

INTERIM REPORT 2001



GOLDEN HARVEST ENTERTAINMENT (HOLDINGS) LIMITED

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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.

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.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited)	
		Six months ended	
		31 December	
		2001	2000
	<i>Notes</i>	HK\$'000	HK\$'000
TURNOVER	2	137,128	126,829
Cost of sales		(69,806)	(56,388)
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		(1,702)	(1,793)
LOSS FROM OPERATING ACTIVITIES	2, 3	(17,743)	(5,142)
Finance costs		(25)	(15)
LOSS AFTER FINANCE COSTS	2	(17,768)	(5,157)
Share of profits less losses of associates		(4,811)	(11,243)
LOSS BEFORE TAX		(22,579)	(16,400)
Tax	4	(1,377)	(1,409)
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(23,956)	(17,809)
LOSS PER SHARE	5		
Basic		(3.0 cents)	(2.2 cents)
Diluted		N/A	(2.2 cents)

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

		(Unaudited)	
		Six months ended	
		31 December	
	<i>Note</i>	2001	2000
		HK\$'000	HK\$'000
Exchange losses on translation of the financial statements of foreign entities not recognised in the profit and loss account	11	(696)	(1,418)
Net loss from ordinary activities attributable to shareholders		(23,956)	(17,809)
Total recognised losses		(24,652)	(19,227)

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December 2001 HK\$'000	(Audited) As at 30 June 2001 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets	6	97,740	101,460
Interests in associates		162,151	169,794
Investments in club memberships		4,380	4,380
Rental deposits		13,199	14,206
Long term investment	7	8,097	8,097
Trademarks	8	78,911	78,572
		364,478	376,509
CURRENT ASSETS			
Prepayments, deposits and other receivables		76,662	47,345
Inventories		687	551
Film rights and films in progress		67,798	49,868
Accounts receivable	9	20,786	16,971
Time deposits		17,485	62,924
Cash and bank balances		29,354	36,135
		212,772	213,794
CURRENT LIABILITIES			
Accounts payable	10	46,567	37,565
Accrued liabilities and other payables		43,412	41,241
Customer deposits		4,416	4,603
Current portion of finance lease payables		163	-
Tax payable		9,593	9,690
		104,151	93,099
NET CURRENT ASSETS		108,621	120,695
TOTAL ASSETS LESS CURRENT LIABILITIES		473,099	497,204
NON-CURRENT LIABILITIES			
Deferred tax		110	110
Non-current portion of finance lease payables		547	-
		657	110
MINORITY INTERESTS		33	33
		472,409	497,061
CAPITAL AND RESERVES			
Issued share capital		80,089	80,089
Reserves	11	392,320	416,972
		472,409	497,061

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended	
	31 December	
	2001	2000
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(47,409)	(17,164)
Returns on investments and servicing of finance	774	5,012
Taxes paid	(164)	(468)
Investing activities	(5,343)	(30,719)
Net cash outflow before financing activities	(52,142)	(43,339)
Financing activities	(78)	–
Decrease in cash and cash equivalents	(52,220)	(43,339)
Cash and cash equivalents at beginning of period	99,059	81,926
Cash and cash equivalents at end of period	46,839	38,587
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Time deposits	17,485	11,196
Cash and bank balances	29,354	27,391
	46,839	38,587

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**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 31 December		Six months ended 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	–
	137,128	126,829	(17,743)	(5,142)
Less: Finance costs			(25)	(15)
Loss after finance costs			(17,768)	(5,157)
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)
	137,128	126,829	(17,743)	(5,142)
Less: Finance costs			(25)	(15)
Loss after finance costs			(17,768)	(5,157)

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

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Hong Kong	–	–
Elsewhere	184	42
Overprovision in the prior period	(117)	–
	<u>67</u>	<u>42</u>
Associates:		
Hong Kong	–	11
Elsewhere	20	6
Deferred	1,290	1,350
	<u>1,310</u>	<u>1,367</u>
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 of 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.

6. FIXED ASSETS

	As at	As at
	31 December	30 June
	2001	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation	132,718	128,167
Accumulated depreciation	(34,978)	(26,707)
	<u>97,740</u>	<u>101,460</u>

7. LONG TERM INVESTMENT

The long term investment represents the 16% shareholding of an unlisted equity investment and is stated at cost, representing its fair value on acquisition, less any impairment losses.

