



CHINA STAR ENTERTAINMENT LIMITED

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

INTERIM REPORT
2021



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 2021 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2021

		Six months ended 30th June	
	Notes	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	4	1,167	3,088
Cost of sales		(295)	(1,178)
Gross profit		872	1,910
Other revenue and other income	5	42,505	46,152
Administrative expenses		(40,895)	(37,081)
Marketing and distribution expenses		(110)	(2,445)
Gain arising on change in fair value of investment property		947	–
Loss arising on change in fair value of financial assets at fair value through profit or loss		(38,344)	(71,755)
Loss from operations		(35,025)	(63,219)
Finance costs	6	(969)	(146)
Share of result of a joint venture		(2)	3
Loss before tax	7	(35,996)	(63,362)
Income tax (expense)/credit	8	(1)	34
Loss for the period		(35,997)	(63,328)
Loss for the period attributable to:			
Owners of the Company		(35,987)	(63,319)
Non-controlling interests		(10)	(9)
		(35,997)	(63,328)
		HK cents	HK cents
Loss per share	9		
Basic and diluted		(1.42)	(2.36)

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 2021

	Six months ended 30th June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	(35,997)	(63,328)
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>79</u>	<u>(184)</u>
Total comprehensive loss for the period	<u>(35,918)</u>	<u>(63,512)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	<u>(35,908)</u>	<u>(63,503)</u>
Non-controlling interests	<u>(10)</u>	<u>(9)</u>
	<u>(35,918)</u>	<u>(63,512)</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2021

		At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment	11	123,652	128,960
Investment property	11	161,862	–
Deposits and prepayment		–	33,664
Loan to a director	12	–	420,504
Interest in a joint venture		–	2
		<hr/> 285,514 <hr/>	<hr/> 583,130 <hr/>
Current assets			
Inventories		126	128
Stock of properties	13	3,356,611	3,275,151
Film rights		11,828	11,828
Films in progress		77,634	77,634
Investment in film		33,295	29,939
Loan to a director	12	449,259	–
Trade receivables	14	645	290
Deposits, prepayment and other receivables		680,881	653,255
Financial assets at fair value through profit or loss	15	168,107	208,460
Amount due from a joint venture		45	30
Time deposits		278	276
Cash and bank balances		205,320	503,450
		<hr/> 4,984,029 <hr/>	<hr/> 4,760,441 <hr/>
Total assets		<hr/> 5,269,543 <hr/>	<hr/> 5,343,571 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30th June 2021

	Notes	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
Capital and reserves			
Share capital	16	24,858	26,306
Reserves		3,160,153	3,409,608
Equity attributable to owners of the Company			
Non-controlling interests		3,185,011 (653)	3,435,914 (643)
Total equity		3,184,358	3,435,271
Non-current liabilities			
Lease liabilities		–	981
Bank borrowings	17	1,371,950	1,293,880
		1,371,950	1,294,861
Current liabilities			
Financing note payable	18	95,195	–
Trade payables	19	29,246	22,710
Deposits received, accruals and other payables		82,369	82,908
Lease liabilities		3,309	4,704
Amounts due to non-controlling interests		503,116	503,116
Tax payable		–	1
		713,235	613,439
Total liabilities		2,085,185	1,908,300
Total equity and liabilities		5,269,543	5,343,571
Net current assets		4,270,794	4,147,002
Total assets less current liabilities		4,556,308	4,730,132

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 2021

	Attributable to owners of the Company										
	Share capital	Share premium	Treasury shares	Contributed surplus	Exchange reserve	Bonus convertible bonds reserve	Property revaluation reserve	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
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
At 1st January 2021 (Audited)	26,306	1,776,920	-	519,961	542	1,132	48,171	1,062,882	3,435,914	(643)	3,435,271
Loss for the period	-	-	-	-	-	-	-	(35,987)	(35,987)	(10)	(35,997)
Other comprehensive income for the period	-	-	-	-	79	-	-	-	79	-	79
Total comprehensive income/(loss) for the period	-	-	-	-	79	-	-	(35,987)	(35,908)	(10)	(35,918)
Shares repurchased and cancelled	(1,448)	(212,702)	-	-	-	-	-	-	(214,150)	-	(214,150)
Costs attributable to repurchase and cancellation of shares	-	(845)	-	-	-	-	-	-	(845)	-	(845)
At 30th June 2021 (Unaudited)	24,858	1,563,373	-	519,961	621	1,132	48,171	1,026,895	3,185,011	(653)	3,184,358

