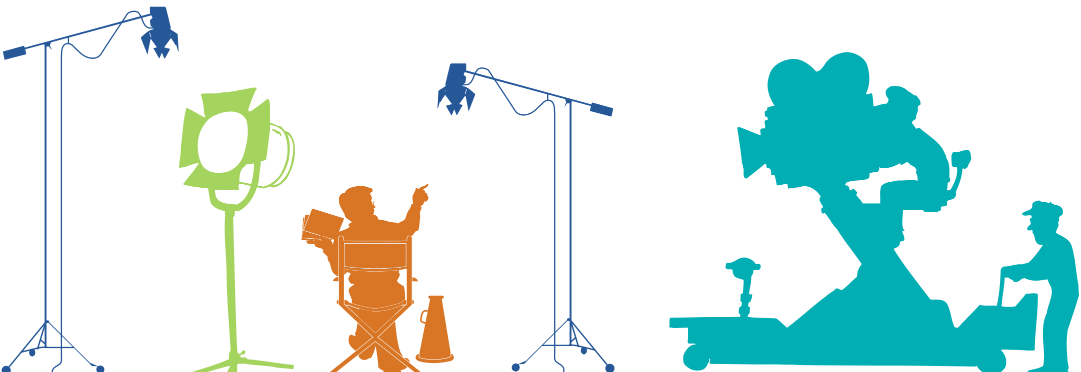
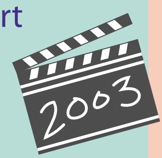
China Star Entertainment Limited

(Incorporated in Bermuda with limited liability)



Interim Report



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, 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2003

	NOTES	Six months ended 30.6.2003 HK$'000 (unaudited)	Six months ended 30.6.2002 HK$'000 (unaudited)
Turnover	3	**102,783**	163,969
Cost of sales and services		**(86,111)**	(128,327)
Gross profit		**16,672**	35,642
Other operating income		**3,401**	2,896
Administrative expenses		**(31,485)**	(39,233)
Marketing and distribution expenses	4	**(25,507)**	(29,490)
Loss from operations	5	**(36,919)**	(30,185)
Finance costs		**(631)**	(2,399)
Loss on disposal of an associate		**(283)**	—
Amortisation of goodwill		**(8,791)**	(8,791)
Gain on expiry of warrants		**23,868**	—
Share of results of associates		**5,246**	3,729
Loss before taxation		**(17,510)**	(37,646)
Taxation	6	**(97)**	(146)
Loss before minority interests		**(17,607)**	(37,792)
Minority interests		**301**	1,166
Net loss for the period		**(17,306)**	(36,626)
Basic and diluted loss per share	7	**(7.57) cents**	(26.97) cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2003

	NOTES	30.6.2003 HK$'000 (unaudited)	31.12.2002 HK$'000 (audited)
Non-current assets			
Investment properties	8	**31,360**	31,360
Property, plant and equipment	8	**53,479**	58,809
Goodwill		**132,945**	141,736
Interests in associates	9	**200,903**	195,462
Loan receivable		**13,876**	9,589
Deposit for investment		**49,000**	49,000
		481,563	485,956
Current assets			
Inventories		**2,035**	2,163
Film rights	10	**130,984**	139,291
Films in progress		**99,368**	81,346
Trade debtors	11	**32,220**	19,033
Deposits and prepayments		**161,998**	166,633
Amounts due from associates	12	**39**	2,342
Taxation recoverable		**1,101**	1,138
Pledged bank deposits	13	**4,514**	—
Bank balances and cash		**27,009**	72,822
		459,268	484,768
Current liabilities			
Trade creditors	14	**25,569**	16,474
Other creditors and accruals	15	**112,170**	108,983
Borrowings - due within one year	16	**21,944**	1,920
		159,683	127,377
Net current assets		**299,585**	357,391
		781,148	843,347
Capital and reserves			
Share capital	17	**11,426**	11,426
Reserves	18	**746,320**	787,240
		757,746	798,666
Minority interests		**2,162**	2,463
Non-current liabilities			
Borrowings - due after one year	16	**16,240**	37,218
Deposit from an associate	19(a)	**5,000**	5,000
		21,240	42,218
		781,148	843,347

