



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

Stock code : 326



Interim Report **2016**

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 2016 together with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2016

		Six months ended 30th June	
		2016	2015
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	442,199	554,457
Cost of sales		<u>(259,704)</u>	<u>(290,671)</u>
Gross profit		182,495	263,786
Other revenue	5	59,719	43,193
Other income	6	4,276	1,388
Administrative expenses		(189,094)	(187,043)
Marketing, selling and distribution expenses		(41,999)	(44,235)
Other operating expenses		(25,819)	(52,463)
(Loss)/gain arising on change in fair value of financial assets classified as held for trading investments		<u>(12,688)</u>	<u>156,275</u>
(Loss)/profit from operations		(23,110)	180,901
Finance costs	7	(15,724)	(12,352)
Share of results of joint ventures		<u>(252)</u>	<u>(69)</u>
(Loss)/profit before tax	8	(39,086)	168,480
Income tax credit	9	<u>-</u>	<u>47</u>
(Loss)/profit for the period		<u>(39,086)</u>	<u>168,527</u>
(Loss)/profit for the period attributable to:			
Owners of the Company		(39,086)	168,528
Non-controlling interests		<u>-</u>	<u>(1)</u>
		<u>(39,086)</u>	<u>168,527</u>
			(restated)
(Loss)/earnings per share			
Basic	10	<u>HK cents (5.18)</u>	<u>HK cents 25.85</u>
Diluted	10	<u>HK cents (5.18)</u>	<u>HK cents 25.13</u>

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 2016

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	<u>(39,086)</u>	<u>168,527</u>
Other comprehensive income		
Items that may be reclassified subsequently to condensed consolidated income statement:		
<i>Exchange differences arising on translation of foreign operations:</i>		
Exchange differences arising during the period	<u>(2)</u>	<u>(73)</u>
Other comprehensive loss for the period	<u>(2)</u>	<u>(73)</u>
Total comprehensive (loss)/income for the period	<u><u>(39,088)</u></u>	<u><u>168,454</u></u>
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	<u>(39,088)</u>	168,455
Non-controlling interests	<u>-</u>	<u>(1)</u>
	<u><u>(39,088)</u></u>	<u><u>168,454</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2016

	Notes	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	398,623	426,633
Interests in leasehold land		406,876	418,455
Investment properties	12	90,690	116,060
Intangible assets		17,462	17,911
Interests in joint ventures		–	251
		913,651	979,310
Current assets			
Inventories		54,029	70,209
Stock of properties		570,978	567,973
Film rights		12,545	12,545
Films in progress	13	539,001	380,606
Investment in film		11,325	11,325
Trade receivables	14	146,562	119,427
Deposits, prepayment and other receivables	15	128,126	67,068
Held for trading investments		293,124	305,812
Loan receivables	16	1,165,000	1,225,000
Amounts due from non-controlling interests		568	329
Amount due from a joint venture		734	12
Prepaid tax		–	153
Cash and bank balances		820,793	1,051,692
		3,742,785	3,812,151
Total assets		4,656,436	4,791,461
Capital and reserves			
Share capital	17	7,531	7,531
Reserves		3,419,571	3,458,659
Equity attributable to owners of the Company			
Non-controlling interests		3,427,102 (433)	3,466,190 (433)
Total equity		3,426,669	3,465,757

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30th June 2016

		At 30th June 2016	At 31st December 2015
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings	18	730,000	790,000
Obligations under finance leases		468	584
Deferred tax liabilities		82,948	82,948
		813,416	873,532
Current liabilities			
Bank borrowings	18	128,443	134,928
Obligations under finance leases		231	235
Trade payables	19	26,718	39,648
Deposits received, accruals and other payables	20	260,934	277,336
Amounts due to joint ventures		25	25
		416,351	452,172
Total liabilities		1,229,767	1,325,704
Total equity and liabilities		4,656,436	4,791,461
Net current assets		3,326,434	3,359,979
Total assets less current liabilities		4,240,085	4,339,289

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



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2016

	Attributable to owners of the Company												
	Share capital	Share premium	Contributed surplus	Exchange reserve	Statutory reserve	Share-based payment reserve	Convertible bonds reserve	Capital reduction reserve	Property revaluation reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1st January 2015 (Audited)	159,397	1,104,622	1,744,694	836	291	54,040	1,132	316,008	-	(458,937)	2,922,083	(426)	2,921,657
Profit for the period	-	-	-	-	-	-	-	-	-	168,528	168,528	(1)	168,527
Other comprehensive loss for the period	-	-	-	(73)	-	-	-	-	-	-	(73)	-	(73)
Total comprehensive (loss)/ income for the period	-	-	-	(73)	-	-	-	-	-	168,528	168,455	(1)	168,454
Placement of shares	28,879	317,669	-	-	-	-	-	-	-	-	346,548	-	346,548
Recognition of equity-settled share-based payments	-	-	-	-	-	51,986	-	-	-	-	51,986	-	51,986
Share issuing expenses	-	(10,004)	-	-	-	-	-	-	-	-	(10,004)	-	(10,004)
At 30th June 2015 (Unaudited)	188,276	1,412,287	1,744,694	763	291	106,026	1,132	316,008	-	(290,409)	3,479,068	(427)	3,478,641
At 1st January 2016 (Audited)	7,531	1,411,925	1,925,439	733	291	88,834	1,132	316,008	48,171	(333,874)	3,466,190	(433)	3,465,757
Loss for the period	-	-	-	-	-	-	-	-	-	(39,086)	(39,086)	-	(39,086)
Other comprehensive loss for the period	-	-	-	(2)	-	-	-	-	-	-	(2)	-	(2)
Total comprehensive loss for the period	-	-	-	(2)	-	-	-	-	-	(39,086)	(39,088)	-	(39,088)
Expiry of share options	-	-	-	-	-	(8,747)	-	-	-	8,747	-	-	-
At 30th June 2016 (Unaudited)	7,531	1,411,925	1,925,439	731	291	80,087	1,132	316,008	48,171	(364,213)	3,427,102	(433)	3,426,669

