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Golden Harvest

GOLDEN HARVEST ENTERTAINMENT (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

INTERIM RESULTS

The Board of Directors (the "Board") of Golden Harvest Entertainment (Holdings) Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2003. The unaudited consolidated results of the Group 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	
		2003	2002
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*2*	**112,827**	105,392
Cost of sales		**(46,236)**	(50,253)
Gross profit		**66,591**	55,139
Interest income		**5**	149
Other revenue		**9,222**	4,905
Selling and distribution costs		**(54,140)**	(55,508)
General and administrative expenses		**(25,374)**	(26,835)
Other operating expenses		**(2,832)**	(453)
Impairment of film rights		**—**	(3,800)
LOSS FROM OPERATING ACTIVITIES	*2, 3*	**(6,528)**	(26,403)
Impairment of long term investment		**—**	(1,000)
Finance costs		**(205)**	(312)
Share of profits less losses of associates		**12,030**	6,439
PROFIT/(LOSS) BEFORE TAX		**5,297**	(21,276)
Tax	*4*	**(4,628)**	(1,342)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**669**	(22,618)
EARNINGS/(LOSS) PER SHARE	*5*		
Basic		**HK0.1 cent**	(HK2.8 cents)
Diluted		**N/A**	N/A

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 2003, except that SSAP No.12 (Revised) "Income Taxes" issued by the HKSA has been adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

SSAP No.12 (Revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). The revised SSAP No.12 has had no significant impact for these condensed consolidated financial statements on the amounts recorded for income taxes.

Trademarks

In accordance with the requirements of SSAP No.29 "Intangible Assets", the cost of the Group's trademarks should be amortised over the best estimate of their useful lives. SSAP No.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 No.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 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 2003. In the opinion of the directors, there has been no material change in the valuation since 30 June 2003; 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 No.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. Turnover and segment information

(a) Business segments

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

	Six months ended 31 December											
	Film & video distribution		Film exhibition		Film & television drama series production		Others		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	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	**30,634**	36,720	**71,710**	59,003	**200**	205	**10,283**	9,464	**—**	—	**112,827**	105,392
Inter-segment sales	**624**	321	**—**	—	**—**	355	**122**	143	**(746)**	(819)	**—**	—
Other revenue	**5,035**	1,672	**646**	998	**1,041**	814	**220**	186	**(597)**	(668)	**6,345**	3,002
Total	**36,293**	38,713	**72,356**	60,001	**1,241**	1,374	**10,625**	9,793	**(1,343)**	(1,487)	**119,172**	108,394
Segment results	**6,606**	2,005	**(12,670)**	(20,974)	**(5,104)**	(7,175)	**1,758**	1,147	**—**	342	**(9,410)**	(24,655)
Interest income and unallocated gains											**2,882**	2,052
Impairment of film rights	**—**	(3,800)	**—**	—	**—**	—	**—**	—	**—**	—	**—**	(3,800)
Loss from operating activities											**(6,528)**	(26,403)
Impairment of a long term investment											**—**	(1,000)
Finance costs											**(205)**	(312)
Share of profits less losses of associates	**1,307**	480	**10,723**	5,959	**—**	—	**—**	—	**—**	—	**12,030**	6,439
Profit/(loss) before tax											**5,297**	(21,276)
Tax											**(4,628)**	(1,342)
Net profit/(loss) from ordinary activities attributable to shareholders											**669**	(22,618)

(b) Geographical segments

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

	Six months ended 31 December											
	Hong Kong		Mainland China		Elsewhere in Asia		Others		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	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	**100,247**	85,872	**1,727**	9,147	**3,047**	6,402	**7,806**	3,971	**—**	—	**112,827**	105,392

3. Loss from operating activities

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

	Six months ended 31 December	
	2003	2002
	HK$'000	*HK$'000*
Cost of inventories sold	**4,921**	4,031
Cost of services provided	**31,415**	35,655
Amortisation of film rights	**9,900**	10,567
Depreciation	**8,553**	9,126
Loss on disposal of fixed assets	**4**	—
Loss on disposal of a subsidiary	**69**	—

4. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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	
	2003	2002
	HK$'000	*HK$'000*
Group:		
Hong Kong	**177**	—
Elsewhere	**42**	22
	219	22
Associates:		
Current	**411**	—
Deferred	**3,998**	1,320
	4,409	1,320
Tax charge for the period	**4,628**	1,342

5. Earnings/(loss) per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK$669,000 (2002: net loss of HK$22,618,000) and the weighted average number of 870,236,413 shares (2002: 800,887,500 shares) in issue during the period.

No disclosure of diluted earnings/loss per share for both the current period and prior period is shown as the exercise prices of the Company's outstanding share options was higher than the average market price of the Company's ordinary shares during both periods and thus, the share options had no diluting effect on the basic earnings/loss per shares for these periods.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2003 (2002: NIL).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

The Group reported a turnaround profit of HK$0.7 million for the period, as compared to a loss of HK$22.6 million last year. This improvement was attributable mainly to a strong rebound of our core businesses in Hong Kong and overseas and a write-back of certain aged liabilities. After the impact of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003, the exhibition businesses for the Group in Hong Kong, Singapore and Malaysia showed an improvement of HK$13 million. Besides, distribution business was also up by HK$9.2 million to HK$7.9 million, including the write-back of certain aged liabilities.

The Group's decision over the past two years to consolidate its activities in its core businesses of distribution and exhibition and this combined with our film financing strategy is proving to be a strategic success both in minimising risk as well as costs. The Group has also continued to review its under-performing businesses and divested its exhibition interests in Shanghai. This has resulted in a one-time write-off cost of HK$3 million for this period. However, results of the savings will be seen in the second half of this financial year.

Hong Kong market

As mentioned, after having been severely affected by SARS in the first half of 2003, the market rebounded sharply in the period under review with a 13% jump in box office receipts from the same period last year to HK$486 million. Chinese language films outperformed non-Chinese language films for the first time in the past seven years during this period, grossing box office receipts of HK$271 million. For non-Chinese language films, other than a strong performance by "Finding Nemo" and "The Lord Of The Rings: The Return Of The King" which topped the box office at above HK$30 million, blockbusters such as "The Matrix Reloaded" and "Pirates Of The Caribbean" did not perform up to expectations.

The Group distributed 12 Chinese language films and 10 non-Chinese language films during the period, as compared with 12 Chinese language and 11 non-Chinese language films in the same period the year before. As an overall distributor, the Group's market share increased to 30%, with a jump in total box office by HK$31 million to HK$146 million. There were 12 Chinese language films that each recorded gross receipts of more than HK$10 million in the market. Of these, the Group distributed four of them, namely "Infernal Affairs II", "Infernal Affairs III", "Turn Left, Turn Right" and "Anna in Kungfu-land". As for non-Chinese language films, distribution fee income from United International Pictures films improved slightly with "Lara Croft Tomb Raider: The Cradle of Life" and "Love Actually" pushing our market share up to 16% but the performance of other films fell short of expectations.

In the exhibition sector, customer loyalty programs and price-point strategies proved successful with all but one cinema performing better than the same period the year before. The Group maintained its 14% overall market share despite of strong competition during this period. The Group reported an 18% increase in total admissions to 1.5 million, with box office and gross profit up HK$9.6 million and HK$7.4 million respectively. The average fill rate also increased from 16.7% to 20.8%.

Regional markets

Performance by the Group's associates in Singapore and Malaysia continued to be strong in the period under review, resulting mainly from strong market growth in the region, the success of marketing and programming strategies, as well as the result of tight cost control policies. All three associates in Singapore and Malaysia posted record-high box office receipts for the six months under review, with Singapore generating a cashflow of S$6 million and RM18 million from our two associates in Malaysia.

