
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this prospectus or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities of Golden Harvest Entertainment (Holdings) Limited (the "Company"), you should at once hand this prospectus to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, the accompanying forms should not be forwarded or transferred to Excluded Shareholders (as defined herein).

Dealings in the Rights Shares (as defined herein) in their nil-paid and fully-paid forms may be settled through the Central Clearing and Settlement System ("CCASS") and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

A copy of this prospectus, together with copies of the provisional allotment letter and the form of application for excess Rights Shares, have been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. A set of these documents will be filed with the Registrar of Companies in Bermuda pursuant to the Companies Act 1981 of Bermuda. The Registrar of Companies in Hong Kong, the Securities and Futures Commission of Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of any documents referred to above.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms by The Stock Exchange of Hong Kong Limited ("Stock Exchange") as well as compliance with the stock admission requirements of Hong Kong Securities Clearing Company Limited ("HKSCC"), the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, or such other dates as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Stock Exchange and HKSCC take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.



GOLDEN HARVEST ENTERTAINMENT (HOLDINGS) LIMITED (嘉禾娛樂事業(集團)有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1132)

PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY FOUR EXISTING SHARES HELD BY QUALIFYING SHAREHOLDERS

Underwriter

F B G E M I N I

FB Gemini Capital Limited

The Underwriter may terminate the Underwriting Agreement by notice in writing to the Company, prior to 4:00 p.m. on the third Business Day after the date on which the latest time for acceptance of the Rights Shares falls, which is expected to be Friday, 14 January 2005, if: 1. one of a number of specified events occurs which might, in the reasonable opinion of the Underwriter, materially adversely affect the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Rights Issue; or 2. the Underwriter shall receive notification pursuant to the Underwriting Agreement or shall otherwise become aware of the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, materially untrue or inaccurate or would be materially untrue or inaccurate if repeated as provided in the Underwriting Agreement and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or 3. any change occurs in the circumstances of the Company or any member of the Group which might materially adversely affect the business, financial or trading position or prospects of the Group as a whole; or 4. the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission would have a material adverse effect on the business, financial or trading position of the Group as a whole; or 5. any event, or series of events, beyond the control of the Underwriter (including, without limitation, acts of government, strike, lock-outs, fire, explosion, flooding, civil commotion, acts of war or acts of God) occurs which in the reasonable opinion of the Underwriter has or would have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Rights Issue or pursuant to the underwriting thereof, then and in any such case the Underwriter in its sole discretion may (but shall not be bound to), upon giving notice to the Company, terminate the Underwriting Agreement with immediate effect. For further details, please refer to the section headed "Termination of the Underwriting Agreement" as set out on page 4 of this prospectus.

Shareholders should note that the Shares have been dealt with on an ex-entitlements basis commencing from Thursday, 16 December 2004. The Rights Shares will be dealt in their nil-paid form from Friday, 24 December 2004 to Thursday, 6 January 2005, both days inclusive. Shareholders should also note that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Rights Issue is subject are fulfilled will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Tuesday, 11 January 2005. The procedure for acceptance or transfer of the Rights Shares is set out on pages 12 to 13 of this prospectus.

* For identification purposes only

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SUMMARY OF THE RIGHTS ISSUE

The following information is derived from, and should be read in conjunction with, the full text of the prospectus.

Basis of the Rights Issue	:	One Rights Share for every four Shares held by a Qualifying Shareholder on the Record Date
Subscription Price	:	HK\$0.250 per Rights Share
Number of Rights Shares	:	Not less than 259,821,875 Rights Shares and not more than 264,846,875 Rights Shares
Right of excess application	:	Qualifying Shareholders will have the right to apply for excess Rights Shares
Basis of entitlement	:	Nil-paid Rights Shares will be provisionally allotted to Qualifying Shareholders in the proportion of one Rights Share for every four Shares held on the Record Date. No provisional allotment of nil-paid Rights Shares will be made to Excluded Shareholders
Estimated net proceeds from the Rights Issue	:	Not less than approximately HK\$62.0 million

EXPECTED TIMETABLE

Record Date	Wednesday, 22 December 2004
Register of members re-opens	Thursday, 23 December 2004
First day of dealings in nil-paid Rights Shares	Friday, 24 December 2004
Latest time for splitting nil-paid Rights Shares	4:00 p.m. on Monday, 3 January 2005
Last day of dealings in nil-paid Rights Shares	Thursday, 6 January 2005
Latest time for acceptance of, and payment for, Rights Shares and application and payment for excess Rights Shares	4:00 p.m. on Tuesday, 11 January 2005
Rights Issue expected to become unconditional	4:00 p.m. on Friday, 14 January 2005
Announcement of the results of acceptance of Rights Issue in newspapers on or before	Wednesday, 26 January 2005
Despatch of refund cheques in respect of wholly or partly unsuccessful applications for excess Rights Shares on or before	Friday, 28 January 2005
Certificates for fully-paid Rights Shares to be despatched on or before	Friday, 28 January 2005
Dealings in fully-paid Rights Shares on the Stock Exchange to commence on	Tuesday, 1 February 2005

Dates or deadlines specified in this prospectus for events in the timetable for (or otherwise in relation to) the Rights Issue are indicative only and may be varied by agreement between the Company and the Underwriter. Any changes to the expected timetable will be notified to the Shareholders.

RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

NOTICE TO UNITED KINGDOM RESIDENTS

This prospectus does not constitute an offer to the public within the meaning of the United Kingdom's Financial Services and Markets Act 2000 or the Public Offers of Securities Regulations 1995. This prospectus is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 43 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons together being referred to as "**relevant persons**"). This prospectus is provided to recipients on a personal basis and must not be transferred or assigned or otherwise acted or relied upon by persons who are not relevant persons. Any investment or investment activity to which this prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing to the Company at any time prior to 4:00 p.m. on the third Business Day following the date on which the latest time for acceptance of the Rights Shares falls if:-

1. any of the following events occurs which might, in the reasonable opinion of the Underwriter, materially adversely affect the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Rights Issue:
 - (i) the introduction of any new law or regulation or any change in existing law or regulation or any change in the judicial interpretation or application thereof or other occurrence of any nature whatsoever; or
 - (ii) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event of change in relation to or a development of an existing state of affairs) of a political, military, financial, regulatory, economic, currency or other nature (whether or not sui generic with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or
 - (iii) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange or on commercial banking activities in New York, London, Hong Kong or Taiwan occurring due to exceptional financial circumstances or any declarations made by the relevant authorities; or
 - (iv) a change or development involving a prospective change in taxation in Hong Kong, Bermuda or the PRC or elsewhere or the implementation of exchange controls; or
 - (v) any change in the conditions of local, national or international securities markets; or
 - (vi) any disruption of settlement of securities or clearance services on any of the stock exchanges of New York, London, Hong Kong or Taiwan; or
 - (vii) the outbreak or escalation of hostilities involving the United States, the United Kingdom, Hong Kong or Taiwan or the declaration by the United States, the United Kingdom, Hong Kong or Taiwan of a national emergency or war; or
 - (viii) the terms of the Acquisition having been varied in any aspect or the Acquisition Agreement having been terminated; or
 - (ix) the Company having failed to provide sufficient information to the reasonable satisfaction of the Underwriter that sufficient funding arrangement for the Acquisition has been or will be in place; or
 - (x) any three of the four executive Directors as at the date of the Underwriting Agreement having ceased to be executive Directors; or
2. the Underwriter shall receive notification pursuant to the Underwriting Agreement or shall otherwise become aware of the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, materially untrue or inaccurate or would be materially untrue or inaccurate if repeated as provided in the Underwriting Agreement and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
3. any change occurs in the circumstances of the Company or any member of the Group which might materially adversely affect the business, financial or trading position or prospects of the Group as a whole; or
4. the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission would have a material adverse effect on the business, financial or trading position of the Group as a whole; or

TERMINATION OF THE UNDERWRITING AGREEMENT

5. any event, or series of events, beyond the control of the Underwriter (including, without limitation, acts of government, strike, lock-outs, fire, explosion, flooding, civil commotion, acts of war or acts of God) occurs which in the reasonable opinion of the Underwriter has or would have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Rights Issue or pursuant to the underwriting thereof,

then and, in any such case, the Underwriter may, by notice in writing given to the Company on or before 4:00 p.m. on the third Business Day following the date on which the latest time for acceptance of the Rights Shares falls, terminate the Underwriting Agreement. Upon termination of the Underwriting Agreement, the Rights Issue will not proceed.

DEFINITIONS

In this prospectus, the following expressions shall have the following meanings unless the context requires otherwise:

“Acquisition”	the acquisition by Golden Sky of a 40% (or more) interest in the capital interest in Warner Village Taiwan, and certain shareholders loans, pursuant to the Acquisition Agreement, as announced by the Company on 21 October 2004
“Acquisition Agreement”	the Share and Loan Purchase Agreement dated 18 October 2004 entered into between Warner Bros., Village Cinemas, Golden Sky, two Taiwanese corporations and the Company relating to the Acquisition
“Announcement”	the announcement issued by the Company dated 30 November 2004 in relation to the Rights Issue
“Application Form(s)”	the provisional allotment letter(s), together with application form(s) for use by the Qualifying Shareholders to apply for excess Rights Shares
“associates”	has the meaning ascribed thereto in the Listing Rules
“BMA”	Bermuda Monetary Authority
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Bye-laws”	bye-laws of the Company
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	Golden Harvest Entertainment (Holdings) Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Director(s)”	directors of the Company, including the independent non-executive directors of the Company
“Excluded Shareholders”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose address is/are in a place(s) outside Hong Kong where, the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient to exclude any such Shareholder on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place
“Enlarged Group”	the Group and Warner Village Taiwan
“FB Gemini”	FB Gemini Capital Limited, a licensed corporation to carry on business in types 1, 4 and 6 regulated activities (dealing in securities, advising on securities and corporate finance) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Golden Sky”	Golden Sky Pacific Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong
“Group”	the Company and its subsidiaries

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Last Trading Date”	Friday, 26 November 2004, being the last trading day before suspension of the trading of the Shares on the Stock Exchange pending the release of the Announcement
“Latest Practicable Date”	Friday, 17 December 2004, being the latest practicable date prior to the printing of the Prospectus Documents for the purpose of ascertaining certain information contained in the Prospectus Documents
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of the Prospectus Documents, excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC
“Prospectus Documents”	this prospectus and the Application Forms
“Purchase Price”	the aggregate purchase price for the Sale Shares and related Shareholders Loan in the amount of US\$38 million (approximately HK\$296.40 million)
“Qualifying Shareholder(s)”	Shareholder(s), other than Excluded Shareholders, whose names appear on the register of members of the Company on the Record Date
“Record Date”	Wednesday, 22 December 2004, being the date by reference to which entitlements to the Rights Issue will be determined
“Registrar”	Tengis Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, the Company’s Hong Kong share registrar
“Rights Issue”	the issue of the Rights Shares on the basis of one Rights Share for every four existing Shares held on the Record Date at a price of HK\$0.250 per Rights Share as set out in the Prospectus Documents
“Rights Shares”	not less than 259,821,875 new Shares and not more than 264,846,875 new Shares proposed to be offered to the Qualifying Shareholders for subscription pursuant to the Rights Issue
“Sale Shares”	100% capital interest in Warner Village Taiwan in the aggregate amount of NT\$12 million (approximately HK\$2.73 million)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Sellers”	Warner Bros. and Village Cinemas which together hold 100% capital interest in Warner Village Taiwan
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Shareholders Loans”	a number of loans in the current aggregate amounts of NT\$429 million (approximately HK\$97.51 million) and US\$59 million (approximately HK\$460.20 million) advanced by Warner Bros. and Village Cinemas to Warner Village Taiwan

DEFINITIONS

“Share Options”	share options granted to eligible participants under the share option schemes of the Company adopted on 2 November 1994 (which was terminated on 28 November 2001) and 28 November 2001 (currently outstanding Share Options granted under both share option schemes entitling their holders to subscribe for an aggregate of 20,100,000 Shares)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.250 per Rights Share
“Substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Territories”	Hong Kong, the British Virgin Islands, the United Kingdom and Thailand
“Underwriter”	FB Gemini
“Underwriting Agreement”	the agreement dated 26 November 2004 made between the Company and the Underwriter relating to the underwriting and other arrangements in respect of the Rights Issue
“Village Cinemas”	Village Cinemas International Pty Ltd., a limited company incorporated under the laws of Australia
“Warner Village Taiwan”	Warner Village Cinemas Co., Ltd., a limited company incorporated under the laws of the Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“NT\$”	New Taiwan dollars, the lawful currency of the Republic of China
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

Unless otherwise stated, amounts in US\$ have been translated into HK\$ at an exchange rate of US\$1 to HK\$7.8, and amounts in NT\$ have been translated into HK\$ at an exchange rate of NT\$1 to HK\$0.2273, for illustration purposes only.

LETTER FROM THE BOARD



GOLDEN HARVEST ENTERTAINMENT (HOLDINGS) LIMITED **(嘉禾娛樂事業(集團)有限公司*)**

(Incorporated in Bermuda with limited liability)

(Stock Code: 1132)

Executive directors:

Chow Ting Hsing, Raymond (*Chairman*)
Phoon Chiong Kit
Chan Sik Hong, David
Chin Chow Chung Hang, Roberta
Lau Pak Keung (alternate director to Phoon Chiong Kit)

Non-executive director:

Kronfeld, Eric Norman

Independent non-executive directors:

Lin, Frank
Prince Yukol, Chatrichalerm
Ma Kah Woh, Paul

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Principal Place of Business
in Hong Kong:*

16th Floor
The Peninsula Office Tower
18 Middle Road
Tsimshatsui
Kowloon
Hong Kong

22 December 2004

*To the Qualifying Shareholders and, for information only,
the Excluded Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE OF NOT LESS THAN 259,821,875 RIGHTS SHARES
AND NOT MORE THAN 264,846,875 RIGHTS SHARES
AT A PRICE OF HK\$0.250 PER RIGHTS SHARE
ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY
FOUR EXISTING SHARES HELD ON THE RECORD DATE**

INTRODUCTION

On 30 November 2004, the Directors announced that the Company proposed to raise, before expenses, not less than approximately HK\$65.0 million through the issue of not less than 259,821,875 Rights Shares and not more than approximately HK\$66.2 million through the issue of not more than 264,846,875 Rights Shares by way of a rights issue at a price of HK\$0.250 per Rights Share on the basis of one Rights Share for every four existing Shares held on the Record Date.

The purpose of this prospectus is to give further information regarding, among other things, the Rights Issue, including information on dealings in, transfers and acceptances of the Rights Shares, and other information in respect of the Group.

THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	:	One Rights Share for every four Shares held by a Qualifying Shareholder on the Record Date
Subscription Price	:	HK\$0.250 per Rights Share

* *For identification purposes only*

LETTER FROM THE BOARD

Number of Shares in issue	:	1,039,287,500 Shares
Number of Rights Shares	:	Not less than 259,821,875 Rights Shares and not more than 264,846,875 Rights Shares
Number of Rights Shares underwritten by the Underwriter	:	100% of the Rights Shares

As at the Latest Practicable Date, there were outstanding Share Options entitling the holders to subscribe for an aggregate of 20,100,000 Shares, subject to adjustments. None of them had been exercised by the Record Date.

Other than the Share Options mentioned above, the Company had no other outstanding options or convertible securities as at the Latest Practicable Date.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) this prospectus, for information only, to the Excluded Shareholders. To qualify for the Rights Issue, Shareholders must at the close of business on the Record Date:

- (i) be registered on the register of members of the Company; and
- (ii)
 - (a) have an address in Hong Kong on the register of members of the Company; or
 - (b) have an address outside Hong Kong on the register of members of the Company unless the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient to exclude any such Shareholder on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place – see under “Rights of the Excluded Shareholders” below.

One Rights Share in nil-paid form has been provisionally allotted for every four Shares held by Qualifying Shareholders on the Record Date.

Closure of register of members

The register of members of the Company has been closed from Monday, 20 December 2004 to Wednesday, 22 December 2004, both dates inclusive, for the purpose of determining entitlements to participate in the Rights Issue. No transfer of Shares has been registered during this period.

Subscription Price

The Subscription Price is HK\$0.250 per Rights Share, payable in full by the Qualifying Shareholders upon acceptance of the provisional allotment of Rights Shares under the Rights Issue or application for excess Rights Shares. The Subscription Price represents:

1. a discount of approximately 5.66% to the closing price of HK\$0.265 per Share as quoted on the Stock Exchange on the Last Trading Day;
2. a discount of approximately 4.58% to the theoretical ex-rights price of about HK\$0.262 per Share based on that closing price of HK\$0.265 per Share as quoted on the Stock Exchange on the Last Trading Day;
3. a discount of approximately 5.30% to the average closing price of about HK\$0.264 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
4. a discount of approximately 3.85% to the closing price of HK0.260 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
5. a discount of approximately 2.34% to the average closing price of approximately HK0.256 per Share as quoted on the Stock Exchange for the ten trading days up to and including the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to the prevailing market conditions. The Directors consider the terms of the Rights Issue to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole. The Directors also consider that the discounted price for each Rights Share as compared to the recent market prices should encourage the Shareholders to participate in the Rights Issue.

LETTER FROM THE BOARD

Fractions of Rights Shares

The Company will not provisionally allot fractions of Rights Shares. The Company will sell any Rights Shares created from the aggregation of fractions of Rights Shares (if a premium, net of expenses, can be obtained), and will retain the proceeds for its own benefit.

Status of the Rights Shares

The Rights Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects with the then existing Shares in issue. Holders of such Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Rights Shares.

Certificates of the Rights Shares and refund cheques

Subject to fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted on or before Friday, 28 January 2005 to those who have accepted, or where applicable applied for, and paid for the Rights Shares, by ordinary post at their own risk, and refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before Friday, 28 January 2005 by ordinary post to applicants at their own risk.

Rights of the Excluded Shareholders

The Prospectus Documents will not be registered or filed under any securities or equivalent legislation jurisdictions other than Hong Kong and Bermuda. Based on the register of members of the Company as at the Record Date, there were Shareholders with registered addresses outside Hong Kong in the following countries: Malaysia, the British Virgin Islands, the United States, Spain, the United Kingdom and Thailand. The Company has made enquiries with local counsels in these countries regarding the feasibility of extending the Rights Issue to the Shareholders with registered addresses in these countries and whether this would contravene the applicable securities legislation of the relevant overseas jurisdictions or the requirements of the relevant regulatory body or stock exchange. Based on the legal advice provided by local counsels in these countries, the Directors are of the view that it is necessary or expedient not to offer the Rights Shares to Shareholders whose registered addresses are in Malaysia, the United States or Spain. Accordingly, Shareholders whose registered addresses are in Malaysia, the United States or Spain will be the Excluded Shareholders and the Rights Issue will not be available to them. The Company will send this prospectus to the Excluded Shareholders for their information only. The Company will not send the Application Forms to the Excluded Shareholders. Shareholders whose registered addresses are in the British Virgin Islands, the United Kingdom and Thailand are included as Qualifying Shareholders and the Rights Issue will be extended to them.

Arrangements will be made for the Rights Shares which would have otherwise been provisionally allotted to such Excluded Shareholder to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be paid pro-rate to the relevant Excluded Shareholder in Hong Kong dollars. The Company will keep individual amounts of less than HK\$100 for its own benefit. Any unsold Rights Shares will be available for excess application.

Selling restrictions

No action (including registration or filing under any applicable legislation of any jurisdiction other than Hong Kong and Bermuda) has been taken to permit the offering of the Rights Shares or the distribution of this prospectus or the Application Forms in any jurisdiction other than Hong Kong.

No person receiving a copy of this prospectus or a provisional allotment letter or a form of application for excess Rights Shares in any jurisdiction outside Hong Kong may treat it as an offer or invitation to apply for the Rights Shares, unless in the relevant jurisdiction such an offer or invitation could lawfully be made without compliance with any registration or other legal or regulatory requirements. It is the responsibility of any person outside Hong Kong wishing to make an application for Rights Shares to satisfy himself/herself as to the observance of the laws and regulations of all relevant territories, including the obtaining of any government or other consents, and to pay any taxes and duties required to be paid in such jurisdiction in connection therewith. No application for Rights Shares will be accepted from any person whose registered address is outside the Territories. The Company reserves the right to refuse to accept any application for Rights Shares where it believes that acceptance would violate the applicable securities or other laws and regulations of any jurisdiction outside Hong Kong.

LETTER FROM THE BOARD

Completion and return of a provisional allotment letter by any person in the Territories will constitute a warranty and representation to the Company, by such person, that all registration, legal or regulatory requirements of all relevant jurisdictions in connection with the provisional allotment letter, have been, or will be, complied with.

The following information is provided for guidance only.

UK Representations

In the event that you are resident in the United Kingdom, or if any communication relating to the prospectus is or was made to you while in the United Kingdom (“UK Offerees”), we hereby give you notice that we are relying on exemptions from the provisions of the relevant securities laws and regulations in the United Kingdom. By purchasing Rights Shares each UK Offeree will be deemed to have made a representation and warranty in the terms of the following paragraph:

The UK Offeree is a person to whom communications or offers of securities may be addressed without breach of the United Kingdom’s Financial Services and Markets Act 2000, the Public Offers of Securities Regulations 1995 or any other applicable UK laws and regulations and, furthermore, that one or more of the following exemptions apply to it:

- **the UK Offeree is a person who receives or has received the prospectus and all related communications outside the United Kingdom; or**
- **the UK Offeree is a member of the Company who is entitled to a relevant investment which is issued by acceptance of the Rights Shares.**

Listing and dealings

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares, in both their nil-paid and fully-paid forms. Dealings in both the nil-paid and fully-paid Rights Shares registered in the branch register of the Company in Hong Kong will be subject to the payment of stamp duty in Hong Kong.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Rights Shares in their nil-paid and fully-paid forms will be traded in board lots of 2,000 Rights Shares.

PERMISSION OF THE BMA

Permission under the Exchange Control Act 1972 of Bermuda (and regulations made thereunder) has been received from the BMA in respect of the issue of the Rights Shares to persons regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that the Rights Shares are listed on the Stock Exchange. In granting such permission and in accepting the Prospectus Documents for filing, neither the BMA nor the Registrar of Companies of Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any statements made or opinions expressed in the Prospectus Documents.

