CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2002

INTERIM RESULTS

The board of directors of China Star Entertainment Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2002

		Six months ended	
		30.6.2002	30.6.2001
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Turnover	*3*	**163,969**	100,410
Cost of sales and services		**(157,817)**	(79,786)
Gross profit		**6,152**	20,624
Other operating income		**2,896**	5,465
Administrative expenses		**(39,233)**	(44,688)
Loss from operations	*4*	**(30,185)**	(18,599)
Finance costs		**(2,399)**	(92)
Amortisation of goodwill		**(8,791)**	(7,707)
Share of results of associates		**3,729**	(1)
Loss before taxation		**(37,646)**	(26,399)
Taxation	*5*	**(146)**	(45)
Loss before minority interests		**(37,792)**	(26,444)
Minority interests		**1,166**	(16)
Net loss for the period		**(36,626)**	(26,460)
Basic and diluted loss per share	*6*	**(74.78 cents)**	(71.12 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2002

	NOTES	30.6.2002 HK$'000 (unaudited)	31.12.2001 HK$'000 (audited)
Non-current assets			
Investment properties	7	**5,013**	—
Property, plant and equipment	7	**95,032**	112,194
Goodwill		**150,527**	159,318
Interests in associates	8	**142,342**	104,813
Loan receivable		**6,889**	5,426
		399,803	381,751
Current assets			
Inventories		**7,187**	11,220
Film rights	9	**277,774**	284,973
Films in progress		**105,643**	136,196
Trade debtors	10	**95,948**	61,969
Deposits and prepayments		**192,806**	219,194
Amounts due from associates	11	**6,204**	2,168
Amounts due from related companies	12	**22,750**	22,750
Pledged bank deposit	13	**501**	—
Bank balances and cash		**130,038**	46,969
		838,851	785,439
Current liabilities			
Trade creditors	14	**24,571**	29,821
Other creditors and accruals		**139,694**	126,873
Amounts due to associates	11	**—**	190
Taxation		**1,407**	1,413
Borrowings - due within one year	15	**51,886**	26,861
		217,558	185,158
Net current assets		**621,293**	600,281
		1,021,096	982,032
Capital and reserves			
Share capital	16	**190,433**	88,163
Reserves	17	**784,471**	800,561
		974,904	888,724
Minority interests		**3,002**	4,169
Non-current liabilities			
Deposit from an associate	19(c)	**5,000**	—
Borrowings - due after one year	15	**38,190**	89,139
		43,190	89,139
		1,021,096	982,032

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2002

	Total equity Six months ended	
	30.6.2002	30.6.2001
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
At beginning of period	**888,724**	1,028,322
Revaluation surplus on investments in other securities	**—**	12,015
Exchange gain (loss) arising on translation of financial statements of overseas operations	**235**	(14)
Net gains not recognised in the condensed consolidated income statement	**235**	12,001
	888,959	1,040,323
Net loss for the period	**(36,626)**	(26,460)
Shares issued at premium	**126,391**	—
Share issuing expenses	**(3,820)**	—
At end of period	**974,904**	1,013,863

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2002

	Six months ended	
	30.6.2002	30.6.2001
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash outflow from operating activities	**(14,886)**	(51,369)
Net cash inflow (outflow) from investing activities	**1,037**	(181,793)
Net cash inflow from financing	**96,646**	70,000
Increase (decrease) in cash and cash equivalents	**82,797**	(163,162)
Cash and cash equivalents at beginning of period	**46,969**	293,736
Effect of foreign exchange rate change	**272**	(36)
Cash and cash equivalents at end of period	**130,038**	130,538
Analysis of the balances of cash and cash equivalents		
— Bank balances and cash	**130,038**	130,538

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30th June, 2002

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2001, except as described below.

(a) Additional accounting policy resulted from new activity during the period

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

(b) Changes in accounting policy and presentation due to adoption of new and revised SSAPs

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. The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings, namely operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities unless they can be separately identified with investing or financing activities.

3. SEGMENT INFORMATION

Business segments for the six months ended 30th June, 2002

	Film distribution *HK$'000*	Video distribution *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Turnover					
External sales	154,578	6,525	2,866	—	163,969
Inter-segment sales	—	80	1,725	(1,805)	—
	154,578	6,605	4,591	(1,805)	163,969

Inter-segment sales are charged at cost plus a mark-up.