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2021

	Six months ended 30th June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash used in operating activities	(110,692)	(46,593)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	12,968	20,400
Dividend received	–	132
Payment for purchase of property, plant and equipment	(619)	(24)
Balance payment for purchase of investment property	(126,935)	–
Placement of time deposits	(2)	(3)
Net cash (used in)/generated from investing activities	(114,588)	20,505
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(28,474)	(31,596)
Proceed from bank borrowings	78,070	115,160
Net proceed from financing note payable	95,096	–
Repayment of lease liabilities	(2,376)	(3,278)
Repurchase of shares	(214,995)	(137,062)
Net cash used in financing activities	(72,679)	(56,776)
Decrease in cash and cash equivalents	(297,959)	(82,864)
Cash and cash equivalents at the beginning of the reporting period	503,450	497,748
Effect of foreign exchange rate changes	(171)	(184)
Cash and cash equivalents at the end of the reporting period	205,320	414,700

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June 2021

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”) as well as the applicable disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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 unaudited 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 2020 annual financial statements. The unaudited 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”).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

2. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Information have been prepared on the historical cost basis except for investment property and 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.

Other than additional accounting policies resulting from application of amendments to HKFRSs and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the Interim Financial Information for the six months ended 30th June 2021 are the same as those presented in the Group's audited consolidated financial statements for the year ended 31st December 2020.

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.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1st January 2021 for the preparation of the Group's unaudited condensed consolidated financial statements:

Amendments to HKFRS 16

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16

Covid-19-Related Rent Concessions

Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current interim 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 unaudited condensed consolidated financial statements.

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 2021

3. SEGMENT INFORMATION (Continued)

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

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

Segment information about these operations is presented as below:

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

	Segment revenue		Segment results	
	Six months ended 30th June 2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	Six months ended 30th June 2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Film related business operations	35	2,367	(5,635)	(4,034)
Property development and investment operations	–	–	(9,271)	(6,941)
Restaurant operations	<u>1,132</u>	<u>721</u>	<u>(1,427)</u>	<u>(2,336)</u>
	<u>1,167</u>	<u>3,088</u>	<u>(16,333)</u>	<u>(13,311)</u>
Reconciliation from segment results to loss before tax				
Unallocated corporate income			41,832	44,538
Loss arising on change in fair value of financial assets at fair value through profit or loss ("FVTPL")			(38,344)	(71,755)
Share of result of a joint venture			(2)	3
Unallocated corporate expenses			<u>(23,149)</u>	<u>(22,837)</u>
Loss before tax			<u>(35,996)</u>	<u>(63,362)</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

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 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
ASSETS		
Segment assets		
– Film related business operations	704,352	643,497
– Property development and investment operations	3,662,618	3,467,790
– Restaurant operations	6,547	7,603
	<hr/> 4,373,517	<hr/> 4,118,890
Total segment assets		
Unallocated assets	896,026	1,224,681
	<hr/> 5,269,543 <hr/>	<hr/> 5,343,571 <hr/>
	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
LIABILITIES		
Segment liabilities		
– Film related business operations	71,737	71,946
– Property development and investment operations	1,997,643	1,816,827
– Restaurant operations	760	754
	<hr/> 2,070,140	<hr/> 1,889,527
Total segment liabilities		
Unallocated liabilities	15,045	18,773
	<hr/> 2,085,185 <hr/>	<hr/> 1,908,300 <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

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

(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 Six months ended 30th June 2021		Non-current assets (excluding financial instruments) At 30th June 2021		At 31st December 2020
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	
Hong Kong	1,144	792	122,157		127,628
Macau	-	-	1,052		1,334
The People's Republic of China, excluded Hong Kong, Macau and Taiwan (the "PRC")	-	2,296	-		-
Taiwan	-	-	162,305		33,664
Others	23	-	-		-
	1,167	3,088	285,514		162,626

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

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

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Six months ended 30th June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Distribution fee income	23	2,296
Artist management service income	12	71
Restaurant operations	1,132	721
	<hr/>	<hr/>
Revenue from contracts with customers	1,167	3,088
	<hr/> <hr/>	<hr/> <hr/>
	Six months ended 30th June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Timing of revenue recognition A point in time	1,167	3,088
	<hr/> <hr/>	<hr/> <hr/>

5. OTHER REVENUE AND OTHER INCOME

	Six months ended 30th June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	571	2,956
Loan interest income	41,152	41,182
Dividend income	-	132
Reversal of impairment loss recognised in respect of loan receivables	-	441
Management fee income	-	30
Net foreign exchange gain	673	-
Government grants (Note)	100	394
Sundry income	9	1,017
	<hr/>	<hr/>
	42,505	46,152
	<hr/> <hr/>	<hr/> <hr/>