In Singapore, the overall market box office for the second half of the 2003 calendar year increased by 2% to S$53 million, compared with the same period the previous year. Successful marketing campaigns help boost market share to 45%. At Golden Village Multiplex Pte Ltd, box office and admissions both notched a 6% increase. While the average ticket price remained the same, average spending per person on concession sales went up 12% to S$1.6. All operating sites showed improvement on the bottom line.

In Malaysia, the exhibition business continued to benefit from strong market growth and the results of consolidation and marketing and programming strategies. At Tanjong Golden Village Sdn Bhd, the box office improved by 17% to RM23.8 million while admissions went up 15% to 3.6 million in the period under review. At Golden Screen Cinemas Sdn Bhd ("GSC"), earnings before tax showed a profit of RM2 million, with box office up by 10% to RM26.4 million and admissions up 6% to 4.3 million. GSC has yet to gain the full benefits resulting from the closing of under-performing cinemas due to existing contractual lease payments.

In Mainland China, the Group has scaled down the distribution office and divested its two cinemas in Shanghai — Hai Xing and Friendship — due to increasing competition and continued losses. It also abandoned the Peace IMAX project in October. An exceptional loss of HK$3 million was recorded due to a one-time write-off, mainly for staff redundancy payments and for writing off fixed assets. The Group expects to see the full benefits from resultant savings in the second half of this financial year.

The Group will continue to keep stringent controls on operating expenses and headcount. The Group's normal overhead expenses were below last year's by HK$4 million.

Prospects

The Group's tougher cost control measures and our return to our core businesses and strengths have proven to be an effective strategy that will continue to be adopted. This approach has helped us maintain and increase our competitive edge in the industry with a lean but effective operation. The Group will continue to identify new opportunities in the areas of film financing, distribution and exhibition as well as seeking new investors to boost liquidity and support the Group's future growth.

Hong Kong will continue to be the base for the Group and Singapore and Malaysia will retain their strong supporting roles for us. While concentrating on its core businesses, the Group will continue to look for new business opportunities in Mainland China and Taiwan. The Group is currently in negotiations to set up new businesses in the Pearl River Delta region. It is also continuing with its ongoing discussions regarding a possible acquisition of a cinema chain in Taiwan. As previously announced, to finance the acquisition if it proceeds, the Group will consider the possibility of raising new equity financing.

The film industry is expected to ride on the turnaround in the Hong Kong economy and we are confident the Group will be able to capitalise on its strong branding and cost-effective strategies to continue its dominance in existing markets as well as expand in new ones.

Liquidity and Financial Resources

During the period, the Group was financed both by cash flow generated internally and a placement of new shares. On 1 August 2003, the Group successfully placed new shares to third party individuals and institutional investors at HK$0.28 per share and the net proceeds of HK$22.4 million were used to provide additional working capital to the Group. As at 31 December 2003, the Group's cash balances stood at HK$33.9 million and the net current assets amounted to HK$8.2 million. Gearing, which is computed by dividing total liabilities by total assets, reduced from 29% to 25%. The Group continues to operate debt-free, except for finance leases, and has no bank borrowings and charges on the Group's assets.

As at 31 December 2003, the Group had a contingent liability of HK$47.7 million (30 June 2003: HK$48.2 million) in respect of a guarantee of banking facilities granted to its associates.

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

Employees and Remuneration Policies

As at 31 December 2003, the Group had 195 (30 June 2003: 232) permanent employees. The Group remunerates its employees largely based on industry practice. Apart from salaries, commissions, mandatory provident fund and discretionary bonuses, share options are granted to certain employees based on individual merit.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the six months ended 31 December 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CODE OF BEST PRACTICE

None of the directors is aware of any 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 2003, 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 (the "Listing Rules"), except that the independent non-executive directors of the Company were not appointed for a specific term because they are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's bye-laws.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All the information of the unaudited consolidated interim results of the Group for the six months ended 31 December 2003 required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

On behalf of the Board
Chow Ting Hsing, Raymond
Chairman

Hong Kong, 18 March 2004