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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 2017

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 2017 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2017

		Six months ended 30th June	
		2017	2016
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Continuing operations			
Revenue	4	335,631	363,020
Cost of sales		(179,924)	(207,571)
		<hr/>	<hr/>
Gross profit		155,707	155,449
Other revenue and other income	5	58,447	63,986
Administrative expenses		(182,015)	(184,308)
Marketing, selling and distribution expenses		(19,187)	(20,213)
Other operating expenses		(51,414)	(25,370)
Loss arising on change in fair value of financial assets at fair value through profit or loss		(57,186)	(12,688)
		<hr/>	<hr/>
Loss from operations		(95,648)	(23,144)
Finance costs	6	(31,835)	(15,571)
Share of results of joint ventures		83	(252)
		<hr/>	<hr/>

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

For the six months ended 30th June 2017

	Notes	Six months ended 30th June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Loss before tax	7	(127,400)	(38,967)
Income tax expense	8	(12)	–
Loss for the period from continuing operations		(127,412)	(38,967)
Discontinued operations	9		
Profit/(loss) for the period from discontinued operations		270	(119)
Loss for the period		(127,142)	(39,086)
Loss for the period attributable to:			
Owners of the Company		(127,184)	(39,086)
Non-controlling interests		42	–
		(127,142)	(39,086)
(Loss)/earnings per share	10		
From continuing and discontinued operations			
Basic		HK cents (14.07)	HK cents (5.18)
Diluted		HK cents (14.07)	HK cents (5.18)
From continuing operations			
Basic		HK cents (14.10)	HK cents (5.17)
Diluted		HK cents (14.10)	HK cents (5.17)
From discontinued operations			
Basic		HK cents 0.03	HK cents (0.01)
Diluted		HK cents 0.03	HK cents (0.01)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2017

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	<u>(127,142)</u>	<u>(39,086)</u>
Other comprehensive (loss)/income		
<i>Items that may be reclassified subsequently to condensed consolidated income statement:</i>		
<i>Exchange differences arising on translation of foreign operations:</i>		
Exchange differences arising during the period	(75)	(2)
Reclassification adjustments relating to foreign operations disposed of during the period	<u>58</u>	<u>–</u>
Other comprehensive loss for the period	<u>(17)</u>	<u>(2)</u>
Total comprehensive loss for the period	<u>(127,159)</u>	<u>(39,088)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	(127,201)	(39,088)
Non-controlling interests	<u>42</u>	<u>–</u>
	<u>(127,159)</u>	<u>(39,088)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2017

	<i>Notes</i>	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		338,606	361,857
Interests in leasehold land		384,404	395,297
Investment properties		77,900	82,620
Available-for-sale financial assets		173	–
Intangible assets		–	7,582
Loan to a director	12	278,654	–
Deposit paid for investment		–	400,000
Interests in joint ventures		244	161
		1,079,981	1,247,517
Current assets			
Inventories		7,129	66,006
Stock of properties	13	1,978,970	583,240
Film rights		21,446	21,446
Films in progress		93,632	81,461
Investment in film		–	11,325
Trade receivables	14	209,218	231,777
Deposits, prepayment and other receivables		141,871	152,560
Financial assets at fair value through profit or loss	15	457,838	286,933
Loan receivables		200,000	825,000
Amount due from a joint venture		250	–
Cash and cash equivalents		611,717	769,939
		3,722,071	3,029,687
Assets classified as held for sale		5,696	–
		3,727,767	3,029,687
Total assets		4,807,748	4,277,204

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

At 30th June 2017

	At 30th June 2017	At 31st December 2016
<i>Notes</i>	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Capital and reserves		
Share capital	9,037	9,037
Reserves	<u>3,072,026</u>	<u>3,199,325</u>
Equity attributable to owners of the Company	3,081,063	3,208,362
Non-controlling interests	<u>(96)</u>	<u>(435)</u>
Total equity	<u>3,080,967</u>	<u>3,207,927</u>
Non-current liabilities		
Bank borrowings	610,000	670,000
Promissory note	16 247,695	–
Obligations under finance leases	237	353
Deferred tax liabilities	<u>80,888</u>	<u>82,948</u>
	<u>938,820</u>	<u>753,301</u>
Current liabilities		
Bank borrowings	120,000	133,513
Obligations under finance leases	231	231
Trade payables	17 24,587	43,820
Deposits received, accruals and other payables	140,005	138,202
Amounts due to non-controlling interests	503,116	210
Tax payable	<u>12</u>	<u>–</u>
	<u>787,951</u>	<u>315,976</u>
Liability classified as held for sale	<u>10</u>	<u>–</u>
	<u>787,961</u>	<u>315,976</u>
Total liabilities	<u>1,726,781</u>	<u>1,069,277</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

At 30th June 2017

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
Total equity and liabilities	4,807,748	4,277,204
Net current assets	2,939,806	2,713,711
Total assets less current liabilities	4,019,787	3,961,228

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group (the “Interim Financial Information”) have been prepared in accordance with Hong Kong Accounting Standard 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 2016 annual financial statements.

The Interim Financial Information have been prepared on the historical cost basis except for certain properties and 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Information have been prepared in accordance with the same accounting policies applied in 2016 annual financial statements, except for the impact of the application of the new and revised standards, amendments and Interpretations (collectively referred to as the “new and amendments to HKFRSs”) described below.

In the current period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA, which are effective for the Group’s financial period beginning from 1st January 2017. A summary of the new and amendments to HKFRSs applied by the Group is set out as follows:

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014-2016 Cycle

The application of the new and amendments to HKFRSs has no material impact on the Interim Financial Information for the current and/or prior periods.

The Group has not applied any new and amendments to HKFRSs that have been issued but not yet effective for the current accounting period.

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 (“CODM”), for the purpose of monitoring segment performance and allocating resources between segments and that are used to make strategic decisions.

The Group has five reportable segments during the six months ended 30th June 2017 and 30th June 2016 – hotel and gaming service operations, film related business operations, property development operations, Nam Pei Hong operations and gaming promotion operations. The segmentations are based on the information about the operations of the Group that management uses to make decisions.

