



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
Stock code : 326

INTERIM REPORT 2018



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 2018 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2018

		Six months ended 30th June	
		2018	2017
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Continuing operations			
Revenue	4	2,966	1,357
Cost of sales		(45)	–
		<hr/>	<hr/>
Gross profit		2,921	1,357
Other revenue and other income	5	38,061	42,097
Administrative expenses		(35,964)	(31,193)
Marketing and distribution expenses		–	(1)
Loss arising on change in fair value of financial assets at fair value through profit or loss		(362,291)	(57,186)
Other operating expenses		(23,478)	(51,414)
		<hr/>	<hr/>
Loss from operations		(380,751)	(96,340)
Finance costs	6	(2,835)	(31,817)
Share of result of a joint venture		(254)	83
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Loss before tax	7	(383,840)	(128,074)
Income tax expense	8	–	–
		<hr/>	<hr/>
Loss for the period from continuing operations		(383,840)	(128,074)
Discontinued operations	9		
Profit for the period from discontinued operations		1,458,855	932
		<hr/>	<hr/>
Profit/(loss) for the period		1,075,015	(127,142)
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CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

For the six months ended 30th June 2018

	Notes	Six months ended 30th June 2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit/(loss) for the period attributable to:			
Owners of the Company		1,075,025	(127,184)
Non-controlling interests		(10)	42
		1,075,015	(127,142)
Earnings/(loss) per share	10		
		HK cents (Unaudited)	HK cents (Unaudited) (restated)
From continuing and discontinued operations			
Basic and diluted		112.95	(13.36)
From continuing operations			
Basic and diluted		(40.33)	(13.46)
From discontinued operations			
Basic and diluted		153.28	0.10

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2018

	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	1,075,015	(127,142)
Other comprehensive (loss)/income		
<i>Items that may be reclassified subsequently to the condensed consolidated income statement:</i>		
Exchange differences arising on translation of foreign operations:		
Exchange differences arising during the period	-	(75)
Reclassification adjustments relating to foreign operations disposed of during the period	-	58
Other comprehensive loss for the period	-	(17)
Total comprehensive income/(loss) for the period	1,075,015	(127,159)
Total comprehensive income/(loss) for the period attributable to:		
Owners of the Company	1,075,025	(127,201)
Non-controlling interests	(10)	42
	1,075,015	(127,159)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2018

	Notes	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	94,753	12,190
Interests in leasehold land		54,345	55,282
Investment properties	12	–	81,100
Available-for-sale financial assets		–	173
Loan to a director	13	309,815	293,371
Interest in a joint venture		130	384
		459,043	442,500
Current assets			
Stock of properties	14	2,248,017	2,107,376
Film rights		12,049	12,049
Films in progress		200,217	168,992
Trade receivables	15	4,467	3,099
Deposits, prepayment and other receivables		349,283	289,981
Financial assets at fair value through profit or loss	16	363,698	725,816
Loan receivables		200,000	200,000
Time deposits		155	155
Cash and bank balances		1,151,790	424,200
		4,529,676	3,931,668
Assets classified as held for sale		–	725,635
		4,529,676	4,657,303
Total assets		4,988,719	5,099,803

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30th June 2018

	Notes	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
Capital and reserves			
Share capital	17	9,037	9,037
Reserves		<u>4,347,562</u>	<u>3,272,537</u>
Equity attributable to owners of the Company		4,356,599	3,281,574
Non-controlling interests		<u>(124)</u>	<u>(114)</u>
Total equity		<u>4,356,475</u>	<u>3,281,460</u>
Non-current liability			
Promissory note	18	<u>–</u>	<u>173,817</u>
Current liabilities			
Trade payables	19	37,106	26,589
Deposits received, accruals and other payables		92,022	294,070
Amounts due to non-controlling interests		<u>503,116</u>	<u>503,116</u>
		632,244	823,775
Liabilities associated with assets classified as held for sale		<u>–</u>	<u>820,751</u>
		<u>632,244</u>	<u>1,644,526</u>
Total liabilities		<u>632,244</u>	<u>1,818,343</u>
Total equity and liabilities		<u>4,988,719</u>	<u>5,099,803</u>
Net current assets		<u>3,897,432</u>	<u>3,012,777</u>
Total assets less current liabilities		<u>4,356,475</u>	<u>3,455,277</u>

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2018

	Attributable to owners of the Company												
	Share capital	Share premium	Contributed surplus	Exchange reserve	Statutory reserve	Share-based payment reserve	Bonus convertible bonds reserve	Capital reduction reserve	Property revaluation reserve	(Accumulated loss) retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2017 (Audited)	9,037	1,488,186	1,925,439	747	291	76,144	1,132	316,008	48,171	(656,793)	3,208,362	(435)	3,207,927
(Loss)/profit for the period	-	-	-	-	-	-	-	-	-	(127,184)	(127,184)	42	(127,142)
Other comprehensive Loss for the period	-	-	-	(17)	-	-	-	-	-	-	(17)	-	(17)
Total comprehensive (loss)/income for the period	-	-	-	(17)	-	-	-	-	-	(127,184)	(127,201)	42	(127,159)
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	-	(98)	(98)	(58)	(156)
Non-controlling interests arising on acquisition	-	-	-	-	-	-	-	-	-	-	-	(70)	(70)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	425	425
Lapsed of share options	-	-	-	-	-	(6,284)	-	-	-	6,284	-	-	-
Expiry of share options	-	-	-	-	-	(10,070)	-	-	-	10,070	-	-	-
At 30th June 2017 (Unaudited)	9,037	1,488,186	1,925,439	730	291	59,790	1,132	316,008	48,171	(767,711)	3,081,063	(96)	3,080,967
At 1st January 2018 (Audited)	9,037	1,488,186	1,925,439	745	291	55,665	1,132	316,008	48,171	(563,100)	3,281,574	(114)	3,281,460
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	1,075,025	1,075,025	(10)	1,075,015
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-	-	1,075,025	1,075,025	(10)	1,075,015
Disposal of subsidiaries	-	-	-	-	(291)	-	-	-	-	291	-	-	-
Expiry of share options	-	-	-	-	-	(48,384)	-	-	-	48,384	-	-	-
At 30th June 2018 (Unaudited)	9,037	1,488,186	1,925,439	745	-	7,281	1,132	316,008	48,171	560,600	4,356,599	(124)	4,356,475

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2018

	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash (used in)/generated from operating activities	(216,980)	11,584
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	20,384	35,404
Loan advanced to a director	-	(500,000)
Repayment of loan receivables	-	625,000
Net cash inflow arising on disposal of subsidiaries	1,759,314	65,498
Net cash outflow arising on other investing activities	(1,061)	(8,387)
Net cash generated from investing activities	1,778,637	217,515
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(5,416)	(13,570)
Repayment of promissory note	(200,000)	(300,000)
Repayment of bank borrowings	(670,000)	(73,513)
Net cash outflow arising on other financing activities	(2)	(272)
Net cash used in financing activities	(875,418)	(387,355)
Increase/(decrease) in cash and cash equivalents	686,239	(158,256)
Cash and cash equivalents at the beginning of the reporting period	424,200	769,939
Reclassification from/(to) assets held for sale	41,350	(46)
Effect of foreign exchange rate changes	1	80
Cash and cash equivalents at the end of the reporting period	1,151,790	611,717

