facilities of HK\$1,600,000,000 granted to the Group, and time deposits 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, New Taiwan 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 2020, outstanding commitments by the Group amounted to HK\$699,738,000, of which HK\$346,069,000 as development expenditure for stock of properties in Macau, HK\$225,691,000 for film rights, films in progress and film deposits, HK\$127,971,000 for acquisition of investment property and HK\$7,000 as expenditure for equipment.

CONTINGENT LIABILITIES

As at 31st December 2020, the Group had no material contingent liability.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2020, the Group employed 69 staff (2019: 64 staff) with employee benefit expenses of HK\$43,455,000 (after deducting of HK\$2,670,000 related to Employment Support Scheme provided by the Hong Kong government) (2019: HK\$43,886,000). The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staff according to the assessment of individual performance.

EVENT AFTER THE REPORTING DATE

On 29th January 2021, the Group completed the acquisition of the Property at the consideration of approximately HK\$161,401,000. The Property will be held as an investment property for long term capital growth purposes and is expected to generate stable rental income.

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

PROSPECT

The outlook for 2021 shows signs of recovery due to the wide distribution of vaccine and reduction of lockdown globally. The Group remains optimistic towards economic recovery globally, especially in greater China region.

For the property development and investment operations, the Group has postponed sale of the Project Tiffany House to the second half year 2021. Property market generally continues to be recovering despite uncertainties persisting in the short run. The Group is optimistic towards the market prospect for this year, as there have been signs of an economic recovery following the gradual lifting of travel restrictions and the wide distribution of the COVID-19 vaccines. Once the COVID-19 pandemic is under control globally in 2021, and the situation is considered stable in Macau and Mainland China, the economy will regain momentum.

For film related business operation, the Group will continue its furtherance and development of production and distribution operations in its own established film and television drama series upon the COVID-19 pandemic has under control. In the beginning of year 2021, the Group has undergone initial negotiation with various well-known film/television drama series production companies to prepare for new productions if their plots are attractive. Of course, the Group will exercise extra cautious in this moment and will not start these new productions until the outlook on film industry is clear. Given our experience in film and television drama series production and distribution network in the film and television drama series industry, the Group is confident in the production of film and television drama series operations and can maximizing our value and return.

The restaurant operations encountered the crisis of social unrest in year 2019 and COVID-19 in year 2020 since its opening. The Group will focus on its aim to deliver high quality food and thoughtful service at affordable prices and hope that performance of the restaurant operations can rebound once the economy in Hong Kong recovered from its downturn.

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

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

During the year ended 31st December 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	66,342,000
May 2020	37,880,000	1.75	1.75	66,290,000
June 2020	2,230,000	1.75	1.70	3,898,000
July 2020	2,370,000	1.70	1.70	4,029,000
	<u>80,390,000</u>			<u>140,559,000</u>

77,930,000 ordinary shares and 2,460,000 ordinary shares were cancelled on 11th June 2020 and 23rd July 2020 respectively.

The directors considered that the Company's shares were trading at a discount to the net asset value per share, the repurchases 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 year ended 31st December 2020.

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 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.

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 2020.

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 2020. The Model Code also applies to other specified senior management of the Group.

PUBLICATION OF ANNUAL REPORT

The Company's 2020 annual report will be despatched to the shareholders of the Company on or before 30th April 2021 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, 30th March 2021

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.