PROCEDURE FOR ACCEPTANCE OR TRANSFER

A provisional allotment letter is enclosed with this prospectus for Qualifying Shareholders which entitles Qualifying Shareholders to subscribe for the number of Rights Shares shown therein. If Qualifying Shareholders wish to exercise their rights to subscribe for all the Rights Shares specified in the enclosed provisional allotment letter, Qualifying Shareholders must lodge the provisional allotment letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by not later than 4:00 p.m. on Tuesday, 11 January 2005. All remittances must be made by cheque or cashier’s order in Hong Kong dollars. Cheques must be drawn on an account with, and cashier’s orders must be issued by, a bank in Hong Kong and made payable to “Golden Harvest Entertainment (Holdings) Limited – Rights Issue Account” and crossed “ACCOUNT PAYEE ONLY”.

LETTER FROM THE BOARD

It should be noted that unless the provisional allotment letter, together with the appropriate remittance, has been lodged with Tengis Limited by 4:00 p.m. on Tuesday, 11 January 2005, whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

The provisional allotment letter contains the full information regarding the procedure to be followed if Qualifying Shareholders wish to accept only part of their provisional allotment or if they wish to renounce all or part of their provisional allotment.

If Qualifying Shareholders wish to accept only part of their provisional allotment or transfer a part of their rights to subscribe for the Rights Shares provisionally allotted thereunder, or to transfer their rights to more than one person, the entire provisional allotment letter must be surrendered and lodged for cancellation by not later than 4:00 p.m. on Monday, 3 January 2005 to the Registrar who will cancel the original provisional allotment letter and issue new provisional allotment letters in the denominations required.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such monies shall be retained for the benefit of the Company. Any provisional allotment letter in respect of which the accompanying cheque is dishonoured on first presentation is liable to be rejected, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Underwriter exercises the right of termination to terminate its obligations under the Underwriting Agreement at any time prior to 4:00 p.m. on the third Business Day after the date on which the latest time for acceptance of the Rights Shares falls, which is expected to be Friday, 14 January 2005, and/or if the conditions of the Underwriting Agreement (summarised in the section headed "Conditions of the Underwriting Agreement" below) are not fulfilled, the monies received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form shall have been validly transferred or, in the case of joint applicants, to the first-named person, without interest, by means of cheques despatched in the ordinary post at the risk of such Qualifying Shareholders or such other persons on Friday, 28 January 2005.

APPLICATION FOR EXCESS RIGHTS SHARES

Qualifying Shareholders are entitled to apply for any unsold entitlements and any Rights Shares provisionally allotted but not accepted by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for.

The Directors will allocate the excess Rights Shares at their discretion, on a fair and equitable basis by reference to the number of excess Rights Shares applied for by each Qualifying Shareholder, but will give preference to topping up odd lots to whole board lots.

Any Rights Shares to which Excluded Shareholders would otherwise have been provisionally allotted and which are not sold as referred to in the paragraph headed "Rights of Excluded Shareholders" below and any unsold Rights Shares created by adding together fractions of Rights Shares and any Rights Shares allotted provisionally but not accepted will be available for application through the form of application for excess Rights Shares by Qualifying Shareholders.

If Qualifying Shareholders wish to apply for any Rights Shares in addition to their provisional allotment under the Rights Issue, they must complete and sign the enclosed form of application for excess Rights Shares as indicated therein and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by not later than 4:00 p.m. on Tuesday, 11 January 2005. All remittances must be made by a separate cheque or cashier's order in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's order must be issued by, a bank in Hong Kong and made payable to "**Golden Harvest Entertainment (Holdings) Limited – Excess Application Account**" and crossed "ACCOUNT PAYEE ONLY". The Registrar will notify you of any allotment of excess Rights Shares made to you, which allotment will be allocated on a fair and reasonable basis to be decided at the sole discretion of the Directors.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such monies shall be retained for the benefit of the Company. Any form of application for excess Rights Shares in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

LETTER FROM THE BOARD

If the Underwriter exercises the right of termination to terminate its obligations under the Underwriting Agreement at any time prior to 4:00 p.m. on the third Business Day after the date on which the latest time for acceptance of the Rights Shares falls, which is expected to be Friday, 14 January 2005, and/or if the conditions of the Underwriting Agreement (summarised in the section headed “Conditions of the Underwriting Agreement” below) are not fulfilled, the monies received in respect of applications for excess Rights Shares will be returned to the Qualifying Shareholders or, in the case of joint applicants, to the first-named person without interest, by means of cheques despatched in the ordinary post at the risk of such Qualifying Shareholders on Friday, 28 January 2005.

THE UNDERWRITING AGREEMENT DATED 26 NOVEMBER 2004

Pursuant to the Underwriting Agreement, the Underwriter has agreed to underwrite all of the Rights Shares.

The Underwriter is not a connected person (as defined in the Listing Rules) of the Company.

The Company will pay to the Underwriter an underwriting commission calculated at 2.5% of the aggregate Subscription Price of the Rights Shares underwritten by the Underwriter.

Termination of the Underwriting Agreement

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing to the Company at any time prior to 4:00 p.m. on third Business Day following the latest date for acceptance of the Rights Shares if:

- 1. any of the following events occurs which might, in the reasonable opinion of the Underwriter, materially adversely affect the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Rights Issue:**
 - (i) the introduction of any new law or regulation or any change in existing law or regulation or any change in the judicial interpretation or application thereof or other occurrence of any nature whatsoever; or**
 - (ii) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event of change in relation to or a development of an existing state of affairs) of a political, military, financial, regulatory, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or**
 - (iii) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange or on commercial banking activities in New York, London, Hong Kong or Taiwan occurring due to exceptional financial circumstances or any declarations made by the relevant authorities; or**
 - (iv) a change or development involving a prospective change in taxation in Hong Kong, Bermuda or the PRC or elsewhere or the implementation of exchange controls; or**
 - (v) any change in the conditions of local, national or international securities markets; or**
 - (vi) any disruption of settlement of securities or clearance services on any of the stock exchanges of New York, London, Hong Kong or Taiwan; or**
 - (vii) the outbreak or escalation of hostilities involving the United States, the United Kingdom, Hong Kong or Taiwan or the declaration by the United States, the United Kingdom, Hong Kong or Taiwan of a national emergency or war; or**
 - (viii) the terms of the Acquisition having been varied in any aspect or the Acquisition Agreement having been terminated; or**
 - (ix) the Company having failed to provide sufficient information to the reasonable satisfaction of the Underwriter that sufficient funding arrangement for the Acquisition has been or will be in place; or**

LETTER FROM THE BOARD

- (x) any three of the four executive Directors as at the date of the Underwriting Agreement having ceased to be executive Directors; or
2. the Underwriter shall receive notification pursuant to the Underwriting Agreement or shall otherwise become aware of the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, materially untrue or inaccurate or would be materially untrue or inaccurate if repeated as provided in the Underwriting Agreement and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
 3. any change occurs in the circumstances of the Company or any member of the Group which might materially adversely affect the business, financial or trading position or prospects of the Group as a whole; or
 4. the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission would have a material adverse effect on the business, financial or trading position of the Group as a whole; or
 5. any event, or series of events, beyond the control of the Underwriter (including, without limitation, acts of government, strike, lock-outs, fire, explosion, flooding, civil commotion, acts of war or acts of God) occurs which in the reasonable opinion of the Underwriter has or would have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Rights Issue or pursuant to the underwriting thereof,

then and, in such case, the Underwriter may, by notice in writing given to the Company on or before 4:00 p.m. on the third Business Day following the date on which the latest time for acceptance of the Rights Shares falls, terminate the Underwriting Agreement. Upon termination of the Underwriting Agreement, the Rights Issue will not proceed.

Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional upon, among other things, the following conditions being fulfilled:

1. the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms;
2. the registration of the Prospectus Documents with the Registrar of Companies in Hong Kong and the delivery and filing of the Prospectus Documents with the Registrar of Companies in Bermuda;
3. the Bermuda Monetary Authority granting the consent to the issue of the Rights Shares, if required; and
4. the compliance by the Company of its obligations under the Underwriting Agreement.

The Rights Issue is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

WARNING OF THE RISK OF DEALINGS IN SHARES AND NIL-PAID RIGHTS SHARES

The Rights Issue is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the section headed "Termination of the Underwriting Agreement" above). Accordingly, the Rights Issue may or may not proceed.

Shareholders and potential investors should therefore exercise caution when dealing in the Shares. If they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the Shares have been dealt in on an ex-entitlements basis commencing from Thursday, 16 December 2004. The Rights Shares will be dealt in in their nil-paid form from Friday, 24 December 2004 to Thursday, 6 January 2005, both days inclusive. Shareholders should also note that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on

LETTER FROM THE BOARD

which all conditions to which the Rights Issue is subject are fulfilled will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following is the shareholding structure of the Company immediately before and after completion of the Rights Issue, assuming no Share Options have been exercised prior to the completion of the Rights Issue:

	Immediately before completion of the Rights Issue		Immediately after completion of the Rights Issue (assuming all Qualifying Shareholders take up their entitlements under the Rights Issue)		Immediately after completion of the Rights Issue (assuming no Qualifying Shareholder takes up his/her/its entitlement under the Rights Issue)	
	Shares (approximately)	%	Shares (approximately)	%	Shares (approximately)	%
Chow Ting Hsing, Raymond (<i>Note 1</i>)	250,537,223	24.11%	313,171,527	24.11%	250,537,223	19.29%
Li Ka-shing (<i>Note 2</i>)	178,054,000	17.13%	222,567,500	17.13%	178,054,000	13.71%
Typhoon Music (PRC) Limited (<i>Note 3</i>)	155,000,000	14.91%	193,750,000	14.91%	155,000,000	11.93%
PAMA Group Inc.	123,284,027	11.86%	154,105,033	11.86%	123,284,027	9.49%
FB Gemini	0	0.00%	0	0.00%	259,821,875	20.00%
Public	332,412,250	31.99%	415,515,315	31.99%	332,412,250	25.58%
Total	1,039,287,500	100.00%	1,299,109,375	100.00%	1,299,109,375	100.00%

Notes:

- Chow Ting Hsing, Raymond is deemed to be interested in 250,537,223 Shares by virtue of his 100% beneficial holding in Planet Gold Associates Limited and Net City Limited which hold 146,568,473 Shares and 103,968,750 Shares, respectively. Chow Yuan Hsi Hua, Felicia, the spouse of Chow Ting Hsing, Raymond, is deemed to be interested in the same shares in which Chow Ting Hsing, Raymond is interested. Chow Ting Hsing, Raymond has informed the Board that he intends to arrange for the full subscription of the Rights Shares to be provisionally allotted in relation to his shareholdings.
- Li Ka-shing is deemed to be interested in 178,054,000 Shares by virtue of his 100% beneficial holding in Mayspin Management Limited which in turn owns the entire interest in each of Garex Resources Limited, which holds 150,414,000 Shares, Podar Investment Limited, which holds 25,000,000 Shares, and Oscar Resources Limited, which holds 2,640,000 Shares.
- EMI Group Plc has 100% control of Virgin Music Group Limited, which has 100% control of EMI Group Worldwide Limited, which in turn has a 50% shareholding in Typhoon Music (PRC) Limited. Cheng Tung Hon, Norman has 100% control of Typhoon Records Limited, which has a 50% shareholding in Typhoon Music (PRC) Limited. Each of EMI Group Plc, Virgin Music Group Limited, EMI Group Worldwide Limited, Cheng Tung Hon, Norman and Typhoon Records Limited is deemed to be interested in the 155,000,000 Shares held by Typhoon Music (PRC) Limited. Feng Yuen Cheung, Lily, the spouse of Cheng Tung Hon, Norman, is deemed to be interested in the same shares in which Cheng Tung Hon, Norman is interested.

LETTER FROM THE BOARD

The following is the shareholding structure of the Company immediately before and after completion of the Rights Issue, assuming all the Share Options have been exercised prior to the completion of the Rights Issue:

	Immediately before completion of the Rights Issue		Immediately after completion of the Rights Issue (assuming all Qualifying Shareholders take up their entitlements under the Rights Issue)		Immediately after completion of the Rights Issue (assuming no Qualifying Shareholder takes up his/her/its entitlement under the Rights Issue)	
	Shares	%	Shares	%	Shares	%
	(approximately)		(approximately)		(approximately)	
Chow Ting Hsing, Raymond (Note 1)	250,537,223	23.65%	313,171,527	23.65%	250,537,223	18.92%
Li Ka-shing (Note 2)	178,054,000	16.81%	222,567,500	16.81%	178,054,000	13.45%
Typhoon Music (PRC) Limited (Note 3)	155,000,000	14.63%	193,750,000	14.63%	155,000,000	11.70%
PAMA Group Inc.	123,284,027	11.64%	154,105,033	11.64%	123,284,027	9.31%
FB Gemini	0	0.00%	0	0.00%	264,846,875	20.00%
Public	352,512,250	33.27%	440,640,315	33.27%	352,512,250	26.62%
Total	1,059,387,500	100.00%	1,324,234,375	100.00%	1,324,234,375	100.00%

Notes:

- Chow Ting Hsing, Raymond is deemed to be interested in 250,537,223 Shares by virtue of his 100% beneficial holding in Planet Gold Associates Limited and Net City Limited which hold 146,568,473 Shares and 103,968,750 Shares, respectively. Chow Yuan Hsi Hua, Felicia, the spouse of Chow Ting Hsing, Raymond, is deemed to be interested in the same shares in which Chow Ting Hsing, Raymond is interested. Chow Ting Hsing, Raymond has informed the Board that he intends to arrange for the full subscription of the Rights Shares to be provisionally allotted in relation to his shareholdings.
- Li Ka-shing is deemed to be interested in 178,054,000 Shares by virtue of his 100% beneficial holding in Mayspin Management Limited which in turn owns the entire interest in each of Garex Resources Limited, which holds 150,414,000 Shares, Podar Investment Limited, which holds 25,000,000 Shares, and Oscar Resources Limited, which holds 2,640,000 Shares.
- EMI Group Plc has 100% control of Virgin Music Group Limited, which has 100% control of EMI Group Worldwide Limited, which in turn has a 50% shareholding in Typhoon Music (PRC) Limited. Cheng Tung Hon, Norman has 100% control of Typhoon Records Limited, which has a 50% shareholding in Typhoon Music (PRC) Limited. Each of EMI Group Plc, Virgin Music Group Limited, EMI Group Worldwide Limited, Cheng Tung Hon, Norman and Typhoon Records Limited is deemed to be interested in the 155,000,000 Shares held by Typhoon Music (PRC) Limited. Feng Yuen Cheung, Lily, the spouse of Cheng Tung Hon, Norman, is deemed to be interested in the same shares in which Cheng Tung Hon, Norman is interested.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The principal activities of the Group consist of worldwide film and video distribution, film exhibition in Hong Kong, Malaysia, Singapore and the PRC, film production and the operation of a film processing business in Hong Kong.

The expenses of the Rights Issue are estimated to be approximately HK\$3.0 million, which will be borne by the Company. The net proceeds of the Rights Issue after expenses are expected to be not less than approximately HK\$62.0 million. The Company intends to use the net proceeds from the Rights Issue for the purposes of financing in part the Acquisition, provided that if the Company does not proceed with the Acquisition for any reason, the Company intends to use the net proceeds for investment purposes if suitable opportunities arise, and for general working capital purposes.

The Directors consider that the Rights Issue provides an opportunity for the Group to strengthen its capital base and to provide part of the financing required to fund the Acquisition. For further details on the Acquisition, please refer to the section headed "The Acquisition" below. It also provides an opportunity to the Company's shareholders to participate in the growth of the Company. In addition, the Rights Issue will also allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company. Accordingly, the Directors consider that it is in the interest of the Company and its Shareholders as a whole to raise capital through the Rights Issue.

LETTER FROM THE BOARD

THE ACQUISITION

Pursuant to the Acquisition Agreement, Golden Sky, a wholly-owned subsidiary of the Company, together with two Taiwanese corporations (collectively, the “Purchasers”), conditionally agreed with Warner Bros. and Village Cinemas to acquire the entire capital interest in Warner Village Taiwan and the benefit of Shareholders Loans advanced by Warner Bros. and Village Cinemas to Warner Village Cinemas for an aggregate purchase price of US\$38 million (approximately HK\$296.40 million). Of the interests in the capital interest in Warner Village Taiwan and the Shareholders Loans agreed to be purchased by the Purchasers, Golden Sky has agreed to acquire a 40% interest at a pro-rated consideration of US\$15.2 million (approximately HK\$118.56 million). The Acquisition Agreement entitles each Purchaser to step-in and purchase additional capital interest in Warner Village Taiwan at completion (the “Step-in Purchaser”) should the other Purchaser(s) decide(s) not to fulfil its/their obligations under the Acquisition Agreement at completion. If one or both of the other Purchaser(s) fail(s) to complete its/their purchase (“Affected Purchaser(s)”) and if Golden Sky elects to step-in and purchase the capital interests of such Purchaser(s) under the Acquisition Agreement at completion, Golden Sky shall be able to acquire at a maximum 100% of the capital interest in Warner Village Taiwan.

The portion of the consideration payable by Golden Sky for its acquisition of a 40% interest in the Sale Shares and the Shareholders Loans is US\$15.2 million (approximately HK\$118.56 million). In order to provide funds for payment of a premium to secure certain lease amendments to be entered into by the respective landlords and Warner Village Taiwan after the completion of the Acquisition with respect to two existing leases, each Purchaser has undertaken to provide (if required) an advance to Warner Village Taiwan upon completion of the Acquisition Agreement in an amount equal to such proportion of NT\$135 million (approximately HK\$30.68 million) as its percentage of Sales Shares and related Shareholders Loans bears to 100%. In this regard, based on the acquisition by Golden Sky of a 40% interest in the Sale Shares and the Shareholders Loan, the pro-rata amount to be advanced (if required) by Golden Sky to Warner Village Taiwan would be NT\$54 million (approximately HK\$12.27 million).

The Directors intend that the portion of the consideration payable by Golden Sky in the amount of US\$15.2 million (approximately HK\$118.56 million) and the portion of the advance to secure the Lease Amendments payable by Golden Sky (if required) in the amount of NT\$54 million (approximately HK\$12.27 million) will be funded by a bank loan of US\$8 million (approximately HK\$62.40 million) and net proceeds from the proposed Rights Issue which are estimated to amount to not less than approximately HK\$62.0 million (details of which are contained in the announcement dated 30 November 2004), and the balance shall be satisfied by the internal resources of the Group.

If one or both of the other Purchasers fail(s) to complete its/their purchase and if Golden Sky elects to become the Step-in Purchaser, it will be acquiring additional interests in the Sale Shares and the Shareholders Loans at the pro-rated portion of the Purchase Price less the deposit(s) already paid by the Affected Purchaser(s). In that event, the obligations of Golden Sky under the Acquisition Agreement would also increase by an amount determined by reference to the additional interest Golden Sky would be acquiring in Warner Village Taiwan, to be partly financed by the same means as described under the current proposed purchase of a 40% interest in the Sale Shares and Shareholders Loans of Warner Village Taiwan, with the remainder to be financed by additional bank borrowings and/or proceeds from additional share placings (if any) other than the Rights Issue. However, as at the Latest Practicable Date, the Company did not have an intention to purchase additional capital interests in Warner Village Taiwan or arrange further placements of Shares.

Warner Village Taiwan is one of the leading film exhibition operators in Taiwan and currently operates a total of 83 screens at 8 sites in Taiwan with 25 screens in the Greater Taipei area (Taipei and Tien Mou), 25 screens in the Southern Taiwan area (Kaohsiung and Tainan), and 33 screens in the central Taiwan area (Hsinchu and Taichung). It opened the first 17 screen megaplex theatre in the Taipei’s Hsin-Yi district in 1998. The Directors have been informed by the Sellers that the screens operated by Warner Village Taiwan in Taiwan in 2003 accounted for approximately 27% and 30% of the total cinema box office receipts in Taipei and the whole of Taiwan, respectively.

Upon completion of the Acquisition, the aggregate of the remuneration payable to and benefits in kind receivable by the Directors will remain unchanged.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group will continue to be headquartered in Hong Kong, supported by a strong presence in Singapore, Malaysia and Taiwan. With the signing of the Mainland China-Hong Kong Closer Economic Partnership Arrangement (“CEPA”), the Group will be actively looking for new investment opportunities in Mainland China. The Group is currently developing a new cinema multiplex in Shenzhen, which is expected to commence operations in December 2004.

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The Chinese language entertainment industry remains one filled with great potential within Southeast Asia and the PRC. The Directors believe the Group will continue to leverage its strength and vision across Hong Kong, Singapore, Malaysia and Taiwan to further consolidate its position as a major film distributor and cinema operator in the overseas Chinese market and in Southeast Asia and to exploit other growing markets where Chinese language films have a significant potential and a strong market following.

CAPITAL RAISING ACTIVITIES OF THE COMPANY DURING THE 12 MONTHS PRIOR TO THE LATEST PRACTICABLE DATE

The following table summaries the capital raising activities of the Group for the 12 months immediately prior to the Latest Practicable Date:

Date of announcement	Date of agreement	Nature of transaction	Amount of net proceeds raised	Intended use of net proceeds	Amount of net proceeds used as at the date of this announcement	Unutilized amount as at the date of this announcement
16 July 2004	14 July 2004	Subscription of new Shares by Typhoon Music (PRC) Limited	Approximately HK\$36.4 million	General working capital purposes	HK\$23.4 million for general working capital	Nil
				Capital contribution towards a joint venture company	HK\$6 million for capital contribution towards a film financing business joint venture	Nil
				Future investment opportunities in the film related businesses	HK\$7 million for capital contribution towards cinema operations joint venture	Nil

EXPENSES

The expenses in connection with the Rights Issue, including documentation fees, underwriting commission, printing, translation, legal and accountancy charges and other professional fees are estimated to be approximately HK\$3.0 million and are payable out of the Rights Issue proceeds by the Company.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this prospectus.

Yours faithfully,
On behalf of the Board
Chow Ting Hsing, Raymond
Chairman

SUMMARY FINANCIAL INFORMATION

Set out below is a summary of the consolidated results and of the assets, liabilities and minority interests of the Group for the last five financial years as extracted from the audited financial statements and restated/reclassified as appropriate.