Note: During the current interim period, the Group recognised government grants of HK\$100,000 (six months ended 30th June 2020: HK\$394,000) in respect of Covid-19 related subsidies provided by Hong Kong government and Macau government.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

6. FINANCE COSTS

	Six months ended 30th June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests on bank borrowings	27,604	31,450
Interests on financing note	99	–
Bank guarantee charges	749	–
Interests on lease liabilities	56	146
Other financial costs	65	–
	28,573	31,596
Interests capitalised to stock of properties	(27,604)	(31,450)
	969	146

7. LOSS BEFORE TAX

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

	Six months ended 30th June	
	2021	2020
	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)	295	214
Depreciation of property, plant and equipment	5,925	6,714
Employee benefit expenses (included directors' remunerations)	23,081	22,642
Expense relating to short-term leases	461	284
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	51	48
Impairment loss recognised in respect of trade receivables	–	160
Gain arising on change in fair value of investment property	(947)	–
Loss arising on change in fair value of financial assets at FVTPL	38,344	71,755
Net foreign exchange (gain)/loss	(673)	1,209
Written off of property, plant and equipment	2	219

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

8. INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30th June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprise Income Tax	1	2
Over provision in prior year:		
– PRC Enterprise Income Tax	–	(4)
– Hong Kong Profits Tax	–	(32)
	<u>1</u>	<u>(34)</u>
	<u><u>1</u></u>	<u><u>(34)</u></u>

Under the two-tiered profits tax rates regime of Hong Kong, 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 unaudited 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. The Taiwan subsidiary is subject to Taiwan corporate tax, the first NT\$120,000 taxable income of Taiwan subsidiary is exempted from corporate tax and taxable income above NT\$120,000 is taxed at 20%.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

10. INTERIM DIVIDEND

No interim dividend was paid or proposed during the six months ended 30th June 2021 (six months ended 30th June 2020: nil).

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the six months ended 30th June 2021, the Group acquired property, plant and equipment with a cost of HK\$619,000 (six months ended 30th June 2020: HK\$24,000).

During the six months ended 30th June 2021, property, plant and equipment with carrying amount of HK\$2,000 was written off (six months ended 30th June 2020: HK\$219,000), resulting in a loss on written off of the same amount.

During the current interim period, the Group's acquisition of investment property was settled by cash consideration of HK\$160,365,000 and in which HK\$33,430,000 was paid during the year ended 31st December 2020.

The Group's investment property at the end of the current interim period were valued by the external valuers by adopting direct comparison method, where comparison is made based on prices realised on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value. The resulting increase in fair value of investment property of HK\$947,000 (six months ended 30th June 2020: nil) has been recognised directly in profit or loss for the six months ended 30th June 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

12. LOAN TO A DIRECTOR

	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
At the beginning of the reporting period	420,504	369,974
Imputed interest income	41,152	75,599
Interest received and receivables	(12,397)	(25,069)
	449,259	420,504
	449,259	420,504
	449,259	–
Carrying amounts receivable:		
Within 1 year	449,259	–
More than 1 year but less than 2 years	–	420,504
	449,259	420,504

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 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.

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 (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 Loan.

During the six months ended 30th June 2021 and 30th June 2020, 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 2021

13. STOCK OF PROPERTIES

	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
Properties under development held for sales		
At the beginning of the reporting period	3,275,151	3,047,123
Additions	53,856	164,132
Interests capitalised	27,604	63,896
	<u>3,356,611</u>	<u>3,275,151</u>
At the end of the reporting period		

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 within one year.

At 30th June 2021, the Group's stock of properties with carrying amounts of approximately HK\$1,960,895,000 (31st December 2020: HK\$1,879,503,000) have been pledged to secure bank 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 civil claims against the Macau Government for compensation of damages sustained by the Group. As Lot 6B is intended to develop as recreational area and the Macau Government has approved the development plan of the other 3 lots of land, the Group considers that it is difficult to sustain its damages incurred.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

14. TRADE RECEIVABLES

	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
Credit card receivables	5	5
Other trade receivables	1,280	925
Less: allowance for credit losses	<u>(640)</u>	<u>(640)</u>
	<u>645</u>	<u>290</u>