Segment loss	(23,327)	(5,023)	(8,262)	9,519	(27,093)
Other operating income					2,896
Unallocated corporate administrative expenses					(5,988)
Loss from operations					(30,185)

Business segments for the six months ended 30th June, 2001

	Film distribution HK$'000	Video distribution HK$'000	Other operations HK$'000	Eliminations HK$'000	Consolidated HK$'000
Turnover					
External sales	82,503	16,926	981	—	100,410
Inter-segment sales	1,466	846	—	(2,312)	—
	83,969	17,772	981	(2,312)	100,410

Inter-segment sales are charged at cost plus a mark-up.

	Film distribution HK$'000	Video distribution HK$'000	Other operations HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment loss	(21,466)	(5,401)	(2,754)	7,796	(21,825)
Other operating income					5,465
Unallocated corporate administrative expenses					(2,239)
Loss from operations					(18,599)

Geographical segments

	TURNOVER Six months ended		SEGMENT RESULT Six months ended	
	30.6.2002	30.6.2001	**30.6.2002**	30.6.2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**51,448**	44,558	**(25,795)**	(13,373)
The People's Republic of China excluding Hong Kong, Macau and Taiwan (the "PRC")	**44,844**	6,534	**(4,127)**	(712)
South-east Asia	**21,815**	14,055	**3,902**	(9,306)
America and Europe	**41,495**	34,256	**1,980**	1,309
Others	**4,367**	1,007	**(3,053)**	257
	163,969	100,410	**(27,093)**	(21,825)
Other operating income			**2,896**	5,465
Unallocated corporate administrative expenses			**(5,988)**	(2,239)
Loss from operations			**(30,185)**	(18,599)

4. LOSS FROM OPERATIONS

	Six months ended	
	30.6.2002	30.6.2001
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging (crediting):		
Amortisation of film rights (included in cost of sales and services)	**123,330**	52,116
Depreciation and amortisation of property, plant and equipment	**9,013**	7,772
Interest income	**(525)**	(3,648)
Loss on disposal of property, plant and equipment	**98**	—
Staff costs including directors' emoluments	**15,841**	25,805

5. TAXATION

	Six months ended	
	30.6.2002	30.6.2001
	HK$'000	*HK$'000*
Current tax in other jurisdictions	**146**	45

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 estimated tax losses available to offset future profits as it is not certain that the estimated tax losses will be utilised in the foreseeable future.

6. BASIC AND DILUTED LOSS PER SHARE

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

	Six months ended	
	30.6.2002	30.6.2001
	HK$'000	*HK$'000*
Loss for the purposes of basic and diluted loss per share (net loss for the period)	**(36,626)**	(26,460)

	Number of shares	
	30.6.2002	30.6.2001
	'000	*'000*
		(restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**48,976**	37,205

The computation of diluted loss per share for the periods ended 30th June, 2001 and 2002 does not assume the exercise of the Company's outstanding share options, warrants and convertible loan notes existed during the periods since their exercise would reduce loss per share.

The weighted average number of ordinary shares for the six months ended 30th June, 2001 for the purposes of basic and diluted loss per share has been adjusted for the rights issue completed during the period.

Subsequent to the balance sheet date, the Company's issued shares of HK$0.05 each was reduced to HK$0.001 each and every fifty issued shares of HK$0.001 each were then consolidated into one new share of HK$0.05 each. These transactions were effective on 10th September, 2002. As such, the weighted average number of shares for the purpose of basic and diluted loss per share for both periods have been adjusted accordingly.

7. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	Investment properties *HK$'000*	**Property, plant and equipment** *HK$'000*
COST		
At 1st January, 2002	—	170,020
Exchange adjustment	—	(65)
Additions	—	3,267
Disposals	—	(28,109)
Transfer	5,013	(5,395)
At 30th June, 2002	5,013	139,718
DEPRECIATION AND IMPAIRMENT		
At 1st January, 2002	—	57,826
Exchange adjustment	—	(27)
Depreciation charged for the period	—	9,013
Eliminated on disposals	—	(21,744)
Transfer	—	(382)
At 30th June, 2002	—	44,686
NET BOOK VALUES		
At 30th June, 2002	5,013	95,032
At 31st December, 2001	—	112,194

The Group's investment properties were transferred from the Group's leasehold land and buildings at their net book values on the date of transfer.

At 30th June, 2002, the directors have considered the carrying amount of the Group's investment properties and have estimated that the carrying amount do not differ significantly from that which would be determined using fair value at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

8. INTERESTS IN ASSOCIATES

	30.6.2002	31.12.2001
	HK$'000	*HK$'000*
Share of net assets	**99,888**	95,672
Goodwill *(note a)*	**7,154**	7,641
	107,042	103,313
Convertible notes issued by an associate *(note b)*	**33,800**	—
Loans to associates *(note c)*	**5,000**	5,000
Allowance for loans to an associate	**(3,500)**	(3,500)
	35,300	1,500
	142,342	104,813

Notes:

(a) The amortisation period adopted for the goodwill is ten years and amortisation charged in the current period amounting to approximately HK$487,000 has been included in the amount reported as share of results of associates in the condensed consolidated income statement.