	Year ended 30 June				
	2004	2003	2002	2001	2000
RESULTS	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>218,477</u>	<u>210,270</u>	<u>264,030</u>	<u>269,694</u>	<u>103,590</u>
LOSS BEFORE TAX	(900)	(135,778)	(82,489)	(69,858)	(77,912)
Tax	<u>(10,763)</u>	<u>(5,611)</u>	<u>(4,134)</u>	<u>(4,622)</u>	<u>(3,912)</u>
LOSS BEFORE MINORITY INTERESTS	(11,663)	(141,389)	(86,623)	(74,480)	(81,824)
Minority interests	<u>–</u>	<u>6</u>	<u>5</u>	<u>5</u>	<u>–</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(11,663)</u>	<u>(141,383)</u>	<u>(86,618)</u>	<u>(74,475)</u>	<u>(81,824)</u>
			30 June		
ASSETS, LIABILITIES AND MINORITY INTERESTS	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
FIXED ASSETS	55,753	73,632	88,947	101,460	106,385
INTERESTS IN ASSOCIATES	182,613	160,130	159,509	169,794	191,554
INVESTMENTS IN CLUB MEMBERSHIPS	4,380	4,380	4,380	4,380	4,380
RENTAL DEPOSITS	11,869	13,134	13,179	14,206	14,386
LONG TERM INVESTMENT TRADEMARKS	–	–	2,297	8,097	40,000
CURRENT ASSETS	<u>89,173</u>	<u>107,199</u>	<u>177,015</u>	<u>213,794</u>	<u>295,056</u>
TOTAL ASSETS	<u>423,209</u>	<u>437,678</u>	<u>524,400</u>	<u>590,303</u>	<u>727,093</u>
CURRENT LIABILITIES	(97,813)	(124,513)	(109,053)	(93,805)	(140,469)
NON-CURRENT PORTION OF FINANCE LEASE PAYABLES	(709)	(1,174)	(473)	–	–
PROVISION FOR LONG SERVICE PAYMENTS	(3,800)	(3,091)	(2,478)	(1,274)	(1,114)
DEFERRED TAX	<u>(878)</u>	<u>(931)</u>	<u>(1,010)</u>	<u>(1,058)</u>	<u>(1,107)</u>
TOTAL LIABILITIES	<u>(103,200)</u>	<u>(129,709)</u>	<u>(113,014)</u>	<u>(96,137)</u>	<u>(142,690)</u>
MINORITY INTERESTS	<u>–</u>	<u>(22)</u>	<u>(28)</u>	<u>(33)</u>	<u>(38)</u>
NET ASSETS	<u>320,009</u>	<u>307,947</u>	<u>411,358</u>	<u>494,133</u>	<u>584,365</u>

1. SUMMARY OF AUDITED FINANCIAL STATEMENTS OF THE GROUP

Set out below are the audited financial statements of the Group for the year ended 30 June 2004 together with the relevant notes as extracted from the annual report of the Company for the year ended 30 June 2004.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
TURNOVER	5, 6	218,477	210,270
Cost of sales		<u>(94,093)</u>	<u>(109,271)</u>
Gross profit		124,384	100,999
Interest income		14	403
Other revenue		12,506	7,102
Selling and distribution costs		(106,229)	(112,685)
General and administrative expenses		(52,488)	(54,262)
Other operating expenses, net		(5,751)	(36,227)
Impairment of film rights		<u>(3,543)</u>	<u>(11,215)</u>
LOSS FROM OPERATING ACTIVITIES	7	(31,107)	(105,885)
Write-off of interests in associates		–	(75)
Impairment of a long term investment		–	(2,297)
Impairment of interest in an associate		(1,413)	(2,000)
Impairment of goodwill		–	(37,606)
Finance costs	8	(363)	(628)
Share of profits and losses of associates		<u>31,983</u>	<u>12,713</u>
LOSS BEFORE TAX		(900)	(135,778)
Tax	9	<u>(10,763)</u>	<u>(5,611)</u>
LOSS BEFORE MINORITY INTERESTS		(11,663)	(141,389)
Minority interests		<u>–</u>	<u>6</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>(11,663)</u>	<u>(141,383)</u>
LOSS PER SHARE	11		
Basic		<u>(1.3 cents)</u>	<u>(17.7 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

30 June 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (Restated)
NON-CURRENT ASSETS			
Fixed assets	12	55,753	73,632
Interests in associates	14	182,613	160,130
Investments in club memberships		4,380	4,380
Rental deposits		11,869	13,134
Trademarks	15	79,421	79,203
		<u>334,036</u>	<u>330,479</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		23,387	30,690
Inventories	16	556	417
Film rights and films in progress	17	20,184	27,698
Accounts receivable	18	22,471	20,037
Cash and bank balances		22,575	28,357
		<u>89,173</u>	<u>107,199</u>
CURRENT LIABILITIES			
Accounts payable	19	52,070	70,084
Accrued liabilities and other payables		30,509	37,359
Customer deposits		2,330	4,437
Current portion of finance lease payables	20	471	445
Provision for employee benefits	21	1,319	1,615
Tax payable		11,114	10,573
		<u>97,813</u>	<u>124,513</u>
NET CURRENT LIABILITIES		<u>(8,640)</u>	<u>(17,314)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		325,396	313,165
NON-CURRENT LIABILITIES			
Non-current portion of finance lease payables	20	709	1,174
Provision for long service payments	21	3,800	3,091
Deferred tax	22	878	931
		<u>5,387</u>	<u>5,196</u>
MINORITY INTERESTS		<u>–</u>	<u>22</u>
		<u>320,009</u>	<u>307,947</u>
CAPITAL AND RESERVES			
Issued share capital	23	88,429	80,089
Reserves	25(a)	231,580	227,858
		<u>320,009</u>	<u>307,947</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2004

	Issued share capital <i>HK\$'000</i>	Reserves							Total reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>
		Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Surplus reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>		
At 1 July 2002:										
As previously reported	80,089	565,577	145	(50,089)	(157,682)	480	7,864	(34,126)	332,169	412,258
Prior year adjustment - notes 4 and 22	-	-	-	-	-	-	(900)	-	(900)	(900)
As restated	80,089	565,577	145	(50,089)	(157,682)	480	6,964	(34,126)	331,269	411,358
Exchange adjustments on translation of:										
- overseas subsidiaries	-	-	-	-	-	-	-	116	116	116
- overseas associates	-	-	-	-	-	-	-	296	296	296
Net gains and losses not recognised in the profit and loss account	-	-	-	-	-	-	-	412	412	412
Impairment of goodwill	-	-	-	37,606	-	-	-	-	37,606	37,606
Deferred tax debited to equity	-	-	-	-	-	-	(31)	-	(31)	(31)
Net loss for the year	-	-	-	-	(141,383)	-	-	-	(141,383)	(141,383)
On liquidation of interests in associates	-	-	-	-	-	-	-	(15)	(15)	(15)
At 30 June 2003	80,089	565,577	145	(12,483)	(299,065)	480	6,933	(33,729)	227,858	307,947

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Year ended 30 June 2004

	Issued share capital HK\$'000	Reserves							Total reserves HK\$'000	Total HK\$'000
		Share premium account HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Surplus reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000		
At 1 July 2003:										
As previously reported	80,089	565,577	145	(12,483)	(299,065)	480	7,864	(33,729)	228,789	308,878
Prior year adjustment										
- notes 4 and 22	-	-	-	-	-	-	(931)	-	(931)	(931)
As restated	80,089	565,577	145	(12,483)	(299,065)	480	6,933	(33,729)	227,858	307,947
Issue of shares	8,340	15,012	-	-	-	-	-	-	15,012	23,352
Share issue expenses	-	(924)	-	-	-	-	-	-	(924)	(924)
Exchange adjustments										
on translation of:										
- overseas subsidiaries	-	-	-	-	-	-	-	(654)	(654)	(654)
- overseas associates	-	-	-	-	-	-	-	2,016	2,016	2,016
Net gains and losses not recognised in the profit and loss account	-	-	-	-	-	-	-	1,362	1,362	1,362
Deferred tax credited to equity	-	-	-	-	-	-	53	-	53	53
Net loss for the year	-	-	-	-	(11,663)	-	-	-	(11,663)	(11,663)
Realisation of exchange fluctuation reserve on disposal of subsidiaries and associates	-	-	-	-	-	-	-	(118)	(118)	(118)
At 30 June 2004	88,429	579,665	145	(12,483)	(310,728)	480	6,986	(32,485)	231,580	320,009
Reserves retained by:										
Company and subsidiaries	88,429	579,665	145	(12,483)	(281,484)	-	6,986	685	293,514	381,943
Associates	-	-	-	-	(29,244)	480	-	(33,170)	(61,934)	(61,934)
At 30 June 2004	88,429	579,665	145	(12,483)	(310,728)	480	6,986	(32,485)	231,580	320,009
Company and subsidiaries	80,089	565,577	145	(12,483)	(226,419)	-	6,933	1,375	335,128	415,217
Associates	-	-	-	-	(72,646)	480	-	(35,104)	(107,270)	(107,270)
At 30 June 2003	80,089	565,577	145	(12,483)	(299,065)	480	6,933	(33,729)	227,858	307,947

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2004

	2004	2003
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(900)	(135,778)
Adjustments for:		
Interest income	(14)	(403)
Finance costs	363	628
Depreciation	16,245	18,293
Loss on disposal of fixed assets	1,345	108
Gain on disposal of associates	(47)	–
Write-off of interests in associates	–	75
Impairment of interest in an associate	1,413	2,000
Loss on disposal of subsidiaries	161	–
Exchange gains arising from translation of advances to overseas associates in Asia and other monetary assets and liabilities denominated in foreign currencies as at the balance sheet date	(2,352)	(456)
Share of profits and losses of associates	(31,983)	(12,713)
Impairment of a long term investment	–	2,297
Impairment of film rights	3,543	11,215
Impairment of goodwill	–	37,606
Provision/(write-back of provision) for doubtful debts, net	(2,927)	2,788
Exchange adjustments	(636)	73
	<hr/>	<hr/>
Operating loss before working capital changes	(15,789)	(74,267)
Decrease in prepayments, deposits and other receivables	8,007	24,732
Increase in inventories	(155)	(99)
Decrease in film rights and films in progress	3,971	14,393
Decrease in accounts receivable	486	6,270
Increase/(decrease) in accounts payable	(17,624)	14,341
Increase/(decrease) in accrued liabilities and other payables	(6,950)	3,553
Decrease in customer deposits	(2,107)	(2,696)
Decrease in provision for employee benefits	(296)	(585)
Increase in provision for long service payments	709	613
	<hr/>	<hr/>
Cash used in operations	(29,748)	(13,745)
Interest received	14	403
Interest paid	(264)	(548)
Interest element on finance lease rental payments	(99)	(80)
Overseas tax paid	(445)	(41)
Overseas tax refunded	474	77
	<hr/>	<hr/>
Net cash outflow from operating activities	(30,068)	(13,934)

CONSOLIDATED CASH FLOW STATEMENT (Continued)

Year ended 30 June 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net cash outflow from operating activities		<u>(30,068)</u>	<u>(13,934)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(1,694)	(1,814)
Proceeds from disposal of fixed assets		210	163
Investment in an associate		–	(205)
Proceeds from disposal of associates		1,632	1,199
Acquisition of subsidiaries	26(a)	(101)	–
Proceeds from disposal of subsidiaries	26(b)	898	–
Repayment from associates, net		324	4,583
Rental deposits paid		(647)	(188)
Refund of rental deposits		1,912	233
Additions to trademarks		(218)	(130)
Net cash inflow from investing activities		<u>2,316</u>	<u>3,841</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares, net		22,428	–
Repayment of finance lease obligations		(439)	(484)
Net cash inflow/(outflow) from financing activities		<u>21,989</u>	<u>(484)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(5,763)	(10,577)
Cash and cash equivalents at beginning of year		28,357	38,874
Exchange adjustments		(19)	60
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>22,575</u></u>	<u><u>28,357</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u><u>22,575</u></u>	<u><u>28,357</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****BALANCE SHEET**

30 June 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	13	320,314	307,979
CURRENT ASSETS			
Prepayments		135	135
Cash and bank balances		20	1,593
		<u>155</u>	<u>1,728</u>
CURRENT LIABILITIES			
Accrued liabilities and other payables		<u>460</u>	<u>829</u>
NET CURRENT ASSETS/(LIABILITIES)			
		<u>(305)</u>	<u>899</u>
		<u>320,009</u>	<u>308,878</u>
CAPITAL AND RESERVES			
Issued share capital	23	88,429	80,089
Reserves	25(b)	<u>231,580</u>	<u>228,789</u>
		<u>320,009</u>	<u>308,878</u>

NOTES TO FINANCIAL STATEMENTS*30 June 2004***1. CORPORATE INFORMATION**

The principal activity of the Company is investment holding. The principal activities of the Group consist of worldwide film and video distribution; film exhibition in Hong Kong, Malaysia, Singapore and Mainland China; film and television drama series production; and the operation of a film processing business in Hong Kong.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice (“SSAP”) 12 “Income taxes” is effective for the first time for the current year’s financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax liability has been recognised on the revaluation of the Company’s leasehold land and buildings.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 4, 9 and 22 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustment arising from them are included in notes 4, 9 and 22 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 30 June 2004, together with the Group’s share of the results for the year and post-acquisition reserves of its associates, as set out below. The results of the subsidiaries and associates acquired or disposed of during the year are consolidated/equity accounted for from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Associates**

An associate is a company, not being a subsidiary, in which the Group has a long term interest of not less than 20 percent. of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

In prior years, the Group's share of the post-acquisition results and reserves of its associates was calculated from the latest available audited and management financial statements of the associates which were made up to 30 June, with the exception of Golden Screen Cinemas Sdn. Bhd. ("GSC") for which the latest available financial statements made up to 31 December were used, after making appropriate adjustments for significant transactions and events in the intervening period to 30 June between GSC and the Group.

In the current financial year, the financial statements of GSC was made available up to 30 June 2004. Accordingly, to align the financial statements period with that of the Group, the Group's share of the post-acquisition results and reserves of GSC is based on GSC's financial statements made up to 30 June 2004, and therefore, included its results for the 18 months to 30 June 2004. The Group's share of the results after tax for the additional 6 months amounted to approximately HK\$2,495,000.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 July 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 July 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any remaining attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Long term leasehold land	over the unexpired terms of the leases
Buildings	4%
Leasehold improvements	10% – 33 $\frac{1}{3}$ %
Machinery and equipment	10% – 25%
Furniture and fixtures	10% – 25%
Motor vehicles	20%
Air-conditioning systems	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sale proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits or accumulated losses is transferred directly to retained profits or accumulated losses.

Investments in club memberships

Investments in club memberships are stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club memberships.

Trademarks

Trademarks are stated at cost less any impairment losses and are not amortised.

Long term investments

Long term investments in unlisted equity securities, which are intended to be held on a continuing basis, and which are held for identified long term purposes documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account in the period in which they arise.

When the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

Accounts receivable

Accounts receivable, which generally have credit terms of one to three months, are recognised and carried at the original invoiced amount. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices, less any further costs expected to be incurred to completion and disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Film rights and amortisation***(i) Film rights*

Film rights represent films and television drama series and are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is charged to the profit and loss account based on the proportion of actual income earned during the year to the total estimated income from the sale of film rights. Where there is an impairment in value, the unamortised balance is written down to its estimated recoverable amount.

(ii) Films in progress

Films in progress are stated at cost less any impairment losses. Costs include all direct costs associated with the production of films or television drama series. Impairment losses are made for costs which are in excess of the expected future revenue generated by these films or television drama series. Costs are transferred to film rights upon completion.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and the Group's share of net assets of overseas associates expressed in foreign currencies are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars as the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Employee benefits*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employee Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

The Group operates a defined contribution retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions to the Scheme are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The Group's employer contributions are fully and immediately vested with the employees when contributed to the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme (the "State Scheme") operated by the government of the PRC. Contributions to the state scheme are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the State Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Employee benefits** *(Continued)**Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for long service payments are made based on relevant labour laws and regulations governing retirement payments and are reviewed by the directors on an annual basis and adjusted where applicable.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) film royalties income, theatre advertising income and video distribution income, on an accrual basis;
- (b) film distribution commission income, film developing and printing service income, advertising agency fee income, production control fee income, and film sourcing and consultancy service income, on completion of the services;
- (c) gross box office takings, when the services have been rendered to the buyers;
- (d) income from confectionery sales and compact disc sales, at the point of sales when the confectionery and compact discs are given to the customers;
- (e) rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms;
- (f) interest, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable; and
- (g) dividends, when the shareholders' right to receive payment is established.

4. PRIOR YEAR ADJUSTMENT

In the current year, the revised SSAP 12 “Income taxes” became effective as detailed in note 2 to the financial statements. The resulting change in accounting policy relating to the recognition of deferred tax liability that arises from the revaluation of a leasehold land and building has been made retrospectively and, accordingly, the comparative balances for the year ended 30 June 2003 have been restated. The effect of this change is an increase in the Group’s net deferred tax liability as at 30 June 2004 and 2003 by HK\$878,000 and HK\$931,000, respectively, of which the corresponding debits were directly charged against the revaluation reserve of the same amount. As a consequence, the revaluation reserves at 1 July 2003 and 2002 have been decreased by HK\$931,000 and HK\$900,000, respectively.

5. SEGMENT INFORMATION

Segment information is presented by way of segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group’s operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the film and video distribution segment engages in worldwide distribution of films and audio visual products related to films and television programmes;
- (b) the film exhibition segment engages in film exhibition in Hong Kong, Malaysia, Singapore and Mainland China;
- (c) the film and television drama series production segment engages in production controller and film producer services; and
- (d) the others segment comprises film processing business and music production business, which provide film processing services and produce soundtracks and sell soundtrack albums.

In determining the Group’s geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

5. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

	Film and video distribution		Film exhibition		Film and television drama series production		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	51,225	77,993	146,271	116,602	200	910	20,781	14,765	-	-	218,477	210,270
Inter-segment sales	1,762	2,024	-	-	-	-	294	268	(2,056)	(2,292)	-	-
Other revenue	5,748	3,806	2,470	2,308	1,401	1,505	410	319	(1,305)	(1,395)	8,724	6,343
Total	58,735	83,823	148,741	118,910	1,601	2,415	21,485	15,352	(3,361)	(3,687)	227,201	216,813
Segment results	126	(8,406)	(24,394)	(64,025)	(9,677)	(24,497)	2,585	574	-	722	(31,360)	(95,632)
Interest income and unallocated gains											3,796	962
Impairment of film rights	(3,543)	(11,215)	-	-	-	-	-	-	-	-	(3,543)	(11,215)
Loss from operating activities											(31,107)	(105,885)
Write-off of interests in associates	-	(75)	-	-	-	-	-	-	-	-	-	(75)
Impairment of a long term investment											-	(2,297)
Impairment of interest in an associate	-	-	(1,413)	(2,000)	-	-	-	-	-	-	(1,413)	(2,000)
Impairment of goodwill	-	-	-	-	-	(37,606)	-	-	-	-	-	(37,606)
Finance costs											(363)	(628)
Share of profits and losses of associates	2,372	(833)	29,611	13,546	-	-	-	-	-	-	31,983	12,713
Loss before tax											(900)	(135,778)
Tax											(10,763)	(5,611)
Loss before minority interests											(11,663)	(141,389)
Minority interests											-	6
Net loss from ordinary activities attributable to shareholders											(11,663)	(141,383)

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Film and video distribution		Film exhibition		Film and television drama series production		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
												(Restated)
Segment assets	58,201	76,495	64,698	92,268	3,915	20,007	11,594	10,674	-	(15,390)	138,408	184,054
Interests in associates	405	737	182,208	159,393	-	-	-	-	-	-	182,613	160,130
Trademarks											79,421	79,203
Unallocated assets											22,767	14,291
Total assets											423,209	437,678
Segment liabilities	25,041	37,070	23,841	29,063	1,206	4,002	4,080	6,485	-	(15,426)	54,168	61,194
Unallocated liabilities											49,032	68,515
Total liabilities											103,200	129,709
Other segment information:												
Depreciation	529	628	12,976	14,363	454	802	693	680	-	-	14,652	16,473
Unallocated amounts											1,593	1,820
											16,245	18,293
Amortisation of film rights	14,093	30,919	-	-	-	-	-	-	-	-	14,093	30,919
Provision/(write-back of provision) for doubtful debts, net	(3,282)	2,559	151	339	-	-	204	(110)	-	-	(2,927)	2,788
Capital expenditure	68	202	1,314	1,183	-	-	133	-	-	-	1,515	1,385
Unallocated amounts											179	1,881
											1,694	3,266

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Elsewhere in Asia		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	201,748	174,917	3,697	17,555	3,407	15,052	11,681	5,038	(2,056)	(2,292)	218,477	210,270
Other segment information:												
Segment assets	155,104	167,971	4,663	25,363	1,383	4,308	25	703	-	-	161,175	198,345
Interests in associates											182,613	160,130
Trademarks											79,421	79,203
											423,209	437,678
Capital expenditure	1,607	3,037	68	213	19	16	-	-	-	-	1,694	3,266

6. TURNOVER

Turnover represents proceeds from the sale of film, video and television rights, motion picture distribution and theatre operation, advertising agency fees earned, invoiced value of film developing and printing services rendered, production control fees earned, service fees earned for film sourcing and consultancy, and sale of audio visual products.

7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cost of inventories sold	9,410	6,345
Cost of services provided	70,590	72,007
Amortisation of film rights	14,093	30,919
Auditors' remuneration	1,348	1,486
Depreciation	16,245	18,293
Loss on disposal of fixed assets	1,345	108
Loss on disposal of subsidiaries	161	–
Operating lease rental payments in respect of land and buildings		
Minimum lease payments	37,002	39,165
Contingent rents	1,424	1,811
	<u>38,426</u>	<u>40,976</u>
Staff costs, excluding directors' remuneration (see note 28)		
Wages, salaries and staff welfares *	45,763	47,644
Pension contributions	1,557	1,632
	<u>47,320</u>	<u>49,276</u>
Provisions for long service payments	709	613
Exchange gains arising from translation of advances to overseas associates in Asia and other monetary assets and liabilities denominated in foreign currencies as at the balance sheet date	(2,352)	(456)
Provision/(write-back of provision) for doubtful debts, net	(2,927)	2,788
Provision for deposits paid for equipment	–	20,731
Exchange gains, net	(1,109)	(93)
Rental income, net	(365)	(365)
Interest income on bank deposits	(14)	(263)
Gain on disposal of associates	(47)	–
Write-off of aged liabilities	(12,044)	–
Interest income from related parties	<u>–</u>	<u>(140)</u>

* Balance also included the amount of "Provision for long service payments" disclosed above.

The cost of services provided includes approximately HK\$2,974,000 (2003: HK\$3,308,000) relating to staff costs which is also included in the amount disclosed above.

The amortisation of film rights for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

The write-off of aged liabilities of approximately HK\$6,899,000, HK\$3,598,000, HK\$575,000 and HK\$972,000 are included in "Cost of Sales", "Other revenue", "General and administrative expenses" and "Other operating expenses", respectively, on the face of the consolidated profit and loss account.

8. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on accounts payable	264	548
Interest on finance leases	99	80
	<u>363</u>	<u>628</u>

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on country legislation, interpretations and practices in respect thereof.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Group:		
Hong Kong	642	355
Elsewhere	(130)	189
Deferred (note 22)	–	(110)
	<u>512</u>	<u>434</u>
Associates:		
Charge for the year	2,893	–
Deferred	7,358	5,177
	<u>10,251</u>	<u>5,177</u>
Total tax charge for the year	<u><u>10,763</u></u>	<u><u>5,611</u></u>

At the date of approval of the financial statements, a subsidiary of the Group has disputes with the Hong Kong Inland Revenue Department (“HKIRD”) on the non-taxable claim of certain non-Hong Kong sourced income for the years of assessment 1995/1996 and 1996/1997. The subsidiary is pursuing its objection of the HKIRD’s assessments and the directors consider that sufficient tax provision has been made in this regard.

A reconciliation of the tax expense applicable to loss before tax using the statutory rates ranging from 17.5% to 33% for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Group		
Loss before tax	<u>(900)</u>	<u>(135,778)</u>
Tax at statutory rates	(157)	(23,761)
Higher tax rate for specific provinces or local authority	1,612	(1,488)
Effect on opening deferred tax of decrease in tax rates	(951)	–
Adjustments in respect of current tax of previous periods	(2,159)	(1,282)
Income not subject to tax	(3,103)	(1,902)
Expenses not deductible for tax	6,555	15,841
Temporary differences not recognised	1,671	576
Tax losses not recognised	9,522	19,472
Tax losses from previous periods utilised	(2,227)	(1,845)
Tax charge at the Group’s effective rate	<u><u>10,763</u></u>	<u><u>5,611</u></u>

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$11,297,000 (2003: HK\$80,194,000).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$11,663,000 (2003: HK\$141,383,000) and the weighted average of 877,223,566 shares (2003: 800,887,500 shares) in issue during the year.

No disclosure of diluted loss per share for both current year and prior year is shown as the exercise price of the Company’s outstanding share options was higher than the average market price of the Company’s ordinary shares during the year and thus the share options have no diluting effect.

12. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Air- conditioning systems HK\$'000	Total HK\$'000
Cost or valuation:							
At beginning of year	9,300	69,203	29,758	21,490	3,373	588	133,712
Additions	–	468	1,085	141	–	–	1,694
Disposals	–	(815)	(1,206)	(788)	(357)	–	(3,166)
Disposal of subsidiaries	–	(165)	(294)	(2,607)	–	–	(3,066)
Exchange adjustments	–	–	9	–	39	–	48
At 30 June 2004	9,300	68,691	29,352	18,236	3,055	588	129,222
Accumulated depreciation:							
At beginning of year	3,007	30,229	15,344	10,006	925	569	60,080
Provided during the year	358	8,713	3,865	2,666	632	11	16,245
Disposals	–	(225)	(999)	(300)	(87)	–	(1,611)
Disposal of subsidiaries	–	(63)	(125)	(1,104)	–	–	(1,292)
Exchange adjustments	–	–	21	–	26	–	47
At 30 June 2004	3,365	38,654	18,106	11,268	1,496	580	73,469
Net book value:							
At 30 June 2004	<u>5,935</u>	<u>30,037</u>	<u>11,246</u>	<u>6,968</u>	<u>1,559</u>	<u>8</u>	<u>55,753</u>
At 30 June 2003	<u>6,293</u>	<u>38,974</u>	<u>14,414</u>	<u>11,484</u>	<u>2,448</u>	<u>19</u>	<u>73,632</u>
Analysis of cost or valuation:							
At cost	–	68,691	29,352	18,236	3,055	588	119,922
At valuation	9,300	–	–	–	–	–	9,300
	<u>9,300</u>	<u>68,691</u>	<u>29,352</u>	<u>18,236</u>	<u>3,055</u>	<u>588</u>	<u>129,222</u>

The leasehold land and buildings are situated in Hong Kong and are held under long term leases.

The net book value of the Group's fixed assets held under finance leases included in the total amount of machinery and equipment and motor vehicles at 30 June 2004, amounted to HK\$48,000 (2003: HK\$70,000) and HK\$1,361,000 (2003: HK\$1,911,000), respectively.

The long term leasehold land and buildings were revalued on 30 September 1994 by an independent firm of professionally qualified valuers, C.Y. Leung & Company Limited, at HK\$9,300,000 at open market value assuming sale with vacant possession. The surplus arising from the revaluation was credited to the revaluation reserve account. The Group has adopted the transitional provision, as permitted under paragraph 80 of SSAP 17 issued in 1995 and revised in 2001, of not making further regular valuations on its revalued assets.

Had the Group's land and buildings been carried at cost less accumulated depreciation and any impairment losses, they would have been included in the financial statements at approximately HK\$668,000 (2003: HK\$707,000).

13. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	167,647	167,647
Due from subsidiaries	741,247	717,718
	<u>908,894</u>	<u>885,365</u>
Provision for impairment	(588,580)	(577,386)
	<u>320,314</u>	<u>307,979</u>

The balances with subsidiaries are unsecured, interest-free and not expected to be repaid within the next twelve months.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and principal operations	Issued and fully paid share/ registered capital	Percentage of equity attributable to the Group	Principal activities
Cine Art Laboratory Limited	Hong Kong	Ordinary HK\$2,500 Deferred* HK\$997,500	100	Film developing and printing
City Entertainment Corporation Limited	Hong Kong	Ordinary HK\$2	100	Theatre operation
Conneway Films Company Limited	Hong Kong	Ordinary HK\$31,610,000	100	Theatre operation
Gala Film Distribution Limited	Hong Kong	Ordinary HK\$10,000 Deferred* HK\$10,000	100	Distribution of motion pictures
Golden Harvest Cinemas Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Golden Harvest Entertainment Company Limited	Hong Kong	Ordinary HK\$100 Deferred* HK\$114,000,000	100	Investment holding
Golden Harvest Entertainment International Limited	British Virgin Islands	Ordinary US\$1,000	100	Investment holding
Golden Harvest Films Distribution Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Golden Harvest Film Productions Limited	Hong Kong	Ordinary HK\$100,000	100	Provision of production controller and film producer services
Golden Harvest (Marks) Limited	British Virgin Islands	Ordinary US\$1	100	Holding of trademarks
Golden Harvest Multiplex (Pte) Limited	Singapore	Ordinary S\$2	100	Investment holding

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and principal operations	Issued and fully paid share/registered capital	Percentage of equity attributable to the Group	Principal activities
Golden Movies International Limited	British Virgin Islands	Ordinary US\$1	100	Sale of film rights and distribution of motion pictures
Golden Screen Limited	Hong Kong	Ordinary HK\$8,750,000	100	Investment holding
Golden Touch Licencing B.V.	Netherlands	Ordinary EUR18,151.21	100	Distribution of motion pictures
Happy Way Limited	Hong Kong	Ordinary HK\$10,000	100	Distribution of audio visual products related to films and programmes
Kotewall Limited	British Virgin Islands	Ordinary US\$1	100	Sale of film rights and distribution of motion pictures
Panasia Films Limited	Hong Kong	Ordinary HK\$2,600,000	100	Distribution of motion pictures and acting as an advertising agent
Real Merry Limited	Hong Kong	Ordinary HK\$16,831,002	100	Theatre operation
Shanghai Golden Harvest Media Management Company Limited**	PRC	Registered US\$500,000	90	Distribution of motion pictures
Splendid Ventures Limited	Hong Kong	Ordinary HK\$2	100	Theatre operation
SML (Hong Kong) Limited	Samoa	Ordinary US\$1	100	Distribution of motion pictures
United Harvest Asia Limited	Hong Kong	Ordinary HK\$2	100	Provision of finance to group companies

Except for Golden Harvest Entertainment International Limited, all of the above subsidiaries are indirectly held by the Company.

* For Golden Harvest Entertainment Company Limited, the deferred shares carry no rights to dividends and carry the right to receive one half of the surplus on a return of capital exceeding HK\$1,000,000,000,000,000. Apart from the above, all other deferred shares carry rights to dividends for any given financial year of the respective companies when the net profit available for distribution exceeds HK\$1,000,000,000. They also carry rights to receive one half of the surplus on a return of capital of the respective companies exceeding HK\$500,000,000,000. None of the deferred shares carry any rights to vote at general meetings.

** Shanghai Golden Harvest Media Management Company Limited is a Sino-foreign equity joint venture enterprise under the PRC Law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets other than goodwill	57,581	12,163
Due from associates	126,445	149,967
	<u>184,026</u>	<u>162,130</u>
Provision for impairment	(1,413)	(2,000)
	<u>182,613</u>	<u>160,130</u>

All balances with associates are unsecured, interest-free and not expected to be repaid within the next twelve months.

The Group's share of the post-acquisition accumulated reserves of associates as at 30 June 2004 amounted to accumulated losses of HK\$29,244,000 (2003: HK\$72,646,000). During the year, the Group acquired additional interests in certain associates which became subsidiaries of the Group thereafter and put certain associates under liquidation. The related accumulated losses in relation to those former associates that became subsidiaries of the Group and those associates under liquidation in current year amounted to HK\$16,402,000 and HK\$5,268,000, respectively.

Included in the above are the results of Golden Screen Cinemas Sdn. Bhd. ("GSC"), Golden Village Multiplex Pte Limited ("GVM") and Tanjong Golden Village Sdn. Bhd. ("TGV") which, in the opinion of the directors, are material to the Group's financial results. Details of the financial position as at 30 June 2004 and the results for the year then ended of the respective associates except for GSC (details please refer to note 3 to the financial statements) are as follows:

GSC

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	205,345	191,487
Total liabilities	122,989	127,801
Turnover	285,331	151,774
Profit before tax	28,455	5,657
Profit after tax attributable to the Group	<u>8,575</u>	<u>2,275</u>

GVM

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	357,116	336,019
Total liabilities	253,432	259,270
Turnover	292,029	271,750
Profit before tax	32,599	24,349
Profit after tax attributable to the Group	<u>12,249</u>	<u>8,544</u>

TGV

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	124,627	110,393
Total liabilities	106,328	103,515
Turnover	152,219	127,438
Profit before tax	20,488	14,938
Profit after tax attributable to the Group	<u>3,633</u>	<u>2,864</u>

14. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and principal operations	Class of shares held	Percentage of paid-up share capital held by the Group	Principal activities
Dartina Development Limited	Corporate	Hong Kong	Ordinary	50	Investment holding
Global Entertainment and Management Systems Sdn. Bhd.	Corporate	Malaysia	Ordinary	33.33	Investment holding
Golden Access Pte Limited	Corporate	Singapore	Ordinary	50	Computer programming
Golden Screen Cinemas Sdn. Bhd.	Corporate	Malaysia	Ordinary	40.22	Distribution of motion pictures and theatre operation
Golden UIP Film Distributors Limited	Corporate	Hong Kong	Ordinary	50	Distribution of motion pictures
Golden Village Entertainment (Singapore) Pte Limited	Corporate	Singapore	Ordinary	50	Investment holding
Golden Village Pictures Pte Limited	Corporate	Singapore	Ordinary	50	Distribution of motion Pictures
Golden Village Holdings Pte Limited	Corporate	Singapore	Ordinary	50	Investment holding
Golden Village Multiplex Pte Limited	Corporate	Singapore	Ordinary	50	Theatre operation
Keen Fortune Production Limited	Corporate	British Virgin Islands	Ordinary	50	Distribution of motion pictures
Rich Will Limited	Corporate	Hong Kong	Ordinary	50	Theatre operation
Tanjong Golden Village Sdn. Bhd.	Corporate	Malaysia	Ordinary	33.33	Theatre operation

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

15. TRADEMARKS

The trademarks represent the perpetual licence for the use of the brandname "Golden Harvest" which takes the form of sign, symbol, name, logo, design or any combination thereof.

The trademarks are stated at cost less any impairment losses and are not amortised. Additions during the year represent design fees and professional fees and registration fees incurred on the registration of the trademarks overseas.

15. TRADEMARKS (Continued)

In accordance with the requirements of SSAP 29, the cost of the Group's trademarks should be amortised over the best estimate of their useful lives. SSAP 29 also states that there is a rebuttable presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use. In the opinion of the directors, to follow the requirements of SSAP 29 would give a misleading view of the results of the Group and its loss per share for the following reasons:

- (i) The trademarks, which were acquired by the Group in 2000, have been in use for a long time and will continue to be used for the long term. The valuation of the Group's trademarks performed by Adonis Appraisal Limited, an independent professional appraiser, has confirmed that the market value of the trademarks exceeded the carrying value as at 30 June 2004. In the opinion of the directors, there has been no material change in the valuation since 30 June 2004; and
- (ii) The Group has incurred and intends to continue to incur significant advertising and promotion expenses, which are charged to profit and loss account when incurred, to maintain and increase the market value of its trademarks.

As a result, the Group has decided not to follow the requirements of SSAP 29 and to continue to adopt the accounting policy to state trademarks at cost less any impairment losses. The Group intends to confirm the value of its trademarks by independent professional valuation periodically.

16. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	426	266
Chemicals	39	38
Machinery parts	91	113
	<u>556</u>	<u>417</u>

17. FILM RIGHTS AND FILMS IN PROGRESS

As at 30 June 2004, the balance of film rights and films in progress included an impairment loss of HK\$3,543,000 (2003: HK\$11,215,000), which was charged to the profit and loss account for the year. The impairment loss was determined by management with reference to the net realisable values of film rights and films in progress as at the balance sheet date in accordance with the Group's accounting policy.

18. ACCOUNTS RECEIVABLE

The Group usually grants credit periods ranging from one to three months. The age analysis of the accounts receivable, net of provision at 30 June, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current to 3 months	19,929	14,345
4 to 6 months	1,084	656
7 to 12 months	528	2,873
Over 1 year	930	2,163
	<u>22,471</u>	<u>20,037</u>

The accounts receivable of the Group included trading balances due from Golden Harvest Private Group companies totalling HK\$20,000 (2003: HK\$123,000). All of the balances with the Golden Harvest Private Group companies are unsecured, repayable in accordance with normal trading terms and interest-free.

The Golden Harvest Private Group represents the private companies in the Golden Harvest Group, a group of companies controlled by Chow Ting Hsing, Raymond, a director of the Company, which were not included in the Group reorganisation in November 1994.

The accounts receivable of the Group also included amounts due from related companies, GH Pictures (China) Limited, GH Media Management Pte Limited and Best Creation International Limited of approximately HK\$36,000 (2003: HK\$56,000), Nil (2003: HK\$198,000) and HK\$269,000 (2003: HK\$299,000), respectively. These amounts are unsecured, interest-free and have no fixed repayment terms. Chow Ting Hsing, Raymond, Phoon Chiong Kit, Chu Siu Tsun, Stephen and Chan Sik Hong, David, who are directors of the Company, are also directors and/or beneficial shareholders of certain of these related companies.

19. ACCOUNTS PAYABLE

The age analysis of trade creditors included in accounts payable at 30 June is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 3 months	27,437	24,663
4 to 6 months	534	4,517
7 to 12 months	920	9,154
Over 1 year	23,179	31,750
	52,070	70,084
	52,070	70,084

The accounts payable of the Group included trading balances due to Golden Harvest Private Group companies totalling HK\$40,000 (2003: HK\$11,000). The amounts are unsecured, interest-free and repayable in accordance with normal trading terms.

The accounts payable of the Group also included amounts due to GH Pictures (China) Limited and Harvest Crown Limited of HK\$20,421,000 (2003: HK\$39,464,000) and HK\$390,000 (2003: HK\$284,000), respectively. The amounts are unsecured and have no fixed repayment terms. Except for an amount of HK\$20,065,000 due to GH Pictures (China) Limited which bears interest at Hong Kong dollars short term time deposits rate plus 1% per annum, the other balances are interest-free and have no fixed repayment terms. Chow Ting Hsing, Raymond, Phoon Chiong Kit and Chu Siu Tsun, Stephen, who are directors of the Company, are also directors and/or beneficial shareholders of certain of these related companies.

20. FINANCE LEASE PAYABLES

At 30 June 2004, the total future minimum lease payments under finance leases and their present values, were as follows:

	Group			
	Minimum lease payments 2004 HK\$'000	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
Amounts payable:				
Within one year	548	544	470	445
In the second year	456	544	412	467
In the third to fifth years, inclusive	308	761	298	707
	1,312	1,849	1,180	1,619
Total minimum finance lease payments	1,312	1,849	1,180	1,619
Future finance charges	(132)	(230)		
Total net finance lease payables	1,180	1,619		
Portion classified as current liabilities	(471)	(445)		
Non-current portion	709	1,174		

21. PROVISIONS

Group

	Long service payments HK\$'000	Other employee benefits HK\$'000	Total HK\$'000
At beginning of year	3,091	1,615	4,706
Additional provision/(write-back)	709	(296)	413
At 30 June 2004	3,800	1,319	5,119
Portion classified as current liabilities	–	(1,319)	(1,319)
Non-current portion	3,800	–	3,800

Under the relevant labour laws and regulations governing retirement payments, the Company's directors have estimated and provided for the amount of provisions for long service payments. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The Group provides for the unused holiday leave carried forward by the Group's employees. The provision is based on the best estimate of the probable future costs of such paid leave earned during the year by the employees and carried forward at the balance sheet date.

22. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation		Revaluation of leasehold land and buildings		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At beginning of year:						
As previously reported						
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	–	110	–	110	–	110
	–	–	931	900	931	900
As restated	–	110	931	1,010	931	1,010
Deferred tax credited to the profit and loss account during the year	–	(110)	–	(110)	–	(110)
Deferred tax (credited)/ debited to equity during the year (2003: including a debit of HK\$84,000 due to the effect of a change in tax rates)	–	–	(53)	31	(53)	31
At 30 June	–	–	878	931	878	931

The Group has tax losses arising in and outside Hong Kong of approximately HK\$333,843,000 and HK\$50,774,000 (2003: HK\$300,031,000 and HK\$47,949,000, respectively), respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, except for the balances of approximately HK\$9,316,000 and HK\$3,091,000 (2003: HK\$6,530,000 and HK\$2,070,000) which can be only carried forward for five years under the relevant legislation, interpretations and practices in PRC and Taiwan, respectively. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 30 June 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. DEFERRED TAX (Continued)

SSAP 12 (Revised) was adopted during the year as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 30 June 2004 and 2003 by HK\$878,000 and HK\$931,000, respectively, of which the corresponding debits were directly charged against the revaluation reserve of the same amount. As a consequence, the consolidated reserves at 1 July 2003 and 2002 decreased by HK\$931,000 and HK\$900,000, respectively, as detailed in the consolidated statement of changes in equity.

23. SHARE CAPITAL**Shares**

	Company	
	2004 HK\$'000	2003 HK\$'000
Authorised:		
2,000,000,000 (2003: 1,300,000,000) ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>130,000</u>
Issued and fully paid:		
884,287,500 (2003: 800,887,500) ordinary shares of HK\$0.10 each	<u>88,429</u>	<u>80,089</u>

During the year, the movements in share capital were as follows:

- (a) On 11 July 2003, the Company entered into a placing agreement (the "Placing Agreement") with FB Gemini Capital Limited ("FB Gemini"), an independent placing agent. Pursuant to the Placing Agreement, FB Gemini agreed to procure third party individuals and institutional investors to subscribe for 83,400,000 new shares of the Company at a price of HK\$0.28 per share. 83,400,000 new shares were issued on 1 August 2003 and the net proceeds of HK\$22.4 million were used to provide additional working capital of the Group.
- (b) Pursuant to an ordinary resolution passed on 26 November 2003, the authorised share capital of the Company was increased from HK\$130,000,000 to HK\$200,000,000 by the creation of 700,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 July 2002, 30 June 2003 and 1 July 2003	800,887,500	80,089	565,577	645,666
Issue of shares	83,400,000	8,340	15,012	23,352
Share issue expenses	–	–	(924)	(924)
At 30 June 2004	<u>884,287,500</u>	<u>88,429</u>	<u>579,665</u>	<u>668,094</u>

Subsequent to the balance sheet date, on 14 July 2004, the Company entered into a subscription agreement (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Company issued and allotted 155,000,000 ordinary shares at a price of HK\$0.25 per share to Typhoon Music (PRC) Limited ("Typhoon Music"), an independent third party, on 11 August 2004. The proceeds from the allotment of shares, after deduction of related expenses, amounted to approximately HK\$36.4 million. The Company intends to apply the net proceeds for general working capital purposes, including paying down certain indebtedness of the Group, as capital contribution towards a joint venture company established by the Company, and for any future investment opportunities in the film financing, film distribution and/or cinema operation business as and when these opportunities arise.

Share options

Details of the Company's share option scheme are included in note 24 to the financial statements.

24. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose for providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors, including independent non-executive directors, and other employees of the Group, suppliers of goods or services to the Group and customers of the Group. The Scheme became effective on 31 October 2001 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

The maximum number of shares of the Company issuable upon exercise of all share options granted and to be granted under the Scheme and any other share option schemes of the Company (if any) is an amount equivalent to 10% of the shares of the Company in issue as at 28 November 2001. This limit can be refreshed by the shareholders of the Company in a general meeting in accordance with the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). As at 30 June 2004, the aggregate number of shares of the Company issuable under share options granted under the Scheme and another share option scheme of the Company (the “Terminated Scheme”, which was terminated on 28 November 2001) was 28,100,000, of which 23,500,000 shares of the Company remain issuable under options granted under the Scheme (which represented approximately 2.7% of the Company’s shares in issue as at 30 June 2004), and 4,600,000 shares of the Company remain issuable under options granted on 25 July 2000 under the Terminated Scheme of the Company (which represented approximately 0.5% of the Company’s shares in issue as at 30 June 2004). The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding independent non-executive director who is the grantee of the option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options must be accepted within 30 days inclusive of, and from the day of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the directors, which may not exceed 10 years commencing on such date on or after the date of grant as the directors of the Company may determine in granting the share options and ending on such date as the directors of the Company may determine in granting the share options (which in any event must be prior to the close of business on 30 October 2011). Save as determined by the directors of the Company and provided in the offer of the grant of the relevant share option, there is no general requirement that a share option must be held for any minimum period before it can be exercised.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of offer of grant of the share options; and (ii) the average Stock Exchange’s closing price of the Company’s shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

24. SHARE OPTION SCHEME (Continued)

As at 30 June 2004, the Company had the following outstanding share options granted to directors and employees of the Company:

Name or category of participant	Date of grant of share options	Exercise price HK\$	Exercise options	Number of share options					Outstanding options at 30 June 2004
				Outstanding options at 1 July 2003	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	
<i>Directors</i>									
Phoon Chiong Kit	25/7/2000	0.78	25/7/2000 to 24/7/2010	4,600,000 <i>Note (a)</i>	-	-	-	-	4,600,000
	31/10/2001	0.62	31/10/2001 to 30/10/2011	10,000,000 <i>Note (b)</i>	-	-	-	-	10,000,000
Chu Siu Tsun, Stephen	31/10/2001	0.62	31/10/2001 to 30/10/2011	8,000,000 <i>Note (b)</i>	-	-	-	-	8,000,000
Chan Sik Hong, David	31/10/2001	0.62	31/10/2001 to 30/10/2011	5,000,000 <i>Note (b)</i>	-	-	-	-	5,000,000
<i>Other employees</i>									
In aggregate	31/10/2001	0.62	31/10/2001 to 30/10/2011	1,500,000 <i>Note (b)</i>	-	-	-	(1,000,000)	500,000
				<u>29,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>	<u>28,100,000</u>

Notes:

- (a) 50%, 25% and 25% of the share options granted are exercisable during the periods from 25 July 2000 to 24 July 2010, 25 July 2001 to 24 July 2010 and 25 July 2002 to 24 July 2010, respectively.
- (b) 30%, 30% and 40% of the share options granted are exercisable during the periods from 31 October 2001 to 30 October 2011, 1 August 2002 to 30 October 2011 and 1 August 2003 to 30 October 2011, respectively.