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2016

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(254,732)	(144,735)
Tax refund	153	10
Net cash used in operating activities	(254,579)	(144,725)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	54,141	29,222
Loan advance to third parties	-	(500,000)
Repayment of loan receivables	60,000	-
Purchase of financial assets classified as held for trading investments	-	(345,224)
Proceeds from disposal of financial assets classified as held for trading investments	-	175,065
Refund of deposit paid for investment	-	600,000
Net cash outflow arising on other investing activities	(7,953)	(22,856)
Net cash generated from/(used in) investing activities	106,188	(63,793)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(15,901)	(11,847)
Proceeds from placement of shares	-	346,548
Share issuing expenses	-	(10,004)
New bank borrowings raised	29,908	1,027,270
Repayment of bank borrowings	(96,393)	(359,781)
Net cash outflow arising on other financing activities	(120)	(124)
Net cash (used in)/generated from financing activities	(82,506)	992,062
(Decrease)/increase in cash and cash equivalents	(230,897)	783,544
Cash and cash equivalents at the beginning of the reporting period	1,051,692	323,939
Effect of foreign exchange rate changes	(2)	(73)
Cash and cash equivalents at the end of the reporting period	820,793	1,107,410
Cash and bank balances	820,793	1,107,410

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**1. BASIS OF PREPARATION**

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

The Interim Financial Statements have been prepared on the historical cost basis except for investment properties and held for trading investments 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 Statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in 2015 annual financial statements, except for the impact of the adoption of the new and revised Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and Interpretations (collectively referred to as the "new and revised HKFRSs") described below.

In the current period, the Group has applied, for the first time, the following new and revised HKFRSs issued by the HKICPA, which are effective for the Group's financial period beginning from 1st January 2016. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

The application of the new and revised HKFRSs has no material effect on the Interim Financial Statements for the current or prior periods.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. SEGMENT INFORMATION

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

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

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

The principal products and services of each of these operations are as follows:

- | | |
|-------------------------------------|--|
| Hotel and gaming service operations | – Provision of hotel services, food and beverage operation services, gaming operation services and related gaming promotion business in Hotel Lan Kwai Fong Macau |
| Gaming promotion operations | – Investing in operations which receive profit streams from the gaming promotion business |
| Film related business operations | – Production and distribution of films and television drama series, investment in film and provision of other film related services including artist management services |
| Property development operations | – Investing and development of properties located in Hong Kong and Macau |
| Nam Pei Hong operations | – Sales of Chinese and other medicines pharmaceutical products, health products, ginseng and dried seafood products to wholesalers and retailer as well as Chinese clinical services |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

3. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

	Segment revenue		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hotel and gaming service operations	362,166	467,444	(21,672)	56,621
Gaming promotion operations	2,362	2,388	1,308	1,349
Film related business operations	764	782	(2,560)	(2,129)
Property development operations	90	90	(25,544)	(921)
Nam Pei Hong operations	76,817	83,753	(1,427)	(549)
	<u>442,199</u>	<u>554,457</u>	<u>(49,895)</u>	<u>54,371</u>
Reconciliation from segment results to (loss)/profit before tax from operations				
Unallocated corporate income			47,271	34,922
(Loss)/gain arising on change in fair value of financial assets classified as held for trading investments			(12,688)	156,275
Share-based payment expenses			-	(51,986)
Unallocated corporate expenses			(23,774)	(25,102)
(Loss)/profit before tax			<u>(39,086)</u>	<u>168,480</u>

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

Segment results represent the (loss suffered)/profit earned by each segment without allocation of central administrative expenses, partial finance costs, and share of results of joint ventures under the heading of "unallocated corporate expenses", partial other revenue and other income under the heading of "unallocated corporate income", share-based payment expenses and (loss)/gain arising on change in fair value of financial assets classified as held for trading investments. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. SEGMENT INFORMATION (Continued)

(b) Geographical information

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

	Revenue from external customers		Non-current assets	
	Six months ended 30th June		At 30th June	At 31st December
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Hong Kong	74,955	84,305	179,656	208,723
Macau	366,518	469,980	733,995	770,586
Other than Hong Kong and Macau	726	172	-	1
	442,199	554,457	913,651	979,310