8. TRADEMARKS

The trademarks represent the perpetual licence of using 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 period represent professional fees and registration fees incurred on the registration of the trademarks in overseas. In the opinion of the directors, the value of the trademarks is not less than the amount stated in the balance sheet.

9. ACCOUNTS RECEIVABLE

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

	As at 31 December 2001 HK\$'000	As at 30 June 2001 HK\$'000
Current to 3 months	17,079	16,422
4 to 6 months	3,268	233
7 to 12 months	16	218
Over 1 year	423	98
	<hr/> 20,786 <hr/>	<hr/> 16,971 <hr/>

The accounts receivable of the Group includes trading balances due from Golden Harvest Private Group companies totalling HK\$286,000 (30 June 2001: HK\$586,000). 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, Best Creation International Limited and Wigston Company Limited of approximately HK\$34,000 (30 June 2001: HK\$50,000), HK\$300,000 (30 June 2001: HK\$250,000), HK\$639,000 (30 June 2001: HK\$891,000) and HK\$55,000 (30 June 2001: Nil), respectively. The 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 were directors of the Company, were also directors and/or beneficial shareholders of these related companies.

10. ACCOUNTS PAYABLE

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

	As at 31 December 2001 HK\$'000	As at 30 June 2001 HK\$'000
Current to 3 months	39,705	28,849
4 to 6 months	1,672	845
7 to 12 months	478	268
Over 1 year	4,712	7,603
	<hr/> 46,567 <hr/>	<hr/> 37,565 <hr/>

The accounts payable of the Group includes trading balances due to Golden Harvest Private Group companies totalling HK\$558,000 (30 June 2001: HK\$767,000). The amounts are unsecured, interest-free and repayable in accordance with normal trading terms.

The accounts payable of the Group also includes amounts due to GH Pictures (China) Limited and GH Media Management Pte Limited of HK\$14,206,000 (30 June 2001: HK\$6,964,000) and HK\$3,602,000 (30 June 2001: HK\$4,323,000), respectively. The amounts are unsecured, interest-free and have no fixed repayment terms. Chow Ting Hsing, Raymond, Phoon Chiong Kit and Chu Siu Tsun, Stephen, who were directors of the Company, were also directors and/or beneficial shareholders of these related companies.

11. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Surplus reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1 July 2001								
As previously stated	565,577	145	(154,313)	35,140	480	7,864	(37,921)	416,972
Prior year adjustment - note 1	-	-	104,224	(104,224)	-	-	-	-
As restated	565,577	145	(50,089)	(69,084)	480	7,864	(37,921)	416,972
Exchange adjustments	-	-	-	-	-	-	(696)	(696)
Net loss for the period	-	-	-	(23,956)	-	-	-	(23,956)
At 31 December 2001	565,577	145	(50,089)	(93,040)	480	7,864	(38,617)	392,320

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 capitalisation by way of fully paid bonus issues of the shares of the associate in Taiwan.

12. RELATED PARTY TRANSACTIONS

In addition to the balances detailed in notes 9 and 10, the Group had the following transactions with related parties. The directors confirm 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 period, the Group had material transactions to which members of the Golden Harvest Private Group were parties. The significant transactions are summarised below:

	Six months ended 31 December	
	2001	2000
	HK\$'000	HK\$'000
Film distribution commission income	64	4

The Group acted as the distributor of the films produced by 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, Phoon Chiong Kit, Chu Siu Tsun, Stephen and Chan Sik Hong, David who were directors of the Company during the period, were interested, directly or indirectly, in the above transactions as directors and/or beneficial shareholders of the members of the Golden Harvest Private Group.

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

In respect of transactions set out in note above, a conditional waiver from strict compliance with the connected transaction requirements as set out in Chapter 14 of the Listing Rules has been obtained. 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 by unrelated third parties.

