嘉禾

Golden Harvest

GOLDEN HARVEST ENTERTAINMENT (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1132)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2004

RESULTS

The Board of Directors (the "Board") of Golden Harvest Entertainment (Holdings) Limited (the "Company") herein announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2004 together with the comparative figures for the previous year as follows:

	Notes	**2004** *HK$'000*	2003 *HK$'000*
TURNOVER	4	**218,477**	210,270
Cost of sales		**(94,093)**	(109,271)
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		**(3,543)**	(11,215)
LOSS FROM OPERATING ACTIVITIES	5	**(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	6	**(363)**	(628)
Share of profits and losses of associates		**31,983**	12,713
LOSS BEFORE TAX		**(900)**	(135,778)
Tax	7	**(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)
LOSS PER SHARE	8		
Basic		**(1.3 cents)**	(17.7 cents)
Diluted		**N/A**	N/A

Notes:

1. **Significant accounting policies**

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 carry forward of unused tax losses (deferred tax).

Associates

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.

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.

2. **Trademarks**

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.

3. **Prior year adjustments**

In the current year, the revised SSAP 12 "Income taxes" became effective as detailed in note 1. 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 reserve at 1 July 2003 and 2002 decreased by HK$931,000 and HK$900,000, respectively.

4. **Turnover and segment information**

(a) *Business segments*

The following table presents revenue and results for the Group's business segments.

	Film & video distribution		Film exhibition		Film & 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**	6,543
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)

(b) *Geographical segments*

The following table presents revenue for the Group's geographical segments.

	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

5. **Loss from operating activities**

The Group's loss from operating activities is arrived at after charging:

	2004	2003
	HK$'000	*HK$'000*
Amortisation of film rights	**14,093**	30,919
Depreciation	**16,245**	18,293
Cost of inventories sold	**9,410**	6,345
Cost of services provided	**70,590**	72,007
Loss on disposal of fixed assets	**1,345**	108

6. Finance costs

	2004 *HK$'000*	2003 *HK$'000*
Interest on accounts payable	**264**	548
Interest on finance leases	**99**	80
	363	628

7. 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 *HK$'000*	2003 *HK$'000*
Group:		
Hong Kong	**642**	355
Elsewhere	**(130)**	189
Deferred	**–**	(110)
	512	434
Associates:		
Charge for the year	**2,893**	–
Deferred	**7,358**	5,177
	10,251	5,177
Total tax charge for the year	**10,763**	5,611

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 to the HKIRD'S assessments and the directors consider that sufficient tax provision has been made in this regard.

8. 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.

9. Summary of auditors' report

The auditor's report on the Group's financial statements for the year ended 30 June 2004 contained a modified opinion because of the possible effects of the accounting treatment of the Group's trademarks. The following is an extract of the auditors' report:

"Included in the consolidated balance sheet are trademarks which are stated at cost of HK$79,421,000 at 30 June 2004 and are not amortised. In accordance with Statement of Standard Accounting Practice No. 29 "Intangible assets" ("SSAP 29") issued by the Hong Kong Institute of Certified Public Accountants, which became effective in 2001, these trademarks should be amortised over the best estimate of their useful lives. However, as further explained in note 15 to the financial statements, in the opinion of the directors, no amortisation is considered necessary for the reasons stated therein. Because we have not been able to quantify the estimated useful lives of the trademarks, we are unable to determine the effect of this departure from SSAP 29 on the Group's net assets as at 30 June 2004 and the loss for the year then ended, including the prior year adjustment that is required in respect thereof in order to both recognise the amortisation which should have been recognised in prior years since the date of adoption of SSAP 29 and to implement SSAP 29 retrospectively at the date of its adoption in 2001 in accordance with the requirements of SSAP 29.

Except for any adjustments that might have been found necessary had the trademarks been amortised, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

DIVIDENDS

The directors do not recommend the payment of any final dividend for the year ended 30 June 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

Overview

Hong Kong has seen the benefits of government efforts to help revitalise the economy with initiatives such as the Mainland China – Hong Kong Closer Economic Partnership Arrangement (CEPA) and the individual travel scheme for mainlanders to help boost tourism in Hong Kong. Although the worst seems to be behind us, Hong Kong still faces major challenges and it is too early to tell whether momentum can be sustained.

The Group will thus continue its strategy of focusing on its core businesses of distribution and exhibition. With more streamlined focus, the Group has managed to contain overheads and keep the Group lean.

The Group's strategic policies have received recognition from industry peers, resulting in the injection of new capital and the setting up of new joint-venture with Typhoon Music (PRC) Limited (a joint-venture company with EMI), as well as local film production company, Abba Movies Company Limited.

