

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants ("HKSA"), which has resulted in the adoption of the following new and revised accounting policy.

Goodwill

In the current period, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiaries and associates and the date of adoption of SSAP 30 have been recognised retrospectively (see note 8). Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as further impairment losses are identified. Negative goodwill arising on acquisitions prior to 1 January 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised over its estimated useful life of 10 years. Negative goodwill arising on acquisitions after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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3. SEGMENT INFORMATION

Business segments

	TURNOVER		SEGMENT RESULT	
	Six months ended		Six months ended	
	30.6.2001	30.6.2000	30.6.2001	30.6.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Film distribution	80,569	9,993	15,341	(253)
Television drama series distribution	1,934	17,954	(1,209)	(2,345)
Video distribution	16,926	7,916	5,511	363
Others	981	453	981	453
	<u>100,410</u>	<u>36,316</u>	<u>20,624</u>	<u>(1,782)</u>
Unallocated corporate administrative expenses			<u>(39,223)</u>	<u>(12,864)</u>
Loss from operations			<u>(18,599)</u>	<u>(14,646)</u>

Geographical segments

	TURNOVER		SEGMENT RESULT	
	Six months ended		Six months ended	
	30.6.2001	30.6.2000	30.6.2001	30.6.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	44,558	11,798	5,464	522
The People's Republic of China excluding Hong Kong	6,534	15,545	2,050	(3,413)
South-east Asia	14,055	7,952	(3,364)	2,461
America and Europe	34,256	773	15,791	(1,500)
Others	1,007	248	683	148
	<u>100,410</u>	<u>36,316</u>	<u>20,624</u>	<u>(1,782)</u>
Unallocated corporate administrative expenses			<u>(39,223)</u>	<u>(12,864)</u>
Loss from operations			<u>(18,599)</u>	<u>(14,646)</u>

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4. LOSS FROM OPERATIONS

	Six months ended	
	30.6.2001 HK\$'000	30.6.2000 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation	7,772	4,592
Staff costs	22,805	17,400
Net realised gain on disposal of investments in securities	–	(15,198)
Profit on disposal of property, plant and equipment	–	(7)
Interest income	<u>(3,648)</u>	<u>(9,098)</u>

5. TAXATION

	Six months ended	
	30.6.2001 HK\$'000	30.6.2000 HK\$'000
Current tax in other jurisdictions	<u>45</u>	<u>–</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries operating in Hong Kong incurred a tax loss for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

6. DIVIDEND

The directors of the Group do not recommend the payment of any interim dividend.

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7. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	Six months ended	30.6.2000
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Loss for the purposes of basic loss per share (net loss for the period)	<u>(26,460)</u>	<u>(15,992)</u>
	Number of shares	
	30.6.2001	30.6.2000
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,763,267,000</u>	<u>1,626,316,000</u>

No diluted loss per share for both periods has been presented as the exercise of the Company's outstanding share options, warrants and convertible loan notes existed during the period would be anti-dilutive.

8. ADJUSTMENTS RETROSPECTIVELY APPLIED UPON ADOPTION OF NEW ACCOUNTING STANDARDS IN HONG KONG

The financial effect of the adoption of the revised accounting policy as described in note 2 is summarised as below:

	Six months ended	Twelve months ended
	30.6.2000	31.12.2000
	HK\$'000	HK\$'000
Loss as previously reported	(15,992)	(31,101)
Impairment of goodwill recognised upon the adoption of SSAP 31	<u>–</u>	<u>(25,000)</u>
Loss as retrospectively restated	<u>(15,992)</u>	<u>(56,101)</u>
Basis loss per share:		
As previously reported	<u>(0.98 cent)</u>	(1.83 cents)
As retrospectively restated	<u>(0.98 cent)</u>	<u>(3.31 cents)</u>
Diluted loss per share		
As previously reported	<u>N/A</u>	N/A
As retrospectively restated	<u>N/A</u>	<u>N/A</u>

Adoption of SSAP 30, "Business Combinations", SSAP 31, "Impairment of Assets" and Interpretation 13

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

In accordance with the provisions of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be adoption reinstated at the time of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the income statement. The amendments to SSAP 30 and the provisions of Interpretation 13 are required to be reflected in accordance with the requirements of SSAP 2 and the transitional provision in SSAP 30.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves. The Group has retrospectively restated its previously reported net loss for the year ended 31 December 2000 by HK\$25,000,000 for the impairment of goodwill arising from the acquisition of subsidiaries.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of approximately HK\$16,000,000.

10. INVENTORIES

During the period, the increase in inventories amounting to approximately HK\$207,561,000 was related to motion pictures in progress.

11. TRADE DEBTORS

The credit terms granted to customers ranges from 30 to 90 days.

The following is an aged analysis of trade debtors at the reporting date:

	30.6.2001	31.12.2000
	HK\$'000	HK\$'000
0 – 30 days	32,915	4,468
31 – 60 days	3,496	1,035
61 – 90 days	2,507	1,239
91 – 180 days	994	3,072
Over 180 days	6,218	4,549
	46,130	14,363

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12. AMOUNTS DUE FROM ASSOCIATES AND DUE TO RELATED COMPANIES

The amounts are unsecured, non-interest bearing and repayable on demand.