(b) Transactions with other related parties

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

	Notes	Six months ended 31 December	
		2001 HK\$'000	2000 HK\$'000
Advertising agency fee income from a related company	(i), (ii)	1,475	1,397
Film developing and printing services income from related companies	(i), (iii)	2,459	6,568
Film distribution commission income from related companies	(i), (iv)	7,529	13,746
Consultancy fee income from a related company	(i), (v)	300	–
Film production control fee income from a related company	(i), (vi)	714	7,241
Services fees income from a related company	(i), (vii)	195	296
Accounting services income from a related company	(i), (viii)	38	–
Rental income from a related company	(i), (ix)	182	–
Talent management fee income from a related company	(i), (x)	150	500
Consultancy fee paid to a related company	(i), (xi)	655	–
Film royalty income from associates	(i), (xii)	1,588	54
Management fee income from associates	(i), (xiii)	1,161	440
Film sourcing service fee paid to an associate	(i), (xiv)	60	–
Accounting service fee paid to an associate	(i), (xv)	41	40
Corporate guarantees given in respect of banking facilities granted to associates	(i), (xvi)	46,370	25,548

Notes:

- (i) Chow Ting Hsing, Raymond, Phoon Chiong Kit, Chu Siu Tsun, Stephen and Chan Sik Hong, David, who were directors of the Company during the period, were interested, directly or indirectly, in the above transactions as directors and/or beneficial shareholders of certain of these companies.
- (ii) The agency fee income related to the provision of advertising services which was charged according to prices and conditions similar to those offered to other customers of the Group.
- (iii) The income related to the provision of film developing and printing services which was charged according to prices and conditions similar to those offered to other customers of the Group.
- (iv) 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 agreement 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.
- (v) The consultancy fee income related to the promotional and advertising services rendered to an associate of the Golden Harvest Private Group and was charged at a rate of HK\$50,000 per month from July 2001 onward.

- (vi) The film production control fee income was charged according to the terms of the service agreement dated 8 February 2000.
- (vii) The services fees income related to the film production service provided to a related company and was charged at a rate of 1.3% of the total budgeted film production cost. The services fees income received in the prior period related to the handling service provided to a related company on the factoring agreement dated 4 December 2000 entered into between GH Pictures (China) Limited and Bamboo Grove Enterprises Limited, a wholly-owned subsidiary of the Group and was charged at 1% of the total amount of debt to be purchased.
- (viii) The accounting services income was charged at 0.25% of the total budgeted film production cost.
- (ix) The rental income was charged at a rate of approximately HK\$30,000 per month for sub-letting the office to an associate of the Golden Harvest Private Group.
- (x) The talent management service income was charged according to the prices and conditions similar to those offered to other customers of the Group.
- (xi) A related company provided film production and distribution consulting services to the Group and consultancy fee was charged according to the terms of the distribution agreement dated 1 October 2001.
- (xii) The royalty income was charged according to prices and conditions similar to those offered to other customers of the Group.
- (xiii) The management fee income representing the following:
 - an amount of HK\$240,000 related to consultancy services provided to an associate of the Group and was charged at a rate of HK\$60,000 per month for the period from 1 July 2001 to 31 October 2001;
 - an amount of HK\$144,000 related to accounting services provided to two associates of the Group and were charged at a rate of HK\$10,000 and HK\$14,000 per month, respectively; and
 - an amount of HK\$777,000 related to consultancy services provided to two associates of the Group and were charged at rates of HK\$120,000 and RMB10,000 per month, respectively;
- (xiv) The film sourcing service fee was charged at a rate of HK\$10,000 per month from July 2001 onward.
- (xv) The accounting service fee was charged at a rate of S\$1,500 per month.
- (xvi) The corporate guarantees were given by the Group in respect of banking facilities granted to certain associates at nil consideration.

The transactions amounted to HK\$735,000 (2000: HK\$46,000) included in notes (iv) and (xi) above with two related companies (2000: one related company) 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.

13. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	As at 31 December 2001 HK\$'000	As at 30 June 2001 HK\$'000
Guarantee of banking facilities granted to associates	46,370	47,056

INTERIM DIVIDEND

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

LIQUIDITY AND FINANCIAL 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.

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.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, the interests of the directors in the share capital of the Company and any of its associated corporations, as required to be disclosed pursuant to the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

Interests in shares of the Company

Director	Nature of interest	Number of shares
Chow Ting Hsing, Raymond	Corporate (Note)	250,537,223
Phoon Chiong Kit	Personal	6,000,000
Chu Siu Tsun, Stephen	Personal	5,959,375
Chan Sik Hong, David	Personal	5,859,375

Note: Chow Ting Hsing, Raymond was interested in 250,537,223 shares of the Company by virtue of his beneficial shareholdings in Planet Gold Associates Limited and Net City Limited, which held 146,568,473 shares and 103,968,750 shares of the Company, respectively.