With the recovery from the effects of SARS in 2003, box office receipts in Hong Kong increased 16% from the previous year. The Group's Hong Kong cinemas have benefited from this rebound, which is also the case in Singapore and Malaysia.

The Group's financial standing has improved with the additional capital raised and we continue to operate without bank borrowing. While the signs are there for a revival of the economy, the Group will continue its prudent measures of keeping overheads down and maximising returns on our core businesses.

Finance

For the financial year ended 30 June 2004, the Group incurred a loss of HK$11.7 million as compared to a loss of HK$141.4 million last year. The operating result before exceptional items and write-back of certain aged liabilities was a loss of HK$9 million, an improvement over the previous year by some HK$48 million. The improvement is mainly attributable to better contributions from Chinese film library sales, as well as the improvement in the Group's overseas and Hong Kong exhibition businesses.

Gross profits was up 23% or HK$23.4 million compared with the previous year, mainly due to a higher profit margin from film library sales. Turnover of the Group increased by HK$8.2 million or 4% compared with the previous year. Cost control measures implemented by the Group in 2002 helped reduce total operating costs by HK$8.2 million or 5% this current financial year. The Group's individual businesses all showed improved results, with the Singapore and Malaysia exhibition businesses performing strongly.

As of 30 June 2004, the Group had net current liabilities of HK$8.6 million, with a cash balance of approximately HK$23 million. The Group raised additional working capital of about HK$22.4 million in August 2003 through the placement of new shares to new and existing investors. In August 2004, the Group also raised another approximately HK$36.4 million by issuing new shares to Typhoon Music (PRC) Limited.

Film Distribution

The total box office of Hong Kong grew from HK$841 million to HK$973 million, a 16% increase from the previous year. Chinese language films enjoyed a strong reception at the box office, grossing approximately HK$506 million.

The Group distributed 21 Chinese language and 21 non-Chinese language films in the current financial year, compared with 17 Chinese language films and 26 non-Chinese movies in the previous year. As a distributor, the Group maintained its 25% market share reporting a HK$12 million increase in box office receipts.

Of the 22 major Chinese language films which grossed more than HK$10 million at the box office, 6 were distributed by the Group. These included *Infernal Affairs II* and *Infernal Affairs III*.

However, overall distribution fee income of Chinese language films decreased by HK$4.6 million due to lower income from auxiliary rights and overseas markets. Although income from United International Pictures films showed a slight improvement with films such as *Van Helsing*, *Tomb Raider: The Cradle of Life and Love Actually* performing well, the poor performance of other non-Chinese language films has affected the bottom line.

The Group also enjoyed royalty income from sales of library titles to overseas markets. Four action films and five Stephen Chiau comedies were sold to Miramax.

The performance of licensed non-Chinese language films via Panasia however was below expectations. Panasia released 9 films with a total box office of HK$10.8 million, compared to 14 films with HK$14.7 million in box office takings in the previous year.

Exhibition

In accordance with its strategic focus, the Group has divested its underperforming screens in Shanghai while identifying new opportunities in more strategic locations in the Pearl River Delta region. The Group now operates 218 screens in 36 cinemas in Hong Kong, Singapore and Malaysia with 7 new screens to come on stream in Shenzhen by early 2005.

In Hong Kong, the market recovery tied in with customer loyalty programs and better pricing strategies proved successful with all but one cinema performing better compared with the previous year. Income from the Group's exhibition business showed a significant improvement. Total admissions to the Group's cinemas totaled 3.1 million, which is up by 26% from the previous year. The Group maintained its overall market share of 15% despite facing stiff competition.

Both Singapore and Malaysia continued to perform well in the current financial year. Despite the overall box office in Singapore remaining flat, successful marketing efforts improved the Group's market share to 44%. EBT for the year saw a sharp increase of S$1.7 million to S$7.2 million.

Total box office in Malaysia increased by 23% to RM139 million. Tanjong Golden Village Sdn Bhd showed an 18% increase in reported box office receipts to RM49.2 million, partly due to the addition of two new screens. EBT improved by RM5.4 million to RM10 million compared to the previous year. However, the adoption of the revised accounting standard on tax effect accounting has resulted in higher tax expense.

During the current financial year, Golden Screen Cinemas Sdn Bhd ("GSC") showed a healthy 30% growth at the box office. This is partly due to the opening of a 12-screen cinema in Penang (GSC Gurney Plaza). GSC achieved a 47% share with reported box office receipts of RM66.2 million. EBT showed a profit of RM10 million, up RM5.8 million from the previous year. GSC has yet to see the full benefit from the closure of underperforming cinemas in the previous year due to unexpired leases. As described in note (1) the equity accounting of GSC's results for 18 months up to 30 June 2004 has resulted in equity accounting for an additional six months results of approximately HK$2.5 million.