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2018

I. BASIS OF PREPARATION

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

The Interim Financial Information have been prepared in accordance with the same accounting policies applied in 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

The Interim Financial Information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

2. APPLICATION OF NEW AND REVISED HKFRSs

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and Interpretations (collectively referred to as the "new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial period beginning from 1st January 2018. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

HKAS 40 (Amendments) HKFRSs (Amendments)	Transfer of Investment Property Annual Improvements to HKFRSs 2014-2016 Cycle except HKFRS 12 (Amendments)
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 <i>Financial Instruments</i> with HKFRS 4 <i>Insurance Contracts</i>
HKFRS 9 HKFRS 15	Financial Instruments Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

Except for application of HKFRS 9 stated below, the application of the new and revised 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 revised HKFRSs that have been issued but not yet effective for the current accounting period.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1st January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for financial assets and financial liabilities in the condensed consolidated statement of financial position that has been impacted by HKFRS 9.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 9 *Financial Instruments*

HKFRS 9 replaces HKAS 39 *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied HKFRS 9 retrospectively to items that existed at 1st January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1st January 2018. Therefore, comparative information continues to be reported under HKAS 39.

(i) *Classification of financial assets and financial liabilities*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVTOCI") and at fair value through profit or loss ("FVTPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale ("AFS") financial assets and financial assets measured at FVTPL. The classification of financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to accumulated losses. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI (non-recycling), are recognised in profit or loss as other revenue and other income.

The following table shows the original measurement categories for the Group's AFS financial assets and financial assets at FVTPL under HKAS 39 and reconciles the carrying amounts of the above-mentioned financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

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

Note: Under HKAS 39, unlisted club debenture were classified as AFS financial assets. It is classified as financial assets at FVTPL under HKFRS 9.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

Except described above, other financial assets and all financial liabilities remain the same and the carrying amounts for other financial assets and all financial liabilities at 1st January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1st January 2018.

(ii) Transition

Changes in accounting policies resulting from the application of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the application of HKFRS 9 are recognised in accumulated losses at 1st January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1st January 2018 (the date of initial application of HKFRS 9 by the Group):
 - the determination of the business model within which a financial asset is held.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11 *Construction Contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1st January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1st January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The application of HKFRS 15 does not have a significant impact on when the Group recognises revenue from provision of services at a single point in time, being when control has passed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

3. SEGMENT INFORMATION

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

The Group has four reportable segments – hotel and gaming service operations, film related business operations, property development and investment operations and Nam Pei Hong operations. The reportable segments are based on the information about the operations of the Group that management uses to make decisions.

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

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

Continuing operations

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

Discontinued operations

- | | | |
|-------------------------------------|---|--|
| Hotel and gaming service operations | – | Provision of hotel services, food and beverage operation services, provision of right to occupy site and marketing services for gaming operation in Hotel Lan Kwai Fong Macau |
| Nam Pei Hong operations | – | Sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailer as well as Chinese clinical services |

The segment information reported below does not include any amounts for the discontinued operations, which are disclosed more detail in note 9.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

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 2018	2017	Six months ended 30th June 2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Film related business operations	2,966	1,349	(2,265)	(3,062)
Property development and investment operations	-	8	(904)	352
	<u>2,966</u>	<u>1,357</u>	<u>(3,169)</u>	<u>(2,710)</u>
Reconciliation from segment results to profit/(loss) before tax from continuing operations				
Unallocated corporate income			35,036	41,941
Loss arising on change in fair value of financial assets at fair value through profit or loss			(362,291)	(57,186)
Share of result of a joint venture			(254)	83
Unallocated corporate expenses			(53,162)	(110,202)
Loss before tax			<u>(383,840)</u>	<u>(128,074)</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, finance costs and loss on early redemption of promissory note 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

3. SEGMENT INFORMATION (Continued)

Continuing operations (Continued)

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

	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
ASSETS		
Segment assets		
– Film related business operations	739,012	296,211
– Property development and investment operations	2,256,291	2,216,602
	<hr/>	<hr/>
Total segment assets	2,995,303	2,512,813
Assets related to discontinued operations	–	725,635
Unallocated assets	1,993,416	1,861,355
	<hr/>	<hr/>
	4,988,719	5,099,803
	<hr/> <hr/>	<hr/> <hr/>
	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
LIABILITIES		
Segment liabilities		
– Film related business operations	77,109	76,967
– Property development and investment operations	542,381	528,303
	<hr/>	<hr/>
Total segment liabilities	619,490	605,270
Liabilities related to discontinued operations	–	820,751
Unallocated liabilities	12,754	392,322
	<hr/>	<hr/>
	632,244	1,818,343
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

3. SEGMENT INFORMATION (Continued)

Continuing operations (Continued)

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

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

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

(c) Geographical information

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

	Revenue from external customers		Non-current assets (excluding financial instruments)	
	Six months ended 30th June		At 30th June	At 31st December
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Hong Kong	192	231	148,105	148,809
Macau	-	-	1,118	141
The People's Republic of China (the "PRC")	1,233	1,047	5	6
Others	1,541	79	-	-
	<u>2,966</u>	<u>1,357</u>	<u>149,228</u>	<u>148,956</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

4. REVENUE

	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Distribution fee income	1,541	12
Artist management service income	1,425	1,024
Income from investment in film	-	313
Gross rental income	-	8
	<u>2,966</u>	<u>1,357</u>

All revenue recognised during the six months ended 30th June 2018 are recognised at a point in time.

5. OTHER REVENUE AND OTHER INCOME

	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Interest income	36,819	34,982
Dividend income	-	3
Consultancy service income	486	473
Reversal of impairment loss recognised in respect of trade receivables	70	85
Management fee income	660	280
Net foreign exchange gain	-	5,866
Gain on disposal of property, plant and equipment	11	225
Sundry income	15	183
	<u>38,061</u>	<u>42,097</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

6. FINANCE COSTS

	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Interests on:		
Bank borrowings	964	13,383
Promissory note	1,871	18,434
	<u>2,835</u>	<u>31,817</u>

7. LOSS BEFORE TAX

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

	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Amortisation of interests in leasehold land	937	937
Depreciation of property, plant and equipment	1,852	1,543
Employee benefit expenses (included directors' remunerations)	20,366	19,010
Gain on fair value change of investment properties (included in other operating expenses)	(1,300)	(920)
Loss arising on change in fair value of financial assets at fair value through profit or loss	362,291	57,186
Loss on early redemption of promissory note (included in other operating expenses)	24,778	52,334
Net foreign exchange loss/(gain)	916	(5,866)
Operating lease rental in respect of premises	2,768	2,266
Gross rental income from investment property	-	(8)
Less: direct operating expenses incurred for investment property during the period	-	68
	<u>-</u>	<u>60</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

8. INCOME TAX EXPENSE

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

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

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. Details of the assets and liabilities disposed of and the calculation of the loss on disposal, are disclosed in note 20.

