



GOLDEN HARVEST ENTERTAINMENT
(HOLDINGS) LIMITED



INTERIM REPORT
2002

CONTENTS

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MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

The Group reported losses of HK\$22.6 million for the period, better than last year by HK\$1.9 million. The improvement was mainly attributable to the reduction of operating expenses of HK\$9 million and contributions from overseas associates of HK\$6.4 million. On the other hand due to poor market conditions in Hong Kong, the exhibition income dropped by HK\$12 million.

As stated in last year's annual report, the Group decided to consolidate its activities in the core business of distribution, supported by the exhibition and production divisions. Stringent cost control measurements were also put in place to cope with the poor economic conditions. We also put more resources in film financing activities and successfully obtained an increased supply of external films to support our cinema circuit. This has proven to be the correct strategy as the result was impressive.

Hong Kong market

Due to the lack of blockbusters in both the Chinese language and non-Chinese language films during the last summer holidays, the total box-office dropped from HK\$563 million to HK\$430 million or 24% in the same period under review. The non-Chinese language films accounted for HK\$95 million or 72% of the shortfall. During the period only 4 major Hollywood films (namely: Harry Potter and The Chamber of Secrets, Minority Report, Men In Black II and Stuart Little 2) were released with a total box-office of HK\$84.6 million. Whereas last year 8 films were released including Harry Potter & The Sorcerer's Stone, Jurassic Park 3, Lara Croft: Tomb Raider, Artificial Intelligence etc. which grossed HK\$144.4 million at the box-office.

The Group distributed 12 Chinese language and 11 non-Chinese language films as compared to 13 Chinese language and 23 non-Chinese language films last year. As a distributor, the box-office takings of our Chinese language films outperformed our competitors and our market share increased to 48%. Amongst the 7 major Chinese language films with a box-office of over HK\$10 million, the Group distributed 3 of them (namely: The Touch, Infernal Affairs and Golden Chicken). However, on the non-Chinese language films side, our performance was disappointing as the market share dropped from 26% to 9%.

The total admission of 1.2 million to the Group's cinemas dropped from 1.5 million or 20% against the same period last year. The box-office and gross profit were down by HK\$24 million and HK\$16 million respectively. This was partly due to the lack of blockbusters during the summer holidays and partly due to the "50% price-cut" campaign for September and October. As a result of the campaign, there was only a marginal increase in attendance.

Regional markets

Performance of the Group's associates in Singapore's and Malaysia's exhibition business showed continuous improvement. A record high profit of HK\$6.4 million was achieved versus a loss of HK\$4.8 million from the same period.

In Singapore, the overall box-office increased to S\$52 million, up 9% as compared to last year. The success of our marketing campaign helped push our market share to 42.4%. Both box-office and admissions were increased by 15%. While the average ticket price remained at the same level, the average spending on concession sales increased by 18%. In November, we opened the first commercial IMAX screen with overwhelming response. The average ticket price of this cinema is 15% higher than the normal rate.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Review of operations (continued)

In Malaysia, the overall box-office increased to RM\$55.3 million, up 25% as compared to last year. Admissions to our cinemas increased by 1 million or 16%. Malaysia's entertainment tax was reduced from an average of 31% to 25% in October 2001. This benefited our business in two ways. On one hand, it reduced the gross ticket price paid by the customers which pulled in more audiences. On the other hand, the net ticket price to the cinema operators also increased. Revenue increased and the overheads remained flat for the same period due to tight cost control.

The Group will continue its tight control policy on headcount and operating expenses. There were no unusual or material changes to the Group's operations apart from those discussed above. There was no material acquisitions and disposals of subsidiaries and associates in the course of the interim period.

Prospects

The Group's decision to concentrate on its core business of film distribution supported by its film exhibition and production divisions has proven to be timely and correct. This has enabled the management to focus on what they do best and maintain a lean but strong organisation. We will further expand in the film financing business because of its attractive financial returns and the ability to strengthen our market position as the leading film distributor.