4. REVENUE

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hotel accommodation income	53,417	59,726
Food and beverage sales	19,758	18,614
Service income from mass market table gaming operations	275,867	361,351
Service income from VIP rooms table gaming operations	10,822	23,526
Service income from slot machines operations	2,302	4,227
Receive profit streams from gaming promotion business	2,362	2,388
Film distribution fee income	311	18
Artist management service income	453	764
Gross rental income	90	90
Sales of health products	76,817	83,753
	442,199	554,457

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5. OTHER REVENUE

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loan interest income	50,543	34,652
Other interest income	2,590	1,173
Dividend income	3	3
Consultant fee income	486	–
Management fee income	1,014	490
Other ancillary hotel revenue	5,083	6,875
	<u>59,719</u>	<u>43,193</u>

6. OTHER INCOME

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment	1,009	–
Net foreign exchange gain	–	1,360
Others	3,267	28
	<u>4,276</u>	<u>1,388</u>

7. FINANCE COSTS

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	15,706	12,334
Interest on finance lease	18	18
	<u>15,724</u>	<u>12,352</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. (LOSS)/PROFIT BEFORE TAX

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/profit before tax has been arrived at after charging/(crediting):		
Amortisation of intangible assets	-	287
Amortisation of interests in leasehold land	11,579	11,579
Cost of inventories sold (included in cost of sales)	54,994	59,749
Depreciation of property, plant and equipment	36,975	34,767
Employee benefit expenses (included directors' remunerations)	90,105	122,946
Impairment loss recognised in respect of amount due from a joint venture	12	-
Impairment loss recognised in respect of intangible assets (included in other operating expenses)	449	587
(Gain)/loss on disposal of property, plant and equipment	(1,009)	22
Loss/(gain) on fair value change of investment properties (included in other operating expenses)	25,370	(110)
Loss/(gain) arising on change in fair value of financial assets classified as held for trading investments	12,688	(178,171)
Loss arising on disposal of financial assets classified as held for trading investments	-	21,896
Net foreign exchange loss/(gain)	1,628	(1,360)
Operating lease rental in respect of premises	11,031	10,939
Share-based payment expenses in respect of consultancy services (included in other operating expenses)	-	15,059
Write-down of obsolete inventories	35	-
Gross rental income from investment properties	(90)	(90)
Less: Direct operating expenses incurred for investment properties during the period	70	16
	(20)	(74)



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. INCOME TAX CREDIT

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Deferred tax:		
Current period	-	47
	<u> </u>	<u> </u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods. The subsidiaries located in the People's Republic of China ("PRC") are subject to PRC Enterprise Income Tax at 25% for both periods. Macau subsidiaries are subject to Macau Complementary Tax at the maximum progressive rate at 12% on the estimated assessable profit for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted		
(loss)/earnings per share ((loss)/profit for the period attributable to owners of the Company)	(39,086)	168,528
	<u>(39,086)</u>	<u>168,528</u>
	Six months ended 30th June	
	2016	2015
	'000	'000
		(restated)
Numbers of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	754,164	652,050
Effect of dilutive potential ordinary shares:		
– Share options	–	18,496
	<u>–</u>	<u>18,496</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	754,164	670,546
	<u>754,164</u>	<u>670,546</u>

Pursuant to the deed polls of the bonus convertible bonds, the bonus convertible bonds will confer the holders with the same economic interests attached to the shareholders of the Company. Accordingly, 1,060,317 (At 30th June 2015: 26,507,961) fully paid ordinary share of HK\$0.01 each which shall be convertible from an aggregated amount of approximately HK\$265,000 (At 30th June 2015: HK\$265,000) outstanding bonus convertible bonds are included in the weighted average number of ordinary shares for calculating the basic (loss)/earnings per share for the period ended 30th June 2016 and 30th June 2015.

The weighted average number of ordinary shares for the period ended 30th June 2015 for the purpose of calculating basis and diluted earnings per share have been adjusted for the capital reorganisation which took place on 9th November 2015.

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

11. DIVIDEND

No interim dividend was paid or proposed during the six months ended 30th June 2016 and 30th June 2015, nor any dividend been proposed by the Board subsequent to the end of the reporting period.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****12. PROPERTY, PLANT AND EQUIPMENT/INVESTMENT PROPERTIES****(a) Acquisition**

During the period under review, the Group acquired property, plant and equipment with a cost of approximately HK\$8,988,000 (six months ended 30th June 2015: HK\$22,866,000).

(b) Valuation

The valuation of investment properties carried at fair value were updated at 30th June 2016 by an independent firm of surveyors, JP Assets Consultancy Limited, using the same valuation techniques as were used by the surveyors when carrying out valuations on 31st December 2015. As a result of the update, loss on fair value change of investment properties of approximately HK\$25,370,000 (30th June 2015: gain on fair value change of investment properties of approximately HK\$110,000) has been recognised in the condensed consolidated income statement for the period in respect of investment properties.

13. FILMS IN PROGRESS

	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Audited)
At 1st January	380,606	79,390
Additions	158,395	301,216
	539,001	380,606

The films in progress were measured at cost less accumulated impairment losses, if any.