(b) During the period, Riche Multi-Media Holdings Limited ("Riche Multi-Media"), the associate of the Company, issued convertible notes in an aggregate amount of HK$33.8 million to the Group for the purchase of exclusive distribution rights in the PRC and Mongolia in respect of 116 motion pictures for a term of ten years from 8th April, 2002. The notes bear interest at 1% per annum which is payable semi-annually in arrears and will mature on 19th April, 2005. Prior to the maturity, neither the Group nor Riche Multi-Media has the right to redeem or request for redemption of the notes. The notes carry the right to convert the whole or any part of the outstanding principal amount of the notes into ordinary shares of HK$0.1 each in the share capital of Riche Multi-Media at a conversion price of HK$4 per share at any time on or before 19th April, 2005 and may be transferred in whole or in part of the outstanding principal amount by the Group.

(c) Included in loans to an associate is a loan of HK$1,500,000 which is unsecured, bears interest at 3% per annum and carries the right to convert the amount into shares of Manful Corporation Limited, an associate, at an initial conversion price of HK$1 per share on or after 17th September, 2002. All other loans are unsecured, non-interest bearing and in the opinion of directors, will not be repaid within the next twelve months.

9. FILM RIGHTS

Additions of film rights during the period amounted to approximately HK$116 million.

In the opinion of the directors, the Group's film rights as at 30th June, 2002 were at least worth their carrying values.

10. TRADE DEBTORS

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

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

	30.6.2002	31.12.2001
	HK$'000	*HK$'000*
0 - 30 days	**7,779**	14,739
31 - 60 days	**33,625**	8,492
61 - 90 days	**39,309**	2,904
91 - 180 days	**4,300**	33,463
Over 180 days	**10,935**	2,371
	95,948	61,969

11. AMOUNTS DUE FROM AND TO ASSOCIATES

The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

12. AMOUNTS DUE FROM RELATED COMPANIES

	30.6.2002	31.12.2001
	HK$'000	*HK$'000*
Deposit paid under production service agreement	**22,750**	22,750

The balance represents a deposit paid to Win's Music & Video Enterprises (Hong Kong) Limited ("Win's Music"), a company in which Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are directors and have beneficial interests, 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 was subsequently repaid by Win's Music.

13. PLEDGED BANK DEPOSIT

At 30th June, 2002, the Company had pledged deposit of approximately HK$501,000 to a bank as a collateral for a bank guarantee of approximately HK$0.5 million in favour of a third party.

14. TRADE CREDITORS

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

	30.6.2002	31.12.2001
	HK$'000	*HK$'000*
0 - 30 days	**1,661**	7,760
31 - 60 days	**926**	1,752
61 - 90 days	**3,554**	153
91 - 180 days	**1,812**	6,656
Over 180 days	**16,618**	13,500
	24,571	29,821

15. BORROWINGS

	30.6.2002	31.12.2001
	HK$'000	*HK$'000*
Secured bank loan	**20,076**	21,000
Secured other loan from a financial institution	—	25,000
Unsecured convertible loan notes	**70,000**	70,000
	90,076	116,000
The maturity of the above borrowings is as follows:		
Within one year	**51,886**	26,861
More than two years but not exceeding five years	**20,000**	70,000
More than five years	**18,190**	19,139
	90,076	116,000
Less: Amount due within one year shown under current liabilities	**(51,886)**	(26,861)
Amount due after one year	**38,190**	89,139

The bank loan bears interest at commercial rate, is repayable in instalments over a period of ten years and is secured by the Group's leasehold land and buildings in Hong Kong with a total net book value of HK$30.2 million at 30th June, 2002.

The convertible loan notes bear interest at 4% per annum which will be payable semi-annually in arrears and will mature on 30th 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$0.2 per share (as of 30th June, 2002, the conversion price was adjusted to HK$0.17 per share) on or after 1st July, 2002. From 1st July, 2002 to 30th June, 2003, the noteholders can convert up to a maximum of one-third of the face value of the notes. From 1st July, 2003 to 14th business day immediately preceding 30th June, 2004, the noteholders can convert the remaining face value of the notes. Unless previously converted or repaid, at any time on or after 1st 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.