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2003

	Total equity Six months ended	
	30.6.2003	30.6.2002
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
At beginning of period	**798,666**	888,724
Exchange gain arising on translation of financial statements of overseas operations not recognised in the condensed consolidated income statement	**254**	235
Net loss for the period	**(17,306)**	(36,626)
Gain on expiry of warrants recognised in the condensed consolidated income statement	**(23,868)**	—
Shares issued at premium	**—**	126,391
Share issuing expenses	**—**	(3,820)
At end of period	**757,746**	974,904

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2003

	Six months ended	
	30.6.2003	30.6.2002
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash used in operating activities	**(33,627)**	(14,886)
Net cash (used in) from investing activities	**(10,844)**	1,037
Net cash (used in) from financing activities	**(1,585)**	96,646
(Decrease) increase in cash and cash equivalents	**(46,056)**	82,797
Cash and cash equivalents at beginning of period	**72,822**	46,969
Effect of foreign exchange rate change	**243**	272
Cash and cash equivalents at end of period	**27,009**	130,038
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**27,009**	130,038

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30th June, 2003

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 No. ("SSAP") 25 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

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, 2002 except as described below:

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountant. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. In previous years, partial provision, if any, was made for deferred taxation using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group's accounting policy for taxation following the adoption of SSAP 12 (Revised) is set out below:

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SEGMENT INFORMATION

The directors report the geographical segments as the Group's primary segment information.

Geographical segments for the six months ended 30th June, 2003

	Hong Kong and Macau *HK$'000*	People's Republic of China excluding Hong Kong, Macau and Taiwan ("PRC") *HK$'000*	America and Europe *HK$'000*	South-east Asia *HK$'000*	Other *HK$'000*	Consolidated *HK$'000*
Turnover	53,115	13,348	12,148	22,243	1,929	102,783
Segment results	(11,033)	8,772	2,398	(4,291)	(4,681)	(8,835)
Other operating income						3,401
Unallocated corporate administrative expenses						(31,485)
Loss from operations						(36,919)

3. SEGMENT INFORMATION *(Continued)*

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

	Hong Kong and Macau	PRC	America and Europe	South-east Asia	Other	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	51,448	44,844	41,495	21,815	4,367	163,969
Segment results	(15,363)	4,965	10,394	8,325	(2,169)	6,152
Other operating income						2,896
Unallocated corporate administrative expenses						(39,233)
Loss from operations						(30,185)

Business segments

As the Group's turnover and results are substantially derived from film distribution, no analysis by business segment is presented.

4. MARKETING AND DISTRIBUTION EXPENSES

In previous period, marketing and distribution expenses were classified as one of the items in cost of sales and services. The directors consider that it is the common practice of the industry to show these expenses as other operating expenses and disclose separately in the income statement in order to be more informative to the readers. Accordingly, the comparative figure of the marketing and distribution expenses was reclassified to conform with the current period's presentation.

5. LOSS FROM OPERATIONS

	Six months ended	
	30.6.2003	30.6.2002
	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)	**83,506**	123,330
Cost of inventories (included in cost of sales and services)	**1,795**	4,841
Depreciation and amortisation of property, plant and equipment	**7,189**	9,013
Loss on disposal of property, plant and equipment	**309**	98
Staff costs including directors' emoluments	**13,606**	15,841
Interest income	**(397)**	(525)

6. TAXATION

	Six months ended	
	30.6.2003	30.6.2002
	HK$'000	*HK$'000*
Current tax in other jurisdictions	**97**	146

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 due to the unpredictability of future profit streams.