No share options were granted or exercised during the year.

25. RESERVES

(a) Group

The surplus reserve represents an amount transferred from retained profits in accordance with statutory requirements and the articles of association of an associate in Taiwan. The surplus reserve may only be applied to make up any losses and for the capitalisation by the way of fully paid bonus issues of the shares of the associate in Taiwan.

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries and associates prior to 1 July 2001, are as follows:

	Goodwill eliminated against capital reserve HK\$'000
Cost:	
At beginning of year and at 30 June 2004	154,313
Accumulated impairment:	
At beginning of year	141,830
Impairment provided during the year	–
At 30 June 2004	141,830
Net amount:	
At 30 June 2004	12,483
At 30 June 2003	12,483

(b) Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2002	565,577	145	191,644	(448,383)	308,983
Net loss for the year	–	–	–	(80,194)	(80,194)
At 30 June 2003 and 1 July 2003	565,577	145	191,644	(528,577)	228,789
Issue of shares	15,012	–	–	–	15,012
Share issue expenses	(924)	–	–	–	(924)
Net loss for the year	–	–	–	(11,297)	(11,297)
At 30 June 2004	579,665	145	191,644	(539,874)	231,580

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued, in exchange for the issued share capital of the subsidiaries, and the aggregate net asset value of the subsidiaries acquired at the date of acquisition. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is distributable to shareholders under certain conditions.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets acquired:		
Prepayments, deposits and other receivables	413	–
Cash and cash equivalents	400	–
Accrued liabilities and other payables	(100)	–
Amounts due from related companies	289	–
	<u>1,002</u>	<u>–</u>
Satisfied by:		
Cash	501	–
Reclassification to interests in subsidiaries from interests in associates	<u>501</u>	<u>–</u>
	<u>1,002</u>	<u>–</u>

An analysis of the net cashflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash consideration	(501)	–
Cash and cash equivalents	<u>400</u>	<u>–</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(101)</u>	<u>–</u>

The subsidiaries acquired during the year made no significant contribution to the Group in respect of turnover and net loss attributable to shareholders for the year.

(b) Disposal of subsidiaries

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets disposed of:		
Fixed assets	1,774	–
Inventories	16	–
Accounts receivable	7	–
Prepayments, deposits and other receivables	28	–
Cash and cash equivalents	376	–
Accounts payable	(390)	–
Minority interests	(22)	–
Realisation of exchange fluctuation reserves	(35)	–
	<u>1,754</u>	<u>–</u>
Loss on disposal	<u>(161)</u>	<u>–</u>
	<u>1,593</u>	<u>–</u>
Satisfied by:		
Cash	1,274	–
Due from an associate	<u>319</u>	<u>–</u>
	<u>1,593</u>	<u>–</u>

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries (Continued)

An analysis of the net cashflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	1,274	–
Cash and cash equivalents disposed of	(376)	–
	<u> </u>	<u> </u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u> 898</u>	<u> –</u>

The results of the subsidiaries disposed of in the year ended 30 June 2004 had no significant impact on the Group's consolidated turnover or loss after tax for the year.

(c) Major non-cash transaction

During the year, the Group disposed of its equity interest in certain of its associates resulting in a net gain of HK\$47,000. Pursuant to the disposal, certain advances to these associates of approximately HK\$16,504,000 were waived by the Group. Further, amounts due from certain associates of HK\$5,202,000 which were under liquidation were also waived by the Group.

27. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group also had the following transactions with related parties.

The directors consider that all of these transactions were carried out in the ordinary and usual course of business of the Group.

(a) Transactions with the Golden Harvest Private Group

During the year, the Group had transactions to which members of the Golden Harvest Private Group were parties. The significant transactions are summarised below:

		Group	
	Notes	2004 HK\$'000	2003 HK\$'000
Film distribution commission income	(i)	62	29
Film developing and printing services income	(ii)	19	–
		<u> </u>	<u> </u>

Notes:

- (i) The Group acted as the distributor of the films produced by certain companies within the Golden Harvest Private Group and commission income was charged according to prices and conditions similar to those offered to other customers of the Group.

Chow Ting Hsing, Raymond ("Mr. Chow"), a director and a substantial shareholder of the Company during the year, is interested, directly or indirectly, in the above transactions as a director and/or beneficial shareholder of the members of the Golden Harvest Private Group of which the commission income was derived from.

- (ii) The service income related to the provision of film developing and printing services to certain companies within the Golden Harvest Private Group and was charged according to prices and conditions similar to those offered to other customers of the Group.

The above related party transactions with the members of the Golden Harvest Private Group also constituted connected transaction, as defined in the Listing Rules.

The directors have reviewed and confirmed that these connected transactions were conducted in the ordinary course of the business of the Group and on terms no less favourable than those offered to unrelated third parties.

27. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with other related parties

Apart from the above, during the year, the Group also had the following material transactions with other related parties:

		Group	
	Notes	2004 HK\$'000	2003 HK\$'000
Film distribution commission income from related companies	(i), (ii)	445	2,185
Rental income from a related company	(i), (iii)	365	365
Interest expense to a related company	(i), (iv)	264	548
Consultancy fee paid to a related company	(i), (v)	881	749
Film royalty income from associates	(i), (vi)	367	1,769
Management fee income from associates	(i), (vii)	1,027	2,309
Film distribution commission income from an associate	(i), (viii)	331	2,171
Film sourcing service fee paid to an associate	(i), (ix)	132	132
Accounting service fee paid to an associate	(i), (x)	85	82
Screen rental paid to an associate	(i), (xi)	40	20
Ticketing system development costs paid to an associate	(i), (xii)	518	519
Marketing service fee income from an associate	(i), (xiii)	12	–
Theatre rental paid to an associate	(i), (xiv)	124	–
Corporate guarantees given in respect of banking facilities granted to associates	(i), (xv)	17,100	48,207

Notes:

- (i) Mr. Chow, Phoon Chiong Kit (“Mr. Phoon”), Chu Siu Tsun, Stephen (“Mr. Chu”) and Chan Sik Hong, David (“Mr. Chan”), who are directors of the Company during the year, are interested, directly or indirectly, in the above transactions as directors and/or beneficial shareholders of certain of these companies.
- (ii) The Group acted as the distributor of the films produced by the related companies and the film distribution commission income was charged according to the terms of the distribution agreements dated 21 April 1997 and 2 August 1999 or charged according to prices and conditions similar to those offered to other customers of the Group.
- (iii) The rental income was charged at a rate of approximately HK\$30,000 (2003: HK\$30,000) per month for sub-letting a portion of the Group’s office premises to an associate of the Golden Harvest Private Group.
- (iv) The interest expense to an associate of Golden Harvest Private Group was charged at Hong Kong dollars short-term time deposit rate plus 1% per annum.
- (v) The consultancy fee paid represented the film production and distribution consulting services provided by a related company to the Group and was charged according to the terms of the agreement dated 1 October 2001.
- (vi) The royalty income was charged according to the terms of the respective distribution agreements.
- (vii) The management fee income represented the following:
- an amount of HK\$288,000 related to accounting services provided to two associates of the Group which were charged at rates of HK\$10,000 per month (2003: HK\$10,000) and HK\$14,000 per month (2003: HK\$14,000 per month), respectively; and
 - an amount of approximately HK\$739,000 related to consultancy services provided to two associates of the Group which were charged at rates of HK\$120,000 (2003: HK\$120,000) per month from July to December 2003 and RMB5,000 (2003: RMB5,000) per month from July to October 2003, respectively.
- (viii) The Group acted as the distributor of a film produced by an associate and the film distribution commission income was charged according to the terms of the distribution agreement dated 6 January 2003.
- (ix) The film sourcing service fee was charged at a rate of HK\$11,000 per month (2003: HK\$11,000 per month).

27. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with other related parties (Continued)

Notes: (Continued)

- (x) The accounting service fee was charged at a rate of S\$1,500 (2003: S\$1,500) per month.
- (xi) The screen rental paid was charged according to prices and conditions similar to those offered to other customers of the associate.
- (xii) The ticketing system development cost paid was charged according to prices and conditions similar to those offered to other customers of the associate.
- (xiii) The marketing service fee income was charged according to prices and conditions similar to those offered to other customers of the associate.
- (xiv) The theatre rental fee was charged according to price and conditions similar to those offered to other customers of the associate.
- (xv) The corporate guarantee was given by the Group in respect of banking facilities granted to an associate at nil consideration.

Certain transactions amounting to HK\$899,000 (2003: HK\$1,447,000) included in notes (ii) and (v) above with three related companies (2003: four related companies) constituted connected transactions as defined in the Listing Rules.

None of the other related party transactions set out above constituted connected transactions as defined in the Listing Rules.

28. REMUNERATION OF DIRECTORS AND OF FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration

The remuneration of the directors of the Company for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	120	120
	<u>120</u>	<u>120</u>
Basic salaries, allowances and benefits in kind:		
Executive directors	12,240	11,352
Non-executive directors	–	–
Independent non-executive directors	–	–
	<u>12,240</u>	<u>11,352</u>
Pension contributions:		
Executive directors	97	97
Non-executive directors	–	–
Independent non-executive directors	–	–
	<u>97</u>	<u>97</u>
	<u>12,457</u>	<u>11,569</u>

28. REMUNERATION OF DIRECTORS AND OF FIVE HIGHEST PAID INDIVIDUALS (Continued)

The above remuneration of directors fell within the following bands:

	2004 Number	2003 Number
Nil – HK\$1,000,000	4	7
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	1	1
HK\$4,500,001 – HK\$5,000,000	1	–
	<u>8</u>	<u>11</u>

There was no other arrangement under which a director waived or agreed to waive any remuneration during the year.

Five highest paid individuals

Of the five highest paid individuals, four (2003: four) were directors of the Company and their remuneration has been included in the directors' remuneration disclosures above. The remuneration of the remaining one (2003: one) non-director, highest paid individual for the year is as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and benefits in kind	1,720	1,228
Pension contributions	12	12
	<u>1,732</u>	<u>1,240</u>

The above remuneration of the non-director, highest paid individual employee fell within the band of HK\$1,500,001 – HK\$2,000,000.

29. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantee of banking facilities granted to associates	<u>17,100</u>	<u>48,207</u>	<u>17,100</u>	<u>47,034</u>

In addition to above, an associate of the Group had executed a guarantee to a banker in favour of certain third parties of approximately HK\$11,589,000 (2003: HK\$16,521,000) as at the balance sheet date.

30. COMMITMENTS

(a) Capital commitments in respect of acquisition of property, plant and equipment:

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted for	1,888	2,854
Authorised, but not contracted for	29,159	–
	<u>31,047</u>	<u>2,854</u>

30. COMMITMENTS (*Continued*)

(b) Operating lease commitments

The Group leases certain of its office premises and cinemas under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 13 years.

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total future minimum lease payments under non-cancellable operating leases for land and buildings:		
Within one year	33,760	49,073
In the second to fifth years, inclusive	94,507	128,227
After five years	33,584	3,790
	<u>161,851</u>	<u>181,090</u>

Certain non-cancellable operating leases included in the above were subject to contingent rent payments, which were charged for the amount of 17% to 28% (2003: 17% to 29%) of their monthly or annual gross box office takings in excess of the base rents as determined in respective lease agreements. In addition, 10% of theatre confectionery sales and advertising income are also charged for certain leases.

The Company had no significant commitments at the balance sheet date (2003: Nil).

31. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events occurred:

- (i) On 14 July 2004, the Company entered into the Subscription Agreement pursuant to which the Company issued and allotted 155,000,000 ordinary shares at a price of HK\$0.25 per share to Typhoon Music on 11 August 2004. Further details of the subscription are set out in note 23 to the financial statements.
- (ii) On 14 July 2004, the Group entered into a joint venture agreement (the "JV Agreement") with Typhoon Music and Abba Movies Company Limited, an independent third party, for the establishment of a joint venture company (the "JV Co") solely to make loans for Chinese language motion picture production. Pursuant to the JV Agreement, the Group would have a 60% equity interest in the JV Co. The Group's capital contribution for the JV Co amounted to HK\$6 million and was paid accordingly subsequent to year end. The above transaction also constituted a connected transaction as defined in the Listing Rules.

Further details of the Subscription Agreement and the JV Agreement are set out in an announcement of the Company dated 16 July 2004.

32. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 October 2004.

2.(A) UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma adjusted consolidated net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the proposed Rights Issue, as if the Rights Issue had been completed on 30 June 2004. This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group on the completion of the Rights Issue.

	Immediately before the Rights Issue (Unaudited) HK\$'000 (Note 1)	Adjustment HK\$'000 (Note 2)	Immediately after the Rights Issue (Unaudited) HK\$'000
Net tangible assets	<u>240,588</u>	<u>62,000</u>	<u>302,588</u>

Notes:

- (1) The net tangible assets of the Group as at 30 June 2004 which have been extracted from the published annual report of the Company for the year ended 30 June 2004 are as follows:

	<i>HK\$'000</i>
Net assets as at 30 June 2004	320,009
Less: Intangible assets as at 30 June 2004	<u>(79,421)</u>
Net tangible assets immediately before the Rights Issue	<u>240,588</u>

- (2) Following the completion of the proposed Rights Issue, the estimated net proceeds are not less than approximately HK\$62 million, resulting in an increase in net tangible assets of the Group of HK\$62 million.

- (3) Unaudited pro forma adjusted consolidated net tangible assets value per Share immediately before the Rights Issue based on 884,287,500 Shares in issue before the Rights Issue

HK\$0.27

Unaudited pro forma adjusted consolidated net tangible assets value per Share immediately after the Rights Issue based on 1,149,134,375 Shares following the Rights Issue

HK\$0.26

- (4) No consolidated financial information has been published by the Group since 30 June 2004.

2.(B) LETTER ON UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS

The following is the text of a report, prepared for the sole purpose of inclusion in this Prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

22 December 2004

The Board of Directors
Golden Harvest Entertainment (Holdings) Limited

Dear Sirs,

We report on the unaudited pro forma consolidated net tangible assets of Golden Harvest Entertainment (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on page 57 under the heading of unaudited pro forma consolidated net tangible assets in section 2(A) of Appendix I of the Company’s prospectus dated 22 December 2004 in connection with the proposed rights issue of the Company. The unaudited pro forma consolidated net tangible assets have been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the Rights Issue might have affected the net tangible assets of the Group.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma consolidated net tangible assets of the Group in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the unaudited pro forma consolidated net tangible assets of the Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma consolidated net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma consolidated net tangible assets with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the unaudited pro forma consolidated net tangible assets of the Group.

The unaudited pro forma consolidated net tangible assets of the Group is for illustrative purpose only and because of its nature, it may not give a true picture of the financial position or results of the Group as at 30 June 2004 or at any future date.

Opinion

In our opinion:

- (a) the unaudited pro forma consolidated net tangible assets of the Group has been properly compiled on the basis stated therein;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma consolidated net tangible assets of the Group as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

3. INDEBTEDNESS**Borrowings**

As at 31 October 2004, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this prospectus, the Group had no outstanding bank borrowings.

Debt securities

As at the Latest Practicable Date, the Group had no debt securities.

Mortgages and charges

As at 31 October 2004, a wholly-owned subsidiary of the Group had charged in favour of the Sellers inter alia, its 50% shareholding in and loans to Dartina Development Limited, an associated company of the Group.

As at 31 October 2004, the Group had finance lease payables of HK\$1 million and repayable within 5 years.

Contingent liabilities

As at 31 October 2004, the Group had given a guarantee of approximately HK\$17.3 million for banking facilities granted to an associated company of the Group.

Disclaimer

Save as disclosed above, and apart from intra-group liabilities, the Group did not, at the close of business on 31 October 2004, have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding.

On 5 November 2004, Gala Film Distribution Limited (“Gala Film”), a wholly-owned subsidiary of the Company entered into a revolving loan with HongKong and Shanghai Banking Corporation Limited (“HSBC”) for a term of 3 to 12 months in the amount of HK\$10 million (the “HSBC Loan”). On 7 December 2004, Gala Film drew down a bank loan in the amount of HK\$5.8 million. The interest rate applicable on outstanding indebtedness incurred under the HSBC Loan is the best lending rate offered by HSBC plus 3%. The HSBC Loan is secured by way of a debenture over all assets of Gala Film, and a corporate guarantee in the amount of HK\$10 million provided by the Company. The Directors have confirmed that, save as disclosed above, there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 October 2004.

4. WORKING CAPITAL

- (i) The acquisition of 40% equity interests of Warner Village Taiwan

A medium term loan facility of US\$8 million (approximately HK\$62.4 million) and a proposed Rights Issue have been arranged to fund the consideration payable by Golden Sky under the Acquisition Agreement (“40% financing”).

The Directors are of the opinion that after taking into account the aforesaid loan facility, the expected net proceeds of the Rights Issue, the working capital requirements and the expected cash flows of the Group, the Group will, following the completion of the acquisition of 40% equity interests of Warner Village Taiwan, have sufficient working capital for its present requirements for the period from the date of this Prospectus to 31 December 2005.

- (ii) The acquisition of 100% equity interests of Warner Village Taiwan

If one or both of the other Purchasers fail(s) to complete its/their purchase and if Golden Sky elects to become the Step-in Purchaser, it would be acquiring additional interests in the Sale Shares and the Shareholders Loans. In that event, the additional interest Golden Sky would be acquiring in Warner Village Taiwan will be partly financed by the 40% financing, with the remainder to be financed by additional bank borrowings and proceeds from additional share placings (if any) other than the Rights Issue. However, as at the Latest Practicable Date, the Company did not have an intention to purchase additional capital interests in Warner Village Taiwan or arrange further placements of Shares.

However, should the Company change its intention and decide to complete the acquisition of 100% equity interests of Warner Village Taiwan, except for the uncertainty for the Group in securing additional banking facilities and obtaining net proceeds from further share placements other than the Rights Issue, the Directors are of the opinion that after taking into account the success in obtaining additional banking facilities, the net proceeds of the Rights Issue and further share placements, the working capital requirements and the expected cash flows of the Group, the Group will, following the completion of the acquisition of 100% equity interests of Warner Village Taiwan, have sufficient working capital for its present requirements for the period from the date of this Prospectus to 31 December 2005.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position or prospects of the Group since 30 June 2004, being the date to which the latest published audited consolidated accounts of the Group were made up.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

22 December 2004

The Board of Directors
Golden Harvest Entertainment (Holdings) Limited

Dear Sirs,

We set out below our report on the financial information regarding Warner Village Cinemas Co., Ltd. (“Warner Village Taiwan”) to be acquired by Golden Harvest Entertainment (Holdings) Limited (the “Company”) pursuant to a conditional sale and purchase agreement (the “Agreement”) dated 18 October 2004 made between Golden Sky Pacific Limited (a wholly-owned subsidiary of the Company), Village Cinemas International Pty Ltd. (“Village Cinemas”), Warner Bros Entertainment Inc. (“Warner Bros”), and two Taiwan corporations (the “Taiwan Investors”), prepared on the basis as set out in section 1 below, for inclusion in the prospectus issued by the Company dated 22 December 2004 (the “Prospectus”).

Warner Village Taiwan was incorporated as a limited company under the provision of the Company Law of the Republic of China on 25 July 1997. During the years ended 30 June 2002, 2003 and 2004 (the “Relevant Periods”), Warner Village Taiwan was principally engaged in film exhibition and leisure operation. Warner Village Taiwan was a joint venture of Village Cinemas and Warner Bros.

The financial statements of Warner Village Taiwan for the Relevant Periods, prepared in accordance with generally accepted accounting principles in the Republic of China, were audited by Diwan, Ernst & Young, certified public accountants registered in the Republic of China.

For the purpose of this report, we have examined the financial statements and the management accounts of Warner Village Taiwan for the Relevant Periods, which were prepared in accordance with accounting principles generally accepted in Hong Kong, in accordance with the Statements of Auditing Standards and Auditing Guideline “Prospectuses and the reporting accountant” issued by the Hong Kong Institute of Certified Public Accountants.

The summaries of the profit and loss accounts, the statements of changes in equity and the cash flow statements of Warner Village Taiwan for the Relevant Periods and of the balance sheets of Warner Village Taiwan as at 30 June 2002, 2003 and 2004 (the “Summaries”) as set out in this report have been prepared, and are presented on the basis as set out in section 1 below.

The Summaries are the responsibility of the directors of the Company who approve their issuance. The directors of the Company are responsible for the content of the Prospectus relating to Warner Village Taiwan in which this report is included. It is our responsibility to compile the Summaries together with the notes thereto, to form an independent opinion on such information and to report our opinion to you.

Fundamental uncertainty relating to going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in section 1 to this report concerning the basis of the presentation of the Summaries prepared by the directors of the Company. As explained in section 1 to this report, Warner Village Taiwan’s financial statements have been prepared on a going concern basis, the validity of which is dependent on the continuing support of the existing shareholders and the financial support to be provided by the Company after the completion of the Acquisition. The Summaries do not include any adjustments that may be necessary should the Acquisition not be completed and hence the financial support from the Company not be forthcoming, and should Warner Village Taiwan’s existing shareholders fail to provide the continuing support, Warner Village Taiwan may not be able to continue in business as a going concern. Adjustments would have to be made to restate the values of Warner Village Taiwan’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify its non-current assets and liabilities as current assets and liabilities, respectively. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the results and cash flows of Warner Village Taiwan for the Relevant Periods and of the balance sheets of Warner Village Taiwan as at 30 June 2002, 2003 and 2004.