The Group’s reportable segments are strategic business units that operate different activities. They are managed separately because each business has different markets and requires different marketing strategies.

Particulars of the Group’s reportable segments for continuing and discontinued operations are summarised as follows:

Continuing operations

Hotel and gaming service operations	–	Provision of hotel services, food and beverage operation services, provision of right to occupy site and marketing services for gaming operation in Hotel Lan Kwai Fong Macau
Film related business operations	–	Investment, production and distribution of films and television drama series, provision of other film related services including artist management services
Property development operations	–	Investing and development of properties located in Hong Kong and Macau

Discontinued operations

Nam Pei Hong operations	–	Sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailer as well as Chinese clinical services
Gaming promotion operations	–	Investing in operations which receive profit streams from the gaming promotion business

The segment information of Nam Pei Hong operations and gaming promotion operations are disclosed in note 9.

3. SEGMENT INFORMATION (Continued)

Continuing operations

Segment information about these operations is presented as below:

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

	Segment revenue		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hotel and gaming service operations	334,274	362,166	674	(21,672)
Film related business operations	1,349	764	(3,062)	(2,560)
Property development operations	8	90	352	(25,544)
	<u>335,631</u>	<u>363,020</u>	<u>(2,036)</u>	<u>(49,776)</u>
Reconciliation from segment results to loss before tax from continuing operations				
Unallocated corporate income			41,941	47,271
Loss arising on change in fair value of financial assets at fair value through profit or loss			(57,186)	(12,688)
Share of results of joint ventures			83	(252)
Unallocated corporate expenses			<u>(110,202)</u>	<u>(23,522)</u>
Loss before tax			<u>(127,400)</u>	<u>(38,967)</u>

Segment revenue reported above represents revenue generated from external customers.

Segment results represent the profit earned/(loss suffered) by each segment without allocation of central administrative expenses, partial finance costs, loss on early redemption on promissory note and impairment loss recognised in respect of amount due from a joint venture under the heading of "unallocated corporate expenses", partial other revenue and other income under the heading of "unallocated corporate income", loss arising on change in fair value of financial assets at fair value through profit or loss and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

3. SEGMENT INFORMATION (Continued)

(b) Geographical information

The following table sets out information about geographical location of (i) revenue from external customers and (ii) non-current assets. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of non-current assets are based on the physical location of the assets.

	Revenue from external customers		Non-current assets	
	Six months ended 30th June		At 30th June	At 31st December
	2017	2016	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Hong Kong	231	128	426,605	561,877
Macau	334,274	362,166	653,376	685,640
The People's Republic of China (the "PRC")	1,047	726	-	-
Others	79	-	-	-
	<u>335,631</u>	<u>363,020</u>	<u>1,079,981</u>	<u>1,247,517</u>

4. REVENUE

	Six months ended 30th June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Continuing operations		
Hotel accommodation income	33,912	53,417
Food and beverage sales	20,418	19,758
Service income from mass market table gaming operations	268,175	275,867
Service income from VIP rooms table gaming operations	9,943	10,822
Service income from slot machines operations	1,826	2,302
Distribution fee income	12	311
Artist management service income	1,024	453
Income from investment in film	313	-
Gross rental income	8	90
	<u>335,631</u>	<u>363,020</u>

5. OTHER REVENUE AND OTHER INCOME

	Six months ended 30th June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Continuing operations		
Interest income	41,117	53,125
Dividend income	3	3
Consultancy service income	473	486
Reversal of impairment loss recognised in respect of trade receivables	85	–
Management fee income	280	1,014
Other ancillary hotel revenue	9,268	5,083
Gain on disposal of property, plant and equipment	691	1,012
Net foreign exchange gain	6,347	–
Sundry income	183	3,263
	<u>58,447</u>	<u>63,986</u>

6. FINANCE COSTS

	Six months ended 30th June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Continuing operations		
Interest on:		
Bank borrowings	13,383	15,553
Promissory note	18,434	–
Finance leases	18	18
	<u>31,835</u>	<u>15,571</u>

7. LOSS BEFORE TAX

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Loss before tax has been arrived at after charging/(crediting):		
Amortisation of interests in leasehold land	10,893	11,579
Cost of inventories sold (included in cost of sales)	6,155	6,472
Depreciation of property, plant and equipment	29,984	35,477
Employee benefit expenses (included directors' remunerations)	86,098	81,188
Impairment loss recognised in respect of amount due from a joint venture	–	12
(Gain)/loss on fair value change of investment properties (included in other operating expenses)	(920)	25,370
Loss arising on change in fair value of financial assets at fair value through profit or loss	57,186	12,688
Loss on early redemption on promissory note (included in other operating expenses)	52,334	–
Net foreign exchange (gain)/loss	(6,347)	1,559
Operating lease rental in respect of premises	3,247	2,592
Write-down of obsolete inventories	18	35
Gross rental income from investment properties	(8)	(90)
Less: Direct operating expenses incurred for investment properties during the period	68	70
	60	(20)
	=====	=====

8. INCOME TAX EXPENSE

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Macau Complementary Tax:		
– Under provision in prior years	12	–
	=====	=====

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. 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. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. INCOME TAX EXPENSE (Continued)

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

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

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

9. DISCONTINUED OPERATIONS

On 29th March 2017, the Group entered into a conditional sale and purchase agreement to dispose the entire equity interest in Ace Season Holdings Limited (“Ace Season”), a wholly-owned subsidiary of the Company, and its subsidiaries which carried out the Nam Pei Hong operations, and a sale loan due by Ace Season at total consideration of HK\$85,000,000. The disposal of Nam Pei Hong operations was consistent with the Group’s long-term policy to focus its activities on the Group’s other business. The disposal was completed on 30th June 2017, on which date the control of Nam Pei Hong operations passed to the acquirer.

On 25th October 2016, the Group entered into a termination agreement pursuant to which the Group agreed to terminate the rights in sharing of profit streams from the gaming promotion business represented the rights in sharing of 0.4% of rolling turnover generated from a casino VIP room located in Macau at an amount of HK\$10,000,000. The termination of gaming promotion operations was consistent with the Group’s long-term policy to focus its activities on the Group’s other business. The termination was completed on 30th October 2016, on which date the rights in sharing of profit streams ceased and the intangible assets associated with this gaming promotion operations no longer existed.