Hong Kong will continue to be the headquarters for the Group although we will continue look for opportunities to develop the China market. We will work actively and closely with the Hong Kong and the Mainland Chinese authorities to facilitate the gradual opening of the Pearl River Delta region.

We anticipate that the Hong Kong economic environment remains tough. The film industry will need to go through further consolidation. However, we believe that with our experienced management team, lean organisation and strong branding position, we will continue to improve the financial results and increase our market share of existing and new markets.

Liquidity and financial resources

During the period, the Group was principally financed by cash flow generated internally. There are no bank borrowings and charges on the Group's assets. As at 31 December 2002, the net current assets amounted to HK\$53.5 million, including cash and deposits totalling HK\$37.3 million. The gearing ratio, which was computed by dividing the total liabilities by the total assets, increased from 21% to 24%.

As at 31 December 2002, the Group had a contingent liability of HK\$49.4 million (30 June 2002: HK\$48.5 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. In view that 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 were of the view that the Group's exposure to currency exchange risk was minimal. There was no hedging of foreign currencies carried out in the Group accordingly.

Employees and remuneration policies

As at 31 December 2002, the Group had 235 (30 June 2002: 244) employees. The Group remunerates its employees largely based on industry practice. Apart from salaries, commissions, mandatory provident fund and discretionary bonuses, options are granted to certain employees based on individual merits.

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 2002. 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

	Notes	(Unaudited)	
		Six months ended 31 December	
		2002 HK\$'000	2001 HK\$'000 (Restated)
TURNOVER	2	105,392	137,128
Cost of sales		<u>(50,253)</u>	(69,806)
Gross profit		55,139	67,322
Interest income		149	799
Other revenue		4,905	6,204
Selling and distribution costs		(55,508)	(60,327)
General and administrative expenses		(26,835)	(30,574)
Other operating expenses		(453)	(1,702)
Impairment of film rights		<u>(3,800)</u>	–
LOSS FROM OPERATING ACTIVITIES	2, 3	(26,403)	(18,278)
Impairment of long term investment		(1,000)	–
Finance costs		(312)	(25)
Share of profits less losses of associates		<u>6,439</u>	(4,811)
LOSS BEFORE TAX		(21,276)	(23,114)
Tax	4	<u>(1,342)</u>	(1,377)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(22,618)</u>	(24,491)
LOSS PER SHARE	5		
Basic		<u>(2.8 cents)</u>	(3.1 cents)
Diluted		<u>N/A</u>	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December 2002 HK\$'000	(Audited) As at 30 June 2002 HK\$'000 (Restated)
	Notes		
NON-CURRENT ASSETS			
Fixed assets	7	81,818	88,947
Interests in associates		163,970	159,509
Investments in club memberships		4,380	4,380
Rental deposits		13,121	13,179
Long term investment	8	1,297	2,297
Trademarks	9	79,123	79,073
		343,709	347,385
CURRENT ASSETS			
Prepayments, deposits and other receivables	10	58,774	55,422
Inventories		590	318
Film rights and films in progress		49,249	53,306
Accounts receivable	11	26,169	29,095
Time deposits		6,140	17,130
Cash and bank balances		31,111	21,744
		172,033	177,015
CURRENT LIABILITIES			
Accounts payable	12	65,529	55,743
Accrued liabilities and other payables		34,776	33,806
Customer deposits		5,842	7,133
Current portion of finance lease payables		413	178
Provision for employee benefits		2,100	2,200
Tax payable		9,850	9,993
		118,510	109,053
NET CURRENT ASSETS		53,523	67,962
TOTAL ASSETS LESS CURRENT LIABILITIES		397,232	415,347
NON-CURRENT LIABILITIES			
Non-current portion of finance lease payables		1,427	473
Provision for employee benefits		3,012	2,478
Deferred tax		110	110
		4,549	3,061
MINORITY INTERESTS		2,368	28
		390,315	412,258
CAPITAL AND RESERVES			
Issued share capital		80,089	80,089
Reserves		310,226	332,169
		390,315	412,258