16. SHARE CAPITAL

	Number of shares	Amount
	'000	*HK$'000*
Ordinary shares of HK$0.05 each		
Authorised	20,000,000	1,000,000
Issued and fully paid		
At 1st January, 2002	1,763,267	88,163
Placement of shares *(notes a and c)*	987,430	49,372
Rights issue *(note b)*	1,057,960	52,898
At 30th June, 2002	3,808,657	190,433

Notes:

(a) On 2nd March, 2002, arrangements were made for a private placement to independent investors of 195,000,000 and 107,000,000 shares of HK$0.05 each in the Company held by Porterstone Limited ("Porterstone") and Dorest Company Limited ("Dorest") respectively, companies in which Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany have deemed beneficial interests, at a price of HK$0.095 per share, representing a discount of 6.86% to the closing market price of the Company's shares on 1st March, 2002.

Pursuant to the subscription agreement of the same date, Porterstone and Dorest subscribed for 221,000,000 and 131,653,393 new shares of HK$0.05 each in the Company respectively at a price of HK$0.095 per share. The net proceeds of approximately HK$32 million were used for movie production and as general working capital of the Group. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 30th May, 2001 and rank pari passu with other shares in issue in all respects.

(b) On 3rd May, 2002, the Company issued 1,057,960,179 new shares of HK$0.05 each by way of a rights issue on the basis of one rights share for every two shares held on 12th April, 2002 at a subscription price of HK$0.05 per share. The net proceeds of approximately HK$51 million were used for movie production and as for general working capital of the Group.

(c) On 1st June, 2002 and 3rd June, 2002, arrangements were made for a private placement to independent investors of 226,000,000, 100,000,000, 80,000,000 and 40,000,000 shares of HK$0.05 each in the Company held by Porterstone, Dorest, Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany respectively, at a price of HK$0.063 per share, representing a discount of 13.70% to the closing market price of the Company's shares on 31st May, 2002.

Pursuant to the subscription agreement dated 1st June, 2002 and supplemental subscription agreement dated 3rd June, 2002, Porterstone, Dorest, Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany subscribed for 320,090,979, 144,165,848, 113,317,880 and 57,201,400 new shares of HK$0.05 each in the Company respectively at a price of HK$0.063 per share. The net proceeds of approximately HK$39 million were used for movie production and as general working capital of the Group. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 27th May, 2002 and rank pari passu with other shares in issue in all respects.

17. RESERVES

	Share premium	Goodwill	Exchange reserve	Warrant reserve	Capital reduction reserve	Investment revaluation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2001	809,290	(122,914)	(569)	23,868	316,008	(12,960)	(72,564)	940,159
Revaluation increase on investments in other securities	—	—	—	—	—	12,015	—	12,015
Exchange adjustment	—	—	(14)	—	—	—	—	(14)
Net loss for the period	—	—	—	—	—	—	(26,460)	(26,460)
At 30th June, 2001	809,290	(122,914)	(583)	23,868	316,008	(945)	(99,024)	925,700
At 1st January, 2002	**809,290**	**(84,249)**	**(585)**	**23,868**	**316,008**	**—**	**(263,771)**	**800,561**
Placement of shares	**24,121**	**—**	**—**	**—**	**—**	**—**	**—**	**24,121**
Share issuing expenses	**(3,820)**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,820)**
Exchange adjustment	**—**	**—**	**235**	**—**	**—**	**—**	**—**	**235**
Net loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**(36,626)**	**(36,626)**
At 30th June, 2002	**829,591**	**(84,249)**	**(350)**	**23,868**	**316,008**	**—**	**(300,397)**	**784,471**

18. NON-CASH TRANSACTION

During the period, the Group sold licensing rights in the PRC and Mongolia in respect of 116 motion pictures for a term of ten years from 8th April, 2002 at a total consideration of HK$33.8 million to Riche Multi-Media and its subsidiaries (collectively the "Riche Group"). The consideration was settled by the issue of convertible notes in an aggregate amount of HK$33.8 million by Riche Multi-Media.

19. RELATED PARTY TRANSACTIONS

(a) During the period, the Group sold the exclusive distribution rights in the PRC which included the theatrical rights, video rights and other medium rights (except internet rights) of three movies and the Hong Kong and Macau video rights of two movies for a total consideration of HK$9,100,000 to the Riche Group for a term of ten years. The consideration were determined at prices agreed between the parties and were set out in the agreements between the Group and the Riche Group entered into on 29th November, 2001.

(b) On 5th February, 2002, the Group and the Riche Group entered into a licensing agreement pursuant to which the Group granted to the Riche Group the exclusive distribution rights in the PRC and Mongolia in respect of 116 motion pictures for a term of ten years from 8th April, 2002 at a total consideration of HK$33,800,000. The consideration was determined based on the valuation report prepared by Adonis Appraisal Limited, an independent firm of professional valuers, dated 31st January, 2002. The consideration was settled by the issue of convertible notes in an aggregate amount of HK$33,800,000 by Riche Multi-Media.