7. 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	
	30.6.2003	30.6.2002
	HK$'000	*HK$'000*
Loss for the purposes of basic and diluted loss per share (net loss for the period)	**(17,306)**	(36,626)

	Number of shares	
	30.6.2003	30.6.2002
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**228,519**	135,810

The computation of diluted loss per share for the periods ended 30th June, 2002 and 2003 does not assume the exercise of the Company's outstanding share options, warrants and convertible loan notes outstanding 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, 2002 for the purpose of basic and diluted loss per share has been adjusted for the rights issue with bonus issue completed in October 2002.

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

During the period, additions to the Group's property, plant and equipment amounted to approximately HK$2,157,000.

At 30th June, 2003, the directors have considered the carrying amount of the Group's investment properties carried at revalued amounts and have estimated that the carrying amounts did 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.

9. INTERESTS IN ASSOCIATES

	30.6.2003	31.12.2002
	HK$'000	*HK$'000*
Share of net assets	**99,800**	89,721
Goodwill *(note a)*	**67,303**	71,941
	167,103	161,662
Convertible notes issued by an associate *(note b)*	**33,800**	33,800
Loans to associates	—	5,000
Allowance for loans to an associate	—	(5,000)
	33,800	33,800
	200,903	195,462

Notes:

(a) The amortisation period adopted for the goodwill is 7 to 10 years and amortisation charged in the current period amounting to approximately HK$4,638,000 (1.1.2002 to 30.6.2002: HK$487,000) has been included in the amount reported as share of results of associates in the condensed consolidated income statement.

(b) 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 Holdings Limited ("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.

10. FILM RIGHTS

Additions of film rights during the period amounted to approximately HK$78,222,000.

In the opinion of the directors, the carrying value of the Group's film rights as at 30th June, 2003 did not differ significantly from its recoverable amount.

11. 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:

	30.6.2003	31.12.2002
	HK$'000	*HK$'000*
Riche Multi-Media and its subsidiaries (collectively the "Riche Group"):		
0 to 30 days	**4,438**	3,134
31 to 60 days	**380**	—
61 to 90 days	**93**	2,180
91 to 180 days	**757**	643
Over 180 days	**73**	2,546
	5,741	8,503
Others:		
0 — 30 days	**9,255**	3,353
31 — 60 days	**8,289**	1,095
61 — 90 days	**174**	163
91 — 180 days	**7,427**	2,604
Over 180 days	**1,334**	3,315
	26,479	10,530
	32,220	19,033

12. AMOUNTS DUE FROM ASSOCIATES

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

13. PLEDGED BANK DEPOSITS

At 30th June, 2003, the Group pledged deposits of approximately HK$4,514,000 to a bank to secure the general banking facilities granted to the Group.

14. TRADE CREDITORS

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

	30.6.2003	31.12.2002
	HK$'000	*HK$'000*
0 — 30 days	**13,469**	3,244
31 — 60 days	**141**	265
61 — 90 days	**693**	659
91 — 180 days	**1,505**	2,957
Over 180 days	**9,761**	9,349
	25,569	16,474

15. OTHER CREDITORS AND ACCRUALS

Included in the amount is deposits of approximately HK$3,060,000 paid by the Riche Group for the acquisition of the distribution rights of nine films.

16. BORROWINGS

	30.6.2003	31.12.2002
	HK$'000	*HK$'000*
Secured bank loan	**18,184**	19,138
Unsecured convertible loan notes	**20,000**	20,000
	38,184	39,138

The maturity of the above borrowings is as follows:

	30.6.2003	31.12.2002
	HK$'000	*HK$'000*
Within one year	**21,944**	1,920
More than one year but not exceeding five years	**6,134**	20,000
More than five years	**10,106**	17,218
	38,184	39,138
Less: Amount due within one year shown under current liabilities	**(21,944)**	(1,920)
Amount due after one year	**16,240**	37,218

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 investment properties in Hong Kong with a total net book value of HK$27.8 million at 30th June, 2003.

16. BORROWINGS *(Continued)*

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, subject to adjustment, on or after 1st July, 2002. The conversion price was adjusted to HK$5.83 per share due to the completion of rights issue, consolidation of shares and rights issue with bonus issue during the year ended 31st December, 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.