9. DISCONTINUED OPERATIONS (Continued)

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

	Period from 1st January 2017 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2016 HK\$'000 (Unaudited)
Profit/(loss) for the period from Nam Pei Hong operations	869	(1,427)
Loss on disposal of Nam Pei Hong operations	(599)	–
	270	(1,427)
Profit for the period from gaming promotion operations	–	1,308
Profit/(loss) for the period from discontinued operations	270	(119)
Profit/(loss) for the period from discontinued operations attributable to:		
Owners of the Company	264	(119)
Non-controlling interests	6	–
	270	(119)

9. DISCONTINUED OPERATIONS (Continued)

Profit/(loss) of the Nam Pei Hong operations and gaming promotion operations for the period, which have been included in the condensed consolidated income statement, were as follows:

	Period from 1st January 2017 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2016 HK\$'000 (Unaudited)
Revenue	74,805	79,179
Cost of sales	(49,904)	(52,133)
Gross profit	24,901	27,046
Other revenue and other income	52	9
Administrative expenses	(4,285)	(4,786)
Marketing, selling and distribution expenses	(19,769)	(21,786)
Other operating expenses	–	(449)
Profit from operations	899	34
Finance costs	(30)	(153)
Profit/(loss) before tax	869	(119)
Income tax expenses	–	–
Profit/(loss) for the period from discontinued operations	869	(119)

9. DISCONTINUED OPERATIONS (Continued)

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

	Period from 1st January 2017 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2016 HK\$'000 (Unaudited)
Cost of inventories sold (included in cost of sales)	46,098	48,522
Depreciation of property, plant and equipment	463	1,498
Employee benefit expenses (included directors' remunerations)	9,364	8,917
Impairment loss recognised in respect of intangible assets (included in other operating expenses)	–	449
Net foreign exchange (gain)/loss	(21)	69
Loss on disposal of property, plant and equipment	1	3
Operating lease rental in respect of premises	8,235	8,439
	<u>8,235</u>	<u>8,439</u>

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

	Period from 1st January 2017 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2016 HK\$'000 (Unaudited)
Net cash (outflow)/inflow from operating activities	(6,650)	7,472
Net cash outflow from investing activities	(291)	(375)
Net cash outflow from financing activities	(13,543)	(6,638)
	<u>(13,543)</u>	<u>(6,638)</u>
Net cash (outflow)/inflow	(20,484)	459
	<u>(20,484)</u>	<u>459</u>

10. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations

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

	Six months ended 30th June	
	2017	2016
	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>(127,184)</u>	<u>(39,086)</u>
	Six months ended 30th June	
	2017	2016
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>903,764</u>	<u>754,164</u>

Pursuant to the deed polls of the bonus convertible bonds, the bonus convertible bonds will confer the holders with the same economic interests attached to the shareholders of the Company. Accordingly, 1,060,317 (30th June 2016: 1,060,317) fully paid ordinary shares of HK\$0.01 each which shall be convertible from an aggregated amount of approximately HK\$265,000 (30th June 2016: HK\$265,000) outstanding bonus convertible bonds are included in the weighted average number of ordinary shares for calculating the basic loss per share for the six months ended 30th June 2017 and 30th June 2016.

As the Company's outstanding share options where applicable had an anti-dilutive effect to the basic loss per share computation for the six months ended 30th June 2017 and 30th June 2016, the exercise of the above potential dilutive shares is not assumed in the computation of diluted loss per share for the six months ended 30th June 2017 and 30th June 2016.

10. (LOSS)/EARNINGS PER SHARE (Continued)

From continuing operations

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

	Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share (loss for the period from continuing operations attributable to owners of the Company)	(127,448)	(38,967)

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

From discontinued operations

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

	Period from 1st January 2017 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2016 HK\$'000 (Unaudited)
Earnings/(loss)		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share (profit/(loss) for the period from discontinued operations attributable to owners of the Company)	264	(119)

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

11. DIVIDEND

No interim dividend was paid or proposed during the six months ended 30th June 2017 and 30th June 2016, nor any dividend been proposed by the Board subsequent to the end of the reporting period.

12. LOAN TO A DIRECTOR

	At 30th June 2017 <i>HK\$'000</i> (Unaudited)	At 31st December 2016 <i>HK\$'000</i> (Audited)
At the beginning of the reporting period	–	–
Loan portion advanced at initial recognition	271,908	–
Imputed interest income	12,636	–
Interest received and receivables	(5,890)	–
	<hr/>	<hr/>
At the end of the reporting period	278,654	–
	<hr/> <hr/>	<hr/> <hr/>

On 29th November 2016, Best Combo Limited (“Best Combo”), a wholly-owned subsidiary of the Company, as a lender, and Ms. Chen Ming Yin, Tiffany (“Ms. Chen”), the director of the Company, as a borrower, entered into a loan agreement (the “Loan Agreement”) pursuant to which Best Combo has agreed to grant to Ms. Chen a fixed term loan (the “Loan”) in the principal amount of HK\$500,000,000 (subject to the loan amount adjustment). The Loan is interest bearing at 5% per annum, repayable on the date falling 60 months from the drawdown date of the Loan and secured by way of a share charge over the entire issued share capital of Reform Base Holdings Limited (“Reform Base”), a company incorporated in the British Virgin Islands and wholly owned by Ms. Chen.

Pursuant to the Loan Agreement, Ms. Chen has agreed to grant the call option (the “Call Option”) to Best Combo which allows Best Combo to require Ms. Chen to sell the entire issued share capital of Reform Base at HK\$500,000,000 (subject to the loan amount adjustment) during the exercise period falling on the expiry of 60 months from the drawdown date of the Loan.

On 6th April 2017, the drawdown date of the Loan, the directors of the Company has recognised the amount of approximately HK\$271,908,000 and HK\$228,092,000 for the loan portion and the call option portion respectively by reference to the fair value arrived on the basis of valuation carried out by Graval Consulting Limited, an independent qualified professional valuers. The effective interest rate of loan to a director on initial recognition is 20.76%.