(c) On 5th February, 2002, the Group and the Riche Group entered into a territory supply agreement whereby the Group, during the term of three years from 8th April, 2002, granted in favour of the Riche Group a first right of refusal to acquire the exclusive distribution rights in respect of each film in the PRC and Mongolia ("Distribution Rights").

Pursuant to the territory supply agreement, the Riche Group paid an amount of HK$5,000,000 to the Group as a deposit, which is refundable without interest after the termination of the territory supply agreement, for the grant of the first right of refusal to acquire the Distribution Rights and as security for the licence fees payable under the territory license agreements to be entered into. If the Riche Group elects to acquire the Distribution Rights, a territory license agreement in respect of the film will be entered into pursuant to which the Riche Group shall pay a licence fee in respect of each film calculated by reference to its grading, ranging between HK$200,000 for a grade C film (cost of production not more than HK$5,000,000) to HK$1,000,000 for a grade A++ film (cost of production at least HK$30,000,000). The territory license rights in respect of a film will be for a period of ten years. During the period, the Group entered into three license agreements and sold 3 films' Distribution Rights to the Riche Group at a total consideration of approximately HK$1.7 million pursuant to the territory supply agreement.

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

		Six months ended	
		30.6.2002	30.6.2001
		HK$'000	*HK$'000*
Lucky Assets Holdings Limited	Management fee	**120**	—
Riche Group	Film exhibition income	**482**	—
	Film exhibition expenses	**727**	—
	Interest income	**68**	—
	Video production income	**363**	—

The above transactions were transacted at prices agreed between the parties.

Both Lucky Assets Holdings Limited and Riche Multi-Media are associates of the Group.

Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are directors of and have beneficial interest in Riche Multi-Media.

(e) Details of the amounts due from and to related parties are set out in notes 8, 11 and 12.

20. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following post balance sheet events:

(a) An aggregate principal amount of HK$50,000,000 convertible loan notes of the Group were redeemed.

(b) The Company reorganised its share capital in the following manner:

(i) the nominal value of each of the issued shares of HK$0.05 each was reduced by HK$0.049 to HK$0.001 each ("Capital Reduction"); and

(ii) every fifty issued shares of the Company with nominal value of HK$0.001 each in the share capital of the Company were consolidated into one new share of HK$0.05 each ("Share Consolidation").

As a result of the Capital Reduction, an amount of approximately HK$187 million from the share capital account of the Company was cancelled and credited to the contributed surplus account of the Company. Immediately following the Capital Reduction and Share Consolidation effective on 10th September, 2002, the issued share capital of the Company comprises 76,173,132 shares of HK$0.05 each.

(c) The Company reduced an amount of approximately HK$216 million standing to the credit of the share premium account of the Company and set off such amount against the accumulated losses of the Company on 9th September, 2002.

(d) The Company proposed to issue 76,173,132 shares of HK$0.05 each by way of a rights issue on the basis of one rights share for every one share of HK$0.05 each in the share capital of the Company held on 9th September, 2002 at a subscription price of HK$1.25 per rights share, and 76,173,132 shares of HK$0.05 each by way of a bonus issue on the basis of one bonus share for every one rights share taken up under the rights issue payable in full on acceptance. The net proceeds of approximately HK$92 million will be used for film production and as general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the period under review, the Group recorded consolidated turnover of approximately HK$164.0 million which represented an increase of 63% as compared with the last corresponding period of approximately HK$100.4 million. The loss attributable to shareholders amounted to approximately HK$36.6 million (2001: HK$26.5 million). Share of results of associates increased to approximately HK$3.7 million (2001: loss of HK$0.001 million).

DIVIDEND

The directors of the Group do not recommend the payment of any interim dividend for the six months ended 30th June, 2002 (2001: Nil).