17. SHARE CAPITAL

	Number of shares *'000*	Amount *HK$'000*
Ordinary shares of HK$0.05 each		
Authorised:		
At 1st January, 2003 and 30th June, 2003	20,000,000	1,000,000
Issued and fully paid:		
At 1st January, 2003 and 30th June, 2003	228,519	11,426

18. RESERVES

	Share premium *HK$'000*	Goodwill *HK$'000*	Contributed surplus *HK$'000*	Exchange reserve *HK$'000*	Warrant reserve *HK$'000*	Capital reduction reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
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
At 1st January, 2003	**698,318**	**6,326**	**186,624**	**(48)**	**23,868**	**316,008**	**(355)**	**(443,501)**	**787,240**
Gain on expiry of warrants recognised in the income statement	**—**	**—**	**—**	**—**	**(23,868)**	**—**	**—**	**—**	**(23,868)**
Exchange adjustment	**—**	**—**	**—**	**254**	**—**	**—**	**—**	**—**	**254**
Net loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(17,306)**	**(17,306)**
At 30th June, 2003	**698,318**	**6,326**	**186,624**	**206**	**—**	**316,008**	**(355)**	**(460,807)**	**746,320**

19. RELATED PARTY TRANSACTIONS

(a) 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 excluding the theatrical rights in respect of each film in the PRC and Mongolia ("Distribution Rights") and an option to acquire the theatrical 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$0.2 million for a grade C film (cost of production not more than HK$5 million) to HK$1 million for a grade A++ film (cost of production at least HK$30 million). The territory license rights in respect of a film will be for a period of ten years. In relation to the option to acquire the theatrical rights, the additional license fee shall be equal to the balance of the total income received by the Riche Group in respect of the exploitation of such theatrical rights before payment of any distribution expenses but after deducting a sum equal to 20% of the said total income which shall be retained by the Riche Group.

During the period, the Group sold Distribution Rights to the Riche Group at a total consideration of approximately HK$4.6 million (1.1.2002 to 30.6.2002: HK$1.7 million) and received HK$6.8 million (1.1.2002 to 30.6.2002: nil) additional license fee for the sale of the theatrical rights pursuant to the relevant territory licence agreements.

(b) The Group entered into a cyber cinema rights supply agreement with the Riche Group pursuant to which the Group agreed to distribute the cyber cinema rights of the films within the PRC for the Riche Group subject to such other terms as may be agreed by the parties to the relevant future distribution agreements to be entered into. In consideration of the provision of services by the Group, the Riche Group would pay the Group distribution commission equivalent to 35% of the total income received by the Group on behalf of the Riche Group. During the period, the Group received distribution commission of approximately HK$457,000 (1.1.2002 to 30.6.2002: HK$482,000) from the Riche Group pursuant to the distribution agreements.

19. RELATED PARTY TRANSACTIONS *(Continued)*

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

		Six months ended 30.6.2003 HK$'000	Six months ended 30.6.2002 HK$'000
Lucky Assets Holdings Limited	Management fee *(Note i)*	—	120
Riche Group	Interest income *(Note ii)*	**169**	68
	Video production income *(Note i)*	**602**	363

Notes:

(i) These transactions were transacted at prices agreed between the parties.

(ii) Interest income was calculated at 1% per annum in accordance with the terms of the convertible notes issued by Riche Multi-Media.

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.

(d) Details of the amounts due from and to related parties are set out in notes 9, 11, 12 and 15.

(e) During the period, an associate utilised the trade finance banking facility granted to the Group by a bank. The extent of such facility utilised by the associate at 30th June, 2003 amounted to approximately HK$4.5 million. The Group pledged deposits of approximately HK$4,514,000 to secure this facility and will receive a fee agreed between the parties.

