

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2020

		Six months ended 30th June	
		2020	2019
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	3,088	1,528
Cost of sales		(1,178)	–
		<hr/>	<hr/>
Gross profit		1,910	1,528
Other revenue and other income	5	46,152	47,191
Administrative expenses		(37,081)	(36,367)
Marketing and distribution expenses		(2,445)	(36)
Loss arising on change in fair value of financial assets at fair value through profit or loss		(71,755)	(28,758)
		<hr/>	<hr/>
Loss from operations		(63,219)	(16,442)
Finance costs	6	(146)	(224)
Share of result of a joint venture		3	(274)
		<hr/>	<hr/>
Loss before tax	7	(63,362)	(16,940)
Income tax credit/(expense)	8	34	(3)
		<hr/>	<hr/>
Loss for the period		(63,328)	(16,943)
		<hr/> <hr/>	<hr/> <hr/>
Loss for the period attributable to:			
Owners of the Company		(63,319)	(16,888)
Non-controlling interests		(9)	(55)
		<hr/>	<hr/>
		(63,328)	(16,943)
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Loss per share	9		
Basic and diluted		HK(2.36) cents	HK(0.60) cents
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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 2020

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2020

	Notes	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	144,811	151,144
Loan to a director	12	393,712	369,974
Prepayment		16,000	16,000
Interest in a joint venture		3	–
		<u>554,526</u>	<u>537,118</u>
Current assets			
Inventories		120	101
Stock of properties	13	3,141,745	3,047,123
Film rights		11,828	12,792
Films in progress		115,581	115,156
Investment in film		29,939	29,939
Trade receivables	14	1,769	1,377
Deposits, prepayment and other receivables		653,303	644,169
Financial assets at fair value through profit or loss	15	238,827	313,284
Amount due from a joint venture		30	–
Loan receivables		99,568	199,127
Time deposits		275	272
Cash and bank balances		414,700	497,748
		<u>4,707,685</u>	<u>4,861,088</u>
Total assets		<u><u>5,262,211</u></u>	<u><u>5,398,206</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30th June 2020

	Notes	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
Capital and reserves			
Share capital	16	26,331	27,110
Reserves		3,460,643	3,660,429
		3,486,974	3,687,539
Equity attributable to owners of the Company			
Non-controlling interests		(639)	(630)
		3,486,335	3,686,909
Non-current liabilities			
Lease liabilities		4,346	7,100
Current liabilities			
Trade payables	17	35,022	78,251
Deposits received, accruals and other payables		82,636	87,254
Lease liabilities		5,446	5,394
Bank borrowings	18	1,145,310	1,030,150
Amounts due to non-controlling interests		503,116	503,116
Tax payable		—	32
		1,771,530	1,704,197
		1,775,876	1,711,297
Total liabilities			
		5,262,211	5,398,206
Total equity and liabilities			
		2,936,155	3,156,891
Net current assets			
		3,490,681	3,694,009
Total assets less current liabilities			

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 2020

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Treasury shares HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Bonus convertible bonds reserve HK\$'000	Capital reduction reserve HK\$'000	Property revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1st January 2019 (Audited)	28,011	1,986,306	-	542,961	835	1,132	316,008	48,171	1,508,538	4,431,962	(125)	4,431,837
Loss for the period	-	-	-	-	-	-	-	-	(16,888)	(16,888)	(55)	(16,943)
Other comprehensive loss for the period	-	-	-	-	(13)	-	-	-	-	(13)	-	(13)
Total comprehensive loss for the period	-	-	-	-	(13)	-	-	-	(16,888)	(16,901)	(55)	(16,956)
Shares repurchased (included charges)	-	-	(69,984)	-	-	-	-	-	-	(69,984)	-	(69,984)
Shares cancelled	(901)	(69,083)	69,984	-	-	-	-	-	-	-	-	-
At 30th June 2019 (Unaudited)	27,110	1,917,223	-	542,961	822	1,132	316,008	48,171	1,491,650	4,345,077	(180)	4,344,897
At 1st January 2020 (Audited)	27,110	1,917,223	-	519,961	630	1,132	-	48,171	1,173,312	3,687,539	(630)	3,686,909
Loss for the period	-	-	-	-	-	-	-	-	(63,319)	(63,319)	(9)	(63,328)
Other comprehensive loss for the period	-	-	-	-	(184)	-	-	-	-	(184)	-	(184)
Total comprehensive loss for the period	-	-	-	-	(184)	-	-	-	(63,319)	(63,503)	(9)	(63,512)
Shares repurchased (included charges)	-	-	(137,062)	-	-	-	-	-	-	(137,062)	-	(137,062)
Shares cancelled	(779)	(136,129)	136,908	-	-	-	-	-	-	-	-	-
At 30th June 2020 (Unaudited)	26,331	1,781,094	(154)	519,961	446	1,132	-	48,171	1,109,993	3,486,974	(639)	3,486,335