13. STOCK OF PROPERTIES

	At 30th June 2017 <i>HK\$'000</i> (Unaudited)	At 31st December 2016 <i>HK\$'000</i> (Audited)
Properties under development held for sales		
At the beginning of the reporting period	583,240	567,973
Additions	7,645	15,267
Acquisition of assets through acquisition of subsidiaries	<u>1,388,085</u>	<u>–</u>
At the end of the reporting period	<u><u>1,978,970</u></u>	<u><u>583,240</u></u>

The stock of properties is located in Macau and held under medium-term leases.

Properties under development held for sales are expected to be recovered after more than one year.

In September 2013, the government of Macau Special Administrative Region (the “Macau SAR Government”) promulgated the Macau New Land Law (the “MNLL”) which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to the delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the property located in Lot 6B at Zona de Aterros do Porto Exterior (ZAPE) (“Lot 6B”), Lot 6B could not commence development and the Macau SAR Government has started the administrative work to reclaim it. Lot 6B is one of the four lots of land held under development and is intended to be developed as recreational area in front of Hotel Lan Kwai Fong Macau. The Group has filed an appeal to the president of the Macau Second Instance Court on 30th December 2016 and the Second Instance Court has not ruled on this matter yet.

Based on a legal opinion obtained by the Group, the Group has sufficient grounds to apply to the courts of the Macau for remedies in all aspects. A few legal actions have been initiated by the legal representatives of the Group and are now in progress. Based on the opinion of the legal expert, the Courts will consider and judge on the essential points regarding the delays caused by the Macau SAR Government and the right of the Group to claim for compensation of loss.

As the outcome of the appeal is still uncertain, the directors of the Company have taken into account all available evidence, including the opinion of legal experts and believe that the Group has strong legal grounds to obtain a favourable judgement and seek for legal compensation. No impairment loss should be recognised in respect of stock of properties was considered necessary at 30th June 2017 and at 31st December 2016.

14. TRADE RECEIVABLES

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

	At 30th June 2017 <i>HK\$'000</i> (Unaudited)	At 31st December 2016 <i>HK\$'000</i> (Audited)
0 to 30 days	145,940	181,366
31 to 60 days	818	3,978
61 to 90 days	764	538
Over 90 days	61,696	45,895
	<u>209,218</u>	<u>231,777</u>

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

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30th June 2017 <i>HK\$'000</i> (Unaudited)	At 31st December 2016 <i>HK\$'000</i> (Audited)
Listed securities classified as held for trading investments:		
– Equity securities listed in Hong Kong, at fair value	234,034	286,933
Derivative financial instruments:		
– Call Option embedded in loan to a director	223,804	–
	<u>457,838</u>	<u>286,933</u>

At the end of the reporting period, all financial assets at fair value through profit or loss are stated at fair value. Fair value of listed securities classified as held for trading investments are determined with reference to quoted market closing price.

At the end of the reporting period, the fair value of the Call Option with the amount of approximately HK\$223,804,000 was arrived on the basis of valuation carried out by Graval Consulting Limited, an independent qualified professional valuers. The fair value of the Call Option was valued by using the discounted cash flow method with discount rate of 21.22% at 30th June 2017. A discount rate is the expected rate of return (or yield) that an investor would have to give up by investing in the subject investment instead of other available alternative investments that are comparable in terms of risk and other investment characteristics.

16. PROMISSORY NOTE

	At 30th June 2017 HK\$'000 (Unaudited)	At 31st December 2016 HK\$'000 (Audited)
At the beginning of the reporting period	–	–
Issue of promissory note (<i>note i</i>)	483,913	–
Imputed interest on promissory note	18,434	–
Interest paid and payable	(6,986)	–
Repayment of promissory note (<i>note ii</i>)	(300,000)	–
Loss on early redemption on promissory note (<i>note ii</i>)	52,334	–
	<hr/>	<hr/>
At the end of the reporting period	<u>247,695</u>	<u>–</u>

Notes:

- (i) On 6th April 2017, the Company acquired the entire equity interest in Modern Vision (Asia) Limited (“Modern Vision”) and its subsidiaries and the sale loan due by Modern Vision with total consideration of HK\$1,000,000,000, in which HK\$600,000,000 was settled by issue of promissory note to Ms. Chen by the Company. The promissory note was unsecured, interest bearing at 5% per annum calculated on the basis of 365-day year and payable semi-annually in arrears and mature 24 months from the date of issue of the promissory note. The Company can give a notice to Ms. Chen not less than ten business day’s prior notice in writing of its intention to repay any part of the outstanding principal amount of the promissory note. The early repayment option is closely related to the host contract. The fair value of promissory note with the amount of approximately HK\$483,913,000 have been arrived upon issue on the basis of valuation carried out by Graval Consulting Limited, an independent qualified professional valuers. The effective interest rate of the promissory note at the issuance date is 17.49%.
- (ii) On 29th June 2017, the Company has partially repaid promissory note with principal amount of HK\$300,000,000 to Ms. Chen and loss on early redemption on promissory note with the amount of approximately HK\$52,334,000 was recognised in the condensed consolidated income statement.

17. TRADE PAYABLES

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

	At 30th June 2017 <i>HK\$'000</i> (Unaudited)	At 31st December 2016 <i>HK\$'000</i> (Audited)
0 to 30 days	6,776	19,659
31 to 60 days	2,532	6,611
61 to 90 days	92	92
Over 90 days	15,187	17,458
	<hr/> 24,587 <hr/>	<hr/> 43,820 <hr/>

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 2017, the Group recorded revenue from continuing operations of approximately HK\$335,631,000 representing a decrease of 8% as compared to HK\$363,020,000 for the last corresponding period.