20. POST BALANCE SHEET EVENTS

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

(a) On 22nd July, 2003, arrangements were made for a private placement to independent investors of 20,000,000, 5,000,000, 5,000,000 and 2,190,000 shares of HK$0.05 each in the Company held by Porterstone Limited ("Porterstone"), Dorest Company Limited ("Dorest"), Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany respectively at a price of HK$0.52 per share, representing a discount of 8.77% to the closing market price of the Company's shares on 21st July, 2003. Porterstone and Dorest are companies in which Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany have deemed beneficial interests.

Pursuant to the conditional subscription agreement of the same date, Porterstone, Dorest, Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany subscribed for 26,784,505, 8,090,297, 7,400,565 and 3,426,906 new shares of HK$0.05 each in the Company respectively at a price of HK$0.52 per share. The net proceeds of approximately HK$23.1 million were intended to be used 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, 2003 and rank pari passu with other shares in issue in all respects.

(b) On 4th August, 2003, certain option holders exercised their option rights to subscribe for 2,000,000 shares in the capital of the Company at an exercise price of HK$0.564 per share in an aggregate amount of approximately HK$1.1 million. Accordingly, 2,000,000 shares of the Company were issued on the same day.

(c) On 21st August, 2003, arrangements were proposed to make for a private placement to independent investors of 27,620,000 shares of HK$0.05 each in the Company at a price of HK$1.00 per share, representing a discount of 10.70% to the closing market price of the Company's shares on 20th August, 2003. The net proceeds of approximately HK$27.3 million were intended to be used for movie production and as general working capital of the Group. The issue of 27,620,000 shares were approved by the shareholders at the special general meeting held on 16th September, 2003. These shares rank pari passu with other shares in issue in all respects.

(d) On 26th August, 2003, the Group entered into a subscription agreement with FT Holdings International Limited ("FT Holdings"), a company listed on The Stock Exchange of Hong Kong Limited, pursuant to which the Group agreed to subscribe 86,375,000 shares in FT Holdings at a subscription price of HK$0.1 per share, representing a premium of 26.58% to the closing market price of FT Holdings's shares on 26th August, 2003. Upon completion of the subscription agreement, the Group will hold about 20% of the enlarged issued share capital of FT Holdings.

Up to the date of this report, the Group had subscribed 69,100,000 shares in FT Holdings.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group's turnover for the six months ended 30th June, 2003 amounted to approximately HK$102.8 million, represented a decrease by 37%. Loss from operations amounted to approximately HK$36.9 million and a loss of approximately HK$17.3 million attributable to shareholders was recorded. During the period, the Group had recognised a gain on expiry of warrants for approximately HK$23.9 million.

DIVIDEND

The directors of the Group do not recommend the payment of any interim dividend for the six months ended 30th June, 2003 (2002: nil).

REVIEW OF OPERATIONS

For the six months ended 30th June, 2003, total turnover was HK$102.8 million, of which HK$93.3 million were derived from film distribution and the balance from video distribution and other services income. The turnover from film distribution division had significantly decreased by about 40% when compared with HK$154.6 million for the six months ended 30th June, 2002. This period, the Group had released 9 films in the market when compared with 5 films in the last corresponding period.

