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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.

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		<u>(46,236)</u>	<u>(50,253)</u>
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	<u>(6,528)</u>	(26,403)
Impairment of long term investment		—	(1,000)
Finance costs		(205)	(312)
Share of profits less losses of associates		<u>12,030</u>	<u>6,439</u>
PROFIT/(LOSS) BEFORE TAX		5,297	(21,276)
Tax	4	<u>(4,628)</u>	<u>(1,342)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>669</u>	<u>(22,618)</u>
EARNINGS/(LOSS) PER SHARE	5		
Basic		<u>HK0.1 cent</u>	<u>(HK2.8 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December 2003 HK\$'000	(Audited) As at 30 June 2003 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	6	62,496	73,632
Interests in associates		171,217	160,130
Investments in club memberships		4,380	4,380
Rental deposits		11,267	13,134
Trademarks	7	79,343	79,203
		328,703	330,479
CURRENT ASSETS			
Prepayments, deposits and other receivables		34,164	30,690
Inventories		792	417
Film rights and films in progress		22,725	27,698
Accounts receivable	8	24,641	20,037
Cash and bank balances		33,857	28,357
		116,179	107,199
CURRENT LIABILITIES			
Accounts payable	9	61,033	70,084
Accrued liabilities and other payables		30,962	37,359
Customer deposits		2,921	4,437
Current portion of finance lease payables		460	445
Provision for employee benefits		1,372	1,615
Tax payable		11,189	10,573
		107,937	124,513
NET CURRENT ASSETS/(LIABILITIES)		8,242	(17,314)
TOTAL ASSETS LESS CURRENT LIABILITIES		336,945	313,165
NON-CURRENT LIABILITIES			
Non-current portion of finance lease payables		948	1,174
Provision for long service payments		3,100	3,091
		4,048	4,265
MINORITY INTERESTS			
		22	22
		332,875	308,878
CAPITAL AND RESERVES			
Issued share capital	10	88,429	80,089
Reserves		244,446	228,789
		332,875	308,878

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

For the six months ended 31 December 2003

	Reserves									Total reserves HK\$'000	Total HK\$'000
	Issued 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 reserves HK\$'000		
At 1 July 2003	80,089	565,577	145	(12,483)	(299,065)	480	7,864	(33,729)	228,789	308,878	
Issue of shares	8,340	15,012	—	—	—	—	—	—	15,012	23,352	
Share issue expenses	—	(924)	—	—	—	—	—	—	(924)	(924)	
Exchange adjustments on translation of:											
— overseas subsidiaries	—	—	—	—	—	—	—	(713)	(713)	(713)	
— overseas associates	—	—	—	—	—	—	—	1,650	1,650	1,650	
On disposal of interests in a subsidiary	—	—	—	—	—	—	—	(37)	(37)	(37)	
Net gains and losses not recognised in the profit and loss account	—	—	—	—	—	—	—	900	900	900	
Net profit for the period	—	—	—	—	669	—	—	—	669	669	
At 31 December 2003	<u>88,429</u>	<u>579,665</u>	<u>145</u>	<u>(12,483)</u>	<u>(298,396)</u>	<u>480</u>	<u>7,864</u>	<u>(32,829)</u>	<u>244,446</u>	<u>332,875</u>	

For the six months ended 31 December 2002

	Reserves									Total reserves HK\$'000	Total HK\$'000
	Issued 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 reserves HK\$'000		
At 1 July 2002	80,089	565,577	145	(50,089)	(157,682)	480	7,864	(34,126)	332,169	412,258	
Exchange adjustments on translation of:											
— overseas subsidiaries	—	—	—	—	—	—	—	(190)	(190)	(190)	
— overseas associates	—	—	—	—	—	—	—	865	865	865	
Net gains and losses not recognised in the profit and loss account	—	—	—	—	—	—	—	675	675	675	
Net loss for the period	—	—	—	—	(22,618)	—	—	—	(22,618)	(22,618)	
At 31 December 2002	<u>80,089</u>	<u>565,577</u>	<u>145</u>	<u>(50,089)</u>	<u>(180,300)</u>	<u>480</u>	<u>7,864</u>	<u>(33,451)</u>	<u>310,226</u>	<u>390,315</u>	