On 10th October 2017, the Group entered into a conditional sale and purchase agreement, in which the Group agreed to sell and the purchaser agreed to buy the entire equity interest in Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited, wholly-owned subsidiaries of the Company, and their respective subsidiaries (collectively referred to as the "Disposal Group"), and sale loans due by the Disposal Group at total consideration of HK\$2,000,000,000 (subject to adjustment of actual working capital). The Disposal Group is engaged in hotel and gaming service operations in Macau. The disposal of the Disposal Group was consistent with the Group's long-term policy to focus its activities on the Group's other business and has been completed on 3rd January 2018, on which date the control of the Disposal Group passed to the acquires. The assets and liabilities attributable to the Disposal Group have been classified as assets held for sale and are presented separately in the consolidated statement of financial position at 31st December 2017. Details of the assets and liabilities disposed of and the calculation of the gain on disposal, are disclosed in note 20.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

9. DISCONTINUED OPERATIONS (Continued)

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

	Period from 1st January 2018 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2017 HK\$'000 (Unaudited)
(Loss)/profit for the period from hotel and gaming service operations	(6,376)	662
Gain on disposal of hotel and gaming service operations (note 20)	1,465,231	–
Profit for the period from Nam Pei Hong operations	–	869
Loss on disposal of Nam Pei Hong operations (note 20)	–	(599)
	<hr/>	<hr/>
Profit for the period from discontinued operations	1,458,855	932
	<hr/> <hr/>	<hr/> <hr/>
Profit for the period from discontinued operations attributable to:		
Owners of the Company	1,458,855	926
Non-controlling interests	–	6
	<hr/>	<hr/>
	1,458,855	932
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

9. DISCONTINUED OPERATIONS (Continued)

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

	Period from 1st January 2018 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2017 HK\$'000 (Unaudited)
Revenue	3,957	409,079
Cost of sales	(1,985)	(229,828)
Gross profit	1,972	179,251
Other revenue and other income	465	16,402
Administrative expenses	(8,561)	(155,107)
Marketing, selling and distribution expenses	(252)	(38,955)
(Loss)/profit from operations	(6,376)	1,591
Finance costs	-	(48)
(Loss)/profit before tax	(6,376)	1,543
Income tax expenses	-	(12)
(Loss)/profit for the period from discontinued operations	(6,376)	1,531

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

9. DISCONTINUED OPERATIONS (Continued)

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

	Period from 1st January 2018 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2017 HK\$'000 (Unaudited)
Amortisation of interests in leasehold land	–	9,956
Cost of inventories sold (included in cost of sales)	110	52,253
Depreciation of property, plant and equipment	–	28,904
Employee benefit expenses (included directors' remunerations)	813	76,452
Net foreign exchange gain	(1)	(502)
Gain on disposal of property, plant and equipment	–	(465)
Operating lease rental in respect of premises	16	9,216
Write-down of obsolete inventories	45	18
	—————	—————

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

	Period from 1st January 2018 to respective date of disposal of subsidiaries HK\$'000 (Unaudited)	Six months ended 30th June 2017 HK\$'000 (Unaudited)
Net cash generated from/(used in) operating activities	34,719	(232,046)
Net cash generated from investing activities	–	394,923
Net cash used in financing activities	(966)	(87,198)
	—————	—————
Net cash inflow	33,753	75,679
	—————	—————

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

10. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

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

	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share (profit/(loss) for the period attributable to owners of the Company)	1,075,025	(127,184)

Six months ended 30th June	
2018	2017
'000	'000
(Unaudited)	(Unaudited)
	(restated)

Number of shares

Weighted average number of ordinary shares for

the purpose of basic and diluted earnings/(loss) per share

951,765	951,765
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Pursuant to the deed polls of the bonus convertible bonds, the bonus convertible bonds conferred the holders with the same economic interests attached to the shareholders of the Company. Accordingly, 1,060,317 (30th June 2017: 1,060,317) fully paid ordinary shares of HK\$0.01 each which shall be convertible from an aggregated amount of approximately HK\$265,000 (30th June 2017: HK\$265,000) outstanding bonus convertible bonds are included in the weighted average number of ordinary shares for calculating the basic earnings/(loss) per share for the six months ended 30th June 2018 and 30th June 2017.

The weighted average number of ordinary shares for the six months ended 30th June 2018 and 30th June 2017 for the purposes of calculating basic and diluted earnings/(loss) per share have been adjusted for the issue of new shares by way of rights issue which took place on 6th August 2018.

The Company's outstanding share options where applicable had an anti-dilutive effect to the basic earnings/(loss) per share calculation for the six months ended 30th June 2018 and 30th June 2017 as the exercise price of the Company's outstanding share options was higher than the average market price of the shares of the Company, and the exercise of the above potential dilutive shares is not assumed in the calculation of diluted earnings/(loss) per share for the six months ended 30th June 2018 and 30th June 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

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

From continuing operations

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

	Six months ended 30th June	
	2018	2017
	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)	(383,830)	(128,110)

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

From discontinued operations

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

	Period from 1st January 2018 to respective date of disposal of subsidiaries HK\$'000	Six months ended 30th June 2017 HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period from discontinued operations attributable to owners of the Company)	1,458,855	926

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

11. DIVIDEND

No interim dividend was paid or proposed during the six months ended 30th June 2018 and 30th June 2017, nor any dividend been proposed by the Board subsequent to the end of the reporting period.

12. PROPERTY, PLANT AND EQUIPMENT

(a) Acquisition

During the period under review, the Group acquired property, plant and equipment with a cost of approximately HK\$2,016,000 (Six months ended 30th June 2017: HK\$2,922,000) from the continuing operations.

(b) Valuations

On 30th April 2018, an investment property was transferred to property, plant and equipment at its updated fair value of HK\$82,400,000 which was determined on the basis of a valuation carried out by a firm of independent qualified professional valuers, JP Assets Consultancy Limited as at the date of transfer, using the same valuation techniques as were used by the surveyors when carrying out valuations on 31st December 2017. As a result of the update, gain on fair value change of investment properties of HK\$1,300,000 (Six months ended 30th June 2017: HK\$920,000) has been recognised in the condensed consolidated income statement for the six months ended 30th June 2018 in respect of investment properties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

13. LOAN TO A DIRECTOR

	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
At the beginning of the reporting period	293,371	–
Loan portion advanced at initial recognition	–	271,908
Imputed interest income	28,842	39,955
Interest received and receivables	(12,398)	(18,492)
	<u>309,815</u>	<u>293,371</u>
At the end of the reporting period		

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 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, a firm of independent qualified professional valuers. The effective interest rate of loan to a director on initial recognition is 20.76%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

14. STOCK OF PROPERTIES

	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
Properties under development held for sales		
At the beginning of the reporting period	2,107,376	583,240
Additions	140,641	136,051
Acquisition of assets through acquisition of subsidiaries	-	1,388,085
	2,248,017	2,107,376

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 Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau 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 Government in granting the requisite approvals and permits for the development of the property located in Lot B in Quarteirao 6 at Zona de Aterros do Porto Exterior (ZAPE) ("Lot 6B"), Lot 6B could not commence development and the Macau Government has started the administrative work to reclaim it. Lot 6B is one of the four lots of land in a project held under development and is intended to be developed as recreational area. 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 of the Macau Government, in which the Tribunal de Ultima Instancia rejected the application of the final appeal. Accordingly, Lot 6B will be reclaimed by the Macau Government. According to the legal opinion obtained by the Company, the Group has strong legal ground to seek compensation for damages sustained by the Group as a result and the Court will consider and rule taking into account all the essential points including delays caused by the Macau Government. As such, the Group is now seeking legal advice from its Macau legal representative and will make an application in this regard, if necessary.