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2020

	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash used in operating activities	(46,593)	(991,119)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	20,400	26,041
Dividend received	132	–
Payment for purchase of property, plant and equipment	(24)	(3,145)
Net cash (outflow)/inflow arising on other investing activities	(3)	215
Net cash generated from investing activities	20,505	23,111
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(31,596)	(8,739)
Proceed from bank borrowings	115,160	758,010
Repayment of lease liabilities	(3,278)	(3,264)
Repurchase of shares	(137,062)	(69,984)
Net cash (used in)/generated from financing activities	(56,776)	676,023
Decrease in cash and cash equivalents	(82,864)	(291,985)
Cash and cash equivalents at the beginning of the reporting period	497,748	1,156,466
Effect of foreign exchange rate changes	(184)	(13)
Cash and cash equivalents at the end of the reporting period	414,700	864,468

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2020

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

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

2. PRINCIPAL ACCOUNTING POLICIES

Application of amendments to HKFRSs

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

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

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

Accounting policies newly applied by the Group

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

Government grants

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

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

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

3. SEGMENT INFORMATION

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

The Group has three reportable segments – film related business operations, property development and investment operations and restaurant operations. The reportable segments are based on the information about the operations of the Group that management uses to make decisions.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

3. SEGMENT INFORMATION (Continued)

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

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

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

Segment information about these operations is presented as below:

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

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

Segment results represent the loss suffered by each segment without allocation of central administrative expenses and partial finance costs under the heading of "unallocated corporate expenses", partial other revenue and other income under the heading of "unallocated corporate income", loss arising on change in fair value of financial assets at FVTPL and share of result of a joint venture. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

For the six months ended 30th June 2020

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

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

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

(c) Geographical information

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

4. REVENUE**Disaggregation of revenue from contracts with customers**

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

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

5. OTHER REVENUE AND OTHER INCOME

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

6. FINANCE COSTS

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

7. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

8. INCOME TAX (CREDIT)/EXPENSE

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

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the condensed consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

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

The PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% for both periods.

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

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

9. LOSS PER SHARE

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

9. LOSS PER SHARE (Continued)

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

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

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

10. INTERIM DIVIDEND

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

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

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June 2020, the Group acquired property, plant and equipment with a cost of HK\$24,000 (Six months ended 30th June 2019: HK\$3,145,000).

During the six months ended 30th June 2020, property, plant and equipment with carrying amount of HK\$219,000 was written off (Six months ended 30th June 2019: nil), resulting in a loss on written off of the same amount.

During the six months ended 30th June 2020, the Group entered into new lease agreement with lease term of 2 years. The Group paid upfront payment of HK\$576,000 and recognised right-of-use assets of the same amount which is included in property, plant and equipment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

12. LOAN TO A DIRECTOR

	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
At the beginning of the reporting period	369,974	327,903
Imputed interest income	36,204	67,071
Interest received and receivables	(12,466)	(25,000)
	<hr/> 393,712 <hr/>	<hr/> 369,974 <hr/>
At the end of the reporting period	393,712	369,974

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 a fixed term loan (the "Loan") to Ms. Chen 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.

Ms. Chen can repay the Loan (together with accrued interest) in full after the date of drawdown without penalty provided not less than ten business dates' prior written notice has been given to Best Combo.

Pursuant to the Loan Agreement, Ms. Chen has agreed to grant 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.

During the six months ended 30th June 2020 and 30th June 2019, the maximum amount outstanding to the Group is HK\$500,000,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

13. STOCK OF PROPERTIES

	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
Properties under development held for sales		
At the beginning of the reporting period	3,047,123	2,508,568
Additions	63,172	501,832
Interest capitalised	31,450	36,723
	<u>3,141,745</u>	<u>3,047,123</u>
At the end of the reporting period	3,141,745	3,047,123

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.