14. TRADE RECEIVABLES

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

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
0 to 30 days	145,035	116,048
31 to 60 days	190	1,245
61 to 90 days	4	759
Over 90 days	1,333	1,375
	146,562	119,427

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Deposits paid	22,486	16,560
Prepayment	15,093	17,016
Other receivables	90,547	33,492
	<u>128,126</u>	<u>67,068</u>

16. LOAN RECEIVABLES

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Fixed-rate loan receivables	<u>1,165,000</u>	<u>1,225,000</u>

At the end of the reporting period, loan receivables with amounts of HK\$490,000,000 (At 31st December 2015: HK\$550,000,000) are secured by the personal guarantees of the sole beneficial owner and director of the respective borrowers.

Loan receivables are interest bearing at 3% to 12% per annum (31st December 2015: 3% to 12%) and repayable after the date falling 24 months from the first drawdown date, loan receivables contain a clause of repayable on demand and thus classified as current assets.

17. SHARE CAPITAL

	Number of shares		Amount	
	2016 '000 (Unaudited)	2015 '000 (Audited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Audited)
Ordinary shares of HK\$0.01 each				
Authorised:				
At 1st January	50,000,000	50,000,000	500,000	500,000
Share consolidation (see note b(i))	-	(48,000,000)	-	-
Capital reduction (see note b(ii))	-	-	-	(480,000)
Share sub-division (see note b(iii))	-	48,000,000	-	480,000
	<u>50,000,000</u>	<u>50,000,000</u>	<u>500,000</u>	<u>500,000</u>
At 30th June/31st December	<u>50,000,000</u>	<u>50,000,000</u>	<u>500,000</u>	<u>500,000</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. SHARE CAPITAL (Continued)

	Number of shares		Amount	
	2016 '000 (Unaudited)	2015 '000 (Audited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Audited)
Issued and fully paid:				
At 1st January	753,104	15,939,688	7,531	159,397
Placement of shares (see note a)	-	2,887,900	-	28,879
Share consolidation (see note b(i))	-	(18,074,484)	-	-
Capital reduction (see note b(ii))	-	-	-	(180,745)
	753,104	753,104	7,531	7,531
At 30th June/31st December	753,104	753,104	7,531	7,531

Notes:

- (a) On 9th June 2015, the Company allotted and issued an aggregate 2,887,900,000 new shares of HK\$0.01 each at a price of HK\$0.12 per share. The net proceeds of approximately HK\$336,270,000 were intended to be used for film production and/or general working capital purpose.
- (b) At a special general meeting of the Company held on 23rd October 2015, a special resolution was passed to approve the following changes to the capital of the Company (the "Capital Reorganisation"):
- (i) Share consolidation: every twenty-five existing issued and unissued shares of par value of HK\$0.01 each be consolidated into one consolidated share of HK\$0.25 each of the Company (the "Consolidated Share");
 - (ii) Capital reduction: (1) the par value of each of the issued Consolidated Shares be reduced from HK\$0.25 to HK\$0.01 by the cancellation of the paid-up capital of the Company to the extent of HK\$0.24 on each of the issued Consolidated Shares and the credit arising from the reduction of issued share capital of the Company be credited to the contributed surplus of the Company; and
 - (iii) Share sub-division: the authorised but unissued Consolidated Shares of par value of HK\$0.25 each be sub-divided into twenty-five (25) new shares of par value of HK\$0.01 each.

The Capital Reorganisation was effected on 9th November 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. BANK BORROWINGS

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Secured bank borrowings	850,000	910,000
Unsecured bank borrowings	<u>8,443</u>	<u>14,928</u>
	<u>858,443</u>	<u>924,928</u>
Carrying amounts repayable:		
Within one year	128,443	134,928
More than one year, but not exceeding two years	120,000	120,000
More than two years, but not more than five years	360,000	360,000
Over five years	<u>250,000</u>	<u>310,000</u>
	858,443	924,928
Less: Amounts shown under current liabilities	<u>(128,443)</u>	<u>(134,928)</u>
Amounts shown under non-current liabilities	<u>730,000</u>	<u>790,000</u>

At 30th June 2016, the Group had secured bank borrowing with remaining balance of HK\$850,000,000 (At 31st December 2015: HK\$910,000,000) which is secured by the Group's buildings and interests in leasehold land with carrying amounts of approximately HK\$213,421,000 (At 31st December 2015: HK\$218,946,000) and HK\$348,783,000 (At 31st December 2015: HK\$359,424,000) respectively, quota capital of Hotel Lan Kwai Fong (Macau) Limited and Classic Management & Services Company Limited ("Classic Management"). The secured bank borrowing is also guaranteed by the Company and Classic Management. The secured bank borrowing is interest bearing at 3.5% per annum (Hong Kong dollar Prime Rate 5.25% less margin 1.75%) and repayable by remaining of 26 equal consecutive quarterly instalments of HK\$30,000,000 per quarter and a final repayment of HK\$70,000,000 at the maturity date of the secured bank borrowing.