The directors have taken into account all available evidence and considered that no impairment loss should be recognised in respect of stock of properties was necessary at 30th June 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

15. TRADE RECEIVABLES

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

	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
0 to 30 days	1,541	2,758
31 to 60 days	–	–
61 to 90 days	5	–
Over 90 days	2,921	341
	4,467	3,099

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

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
Listed securities classified as held for trading investments:		
– Equity securities listed in Hong Kong, at fair value	174,868	511,872
Unlisted investment:		
– Unlisted club debenture	110	–
Derivative financial instruments:		
– Call Option embedded in loan to a director	188,720	213,944
	363,698	725,816

Upon application of HKFRS 9 on 1st January 2018, the Group has reclassified the unlisted club debenture from AFS financial assets to financial assets at FVTPL.

At the end of the reporting period, all financial assets at FVTPL are stated at fair value. Fair value of listed securities classified as held for trading investments (other than suspended trading security listed in Hong Kong) are determined with reference to quoted market closing price.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

At the end of reporting period, the fair value of suspended trading security listed in Hong Kong with the amount of HK\$3,403,000 (31st December 2017: HK\$3,635,000) was reference to the valuation carried out by Graval Consulting Limited, a firm of independent qualified professional valuers. The fair value of suspended trading security listed in Hong Kong was valued by using the market approach with a discount rate of negative 78.79% at 30th June 2018. The discount rate is used to reflect the risk of exposure to corporate governance, illiquidity and financial distress etc. perceived by market participants who hold the suspended shares with remote likelihood of trade resumption.

At the end of the reporting period, the fair value of the unlisted club debenture with the amount of HK\$110,000 (31st December 2017: nil) was arrived on the basis of market comparison.

At the end of the reporting period, the fair value of the Call Option with the amount of HK\$188,720,000 (31st December 2017: HK\$213,944,000) was arrived on the basis of valuation carried out by Graval Consulting Limited. The fair value of the Call Option was valued by using the discounted cash flow method with discount rate of 21.24% at 30th June 2018. 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.

17. SHARE CAPITAL

	Number of shares		Amount	
	At 30th June 2018 '000 (Unaudited)	At 31st December 2017 '000 (Audited)	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
Ordinary shares of HK\$0.01 each				
Authorised:				
At the beginning/end of the reporting period	50,000,000	50,000,000	500,000	500,000
Issued and fully paid:				
At the beginning/end of the reporting period	903,704	903,704	9,037	9,037

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

18. PROMISSORY NOTE

	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
At the beginning of the reporting period	173,817	–
Issue of promissory note (note (i))	–	483,913
Imputed interest on promissory note	1,871	37,963
Interest paid and payable	(466)	(14,169)
Repayment of promissory note (note (ii))	(200,000)	(400,000)
Loss on early redemption on promissory note (note (ii))	24,778	66,110
	<hr/> – <hr/>	<hr/> 173,817 <hr/>

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 HK\$483,913,000 have been arrived upon issue on the basis of valuation carried out by Graval Consulting Limited. The effective interest rate of the promissory note at the issuance date is 17.49%.
- (ii) During the year ended 31st December 2017, the Company has partially redeemed promissory note with principal amount of HK\$400,000,000 to Ms. Chen. Loss on early redemption on promissory note with the amount of HK\$66,110,000 was recognised. On 18th January 2018, the Company has redeemed the remaining outstanding promissory note with principal amount of HK\$200,000,000 to Ms. Chen. Loss on early redemption on promissory note with the amount of HK\$24,778,000 was recognised in the condensed consolidated income statement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

19. TRADE PAYABLE

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

	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
0 to 30 days	33,841	23,328
31 to 60 days	-	211
61 to 90 days	-	-
Over 90 days	3,265	3,050
	37,106	26,589

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

20. DISPOSAL OF SUBSIDIARIES

Disposal of the Disposal Group

On 10th October 2017, the Group entered into a conditional sale and purchase agreement to dispose the entire equity interest in the Disposal Group, which principally engaged in the hotel and gaming service operations in Macau, and a sale loan due by the Disposal Group at total consideration of HK\$2,000,000,000 (subject to adjustments). The disposal was completed on 3rd January 2018.

Under the sale and purchase agreement, if the actual working capital (the "Actual Working Capital") represents a net assets amount of the Disposal Group equal to or more than HK\$500,000, the buyer shall pay to China Star Entertainment (BVI) Limited ("CSBVI") such net assets amount; or if the Actual Working Capital represents a net liabilities amount of the Disposal Group equal to or more than HK\$500,000, CSBVI shall pay such net liabilities amount to the buyer.

The Actual Working Capital means (A) the total current assets of the Disposal Group minus (B) all borrowings, accruals and actual liabilities and indebtedness owed by the Disposal Group to any bank, lending institution or other third party of any nature at completion, but (for the purpose of (B)) excluding (1) accrued unpaid staff bonuses or commissions, accrued unpaid leaves, contribution to retirement benefit schemes, long service or severance payments calculated under rules and regulations of relevant governing jurisdictions for employees of any member of the Disposal Group, (2) the sale loans due to CSBVI, (3) any liabilities owing among the members of the Disposal Group at completion, and (4) deferred tax assets or liabilities.

Consideration transferred:

	HK\$'000
Initial cash consideration	2,000,000
Consideration received related to adjustments for Actual Working Capital	34,417
	<hr/>
Total consideration	2,034,417
	<hr/> <hr/>

Analysis of assets and liabilities over which control was lost:

	HK\$'000
Property, plant and equipment	299,126
Interests in leasehold land	318,366
Inventories	3,189
Trade receivables	16,912
Deposits, prepayment and other receivables	7,544
Cash and bank balances	75,103
Trade payables	(33,729)
Deposits received, accruals and other payables	(36,086)
Obligations under finance leases	(351)
Amount due to immediate holding company	(779,958)
Deferred tax liabilities	(80,888)
	<hr/>
Net liabilities disposed of	(210,772)
	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

20. DISPOSAL OF SUBSIDIARIES (Continued)

Disposal of the Disposal Group (Continued)

Gain on disposal of the Disposal Group:

	<i>HK\$'000</i>
Cash consideration received	2,034,417
Net liabilities disposed of	210,772
Amount due to immediate holding company assigned to the purchaser	<u>(779,958)</u>
Gain on disposal of the Disposal Group	<u><u>1,465,231</u></u>

Net cash inflow arising on disposal of the Disposal Group:

	<i>HK\$'000</i>
Cash consideration received	2,034,417
Less: deposit received associated with the Disposal Group	(200,000)
Less: cash and bank balances disposed of	<u>(75,103)</u>
Net cash inflow	<u><u>1,759,314</u></u>

Disposal of Ace Season

On 29th March 2017, the Group entered into a conditional sale and purchase agreement to dispose the entire equity interest in Ace Season, which principally engaged in the Nam Pei Hong operations, and a sale loan due by Ace Season at total consideration of HK\$85,000,000. The disposal was completed on 30th June 2017.