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

	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
0 to 30 days	44	5
31 to 60 days	-	-
61 to 90 days	4	-
Over 90 days	<u>597</u>	<u>285</u>
	<u>645</u>	<u>290</u>

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

14. TRADE RECEIVABLES (Continued)

The movement in the allowance for credit losses in respect of trade receivables under simplified approach during the periods is as follows:

	Lifetime expected credit loss (not credit-impaired)		Lifetime expected credit loss (credit-impaired)	
	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)	At 30th June 2021 HK\$'000 (Unaudited)	At 31 December 2020 HK\$'000 (Audited)
At the beginning of the reporting period	-	-	640	963
Written off	-	-	-	(323)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(323)</u>
At the end of the reporting period	<u>-</u>	<u>-</u>	<u>640</u>	<u>640</u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
Listed securities classified as held for trading investments:		
– Equity securities listed in Hong Kong	146,795	145,550
Derivative financial instruments:		
– Call Option embedded in loan to a director	21,312	62,910
	<u>168,107</u>	<u>208,460</u>

At 30th June 2021, all financial assets at FVTPL are stated at fair value. Fair value of listed securities classified as held for trading investments are determined with reference to quoted market closing price.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

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

At 31st December 2020, the fair value of suspended trading security listed in Hong Kong with the amount of HK\$2,642,000 was reference to valuation performed by Graval Consulting Limited, a firm of independent qualified professional valuers. For the year ended 31st December 2020, the fair value of suspended trading security listed in Hong Kong was valued by using the market approach with a discount rate of 72.36%. The discount rate was used to reflect the risk of exposure to corporate governance, illiquidity and financial distress, etc perceived by market participants who held the suspended shares with remote likelihood of trade resumption. On 1st March 2021, the suspended trading security listed in Hong Kong resumed trading and was reclassified from Level 3 to Level 1 of the fair value hierarchy.

At the end of the reporting period, the fair value of the Call Option with the amount of HK\$21,312,000 (31st December 2020: HK\$62,910,000) was arrived by reference to valuation performed by Graval Consulting Limited, a firm of independent qualified professional valuers. The fair value of the Call Option was valued by using the binomial option pricing model with discount rate of 8.31% (31st December 2020: 12.85%). Discount rate is the expected rate of return (or yield) that an investor would have to give up by investing in the subject investment instead of other available alternative investments that are comparable in terms of risk and other investment characteristics.

16. SHARE CAPITAL

	Number of shares		Amount	
	At 30th June 2021 '000 (Unaudited)	At 31st December 2020 '000 (Audited)	At 30th June 2021 HK\$'000 (Unaudited)	At 31 December 2020 HK\$'000 (Audited)
Ordinary shares of HK\$0.01 each				
Authorised:				
At the beginning/end of the reporting period	<u>50,000,000</u>	<u>50,000,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:				
At the beginning of the reporting period	<u>2,630,611</u>	<u>2,711,001</u>	<u>26,306</u>	<u>27,110</u>
Shares repurchased and cancelled (Note)	<u>(144,760)</u>	<u>(80,390)</u>	<u>(1,448)</u>	<u>(804)</u>
At the end of the reporting period	<u>2,485,851</u>	<u>2,630,611</u>	<u>24,858</u>	<u>26,306</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

16. SHARE CAPITAL (Continued)

Note: During the six months ended 30th June 2021, the Company repurchased and cancelled its own shares on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares '000	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
January 2021	91,920	1.50	1.45	137,865
April 2021	52,840	1.45	1.40	76,285
	144,760			214,150

For the six months ended 30th June 2021, the Company repurchased 144,760,000 ordinary shares at an aggregate consideration of HK\$214,150,000 and transaction costs of HK\$845,000.

91,920,000 and 52,840,000 ordinary shares were cancelled on 4th February 2021 and 3rd May 2021 respectively.

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 2021

17. BANK BORROWINGS

	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
Secured bank borrowings	1,371,950	1,293,880
Carrying amounts repayable: More than 1 year but less than 2 years	1,371,950	1,293,880

At the end of the reporting period, the Group's bank borrowings are secured by the Group's stock of properties with carrying amounts of approximately HK\$1,960,895,000 (31st December 2020: HK\$1,879,503,000), 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. The maturity date of bank borrowings had extended to 15th September 2022.