1. BASIS OF PRESENTATION

The Summaries have been prepared on a going concern basis notwithstanding that Warner Village Taiwan had net current liabilities and deficiency in assets as the directors of Warner Village Taiwan expect that the existing shareholders will provide the continuing support to Warner Village Taiwan, and the Company will provide financial support to Warner Village Taiwan after the completion of the Acquisition. Should the Acquisition not be completed and hence the financial support from the Company not be forthcoming, and should Warner Village Taiwan's existing shareholders fail to provide the continuing support, Warner Village Taiwan may not be able to continue in business as a going concern, adjustments would have to be made to restate the values of Warner Village Taiwan's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify its non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the Summaries.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial information as set out in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong. The financial information has been prepared under the historical cost convention.

(b) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Warner Village Taiwan and when the revenue can be measured reliably, on the following bases:

- (i) gross box office takings, when the services have been rendered to the buyers;
- (ii) theatre advertising income, on an accrual basis;
- (iii) income from confectionery sales, at the point of sales when the confectionery are given to the customers;
- (iv) rental income, in the period in which the properties are subleasing and on the straight-line basis over the lease terms; and
- (v) interest, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

(c) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Warner Village Taiwan is the lessor, rentals receivable for subleasing certain leasehold land and buildings, are credited to the profit and loss account on the straight-line basis over the lease terms. Where Warner Village Taiwan is the lessee, rental payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(d) Retirement benefits scheme

Warner Village Taiwan, as required by Labour Standards Law, makes regular contributions to a retirement fund to meet employees' retirement and termination benefit entitlements. The contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they became payable in accordance with the rules of Labour Standards Law. The funds are administrated by a committee and are deposited in the committee's name with a government approved financial institution, which acts as the trustee.

(e) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the assets is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(f) Fixed assets and depreciation

Fixed assets, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for the purpose are as follows:

Leasehold improvements	6 ² / ₃ % – 20%
Furniture and fixtures	6 ² / ₃ % – 20%
Computer software	20% – 50%
Office equipment and cinema facilities	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sale proceeds and the carrying amount of the relevant asset.

(g) Cinema development costs

Expenditure incurred on projects to develop and search for new cinema site is capitalised and deferred only when the projects are clearly defined; and the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the new cinema have commercial value.

Upon confirming the cinema site all costs relating to that particular site will be transferred to fixed assets and are then depreciated at the applicable rate to write-off the cost over its estimated useful life.

(h) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(i) Other investments

Other investments are unquoted shares held for short term and are stated at fair values on the basis of the realisable values at the balance sheet.

(j) Inventories

Inventories represent snacks and beverage and are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

(k) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- (i) except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

(l) Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for long service payments are made based on relevant labour laws and regulations governing retirement payments and are reviewed by the directors on an annual basis and adjusted where applicable.

(m) Foreign currency transactions

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

(n) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Warner Village Taiwan's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. PROFIT AND LOSS ACCOUNT

The following is a summary of the profit and loss accounts of Warner Village Taiwan for the Relevant Periods, which is presented on the basis set out in section 1 above:

	<i>Notes</i>	Year ended 30 June		
		2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
TURNOVER	(a)	239,200	335,896	432,658
Cost of sales		<u>(109,199)</u>	<u>(151,351)</u>	<u>(192,005)</u>
Gross profit		130,001	184,545	240,653
Other revenue	(a)	48,158	46,182	55,069
Selling and distribution costs		(15,962)	(28,538)	(26,226)
General and administrative expenses		(193,468)	(253,859)	(261,799)
Provision for impairment on fixed assets		<u>(2,874)</u>	<u>–</u>	<u>–</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(b)	(34,145)	(51,670)	7,697
Finance costs	(d)	<u>(8,891)</u>	<u>(10,164)</u>	<u>–</u>
PROFIT/(LOSS) BEFORE TAX		(43,036)	(61,834)	7,697
Tax	(e)	<u>–</u>	<u>–</u>	<u>–</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(43,036)</u>	<u>(61,834)</u>	<u>7,697</u>
Dividend	(f)	<u>–</u>	<u>–</u>	<u>–</u>

APPENDIX II FINANCIAL INFORMATION ON WARNER VILLAGE TAIWAN

Notes:

(a) Turnover and other revenue

Turnover represents proceeds from box office admission and theatre concession sales, and advertising agency fee earned.

An analysis of Warner Village Taiwan's turnover and other revenue is as follows:

	Year ended 30 June		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover	239,200	335,896	432,658
Other revenue:			
Rental income	40,936	31,829	33,551
Exchange gains, net	–	649	10,657
Interest income	54	33	143
Compensation received for the postponement of the construction project	–	–	3,687
Compensation received for early termination of tenancy agreement	3,530	303	–
Sponsorship income	552	2,164	5,079
Income from expired vouchers	1,413	8,857	1
Advertisement and other revenue	1,673	2,347	1,951
	<u>48,158</u>	<u>46,182</u>	<u>55,069</u>
	<u>287,358</u>	<u>382,078</u>	<u>487,727</u>

(b) Profit/(loss) from operating activities

Warner Village Taiwan's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Year ended 30 June		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Cost of inventories sold	6,591	10,643	16,927
Cost of service rendered	102,608	140,708	175,078
Depreciation	28,937	41,357	43,963
Minimum lease payments under operating leases on leasehold land and buildings	87,886	118,086	136,267
Rental income	(40,936)	(31,829)	(35,551)
Staff costs (excluding directors' remuneration – Section 3 note (c)):			
Wages and salaries	17,419	28,036	26,437
Pension scheme contributions	226	255	269
	<u>17,645</u>	<u>28,291</u>	<u>26,706</u>
Auditors' remuneration	74	83	83
Provision for impairment of fixed assets	2,874	–	–
Loss on disposal of fixed assets	–	1,023	–
Exchange gains, net	–	(649)	(10,657)
Interest income	(54)	(33)	(143)
	<u>(54)</u>	<u>(33)</u>	<u>(143)</u>

APPENDIX II FINANCIAL INFORMATION ON WARNER VILLAGE TAIWAN

(c) **Directors' and senior executives' remuneration**

	Year ended 30 June		
	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Fees	–	–	–
Emoluments:			
Basic salaries, housing benefits, other allowances and benefits in kind	–	–	–
Pension scheme contributions	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>

The number of directors whose remuneration fell within the following band is as follows:

	Year ended 30 June		
	2002 Number of directors	2003 Number of directors	2004 Number of directors
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>	<u>2</u>

The details of the emoluments and the band of the five highest paid, non-director individuals during the Relevant Periods are as follows:

	Year ended 30 June		
	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	<u>3,771</u>	<u>5,233</u>	<u>4,867</u>

	Year ended 30 June		
	2002 Number of employees	2003 Number of employees	2004 Number of employees
Nil to HK\$1,000,000	4	3	4
HK\$1,000,001 to HK\$1,500,000	1	1	–
HK\$2,000,001 to HK\$2,500,000	–	1	1
	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no remuneration was paid by Warner Village Taiwan to the directors or any of the five highest paid, non-director individuals as an inducement to join or upon joining Warner Village Taiwan or as compensation for loss of office. No director of Warner Village Taiwan waived any remuneration during the Relevant Periods.

(d) **Finance costs**

	Year ended 30 June		
	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on bank loans wholly repayable within five years	<u>8,891</u>	<u>10,164</u>	<u>–</u>

(e) **Tax**

No provision for Hong Kong profits tax has been made as no assessable profits was arising in Hong Kong in respect of the Relevant Periods. Tax on profits assessable outside Hong Kong has been calculated at the rate of tax prevailing in the Republic of China, being country in which Warner Village Taiwan operates, based on existing legislation, interpretations and practices in respect thereof.

Warner Village Taiwan has tax losses arising outside Hong Kong of approximately HK\$29,042,000, HK\$52,854,000 and HK\$47,333,000 for the years ended 30 June 2002, 2003 and 2004, respectively, that can only be carried forward for five years under the relevant legislation, interpretations and practices in Republic of China, for offsetting against future taxable profits of Warner Village Taiwan. Deferred tax assets have not been recognised in respect of these losses as Warner Village Taiwan has been loss-making for some time.

(f) **Dividend**

No dividend has been paid or declared by Warner Village Taiwan to its then shareholders during each of the Relevant Periods.

APPENDIX II FINANCIAL INFORMATION ON WARNER VILLAGE TAIWAN

4. BALANCE SHEETS

The following is a summary of the balance sheets of Warner Village Taiwan as at 30 June 2002, 2003 and 2004, which is presented on the basis set out in section 1 above:

		30 June		
	<i>Notes</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
NON-CURRENT ASSETS				
Fixed assets	(a)	269,069	298,863	285,509
Rental deposits		104,839	109,320	92,803
Cinema development costs	(b)	4,496	1,945	–
		<u>378,404</u>	<u>410,128</u>	<u>378,312</u>
CURRENT ASSETS				
Other investment	(c)	–	–	1,217
Inventories	(d)	572	760	1,095
Accounts receivable	(e)	13,698	7,761	57,114
Prepayments, deposits and other receivables		107,547	23,646	27,011
Due from a shareholder	(f)	8,192	–	–
Cash and bank balances		1,417	26,068	71,022
		<u>131,426</u>	<u>58,235</u>	<u>157,459</u>
CURRENT LIABILITIES				
Accounts payables	(g)	15,068	10,748	44,939
Accrued liabilities and other payables		26,822	30,418	57,569
Due to related companies	(f)	84,340	2,495	10,733
Due to shareholders	(f)	93,096	629,682	619,982
Bank borrowings	(h)	433,432	–	–
		<u>652,758</u>	<u>673,343</u>	<u>733,223</u>
NET CURRENT LIABILITIES		<u>(521,332)</u>	<u>(615,108)</u>	<u>(575,764)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(142,928)	(204,980)	(197,452)
NON-CURRENT LIABILITIES				
Provision for long services payment		20	20	24
Deposits received		9,306	9,088	8,915
		<u>9,326</u>	<u>9,108</u>	<u>8,939</u>
		<u>(152,254)</u>	<u>(214,088)</u>	<u>(206,391)</u>
CAPITAL AND RESERVES				
Issued capital		2,727	2,727	2,727
Reserves		(154,981)	(216,815)	(209,118)
		<u>(152,254)</u>	<u>(214,088)</u>	<u>(206,391)</u>

APPENDIX II FINANCIAL INFORMATION ON WARNER VILLAGE TAIWAN

4. BALANCE SHEETS (Continued)

Notes:

(a) **Fixed assets**

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Office equipment and cinema facilities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 July 2001	59,720	153,092	8,394	4,189	225,395
Transfer from deferred development costs	3,604	2,375	273	16	6,268
Additions	<u>71,514</u>	<u>56,105</u>	<u>6,207</u>	<u>901</u>	<u>134,727</u>
At 30 June and 1 July 2002	134,838	211,572	14,874	5,106	366,390
Transfer from deferred development costs	1,291	1,176	63	21	2,551
Additions	33,217	32,568	3,057	781	69,623
Disposals	<u>–</u>	<u>–</u>	<u>(4,130)</u>	<u>(173)</u>	<u>(4,303)</u>
At 30 June and 1 July 2003	169,346	245,316	13,864	5,735	434,261
Transfer from deferred development costs	1,075	756	72	42	1,945
Additions	14,449	10,555	622	3,038	28,664
Disposals	<u>–</u>	<u>(7,079)</u>	<u>(2,899)</u>	<u>(182)</u>	<u>(10,160)</u>
At 30 June 2004	<u><u>184,870</u></u>	<u><u>249,548</u></u>	<u><u>11,659</u></u>	<u><u>8,633</u></u>	<u><u>454,710</u></u>
Accumulated depreciation and impairment:					
At 1 July 2001	14,649	45,510	3,632	1,719	65,510
Provided during the year	7,144	18,683	2,304	806	28,937
Impairment	3	2,871	–	–	2,874
At 30 June and 1 July 2002	21,796	67,064	5,936	2,525	97,321
Provided during the year	10,704	26,812	2,295	1,546	41,357
Disposals	<u>–</u>	<u>–</u>	<u>(2,478)</u>	<u>(802)</u>	<u>(3,280)</u>
At 30 June and 1 July 2003	32,500	93,876	5,753	3,269	135,398
Provided during the year	11,705	28,464	2,088	1,706	43,963
Disposals	<u>–</u>	<u>(7,079)</u>	<u>(2,899)</u>	<u>(182)</u>	<u>(10,160)</u>
At 30 June 2004	<u><u>44,205</u></u>	<u><u>115,261</u></u>	<u><u>4,942</u></u>	<u><u>4,793</u></u>	<u><u>169,201</u></u>
Net book value:					
At 30 June 2002	<u><u>113,042</u></u>	<u><u>144,508</u></u>	<u><u>8,938</u></u>	<u><u>2,581</u></u>	<u><u>269,069</u></u>
At 30 June 2003	<u><u>136,846</u></u>	<u><u>151,440</u></u>	<u><u>8,111</u></u>	<u><u>2,466</u></u>	<u><u>298,863</u></u>
At 30 June 2004	<u><u>140,665</u></u>	<u><u>134,287</u></u>	<u><u>6,717</u></u>	<u><u>3,840</u></u>	<u><u>285,509</u></u>

APPENDIX II FINANCIAL INFORMATION ON WARNER VILLAGE TAIWAN

(b) **Cinema development costs**

	<i>HK\$'000</i>
At 1 July 2001	10,764
Transfer to fixed assets	<u>(6,268)</u>
At 30 June 2002 and at 1 July 2002	4,496
Transfer to fixed assets	<u>(2,551)</u>
At 30 June 2003 and at 1 July 2003	1,945
Transfer to fixed assets	<u>(1,945)</u>
At 30 June 2004	<u><u>–</u></u>

(c) **Other investment**

	2002	30 June	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unquoted shares, at fair value	<u>–</u>	<u>–</u>	<u>1,217</u>

Other investment represented the investment in Warner Village Cinema Limited (“WVC”). Pursuant to a conditional sale and purchase agreement entered into between Warner Village Taiwan and an independent third party subsequent to 30 June 2004, Warner Village Taiwan disposed of the above investment to an independent third party for a consideration of NT\$5 million (equivalent to HK\$1.2 million).

(d) **Inventories**

Inventories represent snacks and beverages. None of inventories are stated at net realisable value as at 30 June 2002, 2003 and 2004.

(e) **Accounts receivable**

Warner Village Taiwan usually grants credit period ranging from one to three months. The ageing analysis of the accounts receivable, net of provision at 30 June, is as follows:

	2002	30 June	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 30 days	12,318	3,707	54,534*
4 to 6 months	310	2,382	1,384
7 to 12 months	1,070	860	851
Over 1 year	<u>–</u>	<u>812</u>	<u>345</u>
	<u>13,698</u>	<u>7,761</u>	<u>57,114</u>

* Included in accounts receivable aged current – 30 days at 30 June 2004, HK\$44,148,000 represents receivable from WVC for the development costs of Tien Mou cinema site paid on its behalf.

(f) **Balances with shareholders and related companies**

The balances with shareholders and related companies are unsecured, interest-free and repayable on demand.

Subsequent to 30 June 2004, Warner Village Taiwan has repaid NT\$300 million (equivalent to HK\$68.2 million) to the shareholders in July 2004 and the amounts due to shareholders of NT\$1,200 million (equivalent to HK\$272.7 million) will be capitalised as issued capital before the date of completion of the Agreement.

APPENDIX II FINANCIAL INFORMATION ON WARNER VILLAGE TAIWAN

(g) **Accounts payables**

An ageing analysis of the accounts payable at 30 June is as follows:

	2002 HK\$'000	30 June 2003 HK\$'000	2004 HK\$'000
Current – 3 months	15,055	5,966	43,792
4 to 6 months	1	700	793
7 to 12 months	12	1,398	184
Over 1 year	–	2,684	170
	<u>15,068</u>	<u>10,748</u>	<u>44,939</u>

(h) **Bank borrowings**

	2002 HK\$'000	30 June 2003 HK\$'000	2004 HK\$'000
Bank loans, secured	427,273	–	–
Bank overdraft	6,159	–	–
	<u>433,432</u>	<u>–</u>	<u>–</u>
Bank and other loans repayable within one year and portion classified as current liabilities	<u>433,432</u>	<u>–</u>	<u>–</u>

At 30 June 2002, Warner Village Taiwan's banking facilities were secured by Standby Documentary Credit issued by Chase Manhattan International Limited. Warner Village Taiwan fully repaid its bank loan in May 2003.

(i) **Commitments**

Operating lease commitments

At 30 June 2002, 2003 and 2004, Warner Village Taiwan leased certain of its cinema sites under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 year to 19 years.

Total future minimum lease payments under non-cancellable operating leases for land and buildings:

	2002 HK\$'000	30 June 2003 HK\$'000	2004 HK\$'000
Within one year	110,816	153,238	163,263
In the second to fifth years, inclusive	501,547	678,096	677,845
After five years	757,352	874,959	894,704
	<u>1,369,715</u>	<u>1,706,293</u>	<u>1,735,812</u>

APPENDIX II FINANCIAL INFORMATION ON WARNER VILLAGE TAIWAN

5. STATEMENTS OF CHANGES IN EQUITY

The statements of changes in equity of Warner Village Taiwan for the Relevant Periods prepared on the basis as set out in section 1 above are as follows:

	Issued capital HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2001	2,727	(111,945)	(109,218)
Net loss for the year	–	(43,036)	(43,036)
At 30 June 2002 and 1 July 2002	2,727	(154,981)	(152,254)
Net loss for the year	–	(61,834)	(61,834)
At 30 June 2003 and 1 July 2003	2,727	(216,815)	(214,088)
Net profit for the year	–	7,697	7,697
At 30 June 2004	<u>2,727</u>	<u>(209,118)</u>	<u>(206,391)</u>

6. CASH FLOW STATEMENTS

The cash flow statements of Warner Village Taiwan for the Relevant Periods prepared on the basis as set out in section 1 above are as follows:

	Year ended 30 June		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax	(43,036)	(61,834)	7,697
Adjustments for:			
Interest income	(54)	(33)	(143)
Finance costs	8,891	10,164	–
Loss on disposal of fixed assets	–	1,023	–
Depreciation	28,937	41,357	43,963
Provision for impairment on fixed assets	2,874	–	–
Operating profit/(loss) before working capital changes	(2,388)	(9,323)	51,517
Increase in other investment	–	–	(1,217)
Decrease/(increase) in inventories	(313)	(188)	(335)
Decrease/(increase) in accounts receivables	(8,973)	5,937	(49,353)
Decrease/(increase) in prepayments, deposits and other receivables	(21,757)	83,901	(3,365)
Decrease/(increase) in an amount due from a shareholder	–	8,192	–
Increase/(decrease) in accounts payables	3,562	(4,320)	34,191
Increase/(decrease) in accrued liabilities and other payables	14,084	3,596	27,151
Increase/(decrease) in amounts due to related companies	82,231	(81,845)	8,238
Increase/(decrease) in amounts due to shareholders	(82,046)	536,586	(9,700)
Increase in provision for long services payment	4	–	4
Decrease in deposit received	(1,861)	(218)	(173)
Cash generated from/(used in) operations	<u>(17,457)</u>	<u>542,318</u>	<u>56,958</u>

APPENDIX II FINANCIAL INFORMATION ON WARNER VILLAGE TAIWAN

6. CASH FLOW STATEMENTS (Continued)

	Year ended 30 June		
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Cash generated from/(used in) operations	(17,457)	542,318	56,958
Interest received	54	33	143
Interest paid	(8,891)	(10,164)	–
Net cash inflow/(outflow) from operating activities	<u>(26,294)</u>	<u>532,187</u>	<u>57,101</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	(134,727)	(69,623)	(28,664)
Rental deposits refunded/(paid)	(1,100)	(4,481)	16,517
Net cash outflow from investing activities	<u>(135,827)</u>	<u>(74,104)</u>	<u>(12,147)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown/(repayment) of bank loans	161,826	(433,432)	–
Net cash inflow/(outflow) from financing activities	<u>161,826</u>	<u>(433,432)</u>	<u>–</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(295)	24,651	44,954
Cash and cash equivalents at beginning of year	<u>1,712</u>	<u>1,417</u>	<u>26,068</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>1,417</u></u>	<u><u>26,068</u></u>	<u><u>71,022</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<u><u>1,417</u></u>	<u><u>26,068</u></u>	<u><u>71,022</u></u>

7. SEGMENT INFORMATION

All the assets and liabilities of Warner Village Taiwan are located in the Republic of China and its operations are considered by the directors to belong to one business segment. Accordingly, further segment information is not presented.

8. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in this report, Warner Village Taiwan also had the following transactions with related parties.

	Note	Year ended 30 June		
		2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Film rental paid to a related party	(i)	<u><u>19,750</u></u>	<u><u>32,738</u></u>	<u><u>40,179</u></u>

Note:

- (i) The film rental expense was paid to Warner Bros. Taiwan Branch Office, a related party, which acted as the distributor of films for Warner Village Taiwan. The rental was charged on a title by title basis based on 60 to 65 percent of the gross box office takings for the first week of release and reduced by 5 percent every following week.

9. SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, no other significant events took place subsequent to 30 June 2004.

10. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Warner Village Taiwan subsequent to 30 June 2004.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong

(i) THE ACQUISITION OF 100% EQUITY INTERESTS OF WARNER VILLAGE TAIWAN

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

1. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AFTER COMPLETION

The following table is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2004 which has been prepared for the purpose of illustration as if the completion of the acquisition of 100% equity interests of Warner Village Taiwan had taken place on 30 June 2004.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is based on the audited consolidated balance sheet of the Group as at 30 June 2004, the audited balance sheet of Warner Village Taiwan as at 30 June 2004 as extracted from the accountants' report on Warner Village Taiwan as set out in Appendix II to this Prospectus and adjusted to reflect the effect of the acquisition of 100% equity interests of Warner Village Taiwan and the repayment of NT\$300 million (equivalent to approximately HK\$68.2 million) to the existing shareholders of Warner Village Taiwan.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of the completion of the acquisition of 100% equity interests of Warner Village Taiwan. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date.