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	
	2003	2002
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	(19,945)	(3,976)
INVESTING ACTIVITIES	3,218	2,588
FINANCING ACTIVITIES	22,217	(263)
	<hr/>	<hr/>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	5,490	(1,651)
Cash and cash equivalents at beginning of period	28,357	38,874
Exchange adjustments	10	28
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	33,857	37,251
	<hr/>	<hr/>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Time deposits	—	6,140
Cash and bank balances	33,857	31,111
	<hr/>	<hr/>
	33,857	37,251
	<hr/>	<hr/>

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 carry forward 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trademarks (continued)

- (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. 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**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	—
	<u>69</u>	<u>—</u>

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
	<u>219</u>	<u>22</u>
Associates:		
Current	411	—
Deferred	3,998	1,320
	<u>4,409</u>	<u>1,320</u>
Tax charge for the period	<u>4,628</u>	<u>1,342</u>

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 price 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 share for these periods.

6. FIXED ASSETS

	As at 31 December 2003	As at 30 June 2003
	HK\$'000	HK\$'000
Cost or valuation	129,363	133,712
Accumulated depreciation	<u>(66,867)</u>	<u>(60,080)</u>
Net book value	<u>62,496</u>	<u>73,632</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. TRADEMARKS**

The trademarks represent the perpetual licence for the use of 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. The 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.

8. 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 2003 HK\$'000	As at 30 June 2003 HK\$'000
Current to 3 months	19,661	14,345
4 to 6 months	2,368	656
7 to 12 months	456	2,873
Over 1 year	2,156	2,163
	<u>24,641</u>	<u>20,037</u>

The accounts receivable of the Group includes trading balances due from Golden Harvest Private Group companies totalling HK\$256,000 (30 June 2003: HK\$123,000). All of the balances with the Golden Harvest Private Group companies are unsecured, interest-free and repayable in accordance with normal trading terms.

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 pursuant to the Group reorganisation in November 1994.

The accounts receivable of the Group also included amounts due from certain related companies, GH Pictures (China) Limited, GH Media Management Pte. Limited, Best Creation International Limited and Wigston Company Limited, of approximately HK\$39,000 (30 June 2003: HK\$56,000), HK\$592,000 (30 June 2003: HK\$198,000), HK\$268,000 (30 June 2003: HK\$299,000) and HK\$38,000 (30 June 2003: HK\$8,000), respectively. These balances 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, are also directors and/or beneficial shareholders of certain of these related companies.

9. ACCOUNTS PAYABLE

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

	As at 31 December 2003 HK\$'000	As at 30 June 2003 HK\$'000
Current to 3 months	33,747	24,663
4 to 6 months	837	4,517
7 to 12 months	7,826	9,154
Over 1 year	18,623	31,750
	<u>61,033</u>	<u>70,084</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. ACCOUNTS PAYABLE (continued)**

The accounts payable of the Group includes trading balances due to Golden Harvest Private Group companies totalling HK\$69,000 (30 June 2003: HK\$11,000). The amounts are unsecured, interest-free and repayable in accordance with normal trading terms.

The accounts payable of the Group also included amounts due to GH Pictures (China) Limited and Harvest Crown Limited of HK\$21,861,000 (30 June 2003: HK\$39,464,000) and HK\$307,000 (30 June 2003: HK\$284,000), respectively. The amounts are unsecured, interest-free except for an amount of HK\$21,517,000 (30 June 2003: HK\$38,930,000) due to GH Pictures (China) Limited which bears interest at Hong Kong dollars short term time deposit rate plus 1% per annum, and have no fixed repayment terms. Chow Ting Hsing, Raymond, Phoon Chiong Kit and Chu Siu Tsun, Stephen, three directors of the Company, are also directors and/or beneficial shareholders of certain of these related companies.