Consideration transferred:

	<i>HK\$'000</i>
Cash consideration	<u><u>85,000</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

20. DISPOSAL OF SUBSIDIARIES (Continued)

Disposal of Ace Season (Continued)

Analysis of assets and liabilities over which control was lost:

	HK\$'000
Property, plant and equipment	1,709
Intangible assets	7,582
Inventories	52,185
Trade receivables	3,841
Deposits, prepayment and other receivables	7,213
Amount due from non-controlling interests	371
Cash and bank balances	19,502
Trade payables	(1,837)
Accruals and other payables	(3,274)
Amount due to immediate holding company	(92,724)
Deferred tax liabilities	(2,060)
	<hr/>
Net liabilities disposed of	(7,492)
	<hr/> <hr/>

Loss on disposal of Ace Season:

	HK\$'000
Cash consideration received	85,000
Net liabilities disposed of	7,492
Amount due to immediate holding company assigned to the purchaser	(92,724)
Non-controlling interests	(425)
Release of exchange reserve upon disposal of subsidiaries	58
	<hr/>
Loss on disposal of Ace Season	(599)
	<hr/> <hr/>

Net cash inflow arising on disposal of Ace Season:

	HK\$'000
Cash consideration received	85,000
Less: cash and bank balances disposed of	(19,502)
	<hr/>
Net cash inflow	65,498
	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

21. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings of the Group:

	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
Buildings	-	202,425
Interests in leasehold land	-	318,366
	<u>-</u>	<u>520,791</u>
	<u>-</u>	<u>520,791</u>

On 30th June 2018, the Group's time deposits with the amount of approximately HK\$136,000 (31st December 2017: HK\$136,000) are pledged for guaranteed to Macau Government for development of stock of properties located in Macau.

At 30th June 2018, the Group had no obligations under finance leases are secured by the lessors' title to the leased assets (31st December 2017: HK\$353,000).

22. COMMITMENTS

The Group had the following outstanding commitments at the end of the reporting period:

	At 30th June 2018 HK\$'000 (Unaudited)	At 31st December 2017 HK\$'000 (Audited)
Authorised and contracted, but not provided for:		
- Development expenditure for stock of properties in Macau	1,092,951	1,218,512
- Film rights, films in progress and film deposits	40,044	43,133
	<u>1,132,995</u>	<u>1,261,645</u>
	<u>1,132,995</u>	<u>1,261,645</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

	Quoted prices in active market for identical assets (Level 1) HK\$'000	Significant other observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
At 30th June 2018 (Unaudited)				
<i>Fair value on a recurring basis</i>				
Financial assets at FVTPL:				
– Equity securities listed in Hong Kong	171,465	–	3,403	174,868
– Unlisted club debenture in Hong Kong	–	110	–	110
– Call option embedded in loan to a director	–	–	188,720	188,720
	171,465	110	192,123	363,698
At 31st December 2017 (Audited)				
<i>Fair value on a recurring basis</i>				
Financial assets at FVTPL:				
– Equity securities listed in Hong Kong	508,237	–	3,635	511,872
– Call option embedded in loan to a director	–	–	213,944	213,944
	508,237	–	217,579	725,816

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Fair value hierarchy (Continued)

The Group's policy is to recognise transfers into and out of fair value hierarchy at the end of the date of the events or change in circumstances that caused the transfer.

During the six months ended 30th June 2018, there were no transfers between level 1 and level 2, or transfers into or out of level 3.

During the year ended 31st December 2017, there were no transfers between level 1 to level 2 and level 2 to level 3.

The following table presents the changes in financial assets at FVTPL which are classified as level 3 instruments for the six months ended 30th June 2018:

	HK\$'000
At 1st January 2017 (Audited)	–
Call Option arising on advance from loan to a director	228,092
Transfer from level 1	34,500
Loss arising on change in fair value of financial assets at FVTPL	(45,013)
	<hr/>
At 31st December 2017 and at 1st January 2018 (Audited)	217,579
Loss arising on change in fair value of financial assets at FVTPL	(25,456)
	<hr/>
At 30th June 2018 (Unaudited)	192,123
	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Fair value hierarchy (Continued)

Information about level 3 fair value measurements

	Valuation Techniques	Significant unobservable input	Relation of significant unobservable inputs to fair value
Call option embedded in loan to a director	Binomial option pricing model	Underlying assets value Expected volatility	The underlying assets value is positively correlated to the fair value measurement of the call option The expected volatility is positively correlated to the fair value measurement of the call option
Suspended trading security listed in Hong Kong	Market approach	Holdings return basis of negative 45.45% Discount rate of negative 78.79%	The holding return basis is positively correlated to the fair value measurement of the suspended trading security listed in Hong Kong The discount rate is negatively correlated to the fair value measurement of the suspended trading security listed in Hong Kong

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Fair value hierarchy (Continued)

Information about level 3 fair value measurements (Continued)

In estimating the fair value of an asset, the management of the Company work closely with Graval Consulting Limited, a firm of independent qualified professional valuers, to establish the appropriate valuation techniques and inputs to the model. The management of the Company reports the findings to the directors of the Company at the end of each reporting period to explain the cause of fluctuations in fair value of the asset.

Binomial option pricing model is used for valuation for the call option embedded in loan to a director. The inputs into the model at 30th June 2018 and 31st December 2017 are as follows:

	At 30th June 2018	At 31st December 2017
Underlying assets value (HK\$' million)	383	384
Exercise price (HK\$' million)	500	500
Expected volatility (%)	38.93	38.59
Dividend yield	N/A	N/A
Option life (years)	3.77	4.27
Risk free rate (%)	2.00	1.58

Information about the valuation techniques and inputs used in determining the fair value of the call option embedded in loan to a director and the suspended trading security listed in Hong Kong are disclosed above.

(b) Fair value of financial assets and financial liabilities

The carrying amounts of the Group's financial assets and financial liabilities recognised in the Interim Financial Information are not materially different from their fair values at 30th June 2018 and 31st December 2017, except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 30th June 2018		At 31st December 2017	
	Carrying amount HK\$'000 (Unaudited)	Fair value HK\$'000	Carrying amount HK\$'000 (Audited)	Fair value HK\$'000
Loan to a director	309,815	311,550	293,371	294,636
Promissory note	-	-	173,817	184,059
	=====	=====	=====	=====

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

24. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period under review, the Group entered into the following transactions with its related parties:

	Six months ended 30th June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Nature of transactions		
Income received from family member of the substantial shareholders and the directors of the Company:		
Rental income	-	8
Income received from a joint venture:		
Management fee income	600	250
Income received and receivable from a substantial shareholder and the director of the Company:		
Loan interest income	28,842	12,636
Expenses paid and payable to a substantial shareholder and the director of the Company:		
Interest on promissory note	1,871	18,434
	<u>1,871</u>	<u>18,434</u>

- (b) On 6th April 2017, Best Combo had completed the acquisition of the entire issued share capital of Modern Vision from Ms. Chen, and a sale loan due by Modern Vision with the amount of approximately HK\$499,909,000 (the "Acquisition") at an aggregate consideration of HK\$1,000,000,000 (subject to purchase price adjustment). The consideration was satisfied by (i) the payment of HK\$400,000,000 as a deposit to Ms. Chen upon the signing of the sale and purchase agreement; and (ii) the issue of the promissory note with a principal amount of HK\$600,000,000 by the Company to Ms. Chen upon completion of the Acquisition. The promissory note is interest bearing at 5% per annum and will be matured after 24 months from the date of issue of the promissory note. The Acquisition was also considered as a connected transaction pursuant Chapter 14A of the Listing Rules.
- (c) On 6th April 2017, Best Combo had granted the Loan in principal amount of HK\$500,000,000 to Ms. Chen. 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, 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 to Best Combo which allows Best Combo require Ms. Chen to sell the entire issued share capital of Reform Base at HK\$500,000,000 (subject to the loan amount adjustment). The Loan was also considered as a connected transaction pursuant Chapter 14A of the Listing Rules.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2018

25. MAJOR NON-CASH TRANSACTION

The Group entered into the following major non-cash investing and financing activities which are not reflected in the condensed consolidated statement of cash flows during the six months ended 30th June 2018 and 30th June 2017:

- (a) During the period ended 30th June 2018, the Group had acquired partial property, plant and equipment with the amounts of approximately HK\$943,000 which was unsettled at 30th June 2018 and included in deposits received, accruals and other payables.
- (b) On 6th April 2017, Best Combo had acquired the entire equity interest in Modern Vision with an aggregate consideration of HK\$1,000,000,000 (subject to purchase price adjustment), in which amount of HK\$400,000,000 and HK\$600,000,000 was settled by deposit paid for investment and the issue of the promissory note to Ms. Chen respectively.
- (c) On 23rd May 2017, the Group further acquired 40% equity interest in Turbo International Company Limited at total consideration of HK\$156,000 in which the consideration was settled by other receivables which was fully impaired in previous years.

