



GOLDEN HARVEST ENTERTAINMENT (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

INTERIM RESULTS

The Board of Directors (the “Board”) of Golden Harvest Entertainment (Holdings) Limited (the “Company”) herein announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2001. The unaudited consolidated results have not been audited by the Company’s auditors, but have been reviewed by the Company’s Audit Committee:

		(Unaudited) Six months ended 31 December	
	<i>Notes</i>	2001 <i>HK\$’000</i>	2000 <i>HK\$’000</i>
TURNOVER	2	137,128	126,829
Cost of sales		<u>(69,806)</u>	<u>(56,388)</u>
Gross profit		67,322	70,441
Interest income		799	5,026
Other revenue		6,204	5,709
Selling and distribution costs		(60,327)	(58,829)
General and administrative expenses		(30,039)	(25,696)
Other operating expenses		<u>(1,702)</u>	<u>(1,793)</u>
LOSS FROM OPERATING ACTIVITIES	2, 3	<u>(17,743)</u>	<u>(5,142)</u>
Finance costs		(25)	(15)
LOSS AFTER FINANCE COSTS	2	<u>(17,768)</u>	<u>(5,157)</u>
Share of profits less losses of associates		<u>(4,811)</u>	<u>(11,243)</u>
LOSS BEFORE TAX		(22,579)	(16,400)
Tax	4	<u>(1,377)</u>	<u>(1,409)</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		<u><u>(23,956)</u></u>	<u><u>(17,809)</u></u>
LOSS PER SHARE	5		
Basic		<u><u>(3.0 cents)</u></u>	<u><u>(2.2 cents)</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>(2.2 cents)</u></u>

1. Significant accounting policies

Basis of preparation

The unaudited consolidated results have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 30 June 2001 except that the following new/revised SSAPs issued by the Hong Kong Society of Accountants have been adopted for the first time in the preparation of the current period’s condensed consolidated financial statements:

SSAP 9 (revised):	Events after the Balance Sheet Date
SSAP 28:	Provisions, Contingent Liabilities and Contingent Assets
SSAP 29:	Intangible Assets
SSAP 30:	Business Combinations
SSAP 31:	Impairment of Assets
SSAP 32:	Consolidated Financial Statements and Accounting for Investments in Subsidiaries

With the exception of SSAP 29, SSAP 30 and SSAP 31, the adoption of the above standards has had no material effect on amounts reported in prior years.

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 earnings per share for the following reasons:

- (i) The trademarks, which were acquired by the Group in 2000, have been in use for a very long time and will continue to be used for the long term. The valuation of the Group’s trademarks performed by American Appraisal Hongkong Limited, an independent professional appraiser, has confirmed that the market value of the trademarks exceeded the carrying value as at 30 June 2001. In the opinion of the directors, there has been no material change in the valuation since 30 June 2001; 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 that trademarks are stated at cost and provision is made for any impairment in value. The Group intends to confirm the value of its trademarks by independent professional valuation periodically.

Prior period adjustments

In accordance with the requirements of SSAP 31 and the transitional provisions of SSAP 30, adjustments have been made concerning the impairment of goodwill arising prior to the adoption of SSAP 30 which was eliminated against capital reserve. These adjustments, which represent a change in accounting policy, have been applied retrospectively in accordance with SSAP 2. Accordingly, goodwill which was eliminated against capital reserve in the amount of HK\$104,224,000 were determined to have been impaired in prior years, and the effect of this change in accounting policy was to reduce the retained profits as at 1 July 2001 and to increase capital reserve as at 1 July 2001 by the same amount.

Comparative figures

Due to adoption of new SSAPs during the current period, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period’s presentation.

In addition, certain of turnover, cost of sales, other revenue, selling and distribution costs, general and administrative expenses and other operating expenses in the last period have been reclassified to conform with the current period’s presentation. The directors are of the opinion that such a presentation would more fairly reflect the operation of the Group.