	The Group as at 30 June 2004 HK\$'000	Warner Village Taiwan as at 30 June 2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Pro forma consolidation adjustments HK\$'000	Note	Pro forma consolidated of the Enlarged Group as at 30 June 2004 HK\$'000
Non-current assets							
Fixed assets	55,753	285,509					341,262
Interest in a subsidiary	–	–	243,048	1	(243,048)	3	–
Interest in associates	182,613	–					182,613
Interest in club memberships	4,380	–					4,380
Rental deposits	11,869	92,803					104,672
Trademarks	79,421	–					79,421
Negative goodwill	–	–			(102,361)	3	(102,361)
Total non-current assets	<u>334,036</u>	<u>378,312</u>	<u>243,048</u>		<u>(345,409)</u>		<u>609,987</u>
Current assets							
Other investment	–	1,217					1,217
Prepayments, deposits and other receivables	23,387	27,011					50,398
Inventories	556	1,095					1,651
Film rights and films in progress	20,184	–					20,184
Accounts receivable	22,471	57,114					79,585
Cash and bank balances	22,575	71,022	(68,182)	1, 2			25,415
Total current assets	<u>89,173</u>	<u>157,459</u>	<u>(68,182)</u>				<u>178,450</u>

APPENDIX III
**PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

	The Group as at 30 June 2004 HK\$'000	Warner Village Taiwan as at 30 June 2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Pro forma consolidation adjustments HK\$'000	Note	Pro forma consolidated of the Enlarged Group as at 30 June 2004 HK\$'000
Current liabilities							
Accounts payables	52,070	44,939					97,009
Accrued liabilities and other payable	30,509	57,569					88,078
Customer deposits	2,330	-					2,330
Current portion of finance lease payable	471	-					471
Provision for employee benefits	1,319	-					1,319
Tax payable	11,114	-					11,114
Interest bearing bank borrowings	-	-	24,305	1			24,305
Due to related companies	-	10,733					10,733
Due to shareholders	-	619,982	(340,909)	2	(279,073)	3	-
Total current liabilities	97,813	733,223	(316,604)		(279,073)		235,359
Net current liabilities	(8,640)	(575,764)					(56,909)
Total assets less current liabilities	325,396	(197,452)					553,078
Non-current liabilities							
Non-current portion of finance lease payables	709	-					709
Provision for long service payments	3,800	24					3,824
Deferred tax liabilities	878	-					878
Deposits received	-	8,915					8,915
Interest bearing bank borrowings	-	-	97,219	1			97,219
Total non-current liabilities	5,387	8,939	97,219				111,545
Net assets/(liabilities)	320,009	(206,391)	394,251		(66,336)		441,533
Shareholders' equity	320,009	(206,391)	394,251	1, 2	(66,336)		441,533

Notes:

- The adjustment reflects the payment of consideration of US\$31.16 million (equivalent to HK\$243.1 million) to be given by the Group to acquire 100% equity interests in Warner Village Taiwan on the date of completion. The consideration was calculated based on the total consideration of US\$38 million after deducting the deposits already paid by the Taiwan Investors of US\$6.84 million. Out of which, 50% of the consideration is assumed to be financed by bank borrowings and the remaining 50% of the consideration paid through the proceeds from the shares placement of 509.7 million ordinary shares at HK\$0.25 per share (including the proposed rights issue on 30 November 2004). The bank borrowings are 5 years term loan and the interest is assumed to be charged at 6% per annum.
- The adjustment reflects the capitalisation of NT\$1,200 million (equivalent to HK\$272.7 million) shareholders' loans of Warner Village Taiwan before the date of completion and the repayment of NT\$300 million (equivalent to HK\$68.2 million) in July 2004 to the existing shareholders of Warner Village Taiwan.

3. The pro forma consolidation adjustments reflect (i) elimination of the Group's 100% equity interests in Warner Village Taiwan after acquisition; and (ii) estimated negative goodwill of approximately HK\$102.4 million arising from the acquisition of the entire equity interests in Warner Village Taiwan by the Group (see note 4 below). The estimated negative goodwill was assumed to be recognised in the profit and loss account on a systematic basis over the remaining average useful life of about 10 years of the acquired depreciable/amortisable assets.
4. Under Generally Accepted Accounting Principles in Hong Kong, the Group will apply the purchase method to account for the acquisition of 100% equity interests in Warner Village Taiwan. In applying the purchase method, the identifiable assets and liabilities of Warner Village Taiwan will be recorded on the balance sheet of the Enlarged Group at their fair values at the date of completion, and all the capital and reserves of Warner Village Taiwan upon completion will be eliminated as the pre-acquisition reserves of the Enlarged Group. Any goodwill or negative goodwill arising on the acquisition will be determined as the excess or deficit of the purchase consideration deemed to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets and liabilities of Warner Village Taiwan at the date of completion.

For the purpose of preparing the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group after the completion, the net book value of the identifiable assets and liabilities of Warner Village Taiwan, as extracted from the accountants' report on Warner Village Taiwan, is applied in the calculation of the estimated negative goodwill arising from the acquisition. Since the fair value of the assets and liabilities of Warner Village Taiwan at the date of completion may be substantially different from their adjusted book value used in the preparation of the unaudited pro forma consolidated statement of assets and liabilities above, the actual negative goodwill arising from the acquisition of the Enlarged Group may be different from the estimated negative goodwill as shown above.

2. UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE ENLARGED GROUP

The following table is an illustrative and unaudited pro forma consolidated profit and loss account of the Enlarged Group for the year ended 30 June 2004 which has been prepared for the purpose of illustration as if the completion of the acquisition of 100% equity interests of Warner Village Taiwan had taken place on 1 July 2003.

The unaudited pro forma consolidated profit and loss account of the Enlarged Group is based on the audited consolidated profit and loss account of the Group for the year ended 30 June 2004, and the audited consolidated profit and loss account of Warner Village Taiwan for the year ended 30 June 2004 as extracted from the accountants' report on Warner Village Taiwan as set out in Appendix II to this Prospectus and adjusted to reflect the effect of the acquisition of 100% equity interests of Warner Village Taiwan and the repayment of NT\$300 million (equivalent to approximately HK\$68.2 million) to the existing shareholders of Warner Village Taiwan.

The unaudited pro forma consolidated profit and loss account of the Enlarged Group is prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of the completion of the acquisition of 100% equity interests of Warner Village Taiwan. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date.

	The Group for the year ended 30 June 2004 <i>HK\$'000</i>	Warner Village Taiwan for the year ended 30 June 2004 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	Note	Pro forma consolidation adjustments <i>HK\$'000</i>	Note	Pro forma consolidated of the Enlarged Group for the year ended 30 June 2004 <i>HK\$'000</i>
Turnover	218,477	432,658					651,135
Cost of sales	(94,093)	(192,005)					(286,098)
Gross Profit	124,384	240,653					365,037
Negative goodwill recognised as income	-	-			10,236	2	10,236
Interest income	14	143					157
Other revenue	12,506	54,926					67,432
Selling and distribution costs	(106,229)	(26,226)					(132,455)
General and administrative expenses	(52,488)	(261,799)					(314,287)
Other operating expenses, net	(5,751)	-					(5,751)
Impairment of film rights	(3,543)	-					(3,543)
Profit/(loss) from operating income	(31,107)	7,697			10,236		(13,174)
Impairment of interest in an associate	(1,413)	-					(1,413)
Finance costs	(363)	-	(7,291)	1			(7,654)
Share of profits and losses of associates	31,983	-					31,983
Profit/(loss) before tax	(900)	7,697	(7,291)		10,236		9,742
Tax	(10,763)	-					(10,763)
Net profit/(loss) from ordinary activities attributable to shareholders	(11,663)	7,697	(7,291)		10,236		(1,021)

Notes:

1. The adjustment reflects the interest payable on bank borrowings, which were used to finance the consideration of the acquisition of 100% equity interests of Warner Village Taiwan, as set out in section 1 of this Appendix. The interest is assumed to be charged at 6% per annum.
2. The adjustment reflects the recognition of estimated negative goodwill arising from the acquisition. For illustrative purpose, the estimated negative goodwill is of approximately HK\$102.4 million as set out in section 1 of this Appendix, which is assumed to be recognised in the profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

3. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following table is an illustrative and unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 30 June 2004 which has been prepared for the purpose of illustration as if the completion of the acquisition of 100% equity interests of Warner Village Taiwan had taken place on 1 July 2003.

The unaudited pro forma consolidated cash flow statement of the Enlarged Group is based on the audited consolidated cash flow statement of the Group for the year ended 30 June 2004, and the audited consolidated cash flow statement of Warner Village Taiwan for the year ended 30 June 2004 as extracted from the accountants' report on Warner Village Taiwan as set out in Appendix II to this Prospectus and adjusted to reflect the effect of the acquisition of 100% equity interests of Warner Village Taiwan and the repayment of NT\$300 million (equivalent to approximately HK\$68.2 million) to the existing shareholders of Warner Village Taiwan.

The unaudited pro forma consolidated cash flow statement of the Enlarged Group is prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of the completion of the acquisition of 100% equity interests of Warner Village Taiwan. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date.

	The Group for the year ended 30 June 2004 <i>HK\$'000</i>	Warner Village Taiwan for the year ended 30 June 2004 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	Pro forma consolidation adjustments <i>HK\$'000</i>	Pro forma consolidated of the Enlarged Group for the year ended 30 June 2004 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax	(900)	7,697	(7,291)	10,236	9,742
Adjustments for:					
Interest income	(14)	(143)			(157)
Finance costs	363	-	7,291		7,654
Negative goodwill recognised as income	-	-		(10,236)	(10,236)
Depreciation	16,245	43,963			60,208
Loss on disposal of fixed assets	1,345	-			1,345
Gain on disposal of associates	(47)	-			(47)
Impairment of interest in an associate	1,413	-			1,413
Loss on disposal of subsidiaries	161	-			161
Exchange gains arising from translation of advances to overseas associates in Asia and other monetary assets and liabilities denominated in foreign currencies as at the balance sheet date	(2,352)	-			(2,352)
Share of profits and losses of associates	(31,983)	-			(31,983)
Impairment of film rights	3,543	-			3,543
Write-back of provision for doubtful debts, net	(2,927)	-			(2,927)
Exchange adjustments	(636)	-			(636)
Operating profit/(loss) before working capital changes	(15,789)	51,517	-	-	35,728

APPENDIX III
**PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

	The Group for the year ended 30 June 2004 <i>HK\$'000</i>	Warner Village Taiwan for the year ended 30 June 2004 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	Pro forma consolidation adjustments <i>HK\$'000</i>	Pro forma consolidated of the Enlarged Group for the year ended 30 June 2004 <i>HK\$'000</i>
Operating profit/(loss) before working capital changes	(15,789)	51,517	-	-	35,728
Increase in other investment	-	(1,217)			(1,217)
Decrease/(increase) in prepayments, deposits and other receivables	8,007	(3,365)			4,642
Increase in inventory	(155)	(335)			(490)
Decrease in film rights and films in progress	3,971	-			3,971
Decrease/(increase) in accounts receivable	486	(49,353)			(48,867)
Increase/(decrease) in accounts payable	(17,624)	34,191			16,567
Increase/(decrease) in accrued liabilities and other payables	(6,950)	27,151	7,291		27,492
Decrease in amounts due to shareholders	-	(9,700)	(68,182)		(77,882)
Increase in amounts due to related companies	-	8,238			8,238
Decrease in customer deposits	(2,107)	-			(2,107)
Decrease in provision for employee benefit	(296)	-			(296)
Increase in provision for long service payments	709	4			713
Cash generated from/(used in) operations	(29,748)	57,131	(60,891)		(33,508)
Interest received	14	143			157
Interest paid	(264)	-	(7,291)		(7,555)
Interest element on finance lease rental payments	(99)	-			(99)
Overseas tax paid	(445)	-			(445)
Overseas tax refunded	474	-			474
Net cash inflow/(outflow) from operating activities	(30,068)	57,274	(68,182)		(40,976)

APPENDIX III
**PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

	The Group for the year ended 30 June 2004 <i>HK\$'000</i>	Warner Village Taiwan for the year ended 30 June 2004 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	Pro forma consolidation adjustments <i>HK\$'000</i>	Pro forma consolidated of the Enlarged Group for the year ended 30 June 2004 <i>HK\$'000</i>
CASH FLOWS FROM					
INVESTING ACTIVITIES					
Purchases of fixed assets	(1,694)	(28,664)			(30,358)
Proceeds from disposal of fixed assets	210	-			210
Proceeds from disposal of associates	1,632	-			1,632
Acquisition of subsidiaries	(101)	-	(243,048)		(243,149)
Proceeds from disposal of subsidiaries	898	-			898
Repayment from associates, net	324	-			324
Rental deposits paid	(647)	-			(647)
Refund of rental deposits	1,912	16,517			18,429
Decrease in deposit received	-	(173)			(173)
Additions to trademarks	(218)	-			(218)
Net cash inflow/(outflow) from investing activities	<u>2,316</u>	<u>(12,320)</u>	<u>(243,048)</u>		<u>(253,052)</u>
CASH FLOWS FROM					
FINANCING ACTIVITIES					
Proceeds from issue of new shares, net	22,428	-	121,524		143,952
Repayment of finance lease obligations	(439)	-	-		(439)
Advance from bank loans	-	-	121,524		121,524
Net cash inflow from financing activities	<u>21,989</u>	<u>-</u>	<u>243,048</u>		<u>265,037</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(5,763)	44,954	(68,182)		(28,991)
Cash and cash equivalents at beginning of year	28,357	26,068			54,425
Exchange adjustments	(19)	-			(19)
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>22,575</u></u>	<u><u>71,022</u></u>	<u><u>(68,182)</u></u>		<u><u>25,415</u></u>
ANALYSIS OF BALANCES OF					
CASH AND CASH EQUIVALENTS					
Cash and bank balances	<u><u>22,575</u></u>	<u><u>71,022</u></u>	<u><u>(68,182)</u></u>		<u><u>25,415</u></u>

4. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP BEFORE AND AFTER COMPLETION

Set out below is an unaudited pro forma statement of adjusted consolidated net tangible assets of the Group before the completion of the acquisition of 100% equity interests of Warner Village Taiwan based on the audited consolidated net assets of the Group as at 30 June 2004 and an unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group after the completion of the acquisition of 100% equity interests of Warner Village Taiwan based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2004 as set out in this Appendix.

Audited consolidated net assets of the Group as at 30 June 2004 before completion	Less: Intangible assets as at 30 June 2004 before completion	Consolidated net tangible assets of the Group as at 30 June 2004 before completion	Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 30 June 2004 attributable to each share of the Company before completion <i>(note 1)</i>
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
320,009	(79,421)	240,588	0.27
<u>320,009</u>	<u>(79,421)</u>	<u>240,588</u>	<u>0.27</u>
Unaudited pro forma consolidated net assets of the Enlarged Group as at 30 June 2004 after completion	Less: Intangible assets as at 30 June 2004 after completion <i>(note 3)</i>	Unaudited pro forma consolidated net tangible assets of the Enlarged Group as at 30 June 2004 after completion	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group as at 30 June 2004 attributable to each share of the Company after completion <i>(note 2)</i>
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
441,533	22,940	464,473	0.33
<u>441,533</u>	<u>22,940</u>	<u>464,473</u>	<u>0.33</u>

Notes:

1. The number of the Company's shares used for the calculation of this amount is 884,287,500 which is the existing shares in issue as at 30 June 2004 and does not include any share placements subsequent to 30 June 2004.
2. The number of the Company's shares used for the calculation of this amount is 1,394,000,000 which represents the shares issued for the 50% of the consideration for the acquisition (including the proposed rights issue on 30 November 2004).
3. An estimated negative goodwill of approximately HK\$102.4 million will arise upon the completion of the acquisition of 100% equity interests of Warner Village Taiwan and is included in the intangible assets after completion. Details of the estimated negative goodwill are set out in note 4 of section 1 in this Appendix.

(ii) THE ACQUISITION OF 40% EQUITY INTERESTS OF WARNER VILLAGE TAIWAN

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

1. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

For illustrative purpose only, the following is a statement of the unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group, which is prepared based on the audited consolidated net assets of the Group as at 30 June 2004, adjusted to reflect the effect of the acquisition of 40% equity interests of Warner Village Taiwan, the repayment of NT\$300 million (equivalent to approximately HK\$68.2 million) to the existing shareholders of Warner Village Taiwan and the proposed rights issue on 30 November 2004.

	Immediately before completion	Adjustments	Pro forma
	(Unaudited)		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>
Net tangible assets	240,588	81,604	322,192

Notes:

- (1) The unaudited pro forma adjusted consolidated net tangible asset value of the Group immediately before completion is calculated as follows:

	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 30 June 2004	320,009
Less: Intangible assets	(79,421)
	<u>240,588</u>
Unaudited pro forma adjusted consolidated net tangible asset value of the Group immediately before completion	<u>240,588</u>

- (2) Following the completion, adjustments will be included as follows:

	<i>HK\$'000</i>
Net assets acquired from the acquisition of 40% equity interests of Warner Village Taiwan	138,164
The proposed rights issue on 30 November 2004	62,000
Consideration payable to the acquisition	(118,560)
Estimated negative goodwill arising from the acquisition	(19,604)
Estimated negative goodwill arising from the acquisition	19,604
	<u>81,604</u>

- (3) Unaudited pro forma adjusted consolidated net tangible asset value per Share immediately before completion based on 884,287,500 Shares as at 30 June 2004 in issue before completion.

	<i>HK\$0.27</i>
Unaudited pro forma adjusted consolidated net tangible asset value per Share immediately following completion based on 1,149,134,375 Shares to be in issue following completion, which includes the proposed rights issue on 30 November 2004	<u>HK\$0.28</u>

2. PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the pro forma statement of unaudited adjusted consolidated assets and liabilities of the Enlarged Group, assuming the acquisition of 40% equity interests of Warner Village Taiwan had been implemented on 30 June 2004 based on the audited consolidated balance sheet of the Group as at 30 June 2004 and the audited balance sheet of Warner Village Taiwan as at 30 June 2004, as set out in Appendix II of the Prospectus, and adjusted to reflect the effect of the acquisition of 40% equity interests of Warner Village Taiwan, the repayment of NT\$300 million (equivalent to approximately HK\$68.2 million) to the shareholders of Warner Village Taiwan and the proposed rights issue on 30 November 2004.

	The Group as at 30 June 2004 <i>HK\$'000</i>	Warner Village Taiwan as at 30 June 2004 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	<i>Notes</i>	Total <i>HK\$'000</i>
Non current tangible assets	254,615	378,312	(240,148)	<i>(i)</i>	392,779
Non current intangible assets	79,421	–	(19,604)	<i>(i), (ii)</i>	59,817
Total non-current assets	<u>334,036</u>	<u>378,312</u>	<u>(259,752)</u>		<u>452,596</u>
Current assets	89,173	157,459	(154,739)	<i>(i), (ii), (iii), (iv)</i>	91,893
Current liabilities	<u>(97,813)</u>	<u>(733,223)</u>	<u>721,367</u>	<i>(i), (ii)</i>	<u>(109,669)</u>
Net current assets/(liabilities)	(8,640)	(575,764)	566,628		(17,776)
Total assets less current liabilities	325,396	(197,452)	306,876		434,820
Non-current liabilities	<u>(5,387)</u>	<u>(8,939)</u>	<u>(38,485)</u>	<i>(i), (ii)</i>	<u>(52,811)</u>
Net assets	<u><u>320,009</u></u>	<u><u>(206,391)</u></u>	<u><u>268,391</u></u>		<u><u>382,009</u></u>
<i>Net assets:</i>					
Net tangible assets	240,588	(206,391)	287,995		322,192
Net intangible assets	<u>79,421</u>	<u>–</u>	<u>(19,604)</u>		<u>59,817</u>
	<u><u>320,009</u></u>	<u><u>(206,391)</u></u>	<u><u>268,391</u></u>		<u><u>382,009</u></u>

Notes:

The adjustments represent:

- (i) the consolidation of Warner Village Taiwan upon the completion;
- (ii) the payment of the consideration;
- (iii) the repayment of NT\$300 million (equivalent to approximately HK\$68.2 million); and
- (iv) the proposed rights issue on 30 November 2004.

(iii) LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for the sole purpose of inclusion in this Prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

22 December 2004

The Board of Directors
Golden Harvest Entertainment (Holdings) Limited

Dear Sirs,

We report on the unaudited pro forma financial information of the Enlarged Group (the “Group” (as defined herein) together with Warner Village Taiwan (as defined herein)) set out on pages 75 to 85 in Appendix III to the Prospectus dated 22 December 2004 issued by Golden Harvest Entertainment (Holdings) Limited (the “Company”, and together with its subsidiaries are referred to as the “Group”), solely for illustrative purposes, to provide information about how the proposed acquisition of 100% equity interests of Warner Village Taiwan or the proposed acquisition of 40% equity interests of Warner Village Taiwan (as defined herein) by the Company and the transactions as described in the accompanying introduction to the unaudited pro forma financial information of the Enlarged Group might have affected the historical financial information in respect of the Group.

The historical financial information is derived from the audited historical financial information of the Group and of Warner Village Taiwan. The basis of preparation of the pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Enlarged Group.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Prospectus Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the pro forma financial information.

The pro forma financial information is for illustrative purposes only, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not give a true picture of the financial position or results of:

- the Enlarged Group had the transaction actually occurred as at the dates indicated therein; or
- the Enlarged Group at any future date or for any future periods.

Opinion

In our opinion:

- (a) the accompanying unaudited pro forma financial information has been properly compiled on the basis stated therein;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(iv) INDEBTEDNESS**Borrowings**

As at 31 October 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Prospectus, the Enlarged Group had no outstanding bank borrowings.

As at 31 October 2004, with the acquisition of 100% equity interests of Warner Village Taiwan being completed, the Enlarged Group has HK\$546 million due to the Sellers.

Mortgages and charges

As at 31 October 2004, a wholly-owned subsidiary of the Enlarged Group has charged in favour of the Sellers inter alia, its 50% shareholding in and loans to Dartina Development Limited, an associated company of the Enlarged Group.

As at 31 October 2004, the Enlarged Group has finance lease payables of HK\$1 million and repayable within five years.

Contingent liability

As at 31 October 2004, the Enlarged Group had given a guarantee of approximately HK\$17.3 million for a banking facility granted to an associated company of the Group.

Disclaimer

Save as disclosed above, the Enlarged Group did not, at the close of business on 31 October 2004, have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding.