10. SHARE CAPITAL

	As at 31 December 2003 HK\$'000	As at 30 June 2003 HK\$'000
<i>Authorised:</i>		
2,000,000,000 (30 June 2003: 1,300,000,000) ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>130,000</u>
<i>Issued and fully paid:</i>		
884,287,500 (30 June 2003: 800,887,500) ordinary shares of HK\$0.10 each	<u>88,429</u>	<u>80,089</u>

During the period, the movements in share capital were as follows:

- (a) On 11 July 2003, the Company entered into a placing agreement (the "Placing Agreement") with FB Gemini Capital Limited ("FB Gemini"), an independent placing agent. Pursuant to the Placing Agreement, FB Gemini agreed to procure third party individuals and institutional investors to subscribe for 83,400,000 new shares of the Company at a price of HK\$0.28 per share. 83,400,000 new shares were issued on 1 August 2003 and the net proceeds of HK\$22.4 million were used to provide additional working capital of the Group.
- (b) Pursuant to an ordinary resolution passed on 26 November 2003, the authorised share capital of the Company was increased from HK\$130,000,000 to HK\$200,000,000 by the creation of 700,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

11. RELATED PARTY TRANSACTIONS

In addition to the balances detailed in notes 8 and 9, 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 transactions to which members of the Golden Harvest Private Group were parties. The significant transactions are summarised below:

		Six months ended 31 December 2003	2002
	<i>Notes</i>	HK\$'000	HK\$'000
Film distribution commission income	(i)	34	22
Film developing and printing services income	(ii)	<u>19</u>	<u>—</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. RELATED PARTY TRANSACTIONS** (continued)**(a) Transactions with the Golden Harvest Private Group** (continued)

Notes:

- (i) 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.
- (ii) The service income related to the provision of film developing and printing services to the companies within the Golden Harvest Private Group and 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 the 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.

(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	
		2003 HK\$'000	2002 HK\$'000
Film distribution commission income from related companies	(i), (ii)	364	1,401
Rental income from a related company	(i), (iii)	182	182
Interest expense to a related company	(i), (iv)	154	278
Consultancy fee paid to a related company	(i), (v)	374	374
Film royalty income from associates	(i), (vi)	279	1,272
Management fee income from associates	(i), (vii)	883	892
Film sourcing service fee paid to an associate	(i), (viii)	66	66
Accounting service fee paid to an associate	(i), (ix)	42	41
Film distribution commission income from an associate	(i), (x)	331	—
Film developing and printing services income from an associate	(i), (xi)	457	—
Screen rental paid to an associate	(i), (xii)	20	—
Theatre rental fee paid to an associate	(i), (xiii)	82	—
Ticketing system development costs paid to associates	(i), (xiv)	429	—
Corporate guarantees given in respect of banking facilities granted to associates	(i), (xv)	47,745	49,361

