

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 31 December	
	2002 HK\$'000	2001 HK\$'000
NET CASH OUTFLOW FROM:		
OPERATING ACTIVITIES	(3,976)	(47,598)
INVESTING ACTIVITIES	2,588	(4,544)
FINANCING ACTIVITIES	(263)	(78)
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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	–
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	37,251	46,839
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ANALYSIS OF CASH AND CASH EQUIVALENTS		
Time deposits	6,140	17,485
Cash and bank balances	31,111	29,354
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	37,251	46,839
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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											
	Hong Kong		Elsewhere in PRC		Asia		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	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	2001
	2002	2001
	HK\$'000	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	2001
	2002	2001
	HK\$'000	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
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	As at
	31 December	30 June
	2002	2002
	HK\$'000	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.