On 5 November 2004, Gala Film Distribution Limited (“Gala Film”), a wholly-owned subsidiary of the Company entered into a revolving loan with HongKong and Shanghai Banking Corporation Limited (“HSBC”) for a term of 3 to 12 months in the amount of HK\$10 million (the “HSBC Loan”). On 7 December 2004, Gala Film drew down a bank loan in the amount of HK\$5.8 million. The interest rate applicable on outstanding indebtedness incurred under the HSBC Loan is the best lending rate offered by HSBC plus 3%. The HSBC Loan is secured by way of a debenture over all assets of Gala Film, and a corporate guarantee in the amount of HK\$10 million provided by the Company. The Directors have confirmed that, save as disclosed above, there has been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 October 2004.

(v) WORKING CAPITAL**(i) The acquisition of 40% equity interests of Warner Village Taiwan**

A medium term loan facility of US\$8 million (approximately HK\$62.4 million) and a proposed Rights Issue have been arranged to fund the consideration payable by Golden Sky under the Acquisition Agreement (“40% financing”).

The Directors are of the opinion that after taking into account the aforesaid loan facility, the expected net proceeds of the Rights Issue, the working capital requirements and the expected cash flows of the Enlarged Group, the Enlarged Group will, following the completion of the acquisition of 40% equity interests of Warner Village Taiwan, have sufficient working capital for its present requirements for the period from the date of this Prospectus to 31 December 2005.

(ii) The acquisition of 100% equity interests of Warner Village Taiwan

If one or both of the other Purchasers fail(s) to complete its/their purchase and if Golden Sky elects to become the Step-in Purchaser, it will be acquiring additional interests in the Sale Shares and the Shareholders Loans. In that event, the additional interest Golden Sky is acquiring in Warner Village Taiwan will be partly financed by the 40% financing, with the remainder to be financed by additional bank borrowings and proceeds from additional share placings other than the Rights Issue. However, as at the Latest Practicable Date, the Company did not have an intention to purchase additional capital interests in Warner Village Taiwan or issue further placements of Shares.

However, should the Company change its intention and decide to complete the acquisition of 100% equity interests of Warner Village Taiwan, except for the uncertainty for the Enlarged Group in securing additional banking facilities and obtaining net proceeds from further share placements other than the Rights Issue, the Directors are of the opinion that after taking into account the success in obtaining additional banking facilities, the net proceeds of the Rights Issue and further share placements, the working capital requirements and the expected cash flows of the Enlarged Group, the Enlarged Group will, following the completion of the acquisition of 100% equity interests of Warner Village Taiwan, have sufficient working capital for its present requirements for the period from the date of this Prospectus to 31 December 2005.

(vi) MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2004, the date to which the latest audited consolidated financial statements of the Group were made up.

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

		<i>HK\$</i>
<i>Authorised:</i>		
<u>2,000,000,000</u>	Shares as at the Latest Practicable Date	<u>200,000,000.00</u>
<i>Issued and fully paid and to be issued:</i>		
1,039,287,500	Shares in issue as at the Latest Practicable Date	103,928,750.00
20,100,000	new Shares which may be issued pursuant to the exercise of options granted under the Share Option Schemes	2,010,000.00
259,821,875	Rights Shares to be issued pursuant to the Rights Issue (assuming no Share Options are exercised prior to the Record Date)	25,982,187.50
264,846,875	Rights Shares to be issued pursuant to the Rights Issue (assuming all Share Options are exercised prior to the Record Date)	26,484,687.50
<u>1,299,109,375</u>	New Shares in issue upon completion of the Rights Issue (assuming no Share Options are exercised prior to the Record Date)	<u>129,910,937.50</u>
<u>1,324,234,375</u>	New Shares in issue upon completion of the Rights Issue (assuming all Share Options are exercised prior to the Record Date)	<u>132,423,437.50</u>

No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, save for the Share Options, there are no outstanding convertible debts, options or warrants of the Company.

2. DISCLOSURE OF INTERESTS

(a) Disclosure of interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") and which have been notified to the Company and the Stock Exchange were as follows:

(i) Directors' interests in Shares

Name of Director	Nature of Interest	Note	Number of Shares (L) = Long position (S) = Short position	Percentage of shareholding in the Company
Chow Ting Hsing, Raymond	Interest of controlled corporations	1	250,537,223 (L) 215,000,000 (S)	24.11 20.69

Name of Director	Nature of Interest	Note	Number of Shares (L) = Long position (S) = Short position	Percentage of shareholding in the Company
Phoon Chiong Kit	Beneficial owner	2	20,600,000 (L)	1.98
Chan Sik Hong, David	Beneficial owner	3	10,859,375 (L)	1.04
Lau Pak Keung (alternate director to Phoon Chiong Kit)	Beneficial owner		1,280,000 (L)	0.12

Notes:

1. Chow Ting Hsing, Raymond is deemed to be interested in 250,537,223 Shares by virtue of his 100% beneficial holding in Planet Gold Associates Limited and Net City Limited, which holds 146,568,473 Shares and 103,968,750 Shares respectively.
2. Out of 20,600,000 Shares in which Phoon Chiong Kit is deemed to be interested, 14,600,000 Shares are shares issuable upon the exercise of share options granted by the Company to Mr. Phoon under the Share Option Scheme.
3. Out of 10,859,375 Shares in which Chan Sik Hong, David is deemed to be interested, 5,000,000 Shares are the shares issuable upon the exercise of Share Options granted by the Company to Mr. Chan under the Share Option Scheme.

(ii) Directors' interest in associated corporations

Chow Ting Hsing, Raymond is also the beneficial owner of the entire issued share capital of Golden Harvest Film Enterprises Inc., which beneficially holds 114,000,000 non-voting deferred shares of Golden Harvest Entertainment Company Limited, a wholly-owned subsidiary of the Company.

In addition to the above, certain directors have non-beneficial equity interests in certain subsidiaries held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements.

(iii) Miscellaneous

Save as disclosed herein:

- (aa) as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;
- (bb) as at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group taken as a whole; and
- (cc) since 30 June 2004, the date to which the latest published audited financial statements of the Group were made up, none of the Directors has, or has had, any direct or indirect interest in the promotion of or in any assets which have been acquired, disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group.

(b) Disclosure of interests of Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Name of shareholder	Capacity	Notes	Number of shares (L) = Long position (S) = Short position	Percentage of shareholding in the Company
Chow Ting Hsing, Raymond	Interest of controlled corporations	1	250,537,223 (L) 215,000,000 (S)	24.11% 20.69%
Chow Yuan Hsi Hua, Felicia	Spouse's interest	1	250,537,223 (L) 215,000,000 (S)	24.11% 20.69%
Planet Gold Associates Limited	Beneficial owner	1	146,568,473 (L) 145,000,000 (S)	14.10% 13.95%
Net City Limited	Beneficial owner	1	103,968,750 (L) 70,000,000 (S)	10.00% 6.74%
FB Gemini	Other	2	264,846,875 (L)	20.00%
Li Ka-shing	Interest of controlled corporations	3	178,054,000 (L)	17.13%
Mayspin Management Limited	Interest of controlled corporations	3	178,054,000 (L)	17.13%
Garex Resources Limited	Beneficial owner	3	150,414,000 (L)	14.47%
Typhoon Music (PRC) Limited	Beneficial owner	4	155,000,000 (L)	11.93%
EMI Group plc	Interest of controlled corporations	4	155,000,000 (L)	11.93%
Virgin Music Group Ltd.	Interest of controlled corporations	4	155,000,000 (L)	11.93%
EMI Group Worldwide Limited	Interest of controlled corporation	4	155,000,000 (L)	11.93%
Cheng Tung Hon, Norman	Interest of controlled corporations	4	155,000,000 (L)	11.93%
Typhoon Records Limited	Interest of controlled corporation	4	155,000,000 (L)	11.93%
Feng Yuen Cheung, Lily	Spouse's interest	4	155,000,000 (L)	11.93%
PAMA Group Inc.	Beneficial owner	–	123,284,027 (L)	11.86%
Chan Kong Sang, Jackie	Beneficial owner, founder of a discretionary trust and interest of controlled corporation	5	65,600,000 (L)	6.31%

Name of shareholder	Capacity	Notes	Number of shares (L) = Long position (S) = Short position	Percentage of shareholding in the Company
Everlasting Property Limited	Beneficial owner	5	55,600,000 (L)	5.35%
CDIB & Partners Investment Holding Corporation	Interest of controlled corporation	6	54,696,000 (L)	5.26%
CDIB & Partners Investment Holding (Cayman) Ltd.	Beneficial owner	6	54,696,000 (L)	5.26%

Notes:

1. Chow Ting Hsing, Raymond is deemed to be interested in 250,537,223 Shares by virtue of his 100% beneficial holding in Planet Gold Associates Limited and Net City Limited which holds 146,568,473 Shares and 103,968,750 Shares, respectively. Chow Yuan Hsi Hua, Felicia, the spouse of Chow Ting Hsing, Raymond, is deemed to be interested in the same shares in which Chow Ting Hsing, Raymond is interested.
2. FB Gemini is deemed to be interested in 264,846,875 Shares by virtue of its agreement to acquire an interest in all the Rights Shares in the event that no Shareholder takes up his/her/its entitlement under the Rights Issue. Its percentage of shareholding in the Company is calculated based on the number of Shares in issue as enlarged by the Rights Shares proposed to be issued and the outstanding share options entitling the holders thereof to subscribe for an aggregate of 20,100,000 Shares.
3. Li Ka-shing is deemed to be interested in 178,054,000 Shares by virtue of his 100% beneficial holding in Mayspin Management Limited which in turn owns the entire interest in each of Garex Resources Limited which holds 150,414,000 Shares, Podar Investment Limited which holds 25,000,000 Shares, and Oscar Resources Limited which holds 2,640,000 Shares.
4. EMI Group Plc has 100% control of Virgin Music Group Limited, which has 100% control of EMI Group Worldwide Limited, which in turn has a 50% shareholding in Typhoon Music (PRC) Limited. Cheng Tung Hon, Norman has 100% control of Typhoon Records Limited, which has a 50% shareholding in Typhoon Music (PRC) Limited. Each of EMI Group Plc, Virgin Music Group Limited, EMI Group Worldwide Limited, Cheng Tung Hon, Norman and Typhoon Records Limited is deemed to be interested in the 155,000,000 Shares held by Typhoon Music (PRC) Limited. Feng Yuen Cheung, Lily, the spouse of Cheng Tung Hon, Norman, is deemed to be interested in the same shares in which Cheng Tung Hon, Norman is interested. The relevant percentage of shareholding in the Company is calculated based on the number of Shares in issue as enlarged by the Rights Shares proposed to be issued.
5. Chan Kong Sang, Jackie is deemed to be interested in 65,600,000 Shares of which 5,000,000 Shares are beneficially owned; 5,000,000 are held by a discretionary trust of which he was a founder; and 55,600,000 Shares are beneficially held through Everlasting Property Limited, a company 100% controlled by him.
6. CDIB & Partners Investment Holding Corporation is deemed to be interested in 54,696,000 Shares by virtue of its 100% shareholding in CDIB & Partners Investment Holding (Cayman) Ltd., which holds these shares.

Save as disclosed herein and so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into, or was proposing to enter into, any service contract with any member of the Group which will not expire or be determinable by the Company or any member of the Group within one year without payment of compensation (other than statutory compensation). None of the Directors' aggregate remuneration and benefits in kind receivable will be varied as a result of the Acquisition.

4. DIRECTORS

(a) Particulars of Directors

Name	Address
Chow Ting Hsing, Raymond	5B Cragside Mansion, 23 Barker Road, Hong Kong
Phoon Chiong Kit	No. 12 Holland Green, Singapore 276135
Chan Sik Hong, David	Flat C, 8/F., Tower 15, Pacific Palisades, No. 1 Braemar Hill Road, North Point, Hong Kong
Chin Chow Chung Hang, Roberta	36B, The Pinnacle, 8 Minden Avenue, Tsimshatsui, Kowloon, Hong Kong
Lau Pak Keung (alternate director to Phoon Chiong Kit)	Flat 8, 18/F., Block 40, Heng Fa Chuen, Chai Wan, Hong Kong
Kronfeld, Eric Norman	38 East 68th Street, New York, N.Y. 10021-5939, USA
Lin, Frank	C2, 9th Floor, Park Place, 7 Tai Tam Reservoir Road, Hong Kong
Prince Yukol, Chatrichalerm	52/26-27 Srivara Srinakarin Village, Krungthep-Kreetha Road, Spansung, Bangkok 10250, Thailand
Ma Kah Woh, Paul	18 Sunset Place, Singapore 597366

(b) Qualifications

Executive Directors

CHOW Ting Hsing, Raymond, GBS, OBE, OST, aged 77, is the Chairman of the Company and is jointly responsible for the business and the strategic planning of the Group. He graduated from St. John's University in Shanghai, majoring in journalism. He co-founded the Golden Harvest Group in 1970 and has more than 44 years' experience in the film industry. Among the many awards that he has received for his contribution to the film industry are "International Showman of the Year" from the National Association of Theatre Owners of the United States and the Golden Horse Award for "The Most Outstanding International Producer from Taiwan", both in 1980, and the "Lifetime Achievement Award" at the 1996 CineAsia film industry convention in Singapore. Mr. Chow was also honoured in 1987 by Her Majesty Queen Elizabeth II with the Order of the British Empire, in 1996 by the Emperor of Japan with the Order of the Sacred Treasure, Gold Rays with Rosette, and in 1998 by the Government of the Hong Kong Special Administrative Region with the Gold Bauhinia Star.

PHOON Chiong Kit, aged 52, the Managing Director of the Company, graduated with a Bachelor of Business Administration Degree from the University of Singapore. He has 21 years' experience as an investment banker and corporate finance consultant.

CHAN Sik Hong, David, aged 53, holds a Bachelor's Degree in Art from St. John's University of Minnesota, US and a Master's Degree from the University of Kansas Graduate School of Radio-Television-Film, US. Mr. Chan joined the Golden Harvest Group in 1975. During his 29 years tenure with the Group, he has worked on 22 international films and over 100 Chinese films. Among his many screen credits, Mr. Chan was the producer of one of Hollywood's most successful independent screen series, "Teenage Mutant Ninja Turtles" and its two sequels, which grossed more than USD250 million in North America alone. He is a member of the Producers' Branch of the Academy of Motion Picture Arts and Sciences in America.

CHIN CHOW Chung Hang, Roberta, aged 41, has co-produced various films with the Golden Harvest Group in the past. She holds a Bachelor of Arts Degree in English Literature from Dominican University of California, US and a Master's Degree in Communication - Documentary Film from Stanford University, US. Mrs. Chin has had more than 19 years' experience in the film production and distribution industry.

LAU Pak Keung, aged 46, is the alternate director to Mr. Phoon Chiong Kit. Mr. Lau was appointed as the Group Financial Controller and the Chief Representative of the Group's Shanghai office in January 2004, and has over 23 years experience in the auditing and accounting field. He began his professional career in KPMG and Ernst & Young. Prior to joining the Group in March 1992, he was Vice-President - Finance and Administration of a subsidiary of a company then listed in Hong Kong and a director of a joint venture of such subsidiary in the PRC.

Non-executive Director

KRONFELD, Eric Norman, aged 63, graduated with a Bachelor of Arts Degree with distinction from Swarthmore College in 1962 and a Bachelor of Laws degree from Harvard Law School in the US in 1965. After he had worked as a law clerk to The Hon. J. Edward Lumbard, the Chief Judge of the United States Court of Appeals, Second Circuit, he joined Machat & Kronfeld in 1966, a law firm with one of the world's largest music business client lists where he became a partner and remained with the law firm until 1980. Mr. Kronfeld was a co-founder and the former Chairman of Philadelphia International Records from 1969 to 1975. He is also the founder of Maverick Productions, Ltd. ("Maverick") and has been the Chairman and Chief Executive Officer of Maverick since 1973. Maverick has produced albums by The Eagles, Eric Clapton, The Who, Faces, etc. and acted as the strategic consultant for multinational corporations in media including UST, Inc. (formally known as US Tobacco, Inc.), PolyGram Inc., Time-Warner Inc., EMI, etc. From 1991 onwards until 1998, Mr. Kronfeld was the President and Chief Operating Officer of PolyGram Holding, Inc. and was a board member of PolyGram International Management. From 1999 to 2003, he was a member of the board of directors of listen.com which was sold to Real Networks Inc., a Nasdaq-listed company. Mr. Kronfeld has almost 40 years of experience in strategic management and consultancy in the worldwide music industry.

Independent non-executive Directors

Mr. LIN, Frank, OBE, J.P., aged 77, received his education at St. John's University, Shanghai. He is presently the Chairman of Milo's International Corporation Limited and the Honorary Chairman of the Textile Council of Hong Kong Limited and the Hong Kong Knitwear Exporters & Manufacturers Association.

Prince YUKOL, Chatrichalerm, aged 62, attended the prestigious Geelong Grammar School in Australia where he completed his high school education. Thereafter he continued his tertiary education at UCLA in California where he gained a Bachelor's Degree in Geology. In 2000, Prince Chatrichalerm was awarded a Honorary PhD in Mass Communications from Thammasart University in Thailand. After his graduation, Prince Chatrichalerm embarked on his filmmaking career by working on a number of his father's films. In 1972, Prince Chatrichalerm made his first feature film as a director, and has since made a total of 24 feature films. His last film, "Suriyothai" (2001) gained international acclaim, and was the subject of collaboration with Francis Ford Coppola, who re-edited the film for international release. Prince Chatrichalerm has served on many advisory panels on Thai film, and was honoured with the "National Artist" award for his services to the film industry in Thailand.

MA Kah Woh, Paul, aged 57, was a senior partner of KPMG Singapore, where he was in charge of the Audit & Risk Advisory Practice until September 2002, and for a year before his retirement in September 2003, the partner in charge of Risk Management. Mr. Ma now spends part of his time as a consultant on risk management matters to KPMG Asia Pacific. In April and August 2004 respectively, Mr. Ma joined the Boards of Mapletree Investments Pte Ltd and Asia General Holdings Limited as a director and as a member of their Audit Committee. Both companies are incorporated in Singapore. Mapletree Investments Pte Ltd is a Singapore Government-linked holding company, involved in property investment and development. Asia General Holdings Limited is a public investment holding company with its principal investments in two life and general insurance companies in Singapore and Malaysia. Mr. Ma is a Fellow of the Institute of Chartered Accountants in England and Wales, and a Member of the Institute of Certified Public Accountants of Singapore. He has worked in England, the US and Singapore.

The business address of the executive Directors is at the head office and principal place of business of the Company in Hong Kong at 16th Floor, The Peninsula Office Tower, 18 Middle Road, Tsimshatsui, Kowloon, Hong Kong.

5. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

16th Floor
The Peninsula Office Tower
18 Middle Road
Tsimshatsui
Kowloon
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Registrar and Transfer Office

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Legal Adviser on Hong Kong Law

Morrison & Foerster
21st Floor, Entertainment Building
30 Queen's Road Central
Hong Kong

Legal Adviser on Bermuda Law

Conyers Dill & Pearman
2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

Auditors

Ernst & Young
15th Floor Hutchison House
10 Harcourt Road
Hong Kong

Principal Banks

The HongKong and Shanghai Banking Corporation Limited
Citibank, N.A.

Authorised Representatives

Phoon Chiong Kit
No. 12 Holland Green
Singapore 276135

Ang Puay Koon, Susan
Flat 7, 4/F., Middleton Tower 1
140 Pokfulam Road
Hong Kong

6. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (other than contracts entered into in the ordinary course of business) which have been entered into by the Company or its subsidiaries in the two years immediately preceding the date of the Prospectus Documents:

- (a) the placing agreement dated 11 July 2003 and made between the Company and FB Gemini relating to, amongst others, the placing of 83,400,000 Shares through FB Gemini to placees and the granting of an option to FB Gemini for the issuance of additional Shares to placees in accordance with the terms thereof;
- (b) the subscription agreement dated 14 July 2004 and made between the Company and Typhoon Music (PRC) Limited relating to, amongst others, the allotment and issuance of 155,000,000 Shares in accordance with the terms thereof;
- (c) the joint venture agreement dated 14 July 2004 and made between Golden Harvest Entertainment Company Limited, Abba Movies Company Limited, Typhoon Music (PRC) Limited and GH Finance Limited, relating to the establishment of GH Finance Limited solely to make loans for Chinese language motion picture production;
- (d) the Acquisition Agreement; and
- (e) the Underwriting Agreement.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

8. BINDING EFFECTS

The Prospectus Documents (upon issue), and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. Where an acceptance or application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions (other than the penal provisions) of section 44A and 44B of the Companies Ordinance, as far as applicable.

9. CONSENT OF EXPERT

The following is the qualification of the expert which has given its opinion or advice which is contained in this prospectus:

Name	Qualifications
Ernst & Young	Certified Public Accountants

Ernst & Young has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports on the Group and Warner Village Taiwan for the year ended 30 June 2004 dated 11 October 2004 and 22 December 2004, respectively, and the references to its name, as the case may be, in the form and context in which they appear.

Save as disclosed herein, Ernst & Young does not have any shareholding in the Company or any of its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member to the Group.

Ernst & Young does not have any interest direct or indirect, in any assets which have been, since 30 June 2004 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

- (a) So far as the Directors are aware, there is no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholders.
- (b) The principal place of business of the Company is at 16th Floor, The Peninsula Office Tower, 18 Middle Road, Tsimshatsui, Hong Kong.
- (c) The Hong Kong branch share registrar of the Company is Tengis Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The qualified accountant of the Company is Yuen Kwok On. He is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Yuen has over 13 years' experience in the accounting field. Prior to joining the Group, he worked in international accounting firms for more than 5 years.
- (e) The English text of the Prospectus Documents shall prevail over Chinese text in the case of any inconsistency.

11. COMPANY SECRETARY

Ang Puay Koon, Susan, aged 41, the Company Secretary and Director of Legal Affairs of the Group, graduated with a Law Degree from the University of Kent at Canterbury in England and has a LL.M. from the London School of Economics and Political Science. Ms. Ang is a member of Gray's Inn and has been admitted to the English Bar, the Malaysian Bar and the Hong Kong Bar.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at 16th Floor, The Peninsula Office Tower, 18 Middle Road, Tsimshatsui, Hong Kong up to and including 14 January 2005:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual report of the Company for the year ended 30 June 2004;
- (c) the accountants' report prepared by Ernst & Young, the text of which is set out in Appendix II to this prospectus, together with the statement of adjustments;
- (d) the opinion prepared by Ernst & Young in respect of the unaudited pro forma financial information the text of which is set out in Appendix III to this prospectus;
- (e) the opinion prepared by Ernst & Young in respect of the unaudited pro forma net tangible assets the text of which is set out in Appendix I to this prospectus;
- (f) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (g) the Prospectus Documents; and
- (h) a copy of the consent letter given by Ernst & Young dated 22 December 2004.