At 30th June 2020, the Group's stock of properties with carrying amounts of approximately HK\$1,746,165,000 (31st December 2019: HK\$1,651,619,000) have been pledged for secured banking facilities granted to the Group.

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 6B 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 Lot 6B 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 Group 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 legal ground to seek compensation for damages sustained by the Group as a result and the Court will consider and rule taking into account all the essential points including delays caused by the Macau Government. As such, the Group has sought legal advice from its Macau legal representative and consider to make an application in this regard if necessary.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

14. TRADE RECEIVABLES

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

The following is an aging analysis of trade receivables, presented based on the invoice dates, which approximates the respective revenue recognition dates and net of allowance for expected credit losses:

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
Listed securities classified as held for trading investments:		
– Equity securities listed in Hong Kong	157,518	225,491
Derivative financial instruments:		
– Call option embedded in loan to a director (the “Call Option”)	81,309	87,793
	238,827	313,284

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.

At the end of reporting period, the fair value of suspended trading security listed in Hong Kong with the amount of HK\$2,692,000 (31st December 2019: HK\$4,059,000) was reference to valuation performed 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 70.44% (31st December 2019: 74.29%) at 30th June 2020. 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 Call Option with the amount of HK\$81,309,000 (31st December 2019: HK\$87,793,000) was arrived on the basis of valuation performed by Graval Consulting Limited. The fair value of the Call Option was valued by using the binomial option pricing model with discount rate of 15.62% (31st December 2019: 15.38%) at 30th June 2020. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

16. SHARE CAPITAL

	Number of shares		Amount	
	At 30th June 2020 '000 (Unaudited)	At 31st December 2019 '000 (Audited)	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 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 of the reporting period	2,711,001	2,801,111	27,110	28,011
Shares repurchased and cancelled (Note)	(77,930)	(90,110)	(779)	(901)
At the end of the reporting period	2,633,071	2,711,001	26,331	27,110

Note:

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

Month of repurchase	Number of ordinary shares '000	Price per share		Aggregated consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
April 2020	37,910	1.75	1.72	66,342
May 2020	37,880	1.75	1.75	66,290
June 2020	2,230	1.75	1.70	3,898
	78,020			136,530

For the six months ended 30th June 2020, the Company repurchased 78,020,000 shares at an aggregate consideration of HK\$136,530,000 and transaction costs of HK\$532,000.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

17. TRADE PAYABLES

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

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

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

18. BANK BORROWINGS

	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
Secured bank borrowings	1,145,310	1,030,150
Carrying amount are repayable: Within one year	1,145,310	1,030,150

At 30th June 2020, the Group's bank borrowings are secured by the Group's stock of properties with carrying amounts of approximately HK\$1,746,165,000 (31st December 2019: HK\$1,651,619,000), quota capital of China Star Creative Development Limited, personal guarantee provided by Mr. Heung Wah Keung ("Mr. Heung") and Ms. Chen and corporate guarantee provided by the Company together as securities, interest bearing at Hong Kong Interbank Offered Rate for three or six month period selected by the Group plus margin of 3.35% per annum and repayable by the earlier of (i) 36 months from date of the agreement of the loan or (ii) 9 months after date of issuing of the occupation permit of the Group's pledged properties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

19. PLEDGE OF ASSETS

- (a) At 30th June 2020, the Group's stock of properties with carrying amount of approximately HK\$1,746,165,000 (31st December 2019: HK\$1,651,619,000), quota capital of China Star Creative Development Limited, personal guarantee provided by Mr. Heung and Ms. Chen and corporate guarantee provided by the Company together as securities, have been pledged to secure banking facilities granted to the Group.
- (b) At 30th June 2020, the Group's time deposits with amounts of approximately HK\$249,000 (31st December 2019: HK\$249,000) are pledged for guaranteed to Macau Government for development of stock of properties located in Macau.