Loss for the period amounted to approximately HK\$127,142,000 representing an increase of 225% as compared to HK\$39,086,000 for the last corresponding period. Such significant increase in loss is mainly attributable to, including but not limited to (i) loss on early redemption on promissory note issued by the Company of approximately HK\$52,334,000; (ii) the recognition of unrealised loss of approximately HK\$57,186,000 arising on change in fair value of financial assets at fair value through profit or loss as compared to unrealised loss of HK\$12,688,000 recognised in the last corresponding period which mainly represented the decrease in market values of the Group's equity securities listed in Hong Kong as at 30 June 2017; and (iii) increase in finance costs by the amount of approximately HK\$16,264,000 from the last corresponding period. The effect of such increase is partially offset by the recognition of gain on fair value change of investment properties of approximately HK\$920,000 during this period as compared to loss of HK\$25,370,000 in the last corresponding period.

Loss for the period from continuing operations amounted to approximately HK\$127,412,000, representing an increase of 227% from HK\$38,967,000. Profit for the period from discontinued operations amounted to HK\$270,000 as compared to loss from discontinued operations of HK\$119,000 for the last corresponding period.

Loss attributable to owners of the Company for the six months ended 30th June 2017 amounted to HK\$127,184,000, representing an increase of 225% from HK\$39,086,000 for the last corresponding period.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2017 (2016: nil).

BUSINESS REVIEW

Continuing Operations

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

Of the total revenue amount for the period, HK\$334,274,000 or 100% was generated from hotel and gaming service operations, HK\$1,349,000 or 0% was generated from film related business operations and HK\$8,000 or 0% was generated from property development operations.

Hotel and Gaming Service Operations

Hotel and gaming service operations included the hotel operation in Hotel Lan Kwai Fong Macau (“Lan Kwai Fong”) which was recorded in an indirect wholly owned subsidiary of the Company, Hotel Lan Kwai Fong (Macau) Limited (“Hotel LKF”); services provided to the casino situated in Lan Kwai Fong (the “Casino LKF”) which was recorded in an indirect wholly owned subsidiary of the Company, Classic Management & Services Company Limited (“Classic”) and other ancillary services provided in Lan Kwai Fong. Lan Kwai Fong presents a total of 209 guest rooms, casino situated in the ground, first and 18th floor, restaurants, flower shop, retail shop and spa centre.

Casino LKF is run by license holder Sociedade de Jogos de Macau, S.A. (“SJM”). Classic has entered into service and site license agreements with SJM. Under the agreements, Classic has granted to SJM a right to occupy and use spaces in Lan Kwai Fong to operate Casino LKF and Classic is responsible for the provision of marketing, promotion, publicity, customer development and introduction, co-ordination of activities and other services as agreed between Classic and SJM from time to time in Casino LKF. In return, Classic can shared a fixed percentage of service income from SJM based on the monthly gross gaming wins of the mass market and VIP table gaming and slot machines in Casino LKF. Casino LKF operates a total of 84 gaming tables, targeting both for the VIP rooms table gaming and the mass market table gaming. It also operates a total of 65 slot machines.

Lan Kwai Fong has been awarded with several international accolades, which included the “5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China” and the “2012 TripAdvisor Travelers’ Choice – Top 25 Trendiest Hotels in China”. In respect of promoting the notion of environmental protection, Lan Kwai Fong has won the “AHF Asia Awards 2010 – Leading Green Hotel of Asia” and the “Macao Green Hotel Award – Bronze Award” for the year 2010 to 2016. “Macao Energy Saving Contest, Hotels Group B – Champion 2013 to 2014 and Bronze award 2016”.

The Group had shared revenue and segment profit of approximately HK\$334,274,000 (2016: HK\$362,166,000), decrease of 8% and HK\$674,000 (2016: segment loss of HK\$21,672,000) from the hotel and gaming service operations. Revenue in the hotel and gaming service operations mainly comprised of hotel accommodation income of HK\$33,912,000 (2016: HK\$53,417,000), food and beverage sales of HK\$20,418,000 (2016: HK\$19,758,000), services income received from (i) mass market table gaming of approximately HK\$268,175,000 (2016: HK\$275,867,000) representing a decrease of 3%, (ii) VIP rooms table gaming of HK\$9,943,000 (2016: HK\$10,822,000) representing a decrease of 8% and (iii) slot machines of HK\$1,826,000 (2016: HK\$2,302,000) representing a decrease of 21%. Besides, the occupancy rate of Hotel LKF during the period was about 99% (2016: 99%).

For the six months ended 30th June 2017, the total casino gross revenue in Macau market was approximately MOP126 billion, increased by 17% from the last corresponding period. Following new resort hotels are continuing opened in Cotai, there is keen competition among hotels in Macau. The Macau government wants to attract more families and mass-market visitors interested in non-gaming entertainment as part of its program of economic diversification which favours those resort hotels in Cotai. Thus, our performance may temporarily diversified by these resort hotels. As a casino oriented hotel, hotel room in Lan Kwai Fong always serve to satisfy demand from casino patrons. Being a boutique hotel with customers' satisfaction as our top priority, we have confident that we can keep our existing customers and attract those casino customers. Our narrowing of decrease in revenue and obtained segment profit in this period has showed our move towards these missions.

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 artists management services.

In the first half of the year 2017, revenue from film related business operations amounted to HK\$1,349,000 (2016: HK\$764,000) and its segment loss amounted to HK\$3,062,000 (2016: HK\$2,560,000). During the six months ended 30th June 2017, the Group did not distributed any new film. The latest new production of the Group, "League of Gods" has been on screen in July 2016 and thus its revenue had been reflected in the second half of the year in 2016. It is now the Company's policy to exercise extra caution in the investment and production of film or television drama series. After the distribution of "League of Gods" in the year 2016, the Group is still in the preparation stage of another new film which is scheduled to start production in September 2017. Besides, following the establishment of the production line in the television drama series, the Group is in the preliminary stage of writing story board for television drama series. The Group also has investment in production of film which is co-financing with other production companies and share revenue of approximately HK\$313,000 from this invested film in the period.

Property Development Operations

Property development operations included investing and development of properties located in Macau and Hong Kong. Development of properties in Macau represents 50% indirect beneficial interest of the Group in a lot of land with the area of 4,669 square meters, named 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 100% indirect beneficial interest of the Group in the Combined Site (as defined below).

