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CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 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	
	<i>Notes</i>	2016	2015
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	442,199	554,457
Cost of sales		(259,704)	(290,671)
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		(12,688)	156,275
(Loss)/profit from operations		(23,110)	180,901
Finance costs	7	(15,724)	(12,352)
Share of results of joint ventures		(252)	(69)

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

For the six months ended 30th June 2016

		Six months ended 30th June	
	<i>Notes</i>	2016	2015
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
(Loss)/profit before tax	8	(39,086)	168,480
Income tax credit	9	–	47
		<hr/>	<hr/>
(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		–	(1)
		<hr/>	<hr/>
		<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>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2016

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June 2016

	At 30th June 2016 <i>HK\$'000</i> (Unaudited)	At 31st December 2015 <i>HK\$'000</i> (Audited)
Non-current assets		
Property, plant and equipment	398,623	426,633
Interests in leasehold land	406,876	418,455
Investment properties	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	539,001	380,606
Investment in film	11,325	11,325
Trade receivables	12 146,562	119,427
Deposits, prepayment and other receivables	128,126	67,068
Held for trading investments	293,124	305,812
Loan receivables	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	7,531	7,531
Reserves	3,419,571	3,458,659
Equity attributable to owners of the Company	3,427,102	3,466,190
Non-controlling interests	(433)	(433)
Total equity	3,426,669	3,465,757

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30th June 2016

	<i>Notes</i>	At 30th June 2016 HK\$'000 (Unaudited)	At 31st December 2015 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings		730,000	790,000
Obligations under finance leases		468	584
Deferred tax liabilities		82,948	82,948
		<u>813,416</u>	<u>873,532</u>
Current liabilities			
Bank borrowings		128,443	134,928
Obligations under finance leases		231	235
Trade payables	13	26,718	39,648
Deposits received, accruals and other payables		260,934	277,336
Amounts due to joint ventures		25	25
		<u>416,351</u>	<u>452,172</u>
Total liabilities		<u>1,229,767</u>	<u>1,325,704</u>
Total equity and liabilities		<u>4,656,436</u>	<u>4,791,461</u>
Net current assets		<u>3,326,434</u>	<u>3,359,979</u>
Total assets less current liabilities		<u>4,240,085</u>	<u>4,339,289</u>

NOTES:

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.

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 |

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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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.

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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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
	<u>442,199</u>	<u>554,457</u>	<u>913,651</u>	<u>979,310</u>

4. REVENUE

	Six months ended 30th June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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
	<u>442,199</u>	<u>554,457</u>

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>

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)

9. INCOME TAX CREDIT

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

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 Profit 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.

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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)	<u>(39,086)</u>	<u>168,528</u>

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

	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> </u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<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.

12. 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 <i>HK\$'000</i> (Unaudited)	At 31st December 2015 <i>HK\$'000</i> (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
	<u>146,562</u>	<u>119,427</u>

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

13. TRADE PAYABLES

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

	At 30th June 2016 <i>HK\$'000</i> (Unaudited)	At 31st December 2015 <i>HK\$'000</i> (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.

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.

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.

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 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.

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%).

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.

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 14 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.

PUBLICATION OF INTERIM REPORT

The Company’s 2016 interim report will be despatched to the shareholders of the Company on or before 30th September 2016 and will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company’s website (www.chinastar.com.hk or www.irasia.com/listco/hk/chinastar).

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

Hong Kong, 30th August 2016

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