20. COMMITMENTS

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

	At 30th June 2020 HK\$'000 (Unaudited)	At 31st December 2019 HK\$'000 (Audited)
Authorised and contracted, but not provided for:		
– Development expenditure for stock of properties in Macau	317,451	373,110
– Expenditure for leasehold improvement	660	3,918
– Film rights, films in progress and film deposits	270,454	263,452
	<hr/> 588,565 <hr/>	<hr/> 640,480 <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**(a) Fair value of the Group's financial instruments that are measured at fair value on a recurring basis****Fair value hierarchy**

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 30th June 2020 (Unaudited)				
Financial assets at FVTPL:				
– Equity securities listed in Hong Kong	154,826	–	2,692	157,518
– Call Option	–	–	81,309	81,309
	154,826	–	84,001	238,827
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 31st December 2019 (Audited)				
Financial assets at FVTPL:				
– Equity securities listed in Hong Kong	221,432	–	4,059	225,491
– Call Option	–	–	87,793	87,793
	221,432	–	91,852	313,284

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

During the six months ended 30th June 2020 and the year ended 31st December 2019, there were no transfers between level 1 and level 2, or transfers into or out of level 3.

The following table presents the changes in financial assets at FVTPL which are classified as level 3 category for the six months ended 30th June 2020:

	HK\$'000
At 1st January 2019 (Audited)	222,921
Loss arising on change in fair value of financial assets at FVTPL	(131,069)
At 31st December 2019 and at 1st January 2020 (Audited)	91,852
Loss arising on change in fair value of financial assets at FVTPL	(7,851)
At 30th June 2020 (Unaudited)	84,001

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)**(a) Fair value of the Group's financial instruments that are measured at fair value on a recurring basis (Continued)****Information about level 3 fair value measurements**

	Valuation Techniques	Significant unobservable input	Relation of significant unobservable inputs to fair value
Call Option	Binomial option pricing model	Underlying assets value	The underlying assets value is positively correlated to the fair value measurement of the Call Option
		Expected volatility	The expected volatility is positively correlated to the fair value measurement of the Call Option
Suspended trading security listed in Hong Kong	Market approach	Holding return basis of negative 65.90% (31st December 2019: 42.44%)	The holding return basis is positively correlated to the fair value measurement of the suspended trading security listed in Hong Kong
		Price-to-earning basis of 13.78 (31st December 2019: 48.12)	The price-to-earning basis is positively correlated to the fair value measurement of the suspended trading security listed in Hong Kong
		Discount rate of negative 70.44% (31st December 2019: 74.29%)	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 2020

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)**(a) Fair value of the Group's financial instruments that are measured at fair value on a recurring basis (Continued)****Information about level 3 fair value measurements (Continued)**

In estimating the fair value of an asset, the management 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 reports the findings to the directors at the end of each reporting period to explain the cause of fluctuations in fair value of the asset.

Information about the valuation techniques and inputs used in determining the fair value of the Call Option and the suspended trading security listed in Hong Kong are disclosed above.

Binomial option pricing model is used for valuation for the Call Option. The inputs into the model at 30th June 2020 and 31st December 2019 are as follows:

	At 30th June 2020 (Unaudited)	At 31st December 2019 (Audited)
Underlying assets value (HK\$'000)	463,630	469,568
Exercise price (HK\$'000)	500,000	500,000
Expected volatility (%)	38.13	32.22
Dividend yield	N/A	N/A
Option life (years)	1.77	2.27
Risk free rate (%)	0.25	1.72

(b) Fair value of the Group's financial instruments that are not measured at fair value on a recurring basis

The carrying amounts of the Group's financial assets and financial liabilities recognised at cost or amortised cost in the Interim Financial Information approximate to their fair values, except for the following financial instruments, for which carrying amount and fair value are disclosed below:

	At 30th June 2020		At 31st December 2019	
	Carrying amount HK\$'000 (Unaudited)	Fair value HK\$'000	Carrying amount HK\$'000 (Audited)	Fair value HK\$'000
Loan to a director	393,712	430,194	369,974	413,923

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2020

22. 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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Nature of transactions		
Income received from a joint venture:		
Management fee income	-	270
Income received and receivable from a substantial shareholder and the director of the Company:		
Loan interest income	36,204	32,418
	<u>36,204</u>	<u>32,418</u>

- (b) For the six months ended 30th June 2020 and 30th June 2019, Mr. Heung and Ms. Chen provided personal guarantee to a bank to secure banking facilities granted to the Group.