18. FINANCING NOTE PAYABLE

	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
Loan note	95,195	–

For the six months ended 30th June 2021, the Company issued a loan note at the principal amount of NT\$342,000,000 (equivalent to approximately HK\$95,213,000) which bears a fixed interest rate of 0.25% semi-annually from 29th January 2021. The loan note was guaranteed by a bank. The Group's investment property with carrying amount of HK\$161,862,000 (31st December 2020: nil) has been pledged to the bank for obtaining its guarantee for loan note issued by the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

19. TRADE PAYABLES

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

	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
0 to 30 days	144	17
31 to 60 days	-	-
61 to 90 days	-	-
Over 90 days	29,102	22,693
	29,246	22,710

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

20. PLEDGE OF ASSETS

- (a) At 30th June 2021, the Group's stock of properties with carrying amounts of approximately HK\$1,960,895,000 (31st December 2020: HK\$1,879,503,000), the 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 2021, the Group's time deposits with amounts of approximately HK\$249,000 (31st December 2020: HK\$249,000) are pledged as guarantee to Macau Government for development of stock of properties located in Macau.
- (c) At 30th June 2021, the Group's investment property with carrying amount of HK\$161,862,000 (31st December 2020: nil) has been pledged to a bank for obtaining its guarantee for loan note issued by the Group.

21. COMMITMENTS

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

	At 30th June 2021 HK\$'000 (Unaudited)	At 31st December 2020 HK\$'000 (Audited)
Authorised and contracted, but not provided for:		
- Development expenditure for stock of properties in Macau	303,646	346,069
- Expenditure for equipment	-	7
- Expenditure for investment property	-	127,971
- Film rights, films in progress and film deposits	222,377	225,691
	526,023	699,738

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

22. 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 2021 (Unaudited)				
<i>Fair value on a recurring basis</i>				
Financial assets at FVTPL:				
– Equity securities listed in Hong Kong	146,795	–	–	146,795
– Call Option	–	–	21,312	21,312
	<u>146,795</u>	<u>–</u>	<u>21,312</u>	<u>168,107</u>
<i>Fair value hierarchy</i>	<i>Level 1 HK\$'000</i>	<i>Level 2 HK\$'000</i>	<i>Level 3 HK\$'000</i>	<i>Total HK\$'000</i>
At 31st December 2020 (Audited)				
<i>Fair value on a recurring basis</i>				
Financial assets at FVTPL:				
– Equity securities listed in Hong Kong	142,908	–	2,642	145,550
– Call Option	–	–	62,910	62,910
	<u>142,908</u>	<u>–</u>	<u>65,552</u>	<u>208,460</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*For the six months ended 30th June 2021***22. 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)**

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

During the six months ended 30th June 2021, there were no transfers between Level 1 and Level 2 or transfer into Level 3. On 1st March 2021, the suspended trading security listed in Hong Kong held by the Group resumed trading and the fair value of the investment as at 30th June 2021 was determined based on a published price quotation available on the Stock Exchange. Accordingly, there was an transfer from Level 3 to Level 1 of the fair value hierarchy.

During the year ended 31st December 2020, 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 2021:

	HK\$'000
At 1st January 2020 (Audited)	91,852
Loss arising on change in fair value of financial assets at FVTPL	(26,300)
	<hr/>
At 31st December 2020 and at 1st January 2021 (Audited)	65,552
Loss arising on change in fair value of financial assets at FVTPL	(41,598)
Transfer out of Level 3	(2,642)
	<hr/>
At 30th June 2021 (Unaudited)	21,312
	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*For the six months ended 30th June 2021***22. 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	Holdings return basis of negative 56.29% at 31st December 2020	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 13.09 at 31st December 2020	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 72.36% at 31st December 2020	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 2021

22. 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 of the Company work closely with Graval Consulting Limited to establish the appropriate valuation techniques and inputs to the model. The management of the Company 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 2021 and 31st December 2020 are as follow:

	At 30th June 2021 (Unaudited)	At 31st December 2020 (Audited)
Underlying assets value (HK\$'000)	465,451	465,615
Exercise price (HK\$'000)	500,000	500,000
Expected volatility (%)	35.39	41.45
Dividend yield	N/A	N/A
Option life (years)	0.77	1.27
Risk free rate (%)	0.02	0.08

For fair value measurements of Call Option in Level 3 of the fair value hierarchy, a 5% increase/decrease in the underlying asset value and expected volatility holding all other variables constant would increase/decrease the carrying amount of the Call Option by approximately HK\$1,066,000 (31st December 2020: HK\$3,146,000).