13. AMOUNTS DUE FROM RELATED COMPANIES

	30.6.2001 HK\$'000	31.12.2000 HK\$'000
Advances under distribution agreements (<i>note a</i>)	–	296,194
Deposit paid under production service agreement (<i>note b</i>)	22,750	22,750
Deposit paid under films agreement (<i>note c</i>)	–	10,000
	<u>22,750</u>	<u>328,944</u>

Notes:

- (a) The balances represented advances made to Win's Entertainment Limited ("Win's") and its subsidiaries (the "Win's Group") under distribution agreements entered into between the Group and the Win's Group. Ms. Chen Ming Yin, Tiffany ("Ms. Chen") and Mr. Heung Wah Keung ("Mr. Heung"), who are directors of the Company, are directors and beneficial shareholders of Win's.
- (b) The balance represents a deposit paid to Win's Music & Video Enterprises (Hong Kong) Limited ("Win's Music"), a wholly-owned subsidiary of Win's, under a production service agreement entered into between China Star Management Limited, a wholly-owned subsidiary of the Company, and Win's Music. The balance is unsecured, interest-free and will be used to set off against fee payable by China Star Management Limited in accordance with the terms of the production service agreement and any remaining portion will be repayable before 31 July 2002.
- (c) The balance represented a deposit paid to Win's under a sale and purchase agreement and assignment of films and was used to set off against total consideration payable to the Win's Group.

14. PLEDGED BANK DEPOSITS

These bank deposits were pledged to banks to secure general banking facilities granted to the Group.

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15. TRADE CREDITORS

The following is an aged analysis of trade creditors at the reporting date:

	30.6.2001 HK\$'000	31.12.2000 HK\$'000
0 – 30 days	4,294	7,454
31 – 60 days	614	147
61 – 90 days	158	5
91 – 180 days	396	650
Over 180 days	16,044	6,352
	<u>21,506</u>	<u>14,608</u>

16. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
<i>Ordinary shares of HK\$0.05 each</i>		
Authorised:		
At 1 January and 30 June 2001	<u>20,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1 January and 30 June 2001	<u>1,763,267,000</u>	<u>88,163</u>

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17. SHARE PREMIUM AND RESERVES

	(Goodwill)							Total HK\$'000
	capital		Exchange reserve	Warrant reserve	Capital	Investment	Accumulated losses	
	Share premium	reserve on consolidation			reduction reserve	revaluation reserve		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2000	279,160	660	(369)	-	316,008	-	(16,463)	578,996
Exchange adjustment	-	-	(200)	-	-	-	-	(200)
Placement of warrants	-	-	-	25,500	-	-	-	25,500
Placement of shares	477,500	-	-	-	-	-	-	477,500
Placement expenses	(14,065)	-	-	(1,632)	-	-	-	(15,697)
Issue of shares on exercise of share options	15,740	-	-	-	-	-	-	15,740
Issue of shares on conversion of convertible loan notes	50,955	-	-	-	-	-	-	50,955
Goodwill arising on purchase of associates	-	(75,570)	-	-	-	-	-	(75,570)
Goodwill arising on purchase of subsidiaries	-	(73,004)	-	-	-	-	-	(73,004)
Revaluation decrease on investments in other securities	-	-	-	-	-	(12,960)	-	(12,960)
Loss for the year	-	-	-	-	-	-	(31,101)	(31,101)
At 31 December 2000 previously reported	809,290	(147,914)	(569)	23,868	316,008	(12,960)	(47,564)	940,159
Impairment of goodwill recognised upon the adoption of SSAP 31	-	25,000	-	-	-	-	(25,000)	-
At 31 December 2000 as retrospectively restated	809,290	(122,914)	(569)	23,868	316,008	(12,960)	(72,564)	940,159
Exchange adjustment	-	-	(14)	-	-	-	-	(14)
Revaluation increase on investments in other securities	-	-	-	-	-	12,015	-	12,015
Loss for the period	-	-	-	-	-	-	(26,460)	(26,460)
At 30 June 2001	809,290	(122,914)	(583)	23,868	316,008	(945)	(99,024)	925,700

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18. CONVERTIBLE LOAN NOTES

During the period, the Company issued convertible loan notes (the "Notes") in an aggregate amount of HK\$70 million. The Notes bear interest at 4% per annum, which will be payable semi-annually in arrears and they will mature on 30 June 2004.

The Notes carry the right to convert the principal amount of the Notes into shares of HK\$0.05 each in the share capital of the Company at an initial conversion price of HK\$0.20 per share on or after 1 July 2002. From 1 July 2002 to 30 June 2003, the noteholders can convert up to a maximum of one-third of the face value of the Notes. From 1 July 2003 to the 14th business day immediately preceding 30 June 2004, the noteholders can convert the remaining face value of the Notes. Unless previously converted or repaid, at any time on or after 1 July 2002, the noteholders may request early repayment of up to the entire amount of the outstanding principal amount of the Notes together with accrued interest.