In the first half of the year 2017, revenue for property development operations amounted to approximately HK\$8,000 (2016: HK\$90,000) and its segment profit amounted to approximately HK\$352,000 (2016: segment loss of HK\$25,544,000). The change in segment result mainly caused by the recognition of gain on fair value change of investment properties in Hong Kong of approximately HK\$920,000 as compared to loss of approximately HK\$25,370,000 in the last corresponding period. This fair value change was based on the valuation reports issued by a firm of independent qualified professional valuers.

The Group completed the acquisition of the Property C7 on 6th April 2017. Under the Urbanistic Conditions Plan, the Property C7 will be developed for residential and parking purpose, with the maximum allowed height of the building of 34.5 meters above sea level and maximum utilization rate of 5.58 (parking not included). An architect has been engaged and is still in the process to compile a development plan of the Property C7 in accordance with the parameters for submission to the Land, Public Works and Transport Bureau of Macau (“DSSOPT”) for approval. The very preliminary development plan is to develop a building under strata title with gross floor areas (in square meters) for residential of 26,047 and parking of 5,200.

The Group also has properties located in Macau which represents Lot 6B, Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior (ZAPE) (the “Sites”). Lot 6B is in trapezium shape with a site area of 1,420 square meters next to Lan Kwai Fong and Lot 6C, Lot 6D and Lot 6E are in rectangular shape with each site area of 1,292 square meters next to Lot 6B and adjacent of each other with three six-meter width roads dividing them separately. In order to enhance the commercial value of the Sites, the Group has decided to build a luxury residential and commercial complex of two towers with spacious apartment units in Lot 6C, Lot 6D and Lot 6E (the “Combined Site”) and Lot 6B will be developed into recreational area between the Combined Site and Lan Kwai Fong, which is expected to have higher selling prices than the existing development plan of the individual Lot 6B, Lot 6C, Lot 6D and Lot 6E. This new development plan also respond strongly to the local planning authorities requirements for connectivity with the existing city and thus considerable portions of the area of the Sites have been dedicated to public use. Finally, the DSSOPT has approved the combination of development of the Combined Site of Lot 6C, Lot 6D and Lot 6E in July 2016. The total gross floor area of the Combined Site are (a) residential – 28,422 square meters, (b) clubhouse – 1,927 square meters, (c) commercial – 4,132 square meters and (d) parking – 11,508 square meters. The expiry date of land concession of Lot 6C, Lot 6D and Lot 6E is 20th December 2019 and the development period of the Combined Site has also granted an extension until 20th December 2019. Construction works started in June 2017 and is expected to complete during year 2019. Based on a property valuation performed by an independent property valuer for accounting purpose as at 31st December 2016, the market value of the Combined Site is approximately HK\$1,974 million.

Immediately after the acquisition of the property leasehold rights of the Sites, the Group held meetings with various departments of Macau Government to seek their views on the proposed development of the Sites as the Combined Site. In May 2012, the Group submitted the architectural design and drawings of the Combined Site to the DSSOPT for approval. Following the submission, meetings have been held with various departments of Macau Government for following up the proposed development plan. Given that the location of the Sites is adjacent to Macao Polytechnic Institute and several tourist spots, Forum de Macao, Grand Prix Museum, Wine Museum and Golden Lotus Square, and is a couple of blocks away from Macau Fisherman's Wharf and Sands Casino, it is believed that the Macau Government required longer time to study the impacts of the proposed development of the Combined Site on traffic, environment and cultural heritage in the surrounding area, before the grant of an approval. Besides, Lot 6B, Lot 6C, Lot 6D and Lot 6E are properties classified as those of 65 properties which non-development are not the responsibility of the land concessioner announced in year 2011. Owing to the delay by the Macau Government in granting the proposed development of the Combined Site, the land concession of Lot 6B has expired on 25th December 2014. DSSOPT has started the administration work to reclaim it on dispatch 50/2016 published in the Official Gazette no. 47, II, of 23rd November 2016 according to Macau new Land Law effective in March 2014 for the reason that Lot 6B is undeveloped land on the expiry of the land concession on 25th December 2014. The Group has filed an appeal to the President of the Macau Second Instance Court on 30th December 2016 and the Second Instance Court has not ruled on this matter yet. According to the legal opinion obtained by the Company, the Group has strong legal ground to seek for a legal compensation for legal damages to the Macau Government and the Court will necessary have consider and rule taking into account all the essential points regarding the delays caused by the Macau Government.

As stated above, Lot 6B is planned to develop into recreational area between the Combined Site and Lan Kwai Fong. The action by the Macau Government is considered to have minimal effect on the development value of the Combined Site and it is uncertain that what ruling will be obtained from the Macau Government on Lot 6B. The Group will closely monitor the development on the Combined Site and consider that the development of the Combined Site with higher development value can secure the recovery of its investment cost on the Sites and will contribute higher investment return to the Group.

Discontinued Operations

The Group has two discontinued segments – (1) Nam Pei Hong operations, discontinued during the period; and (2) gaming promotion operations, discontinued in the year ended 31st December 2016.

Nam Pei Hong Operations

Nam Pei Hong operations included sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailers as well as Chinese clinical services which held by the group headed by Ace Season Holdings Limited (“Ace Season”). One of the group’s subsidiary, Nam Pei Hong Sum Yung Drugs Company Limited (“Nam Pei Hong”) has engaged in the business of trading and retail of “Sum Yung” and dried seafood products since year 1977 and the brand name of “Nam Pei Hong” is highly recognised in Hong Kong and Southern Mainland China.

On 29th March 2017, China Star Entertainment (BVI) Limited, a wholly owned subsidiary of the Company (“CSBVI”) entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) with an independent third party in relation to the disposal of the entire issued share capital of Ace Season and the sale loan owed by Ace Season to CSBVI on completion at consideration of HK\$85,000,000 (the “Disposal”). The Disposal was completed on 30th June 2017. Upon completion of the Disposal, the Company ceased to have any interests in Ace Season and its subsidiaries and their financial results were no longer be consolidated into the Company’s consolidated financial statements and thus classified as discontinued operation in this period. The Group considered that the Disposal can reallocate its resources to other business with better prospects.