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. RELATED PARTY TRANSACTIONS** (continued)**(b) Transactions with other related parties** (continued)*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 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.
- (iii) The rental income was charged at a rate of approximately HK\$30,000 (2002: HK\$30,000) per month for sub-letting the office to an associate of the Golden Harvest Private Group.
- (iv) The interest expense to an associate of the Golden Harvest Private Group was charged at the Hong Kong dollar short-term time deposit rate plus 1% per annum.
- (v) 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.
- (vi) The royalty income was charged according to the terms of the respective distribution agreements.
- (vii) The management fee income representing the following:
 - an amount of HK\$144,000 (2002: HK\$144,000) related to accounting services provided to two associates of the Group and were charged at a rate of HK\$10,000 (2002: HK\$10,000) and HK\$14,000 (2002: HK\$14,000) per month, respectively; and
 - an amount of HK\$739,000 (2002: HK\$748,000) related to consultancy services provided to two associates of the Group and were charged at rates of HK\$120,000 (2002: HK\$120,000) per month and RMB5,000 per month from July to October 2003 (2002: RMB5,000 per month from July to December 2002), respectively.
- (viii) The film sourcing service fee was charged at a rate of HK\$11,000 (2002: HK\$11,000) per month.
- (ix) The accounting service fee was charged at a rate of S\$1,500 (2002: S\$1,500) per month.
- (x) The Group acted as the distributor of a film produced by an associate and the film distribution commission income was charged according to the terms of the distribution agreement dated 6 January 2003.
- (xi) 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.
- (xii) The screen rental paid was charged according to prices and conditions which were determined between the Group and that associate.
- (xiii) The theatre rental fee was charged according to prices and conditions similar to those offered to other customers of the associate.
- (xiv) The ticketing system development cost paid was charged according to prices and conditions which were determined between the Group and those associates.
- (xv) The corporate guarantees were given by the Group in respect of banking facilities granted to certain associates at nil consideration.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. RELATED PARTY TRANSACTIONS** (continued)**(b) Transactions with other related parties** (continued)

The transactions amounted to HK\$379,000 (2002: HK\$380,000) included in notes (ii) and (v) above with two related companies (2002: three 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.

12. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	As at 31 December 2003 HK\$'000	As at 30 June 2003 HK\$'000
Guarantee of banking facilities granted to associates	<u>47,745</u>	<u>48,207</u>

In addition to above, an associate of the Group had executed guarantee to a banker in favour of certain third parties of approximately HK\$16,087,000 (30 June 2003: HK\$16,521,000) as at the balance sheet date.

INTERIM DIVIDEND

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

DIRECTORS' INTERESTS

As at 31 December 2003, the interests and short positions of the Directors of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of Part XV of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Shares of the Company

Name of Director	Nature	Capacity	Number of Shares	Percentage of shareholding in the Company	*Outstanding share options
Chow Ting Hsing, Raymond	Corporate	Interest of controlled corporations	250,537,223 <i>Note 1</i>	28.33	—
Phoon Chiong Kit	Personal	Beneficial owner	6,000,000	0.68	14,600,000
Chu Siu Tsun, Stephen	Personal	Beneficial owner	5,959,375	0.67	8,000,000
Chan Sik Hong, David	Personal	Beneficial owner	5,859,375	0.66	5,000,000

* Details of share options granted to Directors are stated under "Share Option Scheme" below.

Shares of associated corporations

Chow Ting Hsing, Raymond is also the beneficial owner of the entire issued share capital 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 and/or its subsidiaries solely for the purpose of complying with the minimum company membership requirements.

All the interests stated above represent long positions except where otherwise stated in the notes under "Substantial Shareholders' Interests" below.

Save as disclosed above and save for the disclosures referred to under "Share Option Scheme" below, none of the Directors of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

During the six months ended 31 December 2003, movements of the share options granted to the Directors and other employees of the Group under the Company's share option schemes as required to be disclosed according to Rule 17.07 of the Listing Rules were as follows:

Name or category of participant	Date of grant of share options	Exercise price HK\$	Exercisable period	Number of share options					Outstanding options at 31 December 2003
				Outstanding options at 1 July 2003	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	
Directors									
Phoon Chiong Kit	25/07/2000	0.78	25/07/2000 to 24/07/2010	4,600,000 <i>Note (a)</i>	—	—	—	—	4,600,000
	31/10/2001	0.62	31/10/2001 to 30/10/2011	10,000,000 <i>Note (b)</i>	—	—	—	—	10,000,000
Chu Siu Tsun, Stephen	31/10/2001	0.62	31/10/2001 to 30/10/2011	8,000,000 <i>Note (b)</i>	—	—	—	—	8,000,000
Chan Sik Hong, David	31/10/2001	0.62	31/10/2001 to 30/10/2011	5,000,000 <i>Note (b)</i>	—	—	—	—	5,000,000
Other Employees									
In aggregate	31/10/2001	0.62	31/10/2001 to 30/10/2011	1,500,000 <i>Note (b)</i>	—	—	—	1,000,000	500,000

Notes:

- (a) 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.
- (b) 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.
- (c) Consideration paid for each grant of option was HK\$1.00.