For the year ended 31st December 2020, the fair value measurements of suspended trading security listed in Hong Kong in Level 3 of the fair value hierarchy, a 5% increase/decrease in the holding return basis and price-to-earning basis and 5% decrease/increase in discount rate holding all other variables constant would increase/decrease the carrying amount of the suspended trading security listed in Hong Kong by approximately HK\$132,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June 2021

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)**(b) Fair value of the Group's financial instruments that are not measured at fair value on a recurring basis**

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the unaudited condensed consolidated financial statements approximate their fair values at 30th June 2021 and 31st December 2020:

	At 30th June 2021		At 31st December 2020	
	Carrying amount HK\$'000 (Unaudited)	Fair value HK\$'000	Carrying amount HK\$'000 (Audited)	Fair value HK\$'000
Loan to a director	449,259	494,310	420,504	463,252

The fair value of loan to a director is classified as Level 3 category in fair value hierarchy which has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the return required by the holder for investing in similar financial instrument.

23. MATERIAL RELATED PARTY TRANSACTIONS

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

Nature of transactions	Six months ended 30th June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Income received and receivable from a substantial shareholder and the director of the Company: Loan interest income	41,152	36,204

- (b) For the six months ended 30th June 2021 and 30th June 2020, Mr. Heung and Ms. Chen provided personal guarantee to a bank to secure banking facilities granted to the Group.

24. EVENTS AFTER THE REPORTING PERIOD

On 19th August 2021, the Group entered into a provisional sale and purchase agreement with an independent third party to dispose a property located in Hong Kong. Pursuant to the terms of the provisional sale and purchase agreement, formal sale and purchase agreement will be entered on or before 6th September 2021 and completion will take place on or before 30th September 2021.

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

25. APPROVAL AND AUTHORISATION FOR ISSUE OF INTERIM FINANCIAL INFORMATION

The Interim Financial Information were approved and authorised for issue by the Board on 30th August 2021.

INDEPENDENT REVIEW REPORT



國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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 condensed consolidated financial statements of China Star Entertainment Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 1 to 29, which comprise the condensed consolidated statement of financial position of as of 30th June 2021 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, 30th August 2021

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30th June 2021, the Group recorded revenue of HK\$1,167,000, representing a decrease of 62% from HK\$3,088,000 for the last corresponding period.

Loss for the period amounted to HK\$35,997,000, representing a decrease of 43% from HK\$63,328,000 for the last corresponding period. Such decrease in loss is mainly attributable to the substantial decrease in the recognition of loss arising on change in fair value of financial assets at fair value through profit or loss of HK\$38,344,000 for the six months ended 30th June 2021 from HK\$71,755,000 for the last corresponding period.

Loss attributable to owners of the Company for the six months ended 30th June 2021 amounted to HK\$35,987,000, representing a decrease of 43% from HK\$63,319,000 for the last corresponding period.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2021 (Six months ended 30th June 2020: nil).

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\$35,000 or 3% was generated from film related business operations, none or 0% was generated from property development and investment operations and HK\$1,132,000 or 97% 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 2021, revenue from film related business operations amounted to HK\$35,000 (Six months ended 30th June 2020: HK\$2,367,000) and its segment loss amounted to HK\$5,635,000 (Six months ended 30th June 2020: HK\$4,034,000). During the six months ended 30th June 2021, the Group did not distribute any new film. This revenue arises from distribution of films in film library. 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. During this difficult period, we concentrate to pre-production stage of film production such as preparation of story board. The Group will pay close attention to the development of the COVID-19 outbreak and adjust its business strategy on our film related business operations.

Property Development and Investment Operations

Property development and investment operations included investing and development of properties. 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 2021 and 2020 and its segment loss amounted to HK\$9,271,000 (Six months ended 30th June 2020: HK\$6,941,000). The segment loss mainly represented administrative expenses incurred during the period and the increase in segment loss mainly due to expenses incurred in preparation for sale of Tiffany House.

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 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 and 272 car parks and 75 motorcycle parks. 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. Project Tiffany House is prepared to launch for sale in the fourth quarter of year 2021.

The Group always looks for suitable investment opportunities to strengthen its existing segment in property development and investment. On 24th December 2020, a wholly owned subsidiary of the Company entered into a sale and purchase agreement to purchase a property which comprises a luxury residential apartment with two car parking spaces, situated in a prime luxury residential location in Taipei, Taiwan (the "Taiwan Property") for consideration of approximately HK\$160,915,000. On 27th January 2021, the Group completed the acquisition of the Taiwan Property. As at 30th June 2021, the Taiwan Property was held as an investment property in the carrying amount of HK\$161,862,000 for long term capital growth purposes and is expected to generate stable rental income. The Taiwan Property is now under renovation.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Restaurant Operations

The Group's restaurant "Obba Bar" serves various high-ended international cuisine and is located in the Group's owned property in Sheung Wan, Hong Kong.