23. EVENTS AFTER THE REPORTING PERIOD

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

Since Coronavirus Disease 2019 ("COVID-19") continues to spread in Hong Kong, the restaurant operations of the Group during the period has been impacted by the regulatory restrictions against social gatherings, poor market conditions and weak consumer sentiment. The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group.

24. 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 28th August 2020.

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 26, 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 2020 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 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 are not prepared, in all material respects, in accordance with HKAS 34.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Ng Ka Wah

Practising Certificate Number: P06417

Hong Kong, 28th August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

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

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

DIVIDEND

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

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

BUSINESS REVIEW

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

Of the total revenue amount for the period, HK\$2,367,000 or 77% was generated from film related business operations, none or 0% was generated from property development and investment operations and HK\$721,000 or 23% was generated from restaurant operations.

Film Related Business Operations

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Film Related Business Operations (Continued)

In the first half of the year 2020, revenue from film related business operations amounted to HK\$2,367,000 (Six months ended 30th June 2019: HK\$1,528,000) and its segment loss amounted to HK\$4,034,000 (Six months ended 30th June 2019: HK\$2,656,000). During the six months ended 30th June 2020, the Group did not distribute any new film. The Group has been engaging in the film business for more than 20 years. Film production normally involves three stages including pre-production, production or shooting and post-production. From the pre-production stage to theatrical release of Chinese film in Hong Kong, it normally takes more than one year and sometimes several years to complete. The majority of revenue in film will record within the following two years after the film is released. As such, it is the characteristic of film production and distribution that revenue is not recognised evenly with time. The Group also has investment in production of film which is co-financing with other production companies and will shared revenue from the invested film according to the investment percentage in the relevant agreement. The Group takes a passive role in this kind of co-production arrangement but needs to contribute less human resource.

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

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

Property Development and Investment Operations

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Property Development and Investment Operations (Continued)

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

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

Restaurant Operations

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Geographical Segments

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

Administrative Expenses

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

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE (Continued)

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

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

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

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

PLEDGE OF ASSETS

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

EXCHANGE RISK AND HEDGING

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

COMMITMENTS

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

CONTINGENT LIABILITIES

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2020, the Group employed 66 staff (Six months ended 30th June 2019: 50 staff) with employee benefit expenses (included directors' remuneration) of HK\$22,642,000 (Six months ended 30th June 2019: HK\$20,162,000), an increase of 12%. The increase mainly included increase in headcount which are responsible for restaurant operations and preparation for sales and management of the Project Tiffany House in Macau. The directors believe that the quality of its employees is the single most important factor in sustaining the Group's reputation and improving its profitability. The staff are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basic salaries, pension fund, housing allowances, meal allowances, medical schemes and discretionary bonuses, share options are awarded to certain staff according to the assessment of individual performance.

EVENT AFTER THE REPORTING DATE

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

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

PROSPECT

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PROSPECT (Continued)

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 2020, 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	1,640,375,595*	62.29
Ms. Chen Ming Yin, Tiffany	Interest of controlled corporation	1,640,375,595*	62.29

All interests stated above represent long positions.

* These shares are held by Heung Wah Keung Family Endowment Limited ("HWKFE") which is beneficially owned as to 50% by Mr. Heung Wah Keung and as to 50% by Ms. Chen Ming Yin, Tiffany.

OTHER INFORMATION (Continued)**DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)**

Other than as disclosed above, as at 30th June 2020, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 2020, 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	1,640,375,595	62.29

All interests stated above represent long positions.

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 2020.

SHARE OPTION SCHEME

Pursuant to a resolution passed at a special general meeting of the Company held on 28th June 2012, the Company adopted a new share option scheme (the "Option Scheme") to replace the share option scheme adopted on 21st January 2002.

Apart from the Option Scheme, the Company has no other share option scheme in place as at 30th June 2020.

No share option was outstanding as at 30th June 2020 and no share option was granted, exercised, lapsed, expired or cancelled during the six months ended 30th June 2020.

OTHER INFORMATION (Continued)

CORPORATE GOVERNANCE PRACTICES

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

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

ADOPTION OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

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

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

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

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

OTHER INFORMATION (Continued)

AUDIT COMMITTEE

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

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

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, 28th August 2020