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED*For the six months ended 31 December 2002*

	Share capital 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	Total HK\$'000
At 1 July 2002									
As previously stated	80,089	565,577	145	(50,089)	(155,482)	480	7,864	(34,126)	414,458
Prior period adjustment – note 6	-	-	-	-	(2,200)	-	-	-	(2,200)
As restated	80,089	565,577	145	(50,089)	(157,682)	480	7,864	(34,126)	412,258
Exchange adjustments on translation of:									
– overseas subsidiaries	-	-	-	-	-	-	-	(190)	(190)
– overseas associates	-	-	-	-	-	-	-	865	865
Net loss for the period	-	-	-	-	(22,618)	-	-	-	(22,618)
At 31 December 2002	80,089	565,577	145	(50,089)	(180,300)	480	7,864	(33,451)	390,315

For the six months ended 31 December 2001

	Share capital 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	Total HK\$'000
At 1 July 2001									
As previously stated	80,089	565,577	145	(50,089)	(69,084)	480	7,864	(37,921)	497,061
Prior period adjustment – note 6	-	-	-	-	(1,980)	-	-	-	(1,980)
As restated	80,089	565,577	145	(50,089)	(71,064)	480	7,864	(37,921)	495,081
Exchange adjustments on translation of:									
– overseas subsidiaries	-	-	-	-	-	-	-	258	258
– overseas associates	-	-	-	-	-	-	-	(954)	(954)
Net loss for the period	-	-	-	-	(24,491)	-	-	-	(24,491)
At 31 December 2001	80,089	565,577	145	(50,089)	(95,555)	480	7,864	(38,617)	469,894

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.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended	
	31 December	
	2002	2001
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM:		
OPERATING ACTIVITIES	(3,976)	(47,598)
INVESTING ACTIVITIES	2,588	(4,544)
FINANCING ACTIVITIES	(263)	(78)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,651)	(52,220)
Cash and cash equivalents at beginning of period	38,874	99,059
Exchange adjustments	28	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	37,251	46,839
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Time deposits	6,140	17,485
Cash and bank balances	31,111	29,354
	37,251	46,839

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 ("HKSA"). The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 30 June 2002 except that the following new and revised SSAPs issued by the HKSA have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

SSAP 1 (Revised)	:	"Presentation of financial statements"
SSAP 11 (Revised)	:	"Foreign currency translation"
SSAP 15 (Revised)	:	"Cash flow statements"
SSAP 25 (Revised)	:	"Interim financial reporting"
SSAP 34	:	"Employee benefits"

With the exception to SSAP 1, SSAP 15, SSAP 25 and SSAP 34, the adoption of the above standards has had no material effect on amounts reported in prior years.

The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative balances have been presented in accordance with this revised SSAP.

The main revision to SSAP 15 is to classify cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative balances have been presented in accordance with this revised SSAP.

SSAP 25 (Revised) prescribes the presentation and disclosures following changes in SSAP 1 (Revised) and SSAP 15 (Revised). The condensed consolidated financial statements for the current interim period and comparative balances have been presented in accordance with this revised SSAP.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

SSAP 34 prescribes the accounting treatment and disclosure requirements for employee benefits. Prior to the adoption of SSAP 34, the Group did not provide for the liabilities in respect of its staff's vested annual leave entitlement. SSAP 34 requires that obligations in respect of such entitlement should be accrued as soon as services are rendered. The adoption of the SSAP has resulted in a prior period adjustment to recognise a liability for the unused annual leave entitlement, as further detailed in note 6 to these condensed consolidated financial statements.

Trademarks

In accordance with the requirements of SSAP 29 "Intangible Assets", 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 2002. In the opinion of the directors, there has been no material change in the valuation since 30 June 2002; 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 and consistent with the prior period, 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.