At 30th June 2016, the Group had unsecured import trade loans of approximately HK\$8,443,000 (At 31st December 2015: HK\$14,928,000). The unsecured import trade loans are personally guaranteed by ex-shareholder of NPH Holdings Limited, a wholly owned subsidiary of the Company, interest bearing at 2% per annum over one month Hong Kong Inter-bank Offered Rate and repayable within one year.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****19. TRADE PAYABLES**

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

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
0 to 30 days	7,956	14,596
31 to 60 days	2,745	5,616
61 to 90 days	92	99
Over 90 days	15,925	19,337
	<u>26,718</u>	<u>39,648</u>

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

20. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Deposits received (Note)	207,824	201,214
Accruals	31,052	53,204
Receipt in advance	8	8
Other payables	22,050	22,910
	<u>260,934</u>	<u>277,336</u>

Note:

Deposits received mainly represented deposits received from distributors prior to theatrical release and delivery of master materials of film.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the leased premises which fall due as follows:

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Within one year	19,256	20,517
In the second to fifth year inclusive	11,005	8,922
	<u>30,261</u>	<u>29,439</u>

Operating lease payments represented rentals payable by the Group for its premises. Leases are mainly negotiated for term ranging from 1 to 5 years (31st December 2015: 1 to 5 years). The Group does not have an option to purchase the leased premises at the expiry of the lease period.

In addition, the operating lease rentals for certain premises are based on the higher of a fixed rental and a contingent rent depending on the sales in these premises pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales in these premises could not be reliably determined, the relevant contingent rent has not been included above and only the minimum lease payments have been included in the above commitments.

The Group as lessor

Rental income earned during the period was HK\$90,000 (30th June 2015: HK\$90,000). The Group's investment properties are held for rental purposes and expected to generate rental yields of 0.1% (30th June 2015: 1.4%) on an ongoing basis.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Within one year	180	180
In the second to fifth year inclusive	52	142
	<u>232</u>	<u>322</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****22. COMMITMENTS**

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

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Authorised and contracted, but not provided for:		
– Acquisition of property, plant and equipment	2,951	5,526
– Development expenditure for stock of properties located in Macau	36,970	29,737
– Film rights, films in progress and film deposits	33,557	56,542
– Renovation expenses for property, plant and equipment	451	572
	73,929	92,377

23. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (see note 18 to the condensed consolidated financial statements) of the Group:

	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Buildings	213,421	218,946
Interests in leasehold land	348,783	359,424
	562,204	578,370

At 30th June 2016, the Group's obligations under finance lease is secured by the lessors' title to the leased assets, which have carrying amounts of HK\$807,000 (At 31st December 2015: HK\$819,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

	Quoted prices in active market for identical assets (Level 1) HK\$'000	Significant other observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
At 30th June 2016				
(Unaudited)				
<i>Fair value on a recurring basis</i>				
Held for trading investments	293,124	-	-	293,124
At 31st December 2015				
(Audited)				
<i>Fair value on a recurring basis</i>				
Held for trading investments	305,812	-	-	305,812

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

During the six months ended 30th June 2016 and during the year ended 31st December 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

(b) Fair values of financial assets and liabilities

The carrying amounts of financial assets and financial liabilities recognised in the Interim Financial Statements are not materially different from their fair values at 30th June 2016 and 31st December 2015.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)****25. MATERIAL RELATED PARTY TRANSACTIONS**

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

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Nature of transactions		
Income received from family member of the substantial shareholders and the directors of the Company:		
Rental income	90	90
Income received from a joint venture:		
Management fee income	734	210
	<u>734</u>	<u>210</u>

26. EVENT AFTER THE REPORTING PERIOD

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

27. APPROVAL AND AUTHORISATION FOR ISSUE OF INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 30th August 2016.



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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 23, 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 2016 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 months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial statements in accordance with HKAS 34.

Our responsibility is to form a conclusion, based on our review, on this interim financial statements 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 interim financial statements consists of making enquiries, 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 at 30th June 2016 is not prepared, in all material respects, in accordance with HKAS 34.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Hon Koon Fai, Alex

Practising Certificate Number: P05029

Hong Kong, 30th August 2016

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30th June 2016, the Group recorded revenue of approximately HK\$442,199,000 representing a decrease of 20% as compared to HK\$554,457,000 for the last corresponding period.

Loss from operations amounted to HK\$23,110,000 as compared to profit from operations of HK\$180,901,000 for the last corresponding period.

Loss for the period amounted to HK\$39,086,000 representing a decrease of 123% as compared to profit of HK\$168,527,000 for the last corresponding period. The incur of a loss is mainly attributable to (i) 31% decrease in the figure of gross profit to HK\$182,495,000 from HK\$263,786,000 in the last corresponding period due to significant decrease in revenue from service income from gaming operations as a result of the recession in gaming industry in Macau; (ii) the recognition of unrealised loss of HK\$12,688,000 arising on change in fair value of financial assets classified as held for trading investments as compared to unrealised gain of HK\$178,171,000 recognised in the last corresponding period which represented the decrease in market values of the Group's equity securities listed in Hong Kong as at 30th June 2016 and (iii) the recognition of loss on fair value change of investment properties of HK\$25,370,000 during this period. The effect of such loss for this period is partially offset by 48% increase in interest income represented in other revenue to HK\$53,133,000 from HK\$35,825,000 for the last corresponding period.

Loss attributable to owners of the Company for the six months ended 30th June 2016 amounted to HK\$39,086,000 representing a decrease of 123% as compared to profit of HK\$168,528,000 for the last corresponding period.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2016 (2015: nil).

BUSINESS REVIEW

The Group has five operating segments – (1) hotel and gaming service operations; (2) gaming promotion operations; (3) film related business operations; (4) property development operations; and (5) Nam Pei Hong operations.