REVIEW OF OPERATIONS

As at 30th June, 2002, the Group has increased turnover from the distribution of its own production with a newly acquired subsidiary in early 2001, One Hundred Years of Film Company Limited, a well-recognised film producer. The acquisition secured the quantity and quality of films to be provided to the Group's distribution network and the effect become apparent in this second year after acquisition. The turnover from film distribution increased by 87% to HK$154.6 million but with a segment loss of approximately HK$23.3 million. The increase in segment loss mainly arrived from the poor performance of Hong Kong theatrical market. The turnover from the sales in Hong Kong increased by 15% but the geographical loss had increased to HK$25.8 million. The Group has released 5 films in the market during the first 6 months including Second Time Around, Running Out of Time II, The Irresistible Piggies, The Wesley's Mysterious File and Fat Choi Spirit and they are continued to draw the attention of the market. However, revenue generated from Hong Kong theatrical market had decreased by 17% and had incurred a gross loss of approximately HK$19 million compared with a gross profit of approximately HK$5 million in last corresponding period. Based on the figures provided by Hong Kong Kowloon and New Territories Motion Picture Industry Association Limited, the total box offices of the Chinese films for the first six months in 2002 had decreased by approximately 24% when compared with the same period last year. The box offices of the Group were inevitably affected by the weakness of film industry in Hong Kong. Taking out the effect of the unexpected performance of the Hong Kong theatrical market, the gross profit ratio of the Group are estimated to maintain at similar level as last period in 2001. Although the performance of the Hong Kong theatrical market were unexpected low this period, the directors believed that the market still demand well-produced and quality work and continued their policy of sourcing and distributing quality titles for new markets (such as the PRC, America and Europe) and they continued to have satisfactory contribution to the Group during the period. The overall rise in acceptance of Chinese films in America and Europe market continued to create stable revenue of approximately HK$41.5 million, representing an increase of 21% compared with same period in last year. The directors believe that it is important to take advantage of the increasing recognition from the international film industry by producing more quality films to penetrate into the global market. "Black Mask II", the Group's production which targeted at the international market, is going to launch in the America in the second half of 2002 or early 2003.

In the second half of 2001, the Group acquired Riche Multi-Media Holdings Limited ("Riche Multi-Media") as its associates. The acquisition had enhanced the Group's development in the video entertainment and multi-media market in PRC. During the period, the Group had shared profit of approximately HK$4.2 million from Riche Multi-Media and its subsidiaries ("Riche Group"). In early 2002, the Group and Riche Group entered into a territory supply agreement and a license agreement. Pursuant to the license agreement, the Group had sold 116 films' PRC rights to Riche Group with a consideration of HK$33.8 million. Pursuant to the territory supply agreement, the Group has agreed to grant Riche Group a first right of refusal to acquire the PRC territory distribution rights in respect of the Group's production. As a result, the turnover from PRC had increased by 586% to approximately HK$44.8 million of which approximately HK$37.6 million were contributed by Riche Group.

The turnover of the video distribution division had substantially decreased by 61% to approximately HK$6.5 million but the segment loss had only slightly decreased by 7% to approximately HK$5 million during the period. The Group closed the sales department for trading of video products and outsourced the operation to a video distributor in order to cut down the costs of the division. The video distribution rights for new titles were sub-licensed to other video distributors so as to secure income arriving from each film. The income from these new titles were segmented as film distribution. As a result, turnover of video distribution division decreased. The effect of the decrease in associated administrative expenses are expected to reflect in the second half of the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2002, the Group had total assets of HK$1,238.7 million and net current assets of HK$621.3 million, representing a current ratio of 3.9. The Group had a total cash and bank balances of approximately HK$130 million and a bank deposit of HK$0.5 million was pledged for bank guarantee granted.

As at 30th June, 2002, the Group had total borrowings of approximately HK$90.1 million comprising mortgage loan from a bank of approximately HK$20.1 million and unsecured convertible loan notes of HK$70 million. The Group's gearing remained low during the period with total debts of HK$90.1 million against shareholders' funds of HK$974.9 million. This represents a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund of 0.09. The Group's mortgage loan bears interest at commercial rate and is repayable in installments over a period of ten years and is secured by certain of the Group's leasehold land and buildings with carrying value of approximately HK$30.2 million. The notes bear interest at 4% per annum, which will be payable semi-annually in arrears and will be matured on 30th June, 2004. The notes carry the right to convert 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 (as of 30th June, 2002, the conversion price were adjusted to HK$0.17 per share) on or after 1st July, 2002.

On 2nd March, 2002, Dorest Company Limited ("Dorest") and Porterstone Limited ("Porterstone") entered into a placing agreement with a placing agent and a subscription agreement with the Company respestively. Pursuant to the placing agreement, Dorest and Porterstone placed 302,000,000 placing shares to independent investors at a price of HK$0.095 per share. Pursuant to the subscription agreement, Dorest and Porterstone subscribed for 352,653,393 subscription shares at a price of HK$0.095 per share. 352,653,393 shares issued for the subscription on 15th March, 2002 with net proceeds of approximately HK$32 million were intended to be used as to approximately HK$20 million for movie production and as to approximately HK$12 million for general working capital of the Group.

On 3rd May, 2002, the Company issued 1,057,960,179 new shares of HK$0.05 each by way of a rights issue on the basis of one rights share for every two shares held on 12th April, 2002 at a subscription price of HK$0.05 per rights share. The net proceeds of approximately HK$51 million were intended to be used by the Group as to approximately HK$35 million for movie production and the balance of approximately HK$16 million as general working capital.