2. Segmental information

An analysis of the Group's turnover and contribution to loss after finance costs by principal activity and geographical area of markets, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") is as follows:

	Turnover		Contribution	
	Six months ended		Six months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Film distribution	34,300	24,126	3,409	(893)
Film exhibition	81,410	81,117	(9,420)	(3,840)
Film processing	6,496	11,367	(1,477)	1,780
Production control	2,860	8,575	(8,227)	(340)
Public relations	4,097	1,644	(1,681)	(1,310)
Music production	2,428	–	(866)	(539)
Video distribution	5,537	–	519	–
	<u>137,128</u>	<u>126,829</u>	<u>(17,743)</u>	<u>(5,142)</u>
Less: Finance costs			<u>(25)</u>	<u>(15)</u>
Loss after finance costs			<u>(17,768)</u>	<u>(5,157)</u>
By geographical area:				
Hong Kong	123,222	112,037	(16,160)	(3,898)
Asia	11,477	11,261	(2,243)	(1,257)
North America	100	671	85	310
Elsewhere	2,329	2,860	575	(297)
	<u>137,128</u>	<u>126,829</u>	<u>(17,743)</u>	<u>(5,142)</u>
Less: Finance costs			<u>(25)</u>	<u>(15)</u>
Loss after finance costs			<u>(17,768)</u>	<u>(5,157)</u>

3. Loss from operating activities

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

	Six months ended	
	31 December	
	2001	2000
	HK\$'000	HK\$'000
Amortisation of film rights	8,708	6,854
Depreciation	9,196	8,179
	<u>17,904</u>	<u>15,033</u>

4. Tax

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. 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.

	Six months ended	
	31 December	
	2001	2000
	HK\$'000	HK\$'000
Group:		
Hong Kong	–	–
Elsewhere	184	42
Overprovision in the prior period	(117)	–
	<hr/>	<hr/>
	67	42
	<hr/>	<hr/>
Associates:		
Hong Kong	–	11
Elsewhere	20	6
Deferred	1,290	1,350
	<hr/>	<hr/>
	1,310	1,367
	<hr/>	<hr/>
Tax charge for the period	<u>1,377</u>	<u>1,409</u>

5. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$23,956,000 (2000: HK\$17,809,000) and the weighted average number of 800,887,500 shares (2000: 800,887,500 shares) in issue during the period.

No disclosure for diluted loss per share for the current period 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 current period and thus, the share options have no diluting effect.

The calculation of diluted loss per share for the prior period was based on the net loss from ordinary activities attributable to shareholders for that period and the weighted average number of 801,094,151 shares in issue, which represented the weighted average number of 800,887,500 shares in issue during the prior period, plus the weighted average number of 206,651 shares assumed to be issued at no consideration on the deemed exercise of all exercisable options during the prior period.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 31 December 2001 (2000: NIL).

REVIEW OF OPERATIONS

For the six months ended 31 December 2001, the Group's turnover increased by HK\$10.3 million from the corresponding period in 2000. We have seen improvements from the existing core businesses: Film Distribution and Exhibition by HK\$10.5 million. New business units such as music production, video distribution and public relation also increased to HK\$12.1 million from HK\$1.6 million in 2000. On the other hand, due to one of the major film production clients deciding to scale down its activity, the production fees generated by the production division has dropped by HK\$5.7 million. Correspondingly, film processing income has also dropped by HK\$4.9 million.

Cost of sales has increased by HK\$13.4 million and was mainly incurred in new business areas of HK\$8.5 million. HK\$3.9 million was attributable to an increase of business volume in film distribution. The drop in gross profits of HK\$3.1 million was primarily due to the cost structure in the film production and processing units where costs cannot be reduced in proportion to a reduction in turnover.

The loss for the period amounted to HK\$24 million, an increase of HK\$6.1 million as compared to the same period last year. It is important to note that the performance of the core business is improving. The unfavourable performance was mainly attributable to the previously mentioned drop in production control fees, film processing income and also interest income from film financing of HK\$3.5 million and one-off non-recurring items of HK\$1 million.

Hong Kong Market

The total box office of Hong Kong grew from HK\$485 million to HK\$563 million, a 16% increase for the period under review. This is a significant improvement from the growth of 5.8% for the calendar year 2000. The increase was, however, mainly attributable to non-Chinese movies from HK\$259 million to HK\$327 million. This is due to Hollywood blockbusters such as “Harry Potter”, “Jurassic Park 3”, “Tomb Raider” and others. Chinese movies showed a modest growth of only 4% but an increase, nevertheless.