Of the total revenue amount for the period, HK\$362,166,000 or 82% was generated from hotel and gaming service operations, HK\$2,362,000 or 1% was generated from gaming promotion operations, HK\$764,000 or 0% was generated from film related business operations, HK\$90,000 or 0% was generated from property development operations and HK\$76,817,000 or 17% was generated from Nam Pei Hong operations.

Hotel and Gaming Service Operations

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Casino LKF is run by license holder Sociedade de Jogos de Macau, S.A. ("SJM"). Classic has entered into service and site license agreements with SJM. Under the agreements, Classic has granted to SJM a right to occupy and use spaces in Lan Kwai Fong to operate Casino LKF and Classic is responsible for the provision of marketing, promotion, publicity, customer development and introduction, co-ordination of activities and other services as agreed between Classic and SJM from time to time in Casino LKF. In return, Classic will share a fixed percentage of service income from SJM based on the monthly gross gaming wins of the mass market and VIP table gaming and slot machines in Casino LKF. Casino LKF operates a total of 84 gaming tables, targeting both for the VIP rooms table gaming and the mass market table gaming. It also operates a total of 70 slot machines.

Lan Kwai Fong has been awarded with several international accolades, which included the "5th China Hotel Starlight Awards 2009 – Best Designed Boutique Hotel of China" and the "2012 TripAdvisor Travelers' Choice – Top 25 Trendiest Hotels in China". In respect of promoting the notion of environmental protection, Lan Kwai Fong has won the "AHF Asia Awards 2010 – Leading Green Hotel of Asia" and the "Macao Green Hotel Award 2010 – Bronze Award".

The Group had shared revenue and segment loss of approximately HK\$362,166,000 (2015: HK\$467,444,000) and HK\$21,672,000 (2015: segment profit of HK\$56,621,000) from the hotel and gaming service operations, decrease of 23% and 138% respectively. Revenue in the hotel and gaming service operations mainly comprised of hotel accommodation income of HK\$53,417,000 (2015: HK\$59,726,000), food and beverage sales of HK\$19,758,000 (2015: HK\$18,614,000), services income received from (i) mass market table gaming of approximately HK\$275,867,000 (2015: HK\$361,351,000) representing a decrease of 24%, (ii) VIP rooms table gaming of HK\$10,822,000 (2015: HK\$23,526,000) representing a decrease of 54% and (iii) slot machines of HK\$2,302,000 (2015: HK\$4,227,000) representing a decrease of 46%. Besides, the occupancy rate of Hotel LKF during the period was about 99% (2015: 99%).

For the six months ended 30th June 2016, the total casino gross revenue in Macau market was approximately MOP107.79 billion, decreased by 11% from the last corresponding period. The hotel and gaming service operations in Hotel Lan Kwai Fong is unavoidable influence by the market trend of Macau gaming industry.

Gaming Promotion Operations

The Group had shared revenue and segment profit of approximately HK\$2,362,000 (2015: HK\$2,388,000) and HK\$1,308,000 (2015: HK\$1,349,000) from the gaming promotion operations respectively.

Since years before, the revenue in sharing of profit streams from investments in the profit receiving company, Ocho Sociedade Unipessoal Limitada ("Ocho"), one of the gaming promoters at one of the VIP rooms at the Grand Lisboa Casino in Macau had apparently decreased. One of the characteristic of the VIP rooms table gaming is that the majority of the business volume is highly volatile. Ocho had lost its competitive advantage as it cannot offer a better than market commission to its quality sub-junkets or customers as they were attracted by other large and well equipped new hotels and casinos in Macau. The decrease in revenue sharing also impact and decrease the expected cash inflow from this operation and thus impairment loss in respect of the intangible assets of HK\$449,000 (2015: HK\$587,000) was recognised. This impairment was based on the recoverable amount of intangible asset by reference to the valuation report issued by a firm of independent qualified professional valuers using discounted cash flow method each period. The revenue and segment profit are quite stable in recent years.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Film Related Business Operations

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

In the first half of the year 2016, revenue from film related business operations amounted to HK\$764,000 (2015: HK\$782,000) and its segment loss amounted to HK\$2,560,000 (2015: HK\$2,129,000). During the six months ended 30 June 2016, the Group did not distributed any new film. The new production of the Group, "League of Gods" has been on screen in July 2016 and thus its revenue will be reflected in the second half of the year. The Group also has investment in film which is co-financing with other production companies and will share revenue from the invested film according to the investment percentage in the relevant agreement. No such investment income is recorded in this period.