A placing agent entered into a placing agreement on 1st June, 2002 with Porterstone and a supplement placing agreement with Porterstone, Dorest, Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany (the "Placees") on 3rd June, 2002 respectively ("Placing Agreements"). The Placees entered into a subscription agreement and a supplemental subscription agreement with the Company on 1st June, 2002 and 3rd June, 2002 respectively ("Subscription Agreements"). Pursuant to the Placing Agreements, the Placees placed 446,000,000 placing shares to independent investors at a price of HK$0.063 per share. Pursuant to the Subscription Agreements, the Placees subscribed for 634,776,107 subscription shares at a price of HK$0.063 per share. 634,776,107 shares issued for the subscription on 14th June, 2002 with net proceeds of approximately HK$39 million were intended to be used as to approximately HK$25 million for movie production and as to approximately HK$14 million for general working capital of the Group.

Subsequent to the balance sheet date, the Company proposed to issue not less than 76,173,132 shares of HK$0.05 each by way of a rights issue on the basis of one rights share for every one existing share held on 9th September, 2002 at a subscription price of HK$1.25 per rights share, and not less than 76,173,132 shares of HK$0.05 each by way of a bonus issue on the basis of one bonus share for every one rights share taken up under the rights issue payable in full on acceptance. The rights issue with bonus issue are expected to be completed on or before 2nd October, 2002. The net proceeds of approximately HK$92 million are intended to be used by the Group as to approximately HK$75 million for movie production and the balance of approximately HK$17 million as general working capital.

In view of the operation of the Group, the exposure to fluctuation in exchange rates was considered limited and no hedge activity were considered necessary. At 30th June, 2002, the Group had no contingent liability.

The Group had deployed various means to reduce administrative expenses, included actively outsource non-core business to reduce salary and operation expense, so as to focus our energy on our own expertise and core business. As a result, the administrative expenses of the Group has decreased by 12%. The result is expected more apparent in the second half of 2002.

PROSPECTS

Given that entertainment is a basic necessity, the directors remain confident in the film industry. The Group shall continue its strategy to maintain the leading position in film production industry, increase its market penetration and market share by increasing its film production.

Being the first year after the PRC has joined the World Trade Organisation, the directors consider the results of PRC Division and Riche Group are encouraging in this development stage. The Group will keep on increasing its distribution networks and distribution channels in the PRC, and establishes its platform to expand its market share in the PRC. The PRC becomes a prime marketing target for future growth and expansion for the Group and the valuable experience gained in the past few years can be certain of our future success.

EMPLOYEES AND SHARE OPTION SCHEME

As at 30th June, 2002, the Group employed 140 staffs of which 45 staffs are based in China. 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 staffs are remunerated based on their work performance, professional experience and prevailing industry practices. Apart from basis salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

The share option scheme adopted by the Company on 23rd October, 1996 was terminated on 27th May, 2002. A new share option scheme was adopted by the Company on 27th May, 2002 (the "New Scheme"). As of 30th June, 2002, no share option under the New Scheme were granted.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2002, the interests of the directors and their associates in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

(I) INTEREST IN ORDINARY SHARES OF THE COMPANY

	Number of shares held		
Name of directors	**Personal interest**	**Family interest**	**Corporate interest**
Mr. Heung Wah Keung	199,907,280	932,961,767 *(note a)*	264,995,088 *(note b)*
Ms. Chen Ming Yin, Tiffany	103,208,400	464,902,368 *(note c)*	829,753,367 *(note d)*
Ms. Li Yuk Sheung	800	—	—

Notes:

(a) These shares are held as to 103,208,400 shares by Ms. Chen Ming Yin, Tiffany, as to 564,758,279 shares by Porterstone (a company wholly-owned by Ms. Chen Ming Yin, Tiffany) and as to 264,995,088 shares by Dorest, a company wholly-owned by Glenstone Investments Limited ("Glenstone") which is in turn controlled as to 60% by Porterstone and as to 40% by Mr. Heung Wah Keung. Mr. Heung Wah Keung, the husband of Ms. Chen Ming Yin, Tiffany, is deemed to be interested in the shares held by Porterstone and Ms. Chen Ming Yin, Tiffany.

(b) These shares are held by Dorest.

(c) These shares are held as to 199,907,280 shares by Mr. Heung Wah Keung and as to 264,995,088 shares by Dorest. Ms. Chen Ming Yin, Tiffany is deemed to be interested in such shares.

(d) These shares are held as to 264,995,088 shares by Dorest and as to 564,758,279 shares by Porterstone.