2. SEGMENT INFORMATION

(a) Business segments

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

	Six months ended 31 December											
	Film and video distribution		Film exhibition		Film and television drama series production		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	36,720	39,837	59,003	81,410	205	2,860	9,464	13,021	-	-	105,392	137,128
Inter-segment sales	321	654	-	-	355	2,666	143	2,146	(819)	(5,466)	-	-
Other revenue	1,672	2,634	998	2,303	814	1,545	186	230	(668)	(826)	3,002	5,886
Total	38,713	43,125	60,001	83,713	1,374	7,071	9,793	15,397	(1,487)	(6,292)	108,394	143,014
Segment results	2,005	403	(20,974)	(10,031)	(7,175)	(5,103)	1,147	(2,635)	342	(662)	(24,655)	(18,028)
Interest income and unallocated gains											2,052	1,117
Unallocated expenses											-	(1,367)
Impairment of film rights	(3,800)	-	-	-	-	-	-	-	-	-	(3,800)	-
Loss from operating activities											(26,403)	(18,278)
Impairment of long term investment											(1,000)	-
Finance costs											(312)	(25)
Share of profits less losses of associates	480	(739)	5,959	(4,072)	-	-	-	-	-	-	6,439	(4,811)
Loss before tax											(21,276)	(23,114)
Tax											(1,342)	(1,377)
Net loss from ordinary activities attributable to shareholders											(22,618)	(24,491)

2. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

	Six months ended 31 December										Consolidated	
	Hong Kong		Elsewhere in PRC		Asia		Others		Eliminations		2002	2001
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	85,872	123,222	9,147	3,359	6,402	8,118	3,971	2,429	-	-	105,392	137,128
Segment results	(19,997)	(17,494)	(2,996)	(3,191)	(1,011)	1,997	(651)	660	-	-	(24,655)	(18,028)

3. LOSS FROM OPERATING ACTIVITIES

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

	Six months ended 31 December	
	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	4,031	3,106
Cost of services provided	35,655	57,992
Amortisation of film rights	10,567	8,708
Depreciation	9,126	9,196

4. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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	
	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong	-	-
Elsewhere	22	184
Overprovision in the prior period	-	(117)
	22	67
Associates:		
Hong Kong	-	-
Elsewhere	-	20
Deferred	1,320	1,290
	1,320	1,310
Tax charge for the period	1,342	1,377

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\$22,618,000 (2001: HK\$24,491,000 (restated)) and the weighted average number of 800,887,500 shares (2001: 800,887,500 shares) in issue during the period.

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

6. PRIOR PERIOD ADJUSTMENT

In the current period, the Company adopted SSAP 34 "Employee benefits" as detailed in note 1. These changes in accounting policy have been made retrospectively and accordingly, the comparative balances for the period ended 31 December 2001, including loss per share and accumulated losses brought forward as at 1 July 2001 have been restated. The effect of this change in respect of the year ended 30 June 2002 is an increase/(decrease) in general and administrative expenses and an increase/(decrease) in net losses attributable to shareholders, of HK\$535,000 and HK\$(315,000) for the six months period ended 31 December 2001 and 30 June 2002, respectively, which are the net movements in accrued employees' annual leave during those periods. The accumulated losses brought forward as at 1 July 2001 have been increased by HK\$1,980,000, which is the amount of adjustment in respect of the Group's required accrual for employees' annual leave as at that date.

7. FIXED ASSETS

	As at 31 December 2002 <i>HK\$'000</i>	As at 30 June 2002 <i>HK\$'000</i>
Cost or valuation	133,334	131,681
Accumulated depreciation	<u>(51,516)</u>	<u>(42,734)</u>
Net book value	<u>81,818</u>	<u>88,947</u>

8. LONG TERM INVESTMENT

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

9. 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 design fees and professional fees and registration fees incurred on the registration of the trademarks overseas. In the opinion of the directors, the value of the trademarks is not less than the amount stated in the balance sheet.