Property Development Operations

Property development operations included investing and development of properties located in Macau and Hong Kong. Development of properties in Macau represents properties located in Lot 6B, Lot 6C, Lot 6D and Lot 6E at Zona de Aterros do Porto Exterior (ZAPE) (the "Sites"). Lot 6B is in trapezium shape with a site area of 1,420 square meters next to Lan Kwai Fong and Lot 6C, Lot 6D and Lot 6E are in rectangular shape with each site area of 1,292 square meters next to Lot 6B and adjacent of each other with three six-meter width roads dividing them separately. In order to enhance the commercial value of the Sites, the Group has decided to build a luxury residential and commercial complex of two towers with spacious apartment units in Lot 6C, Lot 6D and Lot 6E (the "Combined Site") and Lot 6B will be developed into recreational area between the Combined Site and Lan Kwai Fong, which is expected to have higher selling prices than the existing development plan of the individual Lot 6B, Lot 6C, Lot 6D and Lot 6E. This development plan also respond strongly to the local planning authorities requirements for connectivity with the existing city and thus considerable portions of the area of the Sites have been dedicated to public use. Finally, the Land, Public Works and Transport Bureau of Macau ("DSSOPT") has approved the combination of development of the Combined Site of Lot 6C, Lot 6D and Lot 6E in July 2016. The total gross floor area of the Combined Site are expected to be (a) residential – 28,422 square meters, (b) clubhouse – 1,927 square meters, (c) commercial – 4,132 square meters and (d) parking – 11,508 square meters.

In the first half of the year 2016, revenue for property development operations amounted to HK\$90,000 (2015: HK\$90,000) and its segment loss amounted to approximately HK\$25,544,000 (2015: HK\$921,000). The increase in segment loss mainly caused by the recognition of loss on fair value change of investment properties in Hong Kong of HK\$25,370,000 during this period. This impairment was based on the valuation report issued by a firm of independent qualified professional valuers.

Nam Pei Hong Operations

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

According to the figure released by the Census and Statistics Department of Hong Kong, for the first half of 2016, the value of total retail sales decreased by 10.5% compared with the same period in 2015. Nam Pei Hong's revenue and gross profit declined as compared with those for the corresponding period in 2015 as a result of the adverse market. It had struggled to survive by lower its margin in order to maintain higher revenue. Besides, poor performance shops are closed down to avoid extra costs incurred.

In the first half of the year 2016, the Group had shared revenue of approximately HK\$76,817,000 (2015: HK\$83,753,000), decreased by 8% and segment loss of approximately HK\$1,427,000 (2015: HK\$549,000), increased by 160%. During the period, the retail shops of Nam Pei Hong decreased from 12 to 11.

Geographical Segments

For the geographical segments, revenue of HK\$74,955,000 or 17% (2015: HK\$84,305,000 or 15%) was sourced from Hong Kong, HK\$366,518,000 or 83% (2015: HK\$469,980,000 or 85%) was sourced from Macau and HK\$726,000 or 0% (2015: HK\$172,000 or 0%) was sourced from other territories, of which revenue from hotel and gaming service operations and gaming promotion operations are mainly sourced from Macau and revenue from Nam Pei Hong operations and property development operations are mainly sourced from Hong Kong.

Administrative Expenses

For the six months ended 30th June 2016, administrative expenses of HK\$189,094,000 (2015: HK\$187,043,000), representing a 1% increase. Major fluctuation included decrease in casino management fees paid by Casino LKF during the period as such management fees was based on a fixed percentage of service income from VIP rooms table gaming that had decreased by 54% from the last corresponding period and increase in exchange loss during this period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2016, the Group had total assets of approximately HK\$4,656,436,000 and a net current assets of HK\$3,326,434,000, representing a current ratio of 9.0 (At 31st December 2015: 8.4). The Group had cash and bank balances of approximately HK\$820,793,000 (At 31st December 2015: HK\$1,051,692,000). As at 30th June 2016, the Group had total borrowings of HK\$859,142,000 which comprised a secured bank term loan (the "Term Loan") with remaining balance of HK\$850,000,000, unsecured import trade loans (the "Import Loan") in aggregate amount of HK\$8,443,000 and obligations under finance leases of HK\$699,000.

The Term Loan was secured by the Group's leasehold land and buildings with carrying amount of HK\$562,204,000, interest bearing at 1.75% per annum below the Hong Kong Prime rate quoted by the bank and repayable by remaining of 26 equal consecutive quarterly installments of HK\$30,000,000 each and a final repayment for the remaining balance of HK\$70,000,000. The Import Loan which was interest bearing at 2% per annum over one month Hong Kong Inter-bank Offered Rate, repayable on demand and guaranteed by an ex-shareholder of a subsidiary of the Company.

As at 30th June 2016, the Group had banking facilities amounting to HK\$1,066,000,000 which were utilised to the extent of HK\$1,008,443,000. The Group's gearing was acceptable during the period with total debts of HK\$859,142,000 against owners' equity of HK\$3,427,102,000. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over owners' equity of 25% (31st December 2015: 27%).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As at the date of this interim report and 30th June 2016, the fair value of the Group's equity securities listed in Hong Kong held at 30th June 2016 was approximately HK\$275,803,000 and HK\$293,124,000 respectively.

As 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 was considered to be minimal and no hedge activity were considered necessary. As at 30th June 2016, the Group had no material contingent liability.

As at 30th June 2016, outstanding commitments by the Group amounted to approximately HK\$73,929,000, of which HK\$36,970,000 was professional fees for the preparation of the development plan of the properties in Macau and HK\$3,402,000 as purchase and renovation of property, plant and equipment and HK\$33,557,000 for film rights, films in progress and film deposits.

As at 30th June 2016, all net proceeds from the issue and allotment of 2,887,900,000 new shares at a subscription price of HK\$0.12 per share on 9th June 2015 of approximately HK\$336.27 million were used in film production and general working capital of the Group as intended.