(II) RIGHTS TO ACQUIRE SHARES

At 30th June, 2002, the directors of the Company had personal interests in share options to subscribe for shares in the Company granted as follows:

Name of Director	Exercisable period*	Exercise price per share	Number of share options at 30.6.2002
		HK$	
Mr. Heung Wah Keung	21.11.1996 - 20.11.2006	1.763	11,571,185
	28.3.2000 - 27.3.2010	0.489	15,824,131
	2.6.2000 - 1.6.2010	0.237	7,164,557
Ms. Chen Ming Yin, Tiffany	21.11.1996 - 20.11.2006	1.763	11,571,185
	28.3.2000 - 27.3.2010	0.489	15,824,131
	2.6.2000 - 1.6.2010	0.237	7,164,557
			69,119,746

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

Note: The exercise prices and numbers of share options were adjusted as a result of a rights issue of shares on 30th April, 2002.

Save as disclosed herein, as of 30th June, 2002, no interests were held or deemed or taken under the SDI Ordinance to be held by any directors or chief executives of the Company or their respective associates in any share capital of the Company or any associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein.

Other than as disclosed above, 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 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

Details of movements in the share options to subscribe for shares of HK$0.05 each in the Company granted under the scheme during the period are as follows:

			Number of share options		
Holder	**Exercisable period***	**Exercise price per share** *(Note 1)* *HK$*	**Outstanding at 1.1.2002**	**Adjustment during the period** *(Note 2)*	**Outstanding at 30.6.2002**
Mr. Heung Wah Keung	21.11.1996 - 20.11.2006	1.763	9,682,012	1,889,173	11,571,185
(Director and	28.3.2000 - 27.3.2010	0.489	13,250,000	2,574,131	15,824,131
substantial shareholder)	2.6.2000 - 1.6.2010	0.237	6,000,000	1,164,557	7,164,557
Ms. Chen Ming Yin, Tiffany	21.11.1996 - 20.11.2006	1.763	9,682,012	1,889,173	11,571,185
(Director and	28.3.2000 - 27.3.2010	0.489	13,250,000	2,574,131	15,824,131
substantial shareholder)	2.6.2000 - 1.6.2010	0.237	6,000,000	1,164,557	7,164,557
			57,864,024	11,255,722	69,119,746
Employees	5.1.1999 - 4.1.2009	0.146	1,271	252	1,523
	28.3.2000 - 27.3.2010	0.489	14,700,000	2,855,828	17,555,828
	2.6.2000 - 1.6.2010	0.237	12,000,000	2,329,114	14,329,114
			26,701,271	5,185,194	31,886,465
			84,565,295	16,440,916	101,006,211

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

Notes:

(1) The exercise prices of share options were adjusted as a result of a rights issue of shares on 30th April, 2002 as follows:

Option type	Old exercise price	New exercise price
21.11.1996 - 20.11.2006	2.107	1.763
5.1.1999 - 4.1.2009	0.175	0.146
28.3.2000 - 27.3.2010	0.584	0.489
2.6.2000 - 1.6.2010	0.283	0.237

(2) Adjustments to the numbers of share options as a result of rights issue of shares on 30th April, 2002.

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2002, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that other than the interests disclosed above in respect of certain directors, the following shareholder had an interest of 10% or more in the issued share capital of the Company:

Name	Number of shares	%
Porterstone Limited *(note)*	829,753,367	21.79

Note:

Porterstone and Dorest have direct interests in 564,758,279 shares and 264,995,088 shares of the Company respectively. Dorest is a company wholly-owned by Glenstone which is in turn beneficially owned as to 60% by Porterstone (a company wholly-owned by Ms. Chen Ming Yin, Tiffany) and as to 40% by Mr. Heung Wah Keung.

Other than as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30th June, 2002.

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 period.

AUDIT COMMITTEE

The principal duties of the audit committee of the Company include the review and supervision of the Group's financial reporting process and internal controls and to make recommendations to the board of directors. The unaudited interim financial statements for the six months ended 30th June, 2002 have been reviewed by the audit committee of the Company. At the request of the directors, the Group's external auditors have carried out a review of the unaudited interim financial statements in accordance with Statement of Auditing Standards 700 issued by The Hong Kong Society of Accountants.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim results, except that the non-executive directors were not appointed for a specific term since they 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.

By Order of the Board
Heung Wah Keung
Chairman

Hong Kong, 26th September, 2002

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Deloitte Touche Tohmatsu

TO THE BOARD OF DIRECTORS OF CHINA STAR ENTERTAINMENT LIMITED
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 1 to 15.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2002.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 26th September, 2002