In the period from 1st January 2017 to 30th June 2017, the Group had shared revenue of approximately HK\$74,805,000 (2016: HK\$76,817,000), decreased of 3% and segment profit of approximately HK\$869,000 (2016: segment loss of HK\$1,427,000) from the Nam Pei Hong operations and shared a loss on disposal of HK\$599,000.

Gaming Promotion Operations

Pursuant to a profit acquisition agreement dated 16th August 2007 (“Profit Acquisition Agreement”) among Mr. Ng Cheuk Fai (“Mr. Ng”), Best Mind International Inc. (“Best Mind”) and Ocho Sociedade Unipessoal Limitada (“Ocho”), Mr. Ng, as beneficial owner, has agreed to sell and/or assign to Best Mind absolutely Mr. Ng’s right, title and interest and benefits in 100% of the sharing of profit streams from the gaming promotion business which represented the rights in sharing of 0.4% of rolling turnover generated from Ocho (the “Profit Streams”) commencing from 16th August 2007. Ocho is one of the gaming promoters at one of the VIP rooms at the Grand Lisboa Casino in Macau.

Gaming promotion operations represented the revenue in sharing of Profit Streams. One of the characteristic of the VIP rooms table gaming is that the majority of the business volume is highly volatile. Ocho had lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers as they were attracted by other large and well equipped new hotels and casinos in Macau. Thus, its segment results in recent years are unsatisfactory.

On 25th October 2016, the parties to the Profit Acquisition Agreement agreed to terminate the Profit Acquisition Agreement at the consideration of HK\$10,000,000 and the termination was completed on 30th October 2016. Accordingly, the gaming promotion operations were treated as discontinued operation in the financial statements of the Group as at 31st December 2016. The Group considered that the termination can reallocate its resources to other business with better prospects.

During the period from 1st January 2016 to 30th June 2016, the Group had shared revenue of approximately HK\$2,362,000 and segment profit of approximately HK\$1,308,000 from the gaming promotion operations.

Geographical Segments

For the geographical segments, revenue of the Group during the period was mainly sourced from Macau.

Administrative Expenses

For the six months ended 30th June 2017, administrative expenses from continuing operations amounted to HK\$182,015,000 (2016: HK\$184,308,000), representing a decrease of 1%. No material fluctuation was recorded.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June 2017, the Group had total assets of approximately HK\$4,807,748,000 and a net current assets of HK\$2,939,806,000, representing a current ratio of 4.7 (31st December 2016: 9.6). The Group had cash and bank balances of approximately HK\$611,717,000 (31st December 2016: HK\$769,939,000). As at 30th June 2017, the Group had total borrowings of HK\$978,163,000 which comprised a secured bank term loan with remaining balance of HK\$730,000,000 (the “Term Loan”), the promissory note with carrying amount of HK\$247,695,000 (the “Promissory Note”) and obligations under finance leases of HK\$468,000.

The Term Loan was secured by the Group’s leasehold land and buildings with carrying amount of HK\$533,095,000, interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank and repayable by remaining of 22 equal consecutive quarterly installments of HK\$30,000,000 each and a final repayment for the remaining balance of HK\$70,000,000. The Promissory Note with outstanding principal amount of HK\$300,000,000 issued to Ms. Chen Ming Yin, Tiffany (“Ms. Chen”), a substantial shareholder and an executive director of the Company which carries interest at the rate of 5% per annum, unsecured and has maturity at a fixed term of 24 months from the date of issue of the Promissory Note.

As at 30th June 2017, the Group had banking facilities amounting to HK\$1,001,000,000 which were utilised to the extent of HK\$1,000,000,000. The Group’s gearing was acceptable during the period with total debts of HK\$978,163,000 against owners’ equity of HK\$3,080,967,000. This represents a gearing ratio, calculated in the basis of the Group’s total borrowings over equity attributable to owners of the Company of 32% (31st December 2016: 25%).

As at the date hereof and 30th June 2017, the fair value of the Group's equity securities listed in Hong Kong held at 30th June 2017 was approximately HK\$254,242,000 and HK\$234,034,000 respectively. During the period under review, the Group did not acquire or dispose any equity securities listed in Hong Kong. The loss arising on change in fair value of equity securities of HK\$52,899,000 was resulting from change in fair values of equity securities listed in Hong Kong during the period. As at 30th June 2017, there is no single one equity securities that the fair value of the equity securities accounted for 5% or more of the total assets of the Group.

As at 30th June 2017, the net proceeds from the issue and allotment of 150,600,000 placing shares at a price of HK\$0.53 per share on 28th October 2016 of approximately HK\$77,767,000 were unused and the Group intends to use the net proceeds as intended for the film production.

During the period, the Group had received loan receivables in principal amount of HK\$625,000,000 which matured during the period. All interest due from loan receivables were received in accordance with the terms in their corresponding agreements on due date. No new loan receivables were granted during the period.

During the period, there were 4,022,129 options lapsed and 41,690 options expired and no share options of the Company were granted, exercised or cancelled.

EXCHANGE RISK AND HEDGING

The majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollar, Macau Pataca, United States Dollar and Renminbi. The exposure to fluctuation in exchange rates in Renminbi mainly arises from receipts and expenditure incurred and receivables 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 30th June 2017, outstanding commitments by the Group amounted to approximately HK\$1,352,323,000, of which HK\$1,340,772,000 as project costs for the Combined Site and Property C7, HK\$342,000 as purchase and renovation of property, plant and equipment and HK\$11,209,000 for film rights, films in progress and film deposits.