The Group distributed 13 Chinese and 23 non-Chinese movies in second half of 2001 as compared to 10 Chinese and 13 non-Chinese movies in the same period of 2000. The Group’s share of the total box office was HK\$113 million, an increase of 23% from last period. This has significantly out performed the market growth.

Besides distributing non-Chinese and Chinese films, the Group also became more active in distributing other Asian language films. The distribution of “Jan Dara” was a success. We have secured a number of quality Asian films to be released in year 2002. As a result, the gross profit contributed by the distribution activities increased by HK\$6.2 million.

The total admission of 1.5 million to the Group’s cinemas was about the same against same period last year. However, Golden Lee closed in February 2001. Should we exclude Golden Lee’s admission in last year, total admission would show an increase of 5.4%. The overall average ticket price also increased by 7.8%. These favourable factors brought up the gross profit by HK\$6.2 million. However, the improvement was partly offset by higher percentage of rental expenses.

The Group also stepped up in film investment. The primary reasons are to ensure desirable supply of quality products in both Chinese and non-Chinese movies. This was done by either producing the movies by our own production arm or acquisitions from the market.

Television production was on good track. We have completed three drama series or 80 episodes. Market response was favourable. A number of pre-sale contracts were signed before the projects were completed. We expect a meaningful profit contribution in the second half of this fiscal year.

Regional Markets

Performance of the Group’s associates in Singapore’s and Malaysia’s exhibition business showed continuous improvement. The loss has decreased from HK\$7.7 million to HK\$4 million.

In Singapore, the average ticket price increased by 12% with admission levels remaining stable. In Malaysia, the Hollywood blockbusters released during the summer holidays and the reduction of Malaysia entertainment tax since October 2001 has favourably contributed to the reduction in ongoing losses.

In Taiwan, the downtrend in the video rental business continues. We were able to improve the situation by getting into outright sales to the video stores and expand the video format from VHS to VCD and DVD. However, due to the poor economic environment in Taiwan and the increased problems of piracy, the outlook is not promising.

The Group has moved into a new office in Shanghai for the China operations in August 2001. The new office will be our China headquarters for all major lines of business including the recently established TV production office from which we plan to produce around 200 hours of TV drama series every year.

The Group maintains a tight control on headcount and operating expenses. There has been no unusual or material changes to the Group's operations apart from those discussed above.

PROSPECTS

The Group has put in the necessary work to improve our existing business, laid the groundwork for new lines of businesses and successfully started television production and video distribution. We have built an enterprise that is dynamic and innovative in Chinese language entertainment content, creation and execution. The financial performance of our film distribution and exhibition businesses are improving across the markets that we have presence. The profit contributions from TV production will materialize in 2002 and we will gear up our production capacity to produce up to 200 hours each year mainly for the television market in China. The video distribution business which started in September 2001 has already generated a positive profit contribution. We will speed up the video licensing acquisition activities for both Chinese and non-Chinese movies. We expect a substantial contribution from this new business in second half of this fiscal year. To cope with the business growth, we are also seeking alternate financing options to provide the necessary capital to increase the volume of movies we produce in-house.

LIQUIDITY AND FINANCE RESOURCES

The Group's financial position remains healthy. The gearing ratio, which was computed by dividing the total liabilities by the total assets, mildly increased from 15% to 18%. There are no bank borrowings and net current assets amounted to HK\$108.6 million as at 31 December 2001, including cash and deposits totalling HK\$46.8 million.

As at 31 December 2001, the Group had a contingent liability of HK\$46.4 million (30 June 2001: HK\$47 million) in respect of a guarantee of banking facilities granted to its associates.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2001, the Group had 270 (2000: 255) employees. The Group remunerates its employees largely based on industry practice. Apart from salaries, commissions, provident fund and discretionary bonuses, options are granted to certain employees based on individual merits.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange throughout the period 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 the annual general meeting 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 paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules on the Stock Exchange will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Chow Ting Hsing, Raymond
Chairman

Hong Kong, 18 March 2002