In the first half of the year 2021, revenue from restaurant operations amounted to HK\$1,132,000 (Six months ended 30th June 2020: HK\$721,000) and its segment loss amounted to HK\$1,427,000 (Six months ended 30th June 2020: HK\$2,336,000). The Group has worked on every effort to improve the performance of the operation of Obba Bar and its revenue and segment result showed improvement during this interim period. The Group is considering better location for the restaurant operations after the disposal of the owned property in Sheung Wan, Hong Kong as disclosed in the section headed "Event after the Reporting Date".

Geographical Segments

For the geographical segments, revenue of HK\$1,144,000 or 98% was sourced from Hong Kong and HK\$23,000 or 2% was sourced from other countries during the period. Majority of Hong Kong sourced income came from restaurant operations.

Administrative Expenses

For the six months ended 30th June 2021, administrative expenses amounted to HK\$40,895,000 (Six months ended 30th June 2020: HK\$37,081,000), representing an increase of 10%. The Group joined 9 other major film companies to produce the film "All U Need is Love" as a benefit effort to finance struggling companies in the film industry and those film workers without income during the COVID-19 pandemic. During the six months ended 30th June 2021, the Group recorded donation of approximately HK\$3,900,000 for this purpose and the film was released by the Hong Kong Performing Artists Guild and the Federation of Hong Kong Filmmakers on 22nd April 2021. Except for the donation, no other significant fluctuation was recognised in administrative expenses.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June 2021, the Group had total assets of approximately HK\$5,269,543,000 (31st December 2020: HK\$5,343,571,000) and a net current assets of HK\$4,270,794,000 (31st December 2020: HK\$4,147,002,000), representing a current ratio of 7.0 (31st December 2020: 7.8). The Group had cash and bank balances and time deposits of HK\$205,598,000 (31st December 2020: HK\$503,726,000).

As at 30th June 2021, the Group had total borrowing of HK\$1,470,454,000 (31st December 2020: HK\$1,299,565,000) which comprised a secured bank term loan (the "Term Loan") of HK\$1,371,950,000 (31st December 2020: HK\$1,293,880,000), a loan note (the "Note Payable") of HK\$95,195,000 (31st December 2020: nil) and lease liabilities of HK\$3,309,000 (31st December 2020: HK\$5,685,000). The purpose of the Term Loan was 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\$1,960,895,000, 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. The maturity date of the Term Loan had extended to 15th September 2022. The Note Payable is interest bearing at fixed interest rate of 0.25% semi-annually for six months period from 29th January 2021 and has renewed for six months period on 28th July 2021. Investment property in carrying amount of HK\$161,862,000 had been pledged to a bank for obtaining its guarantee for the Note Payable issued by the Group that was used to finance the operation in Taiwan. The Group can apply for renewal of the Note Payable for every six months period and the bank's guarantee will expired on 24th January 2051 or upon early termination.

As at 30th June 2021, the Group had banking facilities amounting to HK\$1,600,000,000 which were utilised to the extent of HK\$1,371,950,000. The Group's gearing was acceptable during the period with total debts of HK\$1,470,454,000 against owners' equity of HK\$3,185,011,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 46% (31st December 2020: 38%).

The net proceeds from the allotment and issue of 1,807,406,986 rights shares at the subscription price of HK\$0.25 per share on 6th August 2018 of approximately HK\$448,850,000, of which HK\$98,850,000 was used to fund the film and television drama series related business operations as intended during the years ended 31st December 2018 and 2019; and HK\$350,000,000 was originally intended to be applied to finance the business operations of the property development and investment. On 21st December 2020, the Company announced that, the Board has resolved to allocate NT\$580,000,000 (equivalent to approximately HK\$162,400,000) out of the unutilised proceeds of HK\$350,000,000 for the potential acquisition of the Taiwan Property to settle its consideration. On 24th December 2020, a wholly owned subsidiary of the Company entered into a sale and purchase agreement to purchase the Taiwan Property and the acquisition was completed on 27th January 2021 for the consideration of approximately HK\$160,915,000. During the six months ended 30th June 2021, HK\$30,000,000 was utilised for the marketing and promotion of Project Tiffany House. As at 30th June 2021, proceeds of HK\$159,085,000 were unused and will be utilised as intended.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE (Continued)