CONTINGENT LIABILITIES

As at 30th June 2017, the Group had no material contingent liability.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Acquisition of Modern Vision (Asia) Limited and the Property C7

On 29th November 2016, Best Combo Limited (“Best Combo”), a wholly owned subsidiary of the Company and Ms. Chen entered into a conditional sale and purchase agreement (the “Agreement”) pursuant to which Best Combo has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision (Asia) Limited (“Modern Vision”) and the sale loan due by Modern Vision to Ms. Chen upon completion at a purchase price of HK\$1,000 million (subject to adjustment). The major asset of Modern Vision is its 50% equity interests in Over Profit International Limited (“Over Profit”). Over Profit indirectly owns 100% beneficial interest in a lot of land with the area of 4,669 square meters, named Lote C7 do Plano de Urbanizacao da Baia de Praia Grande, located in the Nam van Lakes Zone, at Avenida Doutor Stanley Ho, registered with Macau Land and Real Estate Registry under no. 23070 (the “Property C7”). The purchase price was satisfied by Best Combo by: (i) the payment of initial deposit of HK\$400 million upon signing of the Agreement and (ii) the issue of a 2-year term 5% coupon promissory note in the principal sum of HK\$600 million by the Company to Ms. Chen upon completion.

On 29th November 2016, Best Combo entered into a loan agreement (the “Loan Agreement”) with Ms. Chen, pursuant to which (i) Best Combo has agreed to grant a loan in the principal amount of HK\$500 million (subject to adjustment) to Ms. Chen for a term of 60 months from the date of drawdown (the “Loan”); and (ii) Ms. Chen has agreed to grant an option to Best Combo to require Ms. Chen to sell the entire issued share capital of Reform Base Holdings Limited, which shall be exercisable by Best Combo at any time within 60 months after the date of drawdown of the Loan at a price of the principal amount of the Loan (subject to adjustment) (the “Call Option”). The Loan is interest bearing at 5% per annum and payable semi-annually in arrears. The major asset of Reform Base Holdings Limited is its 25% equity interests in Over Profit.

Details of the Agreement and the Loan Agreement were set out in the Company’s circular dated 10th March 2017. The transactions in the Agreement and the Loan Agreement constitute very substantial acquisition and connected transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and were subject to independent shareholders’ approval in a special general meeting of the Company held on 31st March 2017. The Agreement and the Loan Agreement were completed on 6th April 2017. After that, Modern Vision, Over Profit and its subsidiaries become subsidiaries of the Company and were consolidated into the result of the Group during the period under review.

Disposal of Ace Season Holdings Limited and the Nam Pei Hong Operations

On 29th March 2017, CSBVI entered into the Sale and Purchase Agreement with an independent third party in relation to the Disposal. The Disposal constituted a discloseable transaction of the Company under the Listing Rules and the completion of the Disposal was subject to the satisfaction of the terms and conditions as set out in the

Sale and Purchase Agreement. The Disposal was completed on 30th June 2017. Upon completion of the Disposal, the Company ceased to have any interests in Ace Season and its subsidiaries and the Nam Pei Hong operations and their financial results were no longer be consolidated into the Company's consolidated financial statements and thus classified as discontinued operation in this period.

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

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2017, the Group employed 683 staff (2016: 685 staff) with employee benefit expenses of HK\$86,098,000 (2016: HK\$81,188,000) from the continuing operations. The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staff according to the assessment of individual performance.

EVENT AFTER THE REPORTING DATE

On 18th July 2017, the Group had completed the disposal of the entire issued share capital of Rainbow Profit Limited and the sale loan due by Rainbow Profit Limited at consideration of approximately HK\$6,800,000. Rainbow Profit Limited's major asset is an investment property.

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

PROSPECT

In recent years, the performance of some of our business segment is not satisfactory, the Group intends to restructure and repositioning its business and this is consistent with the Group's long-term policy to focus its activities on the Group's business with better prospects.

As at 29th June 2017, the Group has entered into a letter of intent ("LOI") to indicated intent of the Group's proposed sale ("Proposed Disposal") of (i) the entire issued share capital in each of Most Famous Enterprises Limited, Exceptional Gain Profits Limited and Charming Era Investment Limited (collectively, the "Target Companies", all of which are presently wholly-owned subsidiaries of the Company), and (ii) the related shareholder loans to the Target Companies from the Group (excluding the Target Companies) for an aggregate consideration of HK\$2,380 million. The group of companies constituted by Target Companies and its subsidiaries owns and operates Lan Kwai Fong and a few other residential units in Macau which are currently being used as staff quarters of staff in Lan Kwai Fong which are classified as the hotel and gaming service operations. These two year's overall performance of the hotel and gaming service operations in Lan Kwai Fong is significantly influenced by the adverse market conditions in Macau. Although the drop in casino gross revenue in Lan Kwai Fong has

showed the trend of slowing down and gradually improved during this period. Given there is an appropriate buyer for Lan Kwai Fong, we consider that it is right moment for the Group to realise considerable investment gain from this operation. If the Proposed Disposal can be materialize, part of proceeds from the Proposed Disposal will be used to finance its operation in property development and investment.

The development of the Combined Site and the Property C7 is our Group's major future investment in Macau. After obtaining the approval from DSSOPT, the construction work of the Combined Site started in June 2017 and is expected to complete during the year 2019. Property C7 is in the process of preparing the development plan and will submit to DSSOPT for approval once ready. In recent period, the residential property market of Macau shows a general growth trend. Given that land is a scarce resource in Macau and the land supply of Macau is limited, the Group is positive on the Macau property market and believes that there is strong demand for housing in Macau. The Group considers that property development and investment are more stable investment for maintaining stable future revenue.

The Group will continue its furtherance and development of its already well established film production business. Other than that, there is increasing demand for television drama series contents in China and investors have approach the Group for its interest in this production. In respond to this demand, the Group has formed our television drama series department in the beginning of year 2017 and has invited experienced staffs to join for the production and distribution of television drama series. Given our experience in film/television drama series production and our well established distribution network in the film/television drama series industry, the Group is confident in capture this golden opportunities in the film/television drama series industry and maximizing our value and return.

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance practices. The Company has applied the principles and complied with all the applicable code provisions laid down in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "Code") during the period from 1st January 2017 to 30th June 2017, except for the following deviation:

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

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 during the six months ended 30th June 2017. The Model Code also applies to other specified senior management of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30th June 2017.

AUDIT COMMITTEE

The Company established its audit committee with written terms of reference in compliance with the Listing Rules.

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 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 2017.

PUBLICATION OF INTERIM REPORT

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

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

Hong Kong, 29th August 2017

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