26. EVENTS AFTER THE REPORTING PERIOD

On 30th July 2018, the rights issue announced by the Company on 19th April 2018 become unconditional and the rights shares are allotted and issued on 6th August 2018. The issued share capital of the Company increased from 903,703,493 shares to 2,711,110,479 shares.

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

27. APPROVAL AND AUTHORISATION FOR ISSUE OF INTERIM FINANCIAL INFORMATION

The Interim Financial Information were approved and authorised for issue by the Board of Directors on 30th August 2018.

INDEPENDENT REVIEW REPORT



31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 1 to 43, which comprise the condensed consolidated statement of financial position of China Star Entertainment Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") as of 30th June 2018 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors are responsible for the preparation and presentation of this interim financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on the interim financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of the interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENT REVIEW REPORT (Continued)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements is not prepared, in all material respects, in accordance with HKAS 34.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Hon Koon Fai, Alex

Practising Certificate Number: P05029

Hong Kong, 30th August 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30th June 2018, the Group recorded revenue from continuing operations of HK\$2,966,000, representing an increase of 119% as compared to HK\$1,357,000 for the last corresponding period.

Profit for the period amounted to HK\$1,075,015,000 as compared to a loss of HK\$127,142,000 for the last corresponding period. Such substantial profit is mainly attributable to the gain on disposal on the entire equity interest in Charming Era Investment Limited, Exceptional Gain Profits Limited and Most Famous Enterprises Limited and their respective subsidiaries of HK\$1,465,231,000 which represented the hotel and gaming service operations of the Group. Such profit is partially offset by (i) the substantial increase in the recognition of unrealised loss of HK\$362,291,000 (Six months ended 30th June 2017: HK\$57,186,000) arising on change in fair value of financial assets at fair value through profit or loss which represented the decrease in fair value of the Group's equity securities listed in Hong Kong of HK\$337,004,000, decrease in fair value of the Group's call options of HK\$25,224,000, and decrease in fair value of the Group's club debenture of HK\$63,000 as at 30th June 2018 respectively; and (ii) loss on early redemption of promissory note issued by the Company of HK\$24,778,000 (Six months ended 30th June 2017: HK\$52,334,000).

Loss for the period from continuing operations amounted to HK\$383,840,000, representing an increase of 200% from HK\$128,074,000 for the last corresponding period. Profit for the period from discontinued operations amounted to HK\$1,458,855,000 as compared to profit from discontinued operations of HK\$932,000 for the last corresponding period.

Profit attributable to owners of the Company for the six months ended 30th June 2018 amounted to HK\$1,075,025,000 as compared to a loss of HK\$127,184,000 for the last corresponding period.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2018 (Six months ended 30th June 2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW

Continuing Operations

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

Of the total revenue amount for the period, HK\$2,966,000 or 100% was generated from film related business operations and none or 0% was generated from property development and investment operations.

Film Related Business Operations

Film related business operations included investment, production, distribution and licensing of films and television drama series and provision of other film related services including artist management services.

In the first half of the year 2018, revenue from film related business operations amounted to HK\$2,966,000 (Six months ended 30th June 2017: HK\$1,349,000) and its segment loss amounted to HK\$2,265,000 (Six months ended 30th June 2017: HK\$3,062,000). During the six months ended 30th June 2018, the Group did not distribute any new film. The Group has been engaging in the film business for more than 20 years. Film production normally involves three stages including pre-production, production or shooting and post-production. From the pre-production stage to theatrical release of Chinese film in Hong Kong, it normally takes more than one year and sometimes several years to complete. The majority of revenue in film will record within the following two years after the film is released. As such, it is the characteristic of film production and distribution business that revenue is not recognised evenly with time. Shooting for a new film which tentatively named “追夢男女” has started in mid-October 2017 and has completed shooting in February 2018. The plot of this film is about love story. The post production period will take around a few months and the film is expected to release before end of 2018. More films production will commence in coming years so long as the feasibility study for new films is satisfactory.

Following the establishment of the production line in the television drama series in the year 2017, the Group is in the preliminary stage of preparing the story board for its first production in television drama series after for more than 10 years from its last production in television drama series. This television drama series will be around 36 episodes which are expected to release in internet platform. Shooting for this first television drama series is expected to start before end of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Property Development and Investment Operations

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

In the first half of the year 2018, revenue from property development and investment operations amounted to nil (Six months ended 30th June 2017: HK\$8,000) and its segment loss amounted to HK\$904,000 (Six months ended 30th June 2017: segment profit of HK\$352,000). The major components included in segment result was the recognition of gain on fair value change of investment properties in Hong Kong of HK\$1,300,000 (Six months ended 30th June 2017: HK\$920,000) and its direct segment expenses. This fair value change was based on the valuation reports issued by a firm of independent qualified professional valuers.

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

The Group acquired the property leasedhold rights of Lot 6B, Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites") in year 2011. Lot 6B is in trapezium shape with a site area of 1,420 square meters next to Hotel Lan Kwai Fong Macau (the hotel was owned by the Group at that time) and Lot 6C, Lot 6D and Lot 6E are in rectangular shape with each site area of 1,292 square meters next to Lot 6B and adjacent of each other with three six-meter width roads dividing them separately. In order to enhance the commercial value of the Sites, the Group had decided to build a luxury residential and commercial complex of two towers with spacious apartment units in Lot 6C, Lot 6D and Lot 6E (the "Combined Site") and Lot 6B would be developed into recreational area between the Combined Site and Hotel Lan Kwai Fong Macau, which was expected to have higher selling prices than the existing development plan of the individual Lot 6B, Lot 6C, Lot 6D and Lot 6E. This development plan also responded strongly to the local planning authorities requirements for connectivity with the existing city and thus considerable portions of the area of the Sites have been dedicated to public use. Finally, the DSSOPT has approved the combination of development of the Combined Site of Lot 6C, Lot 6D and Lot 6E in July 2016. The total gross floor area of the Combined Site are (a) residential – 28,422 square meters, (b) clubhouse – 1,927 square meters, (c) commercial – 4,132 square meters and (d) parking – 11,508 square meters. The expiry date of land concession of Lot 6C, Lot 6D and Lot 6E is 21st December 2019 and the development period of the Combined Site has also granted an extension until 20th December 2019. Construction works started in June 2017 and is expected to complete construction during year 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Property Development and Investment Operations (Continued)