As at the date of approving these interim results and 30th June 2021, the fair value of the Group's equity securities listed in Hong Kong held at 30th June 2021 was approximately HK\$139,363,000 and HK\$146,795,000 respectively. During the six months ended 30th June 2021, the Group acquired HK\$25,703,000 equity securities listed in Hong Kong and disposed proceeds of HK\$27,712,000 equity securities listed in Hong Kong. The gain arising on change in fair value of financial assets at fair value through profit and loss of HK\$3,254,000 was resulted from change in fair values of equity securities listed in Hong Kong between the six months period from 31st December 2020 to 30th June 2021. As at 30th June 2021, 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 six months ended 30th June 2021, the Company repurchased a total of 144,760,000 ordinary shares of the Company at an aggregate price of approximately HK\$214,995,000 on the Stock Exchange. 91,920,000 ordinary shares were cancelled on 4th February 2021 and 52,840,000 ordinary shares were cancelled on 3rd May 2021 respectively. The total number of issued shares of the Company after these cancellations and as at 30th June 2021 was 2,485,850,479 (31st December 2020: 2,630,610,479) and its issued share capital was HK\$24,858,504 (31st December 2020: HK\$26,306,104).

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

PLEDGE OF ASSETS

As at 30th June 2021, stock of properties in carrying amount of HK\$1,960,895,000 and quota capital of China Star Creative Development Limited, a wholly owned subsidiary of the Company which is engaged in the business of property development and investment had been pledged for banking facilities of HK\$1,600,000,000 granted to the Group; time deposits in amount of HK\$249,000 had been pledged as guarantee to Macau government for deposits in the development of stock of properties in Macau; and investment property in carrying amount of HK\$161,862,000 had been pledged to a bank for obtaining its guarantee for the Note Payable issued by the Group.

EXCHANGE RISK AND HEDGING

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

COMMITMENTS

As at 30th June 2021, outstanding commitments by the Group amounted to HK\$526,023,000, of which HK\$303,646,000 as development expenditure for stock of properties in Macau and HK\$222,377,000 for film rights, films in progress and film deposits.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

CONTINGENT LIABILITIES

As at 30th June 2021, the Group had no material contingent liability.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2021, the Group employed 67 staff (30th June 2020: 66 staff) with employee benefit expenses (included directors' remuneration) of HK\$23,081,000 for the six months ended 30th June 2021 (Six months ended 30th June 2020: HK\$22,642,000), an increase of 2%. The increase mainly included increase in headcount who are responsible for 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

On 19th August 2021, the Group entered into a provisional sale and purchase agreement with an independent third party to dispose a property located in Hong Kong (the "Disposed Property"). Pursuant to the terms of the provisional sale and purchase agreement, formal sale and purchase agreement will be entered on or before 6th September 2021 and completion will take place on or before 30th September 2021.

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

PROSPECT

The vaccine-driven economic recovery is expected to continue in the second half of 2021. In the post-pandemic era, it is expected that Hong Kong's economy will rejuvenate through normalization of prevention and control measures, and Macau's economy is also recovering steadily, which serve to bringing about a strong domestic housing demand in Hong Kong and Macau. At the same time, the extensive development of the Guangdong-Hong Kong Macao Greater Bay Area will bring forth significant opportunities for the housing demand in Hong Kong and Macau.

For the property development and investment operations, the Group has postponed sale of the Project Tiffany House to around the fourth quarter in year 2021. Property market generally continues to be recovering despite uncertainties persisting in the short run. Being the Group's first developed project, the Group has put every effort to enhance the launching of Tiffany House. Taking the opportunities of the gradually recovery of the economy in Hong Kong, Macau and China, the Group has confident on the launching of Tiffany House.

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 2021, 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*	65.98
Ms. Chen Ming Yin, Tiffany	Interest of controlled corporation	1,640,375,595*	65.98

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 2021, 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 2021, 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	65.98

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 2021.

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").

Apart from the Option Scheme, the Company has no other share option scheme in place as at 30th June 2021.

No share option was outstanding as at 30th June 2021 and no share option was granted, exercised, lapsed, expired or cancelled during the six months ended 30th June 2021.

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 2021 to 30th June 2021, 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 2021. 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 2021, 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\$	
January 2021	91,920,000	1.50	1.45	137,865,000
April 2021	52,840,000	1.45	1.40	76,285,000
	<u>144,760,000</u>			<u>214,150,000</u>

91,920,000 and 52,840,000 ordinary shares were cancelled on 4th February 2021 and 3rd May 2021 respectively.

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 2021.

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 2021 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, 30th August 2021