The turnover from Hong Kong, the PRC, South-east Asia and America and Europe accounted for approximately 52%, 13%, 21% and 12% of the total turnover respectively. The turnover from Hong Kong and South-east Asia had slightly increased by 3% and 2% respectively whereas the turnover from the PRC and America & Europe had both sharply decreased by around 70%. During the period under review, majority countries in South-east Asia as well as the PRC and Hong Kong had been encountered the most severe economic crisis in these years as the outbreak of Severe Acute Respiratory Syndrome ("SARS") had caused disastrous impacts on different business sectors for a period of more than three months. Our Group's turnover thus suffered and the performance of Hong Kong and South-east Asia markets were practically poor. Although the Group had released 9 films in the market when compared with 5 films in the last corresponding period, the turnover from Hong Kong and South-east Asia could just maintain at similar level as last period. It was our Group's policy not to delay the release date of the new movies and released them on schedule in order to fulfill the commitment we had made to the film exhibitors and our customers. Inevitably, we had to pay for our commitment as the highly contagious disease had scared away consumers from the public area, particularly those crowded cinemas. The sub-distributors were also influenced and postponed their purchase decision or adopted low profile marketing plan during this period from mid March to end of June. Negative contribution to the Group was then unavoidable. Faced with these challenges, the Group had implemented and exercised stringent cost control on production, marketing and distribution and had effectively reduced the average marketing and distribution expenses from approximately HK$5.9 million per film to HK$2.8 million per film. The turnover from the PRC sharply decreased in this period because the PRC was a major victim of SARS and only three films were released in theatres during the first half of the year. In addition, the turnover in last period had included a revenue of HK$33.8 million as consideration for 116 films' PRC rights that sold to Riche Multi-Media Holdings Limited, an associate of the Group. However, the segment contribution from the PRC increased by around 77% when compared to last corresponding period and represented a margin of 66% from its turnover as the Group had changed its operation mode from self-distribution to sub-licensing distribution rights to sub-distributor for a minimum guarantee consideration plus sharing of box office revenue during the first six months in 2003. In this period, the Group did not have any large scale production like Black Mask II that targeted the international market. As a result, turnover from American and Europe was significantly reduced.

As a result of the Group's effort in reducing the administrative expenses of the Group in these years, administrative expenses before depreciation and amortisation further decreased by about 20% to approximately HK$24.3 million when compared to last corresponding period. In respect of staff costs and rent and rates, they were further decreased by about 14% and 37% respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2003, the Group had total assets of approximately HK$940.8 million and a net current assets of HK$299.6 million, represented a current ratio of 2.9. The Group's financial position is healthy and stable. The Group had a total cash and bank balances of approximately HK$31.5 million which included bank deposits of HK$4.5 million pledged for bank facility granted. As at 30th June, 2003, the Group had total borrowings of HK$38.2 million comprising mortgage loan from a bank of HK$18.2 million and unsecured convertible loan notes ("Notes") of HK$20 million. The Group's gearing remained low during the period with total debts of HK$38.2 million against shareholders' funds of HK$757.7 million. This represented a gearing ratio, calculated in the basis of the Group's total borrowings over shareholders' fund, of 0.05. 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 HK$27.8 million. The Notes carry the right to convert into shares of HK$0.05 each in the share capital of the Company at conversion price of HK$5.83 per share as at 30th June, 2003.

Subsequent to the balance sheet date, Porterstone Limited ("Porterstone"), Dorest Company Limited ("Dorest"), Mr. Heung Wah Keung ("Mr. Heung") and Ms. Chen Ming Yin, Tiffany ("Ms. Chen") entered into a placing agreement with a placing agent and a subscription agreement with the Company respectively on 22nd July, 2003. Pursuant to the placing agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen placed 32,190,000 placing shares to independent investors at a price of HK$0.52 per share. Pursuant to the subscription agreement, Porterstone, Dorest, Mr. Heung and Ms. Chen subscribed for 45,702,273 subscription shares at a price of HK$0.52 per share. 45,702,273 shares issued for the subscription on 1st August, 2003 with net proceeds of approximately HK$23.1 million were intended to be used as general working capital of the Group.

On 4th August, 2003, certain option holders exercised their option rights to subscribe for 2,000,000 shares in the capital of the Company at an exercise price of HK$0.564 per share in an aggregate amount of approximately HK$1.1 million. Accordingly, 2,000,000 shares of the Company were issued on the same day.

On 21st August, 2003, the Company had conditionally agreed to place 27,620,000 placing shares to independent investors at a price of HK$1.00 per share. The placing was completed on 23rd September, 2003. Net proceeds of approximately HK$27.3 million were intended to be used as to approximately HK$14 million for two movies' production within this year and as to approximately HK$13.3 million for general working capital of the Group for operating activities.

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, 2003, the Group had no contingent liability.