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Current period balance included a loan to a minority shareholder of a subsidiary of HK\$2,340,000 (30 June 2002: Nil) which is unsecured and bears interest at 6% per annum and has no fixed terms of repayment.

11. 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 2002 HK\$'000	As at 30 June 2002 HK\$'000
Current to 3 months	15,013	28,035
4 to 6 months	6,784	451
7 to 12 months	3,777	10
Over 1 year	595	599
	26,169	29,095

The accounts receivable of the Group includes trading balances due from Golden Harvest Private Group companies totalling HK\$55,000 (30 June 2002: HK\$11,000). 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\$58,000 (30 June 2002: HK\$53,000), HK\$50,000 (30 June 2002: HK\$50,000), HK\$595,000 (30 June 2002: HK\$599,000) and HK\$198,000 (30 June 2002: 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.

12. ACCOUNTS PAYABLE

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

	As at 31 December 2002 HK\$'000	As at 30 June 2002 HK\$'000
Current to 3 months	23,525	48,023
4 to 6 months	8,486	718
7 to 12 months	27,160	1,970
Over 1 year	6,358	5,032
	65,529	55,743

The accounts payable of the Group includes trading balances due to Golden Harvest Private Group companies totalling HK\$243,000 (30 June 2002: HK\$52,000). 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\$35,201,000 (30 June 2002: HK\$30,237,000) and HK\$339,000 (30 June 2002: HK\$662,000), respectively. The amounts are unsecured, interest-free except for an amount of HK\$34,047,000 (30 June 2002: HK\$26,290,000) due to GH Pictures (China) Limited which bears interest at Hong Kong dollars short term time deposits rate plus 1% per annum 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.

13. RELATED PARTY TRANSACTIONS

In addition to the balances detailed in notes 11 and 12, 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	
	2002	2001
	HK\$'000	HK\$'000
Film distribution commission income	22	64

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 ("Mr. Chow"), Phoon Chiong Kit ("Mr. Phoon"), Chu Siu Tsun, Stephen ("Mr. Chu") and Chan Sik Hong, David ("Mr. Chan"), who were directors of the Company during the period, were interested, directly or indirectly, in certain of 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In respect of transactions set out 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.

13. RELATED PARTY TRANSACTIONS (continued)

(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	
		2002 HK\$'000	2001 HK\$'000
Film developing and printing services income from related companies	(i), (ii)	220	2,459
Film distribution commission income from related companies	(i), (iii)	1,401	7,529
Consultancy fee income from a related company	(i), (iv)	300	300
Rental income from a related company	(i), (v)	182	182
Artist service fees paid to a related company	(i), (vi)	845	–
Consultancy fee paid to a related company	(i), (vii)	374	655
Interest expense to a related company	(i), (viii)	278	–
Interest income from a minority shareholder of a subsidiary	(i), (ix)	70	–
Film royalty income from associates	(i), (x)	1,272	1,588
Management fee income from associates	(i), (xi)	892	1,161
Film sourcing service fee paid to an associate	(i), (xii)	66	60
Accounting service fee paid to an associate	(i), (xiii)	41	41
Corporate guarantees given in respect of banking facilities granted to associates	(i), (xiv)	49,361	46,370

Notes:

- (i) Mr. Chow, Mr. Phoon, Mr. Chu and Mr. Chan, 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 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.
- (iii) 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.
- (iv) 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 (2001: HK\$50,000) per month.
- (v) The rental income was charged at a rate of approximately HK\$30,000 (2001: HK\$30,000) per month for sub-letting the office to an associate of the Golden Harvest Private Group.
- (vi) The Group paid artist service fees to a related company for services of two artists in respect of a film co-owned by the Group and other independent parties. The fees were charged according to the terms of respective artist service agreements.
- (vii) 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.
- (viii) The interest expense to an associate of Golden Harvest Private Group was charged at Hong Kong dollars short-term time deposits rate plus 1% per annum.