Immediately after the acquisition of the property leasehold rights of the Sites, the Group held meetings with various departments of Macau Government to seek their views on the proposed development of the Sites as the Combined Site. In May 2012, the Group submitted the architectural design and drawings of the Combined Site to the DSSOPT for approval. Following the submission, meetings have been held with various departments of Macau Government for following up the proposed development plan. Given that the location of the Sites is adjacent to Macao Polytechnic Institute and several tourist spots, Forum de Macao, Grand Prix Museum, Wine Museum and Golden Lotus Square, and is a couple of blocks away from Macau Fisherman's Wharf and Sands Casino, it is believed that the Macau Government required longer time to study the impacts of the proposed development of the Combined Site on traffic, environment and cultural heritage in the surrounding area, before the grant of an approval. Besides, Lot 6B, Lot 6C, Lot 6D and Lot 6E are properties classified as those of 65 properties which non-development are not the responsibility of the land concessioner announced in year 2011. Owing to the delay by the Macau Government in granting the proposed development of the Combined Site, the land concession of Lot 6B has expired on 25th December 2014. DSSOPT has started the administration work to reclaim it on dispatch 50/2016 published in the Official Gazette no. 47, II, of 23rd November 2016 according to Macau new Land Law effective in March 2014 for the reason that Lot 6B is undeveloped land on the expiry of the land concession on 25th December 2014. The Group has filed an appeal to the President of the Macau Second Instance Court on 30th December 2016. On 11th June 2018, the Company received a letter dated 8th June 2018 from the Tribunal de Ultima Instancia (終審法院) of the Macau Government, in which the Tribunal de Ultima Instancia (終審法院) rejected the application of the final appeal (the "Decision"). Accordingly, Lot 6B will be reclaimed by the Macau Government. According to the legal opinion obtained by the Company, the Group has strong legal ground to seek compensation for damages sustained by the Group as a result and the Court will consider and rule taking into account all the essential points including delays caused by the Macau Government. As such, the Group is now seeking legal advice from its Macau legal representative and will make an application in this regard, if necessary.

As stated above, Lot 6B is planned to develop into a recreational area besides the Combined Site and the Group treated the development of the Sites (i.e. the Combined Site and Lot 6B collectively) as one development project in its financial position since the acquisition of the property leasehold rights of the Sites. Based on the property valuation report as at 30th June 2018, the market value of the Combined Site is approximately HK\$2,314 million (no value added factor of the recreational area of Lot 6B was included in this valuation) and Lot 6B has no commercial value as at 30th June 2018, respectively, which together is higher than the book value of the cost of the Combined Site and Lot 6B. Given that the valuation of the Sites is higher than its book value, no significant impairment loss is expected to be recognised in respect of the stock of properties as a result of the Decision for the period ended 30th June 2018.

The Group will closely monitor the development on the Combined Site and considers that the development of the Combined Site with higher development value can secure the recovery of its investment cost on the Sites and will contribute higher investment return to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Discontinued Operations

Hotel and gaming service operations was discontinued during the period.

Hotel and gaming service operations included the hotel operation in Hotel Lan Kwai Fong Macau which was recorded in an indirect wholly owned subsidiary of the Company, Hotel Lan Kwai Fong (Macau) Limited ("Hotel LKF"); services provided to the casino situated in Hotel Lan Kwai Fong Macau ("Casino LKF") which was recorded in an indirect wholly owned subsidiary of the Company, Classic Management & Services Company Limited ("Classic") and other ancillary services provided in Hotel Lan Kwai Fong Macau.

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

As the LKF Disposal (as defined herein) has been approved by the shareholders of the Company in a special general meeting held on 11th December 2017 and completed on 3rd January 2018, the Company ceased to have any interests in Disposal Group (as defined herein) and their financial results were no longer be consolidated into the Company's consolidated financial statements upon completion and thus classified as discontinued operations in both periods.

The Group had shared revenue and segment loss of HK\$3,957,000 (Six months ended 30th June 2017: HK\$334,274,000) and HK\$6,376,000 (Six months ended 30th June 2017: segment profit of HK\$674,000) from the hotel and gaming service operations and shared a gain on disposal of the hotel and gaming service operations of HK\$1,465,231,000.

Geographical Segments

For the geographical segments from the continuing operations, revenue of HK\$192,000 or 6% was sourced from Hong Kong, HK\$1,233,000 or 42% was sourced from China and HK\$1,541,000 or 52% was sourced from other territories during the period.

Administrative Expenses

For the six months ended 30th June 2018, administrative expenses from continuing operations amounted to HK\$35,964,000 (Six months ended 30th June 2017: HK\$31,193,000), representing an increase of 15%. The increase was mainly attributable to the general increase in employee benefit expenses and the legal and professional fees which caused by more corporate expenses are incurred during this period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June 2018, the Group had total assets of HK\$4,988,719,000 and a net current assets of HK\$3,897,432,000, representing a current ratio of 7.2 (31st December 2017: 2.8). The Group had cash and bank balances and time deposits of HK\$1,151,945,000 (31st December 2017: HK\$424,355,000).

As at 30th June 2018, the Group did not have any borrowings (31st December 2017: HK\$844,170,000).

The Group's gearing was zero which represented a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 0% (31st December 2017: 26%).

On 19th April 2018, the Company announced that it proposed to raise approximately HK\$451,852,000 before expenses by way of rights issue of 1,807,406,986 rights shares at a subscription price of HK\$0.25 each on the basis of two rights shares for every one existing share held on the record date, 11th July 2018 (the "Rights Issue"). The estimated net proceeds were approximately HK\$448,850,000, of which approximately HK\$350,000,000 will be applied to finance the business operation of the property development and investment; and approximately HK\$98,850,000 will be applied to fund the film and television drama series related business operations. On 28th June 2018, the necessary resolution was passed by the independent shareholders of the Company at the special general meeting of the Company. The rights shares were then allotted and issued on 6th August 2018. As at 30th June 2018, the Rights Issue has not yet completed and the net proceeds of HK\$448,850,000 from the Rights Issue are expected to use for its intended purposes.

As at the date of this interim report and 30th June 2018, the fair value of the Group's equity securities listed in Hong Kong held at 30th June 2018 (excluding suspend trading security as at 30th June 2018) was HK\$169,545,000 and HK\$171,465,000 respectively.

During the period, the Group did not acquired or disposed any equity securities listed in Hong Kong. The loss arising on change in fair value of financial assets at fair value through profit and loss of HK\$337,004,000 was resulted from change in fair values of equity securities listed in Hong Kong during the period. As at 30th June 2018, the fair value of one of the equity securities, Kingston Financial Group Limited ("Kingston") accounted for approximately 2.9% of the total assets of the Group. Kingston is principally engaged in the provision of a wide range of financial services which includes securities brokerage, underwriting and placements, margin and initial public offering financing, corporate finance advisory services, futures brokerage and asset management services. Kingston also provides gaming and hospitality services in Macau. Detailed information of Kingston held by the Group are as follows:

Stock name:	Kingston Financial Group Limited
Stock code:	1031
Number of shares held as at 30th June 2018:	64,580,000
Fair value held by the Group as at 30th June 2018:	HK\$144,659,000
Loss arising on change in fair value recognised in the period:	HK\$339,691,000
Percentage of its shareholding held by the Group:	0.47%

During the period, there were 53,720,000 share options expired and no share options of the Company were granted, exercised, lapsed or cancelled.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

EXCHANGE RISK AND HEDGING

The majority of the Group's transactions, assets and liabilities are denominated in Hong Kong Dollar, Macau Pataca, United States Dollar and Renminbi. The exposure to fluctuation in exchange rates in Renminbi mainly arises from receipts and expenditure incurred in film investment, production and distribution. The Group has closely monitors its exposure to this fluctuation and consider appropriate hedging activities if necessary. The exposure to fluctuation in other currencies is considered to be minimal and no hedge activity is considered necessary.