ASSOCIATES

As at 30 June 2003, the Group had 40.61% equity interest in the group headed by Riche Multi-Media Holdings Limited ("Riche Group"), a company incorporated in Bermuda with limited liability and the shares of which are listed in The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Riche Group is principally engaged in distribution of programme, sales of advertising rights and sub-licensing of programme rights. It had net assets of approximately HK$244.4 million. The turnover of Riche Group amounted to around HK$66.4 million and the Group had shared a profit after goodwill amortisation of approximately HK$8.1 million for the six months ended 30 June 2003.

INVESTMENT

Subsequent to the balance sheet date, the Group had entered into a subscription agreement, via a wholly owned subsidiary, with FT Holdings International Limited ("FT Holdings"), a company incorporated in Bermuda with limited liability and the shares of which are listed in the Stock Exchange, dated 26th August, 2003. Under the subscription agreement, the Group, via the wholly owned subsidiary, was to acquire together a total of 69,100,000 shares of FT Holdings under tranche 1 subscription and a total of 17,250,000 shares of FT Holdings under tranche 2 subscription at a price of HK$0.10 each. The tranche 1 subscription had been completed on 10th September, 2003 and the tranche 2 subscription is expected to be completed on or before 10th October, 2003. Accordingly, the Group has approximately 16.67% equity interest after the completion of the tranche 1 subscription and will have 20% equity interest after the completion of the tranche 2 subscription in FT Holdings. The Group expected that this investment will broaden our investment base and will expand our distribution ability and network of television programmes and related multi-media services in the PRC.

PROSPECT

The thrust of focusing on China will continue and the PRC becomes a real market after the recently concluded Closer Economic Partnership Arrangement ("CEPA"). Despite being hit by SARS in the first half of 2003, China has continued to record robust economic growth and its performance starts to add real contribution to the Group.

The Group intended to establish long-term business relationship and entered into distribution agreements with customers for films produced or intended to produce by the Group. The contract with Satellite Television Asian Region Limited signed in June 2000, granting it certain rights to films released by the Group was our first success. In 2002, the Group entered into master contract with Mei Ah Entertainment Group Limited for granting it Hong Kong video rights. Recently, the Group concluded a contract with Hong Kong Cable Television Limited that granting it Hong Kong TV rights for certain films produced or intended to produce by the Group. All these contracts can create and secure the future revenue stream of our Group.

With the effect of SARS being mitigated, the relaxation of Mainland tourists' traveling to Hong Kong and the expected effect of CEPA, strong signs of recovery are already apparent in Hong Kong. With the Group's enhanced film production capacity and expensive distribution network in Hong Kong, China and the international market, the exciting turnaround of the Group is not far away.

EMPLOYEES

As at 30th June, 2003, the Group employed 118 staffs of which 21 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 basic salaries, pension fund, medical schemes and discretionary bonuses, options are awarded to certain staffs according to the assessment of individual performance.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO were as follows:

(i) Interests in ordinary shares of the Company

Name of director	Capacity	Number of shares held	Approximate percentage of interests held
Mr. Heung Wah Keung	Beneficial owner/ interest of spouse/ interest of controlled corporation	67,492,137*	29.53
Ms. Chen Ming Yin, Tiffany	Beneficial owner/ interest of spouse/ interest of controlled corporation	67,492,137*	29.53
Ms. Li Yuk Sheung	Beneficial owner	16	0.00

All interests stated above represent long positions.

* These shares are held as to 11,994,435 shares by Mr. Heung, as to 6,192,504 shares by Ms. Chen (the spouse of Mr. Heung), as to 33,885,495 shares by Porterstone (a company wholly-owned by Ms. Chen) and as to 15,419,703 shares by Dorest (a company wholly-owned by Glenstone Investments Limited which is in turn controlled as to 60% by Porterstone and as to 40% by Mr. Heung.)