During the period, there were 7,923,151 share options expired and no share options of the Company were granted, exercised, lapsed or cancelled.

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions or disposals during the period.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2016, the Group employed 771 staff (2015: 786 staff) with employee benefit expenses of HK\$90,105,000 (2015: HK\$122,946,000, which included approximately HK\$36,927,000 share-based payment expenses related to share options granted to employees of the Group). 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 end of the reporting date.

PROSPECT

The performance of the hotel and gaming service operations in Lan Kwai Fong is significantly influenced by the adverse market conditions which are notably anticipated to remain difficult in the short term. Being a boutique size hotel, we will continue to implement stringent cost control measure on operation expense and marketing expense and strengthen our marketing plan on development of close relationship with our customers in order to secure the return rate of them.

The development of the Combined Site is our group's major future investment in Macau. After obtaining the approval from DSSOPT, the construction is expected to start in next year and to complete in year 2018. Upon completion, the Combined Site will comprise total gross floor area of about 34,481 square meters for residential, commercial and clubhouse and about 11,508 square meters for parking.

The Group's performance in the second half of 2016 will remain susceptible to the overall economic performance in Hong Kong and Macau including the level of visitation to Hong Kong and Macau and the competitive situation of the casino operations in Macau. During this period, the Group is committed to maintaining its strength in both the mass market and VIP gaming segments while striving to improve its operating efficiency. The Group is optimistic regarding its performance for the rest of the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2016, 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	<u>186,448,146*</u>	<u>24.76</u>
Ms. Chen Ming Yin, Tiffany	Interest of controlled corporation	<u>186,448,146*</u>	<u>24.76</u>

All interests stated above represent long positions.

* These shares are held as to 186,446,502 shares by Heung Wah Keung Family Endowment Limited ("HWKFE") (a company owned as to 50% by Mr. Heung and as to 50% by Ms. Chen) and as to 1,644 shares by Dorest Company Limited (a company beneficially owned as to 60% by Ms. Chen and as to 40% by Mr. Heung).

Other than as set out above, as at 30th June 2016, 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 2016, 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	Capacity	Number of shares or underlying shares held	Approximate percentage of interests held
HWKFE	Beneficial owner	<u>186,446,502</u>	<u>24.76</u>
Long Joy Investments Limited	Beneficial owner	<u>60,000,000</u>	<u>7.97</u>
Well Way Group Limited	Interest of controlled corporation	<u>60,000,000*</u>	<u>7.97</u>

All interests stated above represent long positions.

* These shares are held by Long Joy Investments Limited.

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 2016.

SHARE OPTION SCHEME

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

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

Apart from the New Option Scheme, the Company has no other share option scheme in place as at 30th June 2016.

SHARE OPTION SCHEME (Continued)

Details of share options outstanding as at 30th June 2016 were as follows:

Category of participants	Name of scheme	Exercisable period ⁺	Exercise price per share HK\$	Number of share options		
				Outstanding as at 01.01.2016	Expired during the period	Outstanding as at 30.06.2016
Employees of the Group	Old Option Scheme	21.11.2006 – 20.11.2016	511,925	8,116	–	8,116
		25.05.2007 – 24.05.2017	776,575	20,329	–	20,329
		27.06.2007 – 26.06.2017	772,675	13,359	–	13,359
		23.10.2007 – 22.10.2017	367,050	46,675	–	46,675
	21.08.2008 – 20.08.2018	47,350	174,585	–	174,585	
	New Option Scheme	14.01.2013 – 13.01.2016	4,175	4,878,788	(4,878,788)	–
		04.05.2015 – 03.05.2018	3,150	41,000,000	–	41,000,000
				<u>46,141,852</u>	<u>(4,878,788)</u>	<u>41,263,064</u>
Other participants	Old Option Scheme	21.11.2006 – 20.11.2016	511,925	3,246	–	3,246
		25.05.2007 – 24.05.2017	776,575	8,002	–	8,002
		23.10.2007 – 22.10.2017	367,050	9,495	–	9,495
		21.08.2008 – 20.08.2018	47,350	22,129	–	22,129
	New Option Scheme	14.01.2013 – 13.01.2016	4,175	3,044,363	(3,044,363)	–
		04.05.2015 – 03.05.2018	3,150	16,720,000	–	16,720,000
			<u>19,807,235</u>	<u>(3,044,363)</u>	<u>16,762,872</u>	
			<u>65,949,087</u>	<u>(7,923,151)</u>	<u>58,025,936</u>	

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

No share option was granted, exercised, lapsed or cancelled during the six months ended 30th June 2016.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is responsible for ensuring high standard of corporate governance are maintained and for accounting to shareholders. 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 I4 to the Listing Rules (the "Code") during the period from 1st January 2016 to 30th June 2016, except for the following deviation:

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



ADOPTION OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th June 2016. The Model Code also applies to other specified senior management of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2016.

AUDIT COMMITTEE

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

The audit committee of the Company as at 30th June 2016 was comprising Messrs. Ho Wai Chi, Paul, Hung Cho Sing and Tang Chak Lam, Gilbert, all being independent non-executive directors. Mr. Ho Wai Chi, Paul is the chairman of the audit committee.

The audit committee has met and discussed with the Company's independent auditors, and has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June 2016.

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 2016