19. ACQUISITION OF SUBSIDIARIES

On 5 February 2001, the Group acquired 100% of the issued share capital of High Productive Trading Limited at a consideration of HK\$265,600,000. This transaction has been accounted for using the purchase method of accounting.

	30.6.2001	30.6.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired	89,785	–
Goodwill arising on acquisition	175,815	–
Total consideration	265,600	–
Satisfied by:		
Cash	179,234	–
Amounts due to ex-shareholders	86,366	–
	265,600	–
Net cash outflow arising on acquisition:		
Cash consideration	179,234	–
Bank balances and cash acquired	(273)	–
	178,961	–
Cash flows of subsidiaries acquired during the interim period		
Contribution of the Group's net operating cashflow	2,972	–
Net cash outflow for investing activities	(27)	–

The subsidiaries acquired during the period contributed HK\$34,831,000 (2000: Nil) to the Group's turnover.

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20. CONTINGENT LIABILITIES

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Corporate guarantee give to a landlord in respect of rental performance by wholly-owned subsidiaries	<u>1,240</u>	<u>1,840</u>

21. LEASE COMMITMENTS

At the balance sheet date, the Group's outstanding commitments under non-cancellable operating leases in respect of rented premises and motor vehicle are as follows:

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	391	1,079
In the second to fifth year inclusive	<u>4,299</u>	<u>6,190</u>
	<u>4,690</u>	<u>7,269</u>

22. OTHER COMMITMENTS

At the balance sheet date, the Group had the following expenditure, which had been contracted for but not provided in the financial statements:

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchases of property, plant and equipment	–	25,486
Acquisition of distribution rights under film and television drama series licensing agreements	169,338	206,063
Interest-free advances to licensors under the distribution agreements	–	78,571
Balance payable under production service agreement	48,750	48,750
Online advertising	<u>6,295</u>	<u>8,240</u>
	<u>224,383</u>	<u>367,110</u>

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23. RELATED PARTY TRANSACTIONS

- (a) The significant transactions under the supply agreement dated 2 December 1999 and the various distribution agreements entered into between the Group and the Win's Group are summarised as follows:

	30.6.2001 HK\$'000	30.6.2000 HK\$'000
Interest-free advances made to the Win's Group during the period	–	73,314
Distribution fee income	<u>403</u>	<u>6,289</u>

Pursuant to the distribution agreements, the Group was entitled to 15% to 20% of the gross receipts generated from the relevant productions.

Pursuant to the two termination agreements dated 14 December 2000, the Group terminated the supply agreement dated 2 December 1999 and the various distribution agreements entered into with the Win's Group with effect from 5 February 2001.

- (b) During the period, the Group entered into the following transactions with related parties:

	30.6.2001 HK\$'000	30.6.2000 HK\$'000
Paid to:		
Samico Films Production Company Limited ("Samico")		
– Purchase of properties (note i)	11,200	–
Win's Group		
– Purchase of rights, title and interest in motion pictures and television programmes (note i)	187,900	–
– Acquisition of subsidiaries (note i)	<u>265,600</u>	–
Received from:		
Top Yield Production Limited		
– Management fee (note ii)	–	60
Lucky Assets Holdings Limited		
– Management fee (note ii)	–	342
– Service charges (note ii)	–	78

Notes:

- (i) The amounts were determined based on the valuations prepared by American Appraisal Hong Kong Limited, an independent firm of professional valuers, as at 30 November 2000.
- (ii) The management fee and service charges were charged at costs incurred by the related parties.

Ms. Chen and Mr. Heung are directors and beneficial shareholders of Samico and the Win's Group. Top Yield Production Limited and Lucky Assets Holdings Limited are associates of the Group.

- (c) Details of the amounts due from and to related parties are set out in the condensed consolidated balance sheet and notes 12 and 13.

24. POST BALANCE SHEET EVENT

On 3 July 2001, the Group completed the sale and purchase agreement dated 22 June 2001 entered into between Remarkable Co., Ltd., Mr. Hung Leung Tak, Jackson, Classical Statue Limited ("Classical Statue") and the Company whereas Remarkable Co., Ltd. had sold, for a cash consideration of HK\$63 million, its entire holding of 63,000,000 shares in Ocean Shores Group Limited ("Ocean Shares") to Classical Statue, a wholly-owned subsidiary of the Company, representing approximately 38.18% of the entire issued share capital of Ocean Shores and together with the 13,500,000 shares of Ocean Shores it already owned through Classical Statue have aggregate interest in 76,500,000 shares in Ocean Shores, representing approximately 46.36% of the issued share capital of Ocean Shores. The conditional cash offer made jointly by Altus Capital Limited and Kingston Securities Limited on behalf of Classical Statue to acquire all the issued shares in the share capital of Ocean Shores (other than those shares already owned by Classical Statue or parties acting in concert with it) could not become unconditional and lapsed on 31 August 2001. The acquisition enhances the Group's film library and distribution network.