13. RELATED PARTY TRANSACTIONS (continued)**(b) Transactions with other related parties (continued)**

- (ix) The interest income was charged on a loan to a minority shareholder of a subsidiary at a rate of 6% per annum on the outstanding balance.
- (x) The royalty income was charged according to the terms of respective distribution agreements.
- (xi) The management fee income representing the following:
- an amount of HK\$144,000 (2001: HK\$144,000) related to accounting services provided to two associates of the Group and were charged at a rate of HK\$10,000 (2001: HK\$10,000) and HK\$14,000 (2001: HK\$14,000) per month, respectively; and
 - an amount of HK\$748,000 (2001: HK\$777,000) related to consultancy services provided to two associates of the Group and were charged at rates of HK\$120,000 (2001: HK\$120,000) and RMB5,000 (2001: RMB10,000) per month, respectively.
- (xii) The film sourcing service fee was charged at a rate of HK\$11,000 (2001: HK\$10,000) per month.
- (xiii) The accounting service fee was charged at a rate of S\$1,500 (2001: S\$1,500) per month.
- (xiv) 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\$380,000 (2001: HK\$735,000) included in notes (iii) and (vii) above with three related companies (2001: two 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.

14. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	As at 31 December 2002 HK\$'000	As at 30 June 2002 HK\$'000
Guarantee of banking facilities granted to associates	49,361	48,493

15. COMPARATIVE AMOUNTS

As explained in note 1 to these condensed consolidated financial statements, due to the adoption of certain new and revised SSAPs during the current period, the accounting treatment and presentation of certain items and balances in financial statements have been revised to comply with the new requirements. A prior period adjustment has been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 31 December 2002 (2001: NIL).

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, the interests of the directors in the share capital of the Company and any of its associates, 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 (<i>Note</i>)	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

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

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 associates

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.

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

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 OPTION SCHEME

As at 31 December 2002, the Company had the following outstanding share options granted to directors and employees of the Group:

Name or category of participant	Date of grant of share options	Exercise price of share options HK\$	Exercise period of share options	Notes	Closing price before date of grant HK\$	Number of share options		
						At 1 July 2002	Granted/ (Lapsed) during the period	At 31 December 2002
<i>Directors</i>								
Phoon Chiong Kit	25/7/2000	0.78	25/7/2000 to 24/7/2010	1 & 3	0.96	4,600,000	–	4,600,000
	31/10/2001	0.62	31/10/2001 to 30/10/2011	2 & 3	0.62	10,000,000 #	–	10,000,000
Chu Siu Tsun, Stephen	31/10/2001	0.62	31/10/2001 to 30/10/2011	2 & 3	0.62	8,000,000	–	8,000,000
Chan Sik Hong, David	31/10/2001	0.62	31/10/2001 to 30/10/2011	2 & 3	0.62	5,000,000	–	5,000,000
<i>Other employees</i>								
In aggregate	31/10/2001	0.62	31/10/2001 to 30/10/2011	2 & 3	0.62	2,500,000	(1,000,000)	1,500,000
						30,100,000	(1,000,000)	29,100,000

The number of share options granted to Phoon Chiong Kit, a director of the Company, exceeded the individual limit of 1% of the shares of the Company then in issue during a 12-month period as disclosed above. The excess number of 1,991,125 share options over the limit was approved by the shareholders of the Company at the Special General Meeting held on 28 November 2001.

Notes:

- 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.
- 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.
- There is no general requirement that a share option must be held for any minimum period before it can be exercised.

No share options were exercised or cancelled during the period.

A total of 1,000,000 share options granted to an employee with an exercise price of HK\$0.62 per share lapsed during the period.

SHARE OPTION SCHEME (CONTINUED)

The financial impact of share options granted 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 the 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 or lapsed prior to their exercise date are deleted from the register of outstanding options.

The Board of Directors (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 share 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 2002 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 2002, 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 Incorporated, 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

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period for the six months ended 31 December 2002 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, 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.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including the review of these interim results.

On behalf of the Board
Chow Ting Hsing, Raymond
Chairman

Hong Kong, 18 March 2003