COMMITMENTS

As at 30th June 2018, outstanding commitments by the Group amounted to HK\$1,092,951,000 for the development expenditure for stock of properties in Macau and HK\$40,044,000 for film rights, films in progress and film deposits.

CONTINGENT LIABILITIES

As at 30th June 2018, the Group had no material contingent liability.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

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

The LKF Disposal constitutes very substantial disposal transaction of the Company under the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. The SP Agreement and the transactions contemplated have been approved by the shareholders of the Company in a special general meeting held on 11th December 2017. The LKF Disposal completed on 3rd January 2018. After that, the Disposal Group ceased to be subsidiaries of the Group and their financial results ceased to be consolidated into the consolidated financial statements of the Group and thus classified as discontinued operation in both periods. The assets and liabilities attributable to the Disposal Group have been reclassified as held for sale and are presented separately in the consolidated statement of financial position as at 31st December 2017.

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2018, the Group employed 51 staff (30th June 2017: 55 staff) with employee benefit expenses of HK\$20,366,000 (Six months ended 30th June 2017: HK\$19,010,000) 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 30th July 2018, the Rights Issue become unconditional and the rights shares are allotted and issued on 6th August 2018. The issued share capital of the Company increased from 903,703,493 shares to 2,711,110,479 shares.

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

PROSPECT

The development of the Combined Site and the Property C7 is our group's major business and future investment in Macau. After obtaining the approval from DSSOPT, the construction work of the Combined Site has started in June 2017 and the progress of the construction work of the Combined Site is well monitored and on schedule. The Group expected that the whole Combined Site will complete by around September 2019. 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, the Group is positive on the Macau property market and believes that there is strong demand for housing in Macau. The Group considers that property development and investment are more stable investment for maintaining stable future revenue.

The Group will continue its furtherance and development of its already well established film production and distribution business. Recently, the Group has decided to co-operate with well-known film production companies to produce new films if their plot are attractive in order to increase our production capacity. For production of television drama series, we intend to source investors to invest in our new television drama series in order to secure our investment in this aspect. Given our experience in film/television drama series production and distribution network in the film/television drama series industry, the Group is confident in the production of film/television drama series operations 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.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2018, the interests of the directors and their associates in the shares and the underlying shares of the Company and its associated corporations, as recorded in the register ("Register of Interests") maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interests in ordinary shares of the Company

Name of director	Capacity	Number of shares held	Approximate percentage of interests held
Mr. Heung Wah Keung	Interest of controlled corporation	1,996,369,194*	220.91**
Ms. Chen Ming Yin, Tiffany	Interest of controlled corporation	1,996,369,194*	220.91**

All interests stated above represent long positions.

* These shares are held as to 1,996,367,550 shares by Heung Wah Keung Family Endowment Limited ("HWKFE") (a company owned as to 50% by Mr. Heung Wah Keung and as to 50% by Ms. Chen Ming Yin, Tiffany) and as to 1,644 shares by Dorest Company Limited (a company beneficially owned as to 60% by Ms. Chen Ming Yin, Tiffany and as to 40% by Mr. Heung Wah Keung).

** The percentage is based on the actual number of issued shares of the Company of 903,703,493 shares as at 30th June 2018.

Other than as disclosed above, as at 30th June 2018, none of the directors or chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register of Interests or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION (Continued)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

On 13th April 2018, HWKFE entered into an underwriting agreement and an irrevocable undertaking with the Company pursuant to which HWKFE has conditionally agreed to underwrite the rights shares not subscribed by the qualifying shareholders of the Company under the Rights Issue and to take up all the rights shares entitled to it under the Rights Issue respectively. HWKFE is owned as to 50% by Mr. Heung Wah Keung and 50% by Ms. Chen Ming Yin, Tiffany and Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are directors of the Company.

Other than as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or the spouse or children under 18 years of age of such director, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2018, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name of shareholder	Capacity	Number of shares or underlying shares held	Approximate percentage of interests held
HWKFE	Beneficial owner	559,339,506*	
	Underwriter	1,437,028,044**	
		<u>1,996,367,550</u>	<u>220.91***</u>

All interests stated above represent long positions.

* HWKFE beneficially interested in 186,446,502 shares and irrevocably undertake to subscribe for the rights shares entitled to it of 372,893,004 rights shares pursuant to an irrevocably undertaking with the Company dated 13th April 2018 in the Rights Issue.

** According to the underwriting agreement dated 13th April 2018, these shares are underwritten by HWKFE in the Rights Issue.

*** The percentage is based on the actual number of issued shares of the Company of 903,703,493 shares as at 30th June 2018.

Other than as disclosed above, the Company had not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital as at 30th June 2018.

OTHER INFORMATION (Continued)

SHARE OPTION SCHEME

Pursuant to a resolution passed at a special general meeting of the Company held on 28th June 2012, a new share option scheme (the "New Option Scheme") was adopted by the Company.

The previous share option scheme of the Company (the "Old Option Scheme") was expired on 26th May 2012, no further share options can be granted under the Old Option Scheme thereafter. However, all outstanding share option granted under the Old Option Scheme prior to the said expiry shall remain valid and exercisable in accordance with the provisions of the Old Option Scheme.

Apart from the New Option Scheme, the Company has no other share option scheme in place as at 30th June 2018.

Details of share options outstanding as at 30th June 2018 were as follows:

Category of participants	Name of scheme	Exercisable period ⁺	Exercise price per share HK\$	Number of share options		
				Outstanding as at 01.01.2018	Expired during the period	Outstanding as at 30.06.2018
Employees of the Group	Old Option Scheme	21.08.2008 – 20.08.2018	47,350	174,585	–	174,585
	New Option Scheme	04.05.2015 – 03.05.2018	3,150	37,000,000	(37,000,000)	–
				<u>37,174,585</u>	<u>(37,000,000)</u>	<u>174,585</u>
Other participants	Old Option Scheme	21.08.2008 – 20.08.2018	47,350	22,129	–	22,129
	New Option Scheme	04.05.2015 – 03.05.2018	3,150	16,720,000	(16,720,000)	–
				<u>16,742,129</u>	<u>(16,720,000)</u>	<u>22,129</u>
				<u>53,916,714</u>	<u>(53,720,000)</u>	<u>196,714</u>

⁺ The exercisable period commenced on the date of grant of the relevant share options.

No share option was granted, exercised, lapsed or cancelled during the six months ended 30th June 2018.

OTHER INFORMATION (Continued)

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 2018 to 30th June 2018, except for the following deviation:

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

ADOPTION OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th June 2018. 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 2018.

AUDIT COMMITTEE

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

The audit committee of the Company has met and discussed with the Company's independent auditors, and has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June 2018.

OTHER INFORMATION (Continued)

BOARD OF DIRECTORS

As at the date of this report, 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.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 30th August 2018