(ii) Rights to acquire shares in the Company

As at 30th June, 2003, the directors of the Company had interests in share options to subscribe for shares in the Company granted as follows:

Name of director	Exercisable period *(Note c)*	Exercise price per share HK$	Number of outstanding share options at 30.6.2003 Direct interest	Deemed interest	Total	Approximate percentage of interests held
Mr. Heung Wah Keung	21.11.1996 - 20.11.2006	60.510	337,135	337,134	674,269	
	28.3.2000 - 27.3.2010	16.783	461,061	461,062	922,123	
	2.6.2000 - 1.6.2010	8.134	208,753	208,753	417,506	
	16.7.2002 - 15.7.2012	1.716	110,723	110,723	221,446	
			1,117,672	1,117,672 *(Note a)*	2,235,344	0.98
Ms. Chen Ming Yin, Tiffany	21.11.1996 - 20.11.2006	60.510	337,134	337,135	674,269	
	28.3.2000 - 27.3.2010	16.783	461,062	461,061	922,123	
	2.6.2000 - 1.6.2010	8.134	208,753	208,753	417,506	
	16.7.2002 - 15.7.2012	1.716	110,723	110,723	221,446	
			1,117,672	1,117,672 *(Note b)*	2,235,344	0.98
Ms. Li Yuk Sheung	16.7.2002 - 15.7.2012	1.716	1,109,557	—	1,109,557	0.49

All interests stated above represent long positions.

Notes:

(a) These share options are held by Ms. Chen, the spouse of Mr. Heung, Mr. Heung is therefore deemed to be interested in these share options.

(b) These share options are held by Mr. Heung, Ms. Chen is therefore deemed to be interested in these share options.

(c) The exercisable period commenced on the date of grant of the relevant share options.

Other than as set out above, as at 30th June, 2003, none of the directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

Pursuant to a resolution passed at the annual general meeting of the Company held on 27th May, 2002, the share option scheme adopted by the Company on 23rd October, 1996 (the "Old Option Scheme") was terminated and a new share option scheme (the "New Option Scheme") was adopted.

As the Old Option Scheme was terminated on 27th May, 2002, no further share options can be granted under the Old Option Scheme thereafter. However, all outstanding share options granted under the Old Option Scheme prior to the said termination shall remain valid and exercisable in accordance with the provisions of the Old Option Scheme.

Apart from the New Share Option Scheme, the Company has no other share option scheme in place.

Details of share options outstanding as at 30th June, 2003 were as follows:

Catagory of participants	Name of Scheme	Exercisable period*	Exercise price per share	Number of shares options outstanding at 1.1.2003 and 30.6.2003
Substantial Shareholders and/or directors of the Company	Old Option Scheme	21.11.1996 - 20.11.2006	60.510	674,269
		28.3.2000 - 27.3.2010	16.783	922,123
		2.6.2000 - 1.6.2010	8.134	417,506
	New Option Scheme	16.7.2002 - 15.7.2012	1.716	1,331,003
				3,344,901
Employees of the Group	Old Option Scheme	5.1.1999 - 4.1.2009	5.011	44
		28.3.2000 - 27.3.2010	16.783	285,337
		2.6.2000 - 1.6.2010	8.134	417,508
	New Option Scheme	16.7.2002 - 15.7.2012	1.716	3,328,671
				4,031,560
Other participants	New Option Scheme	16.7.2002 - 15.7.2012	1.716	4,438,228
				11,814,689

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

No share option was granted, exercised, cancelled or lapsed during the six months ended 30th June, 2003.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2003, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of shares held	Approximate percentage of interests held
Porterstone Limited	Beneficial owner	33,885,495	
	Interest of controlled corporation	15,419,703*	
		49,305,198	21.58
Glenstone Investments Limited	Interest of controlled corporation	15,419,703*	6.75

All interests stated above represent long positions.

* These shares are held by Dorest, a wholly-owned subsidiary of Glenstone Investments Limited which is in turn beneficially owned as to 60% by Porterstone.

Other than as disclosed above, the Company had not been notified of any other interests representing 5% or more of the Company's issued share capital as at 30th June, 2003.

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, 2003.

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, 2003 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, 2003

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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 No. 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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards No. 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, 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 26th September, 2003