In October 2003, the Group divested its interest in its two Shanghai cinemas – Hai Xing and Friendship due to strong competition and continued losses. A small loss of HK$0.2 million was recognised for the year. The Group also decided to abandon the Peace IMAX project of which full impairment provision had been made in the previous year. The Group has identified a new site in Shenzhen where it has invested in a new 7-screen multiplex due to open by early 2005.

Operating Costs
Cost control measures adopted by the Group in 2002 continue to keep overheads low with tighter controls over other operating expenses such as travelling and entertainment. Total operating expenses for the year were lower than the previous year by HK$8.2 million.

Prospects
The Group's tight cost control measures and our focus on our core businesses and strengths has helped us to maintain and increase our competitive edge in the industry. Whilst the market has shown signs of a recovery, the Group will continue on its chosen course and will maintain its prudent strategies which has proven successful over the previous year.

Hong Kong will continue to be the base of operations for the Group and Singapore and Malaysia will continue to play their strong supporting roles. The Group will maintain its focus on developing the Greater China market, and is currently developing a cinema multiplex in Shenzhen. The Group is also continuing with ongoing discussions regarding a possible acquisition of a significant interest in a cinema chain in Taiwan. As previously announced, in order to finance the acquisition if it proceeds, the Group will consider the possibility of raising new equity financing.

Liquidity and financial resources
During the year, the Group was financed both by cash flow generated internally and a placement of new shares. On 1 August 2003, the Group successfully placed new shares at HK$0.28 per share and the net proceeds of HK$22.4 million were used to provide additional working capital to the Group. Subsequent to the balance sheet date, in August 2004, the Group further placed new shares to an independent third party at HK$0.25 per share and the net proceeds amounted to approximately HK$36.4 million. The Group intended to apply the net proceeds for general working capital purposes and for any future investment opportunities in the film financing, film distribution and/or cinema operations business as and when these opportunities arise. As at 30 June 2004, the Group's cash balances stood at HK$22.6 million and the net current liabilities at HK$8.6 million. Gearing, which is computed by dividing total liabilities by total assets, was reduced from 29% to 24%. The Group continues to operate debt-free, except for finance leases, and has no bank borrowings and charges on the Group's assets.

As at 30 June 2004, the Group had a contingent liability of HK$17.1 million (2003: HK$48.2 million) in respect of a guarantee of banking facilities granted to its associates.

The Group's assets and liabilities are principally denominated in Hong Kong dollars except investments in associates located in Singapore and Malaysia. Since the Malaysian Ringgit is pegged to the United States dollars and the exchange rate between Singapore dollars and Hong Kong dollars has been relatively stable for the past two years, the directors are of the view that the Group's exposure to currency exchange risk is minimal. Accordingly no hedging of foreign currencies was carried out by the Group.

Employee and remuneration policies
As at 30 June 2004, the Group had 186 (2003: 232) permanent employees. The Group remunerates its employees largely based on industry practice. Apart from salaries, commissions, mandatory provident fund and discretionary bonuses, share options are granted to certain employees based on individual merit.

CLOSURE OF REGISTER OF MEMBERS
The Register of Members of the Company will be closed from Tuesday, 9 November 2004 to Friday, 12 November 2004 (both days inclusive) during which period no transfer of shares will be registered.

In order to determine who are entitled to attend the Annual General Meeting of the Company to be held on 12 November 2004, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 8 November 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES
Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

CODE OF BEST PRACTICE
In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year except that the independent non-executive directors of the Company were not appointed for a specific term because they are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's bye-laws.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE
All information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules (in force immediately prior to 31 March 2004) will be published on the website of the Stock Exchange in due course.

List of all Directors of the Company as of the date of this announcement:–

Executive Directors:
Mr. Chow Ting Hsing, Raymond
Mr. Phoon Chiong Kit
Mr. Chu Siu Tsun, Stephen
Mr. Chan Sik Hong, David
Mrs. Chin Chow Chung Hang, Roberta

Non-executive Director:
Mr. Kronfeld, Eric Norman

Independent non-executive Directors:
Mr. Ma Kah Woh, Paul
Prince Yukol, Chatrichalerm
Mr. Lin, Frank

On behalf of the Board
Chow Ting Hsing, Raymond
Chairman

Hong Kong, 11 October 2004