No share options were granted or exercised during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director of the Company, as at 31 December 2003, the following persons had the following interests or short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO:

Shares of the Company

Name of Shareholder	Capacity	Notes	Number of Shares	Percentage of shareholding in the Company
Chow Ting Hsing, Raymond	Interest of controlled corporations	1	250,537,223	28.33
Chow Yuan Hsi Hua, Felicia	Spouse's interest	1	250,537,223	28.33
Planet Gold Associates Limited	Beneficial owner	1	146,568,473	16.57
Net City Limited	Beneficial owner	1	103,968,750	11.76
Acer Incorporated	Interest of controlled corporations	2	150,414,000	17.01
Acer SoftCapital Incorporated	Beneficial owner	2	82,044,000	9.28
Acer Digital Services (BVI) Holding Corp.	Interest of controlled corporation	2	68,370,000	7.73
Acer Digital Services (Cayman Islands) Corp.	Beneficial owner	2	68,370,000	7.73
PAMA Group Inc.	Beneficial owner		123,284,027	13.94
Chan Kong Sang, Jackie	Beneficial owner, founder of a discretionary trust and interest of controlled corporation	3	65,600,000	7.42
Everlasting Property Limited	Beneficial owner	3	55,600,000	6.29
CDIB & Partners Investment Holding Corporation	Interest of controlled corporation	4	54,696,000	6.19
CDIB & Partners Investment Holding (Cayman) Ltd.	Beneficial owner	4	54,696,000	6.19

All the interests stated above represent long positions except where otherwise stated in the notes hereinafter.

Notes:

1. Chow Ting Hsing, Raymond was deemed to be interested in 250,537,223 shares of the Company by virtue of his 100% beneficial holding in Planet Gold Associates Limited and Net City Limited which held 146,568,473 shares and 103,968,750 shares of the Company, respectively. Among these interests, 145,000,000 shares and 70,000,000 shares representing 16.40% and 7.92% of shareholding in the Company, were held by Planet Gold Associates Limited and Net City Limited as short positions, respectively. Chow Yuan Hsi Hua, Felicia, the spouse of Chow Ting Hsing, Raymond, was deemed to be interested in the same shares in which Chow Ting Hsing, Raymond was interested.
2. Acer Incorporated was interested in 150,414,000 shares of the Company by virtue of its 100% shareholding in Acer SoftCapital Incorporated, which held 82,044,000 shares of the Company, and by virtue of its 100% shareholding in Acer Digital Services (BVI) Holding Corp. which held 100% shareholding in Acer Digital Services (Cayman Islands) Corp. which in turn held 68,370,000 shares of the Company.
3. Chan Kong Sang, Jackie was deemed to be interested in 65,600,000 shares of the Company of which 5,000,000 shares were beneficially owned; 5,000,000 were held by a discretionary trust of which he was a founder; and 55,600,000 shares were beneficially held through Everlasting Property Limited, a company 100% controlled by him.
4. CDIB & Partners Investment Holding Corporation was interested in 54,696,000 shares of the Company by virtue of its 100% shareholding in CDIB & Partners Investment Holding (Cayman) Ltd.

As disclosed above and save for any interests in share options granted by the Company referred to under "Share Option Scheme" above, no other person had an interest or short position in the share capital or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

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 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.

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") on 9 October 1998 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The work of the Audit Committee covered the six months ended 31 December 2003. The members of the Audit Committee at the date of this report were Mr. Lin, Frank and Prince Yukol, Chatrichalerm.

On behalf of the Board
Chow Ting Hsing, Raymond
Chairman

Hong Kong, 18 March 2004