Interests in shares of associated corporations

Chow Ting Hsing, Raymond is also the beneficial owner 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.

Save as disclosed above, none of the directors or their respective associates had any personal, family, corporate or other beneficial interests in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SHARE OPTIONS

As 31 December 2001, the Company had the following outstanding share options granted to directors and employees of the Company in the period:

Name of Directors/ Chief Executives/ Substantial Shareholders	Date of Grant	Exercise Price	Exercisable Period (Notes)	Closing Price before Date of Grant	Number of Share Options		
					Balance As at 1.7.2001	Granted During the Period	Balance As at 31.12.2001
<i>(i) Directors</i>							
Phoon Chiong Kit	25.07.2000	HK\$0.78	25.7.2000 to 24.7.2010	1	HK\$0.96	4,600,000	4,600,000
	31.10.2001	HK\$0.62	31.10.2001 to 30.10.2011	2	HK\$0.62	-	10,000,000
Chu Siu Tsun, Stephen	31.10.2001	HK\$0.62	31.10.2001 to 30.10.2011	2	HK\$0.62	-	8,000,000
Chan Sik Hong, David	31.10.2001	HK\$0.62	31.10.2001 to 30.10.2011	2	HK\$0.62	-	5,000,000
<i>(ii) Substantial Shareholders</i>							
N/A							

Only Phoon Chiong Kit was granted options in excess of 1% of the Company's issued share capital during a 12-month period as disclosed above and which was approved by the shareholders of the Company at the Special General Meeting held on 28 November 2001.

Other than the above, the aggregate interests of the employees, suppliers and any other participants in the Share Option Scheme are disclosed as follows:

Grantees	Date of Grant	Exercise Price	Exercisable Period	(Note)	Closing Price before Date of Grant	Number of Share Options		
						Balance As at 1.7.2001	Granted During the Period	Balance As at 31.12.2001
Employees	31.10.2001	HK\$0.62	31.10.2001 to 30.10.2011	2	HK\$0.62	-	2,500,000	2,500,000
Suppliers	N/A							
Others	N/A							

Notes:

- (1) 50% of the options granted are exercisable during the period from 25 July 2000 to 24 July 2010, 25% of the options granted are exercisable during the period from 25 July 2001 to 24 July 2010 and the remaining 25% are exercisable during the period from 25 July 2002 to 24 July 2010.
- (2) 30% of the options granted are exercisable during the period from 30 November 2001 to 30 October 2011, 30% of the options granted are exercisable during the period from 1 August 2002 to 30 October 2011 and the remaining 40% are exercisable during the period from 1 August 2003 to 30 October 2011

All of the above share options were granted pursuant to the Company's share option scheme and are exercisable in various stages within the specified period at the specified exercise price per share. No options were exercised, cancelled or lapsed during the period.

The Board considers that it is not appropriate to state the theoretical value of the options granted during the period under the Company's share option scheme; the Board believes that any calculation of the value of options may not be meaningful as the exercise price is subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's issued share capital, and as the volume of trading in the Company's shares has been relatively low and the Company has not paid dividends on its shares in recent years.

Apart from the above, at no time during the six months ended 31 December 2001 was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors, their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following shareholders had an interest in 10 percent or more of the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance:

Name	Notes	Number of shares	Percentage
Chow Ting Hsing, Raymond	1	250,537,223	31.28
Planet Gold Associates Limited	1	146,568,473	18.30
Net City Limited	1	103,968,750	12.98
Acer Incorporated	2	150,414,000	18.78
Acer SoftCapital Incorporated	2	82,044,000	10.24
PAMA Group Inc.		123,284,027	15.39

Notes:

1. Chow Ting Hsing, Raymond was interested in 250,537,223 shares of the Company by virtue of his beneficial shareholdings in Planet Gold Associates Limited and Net City Limited, which held 146,568,473 shares and 103,968,750 shares of the Company, respectively.
2. Acer Incorporated was (or was deemed to be) interested in the shares of the Company by virtue of its 100 percent shareholding in Acer SoftCapital Inc., which held 82,044,000 shares of the Company, and by virtue of its 90.7 percent indirect shareholding in Acer Digital Services (Cayman Islands) Corp., which, in turn, held 68,370,000 shares of the Company.

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under section 16(1) of the SDI Ordinance.

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 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.

On behalf of the Board
Chow Ting Hsing, Raymond
Chairman

Hong Kong, 18 March 2002