

30 June 2004

## 1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Group consist of worldwide film and video distribution; film exhibition in Hong Kong, Malaysia, Singapore and Mainland China; film and television drama series production; and the operation of a film processing business in Hong Kong.

## 2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice (“SSAP”) 12 “Income taxes” is effective for the first time for the current year’s financial statements.

SSAP 12 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 principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax liability has been recognised on the revaluation of the Company’s leasehold land and buildings.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 4, 9 and 22 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustment arising from them are included in notes 4, 9 and 22 to the financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets, as further explained below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 30 June 2004, together with the Group’s share of the results for the year and post-acquisition reserves of its associates, as set out below. The results of the subsidiaries and associates acquired or disposed of during the year are consolidated/equity accounted for from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

#### **Basis of consolidation (*continued*)**

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

#### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

#### **Associates**

An associate is a company, not being a subsidiary, in which the Group has a long term interest of not less than 20 percent. of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

In prior years, the Group's share of the post-acquisition results and reserves of its associates was calculated from the latest available audited and management financial statements of the associates which were made up to 30 June, with the exception of Golden Screen Cinemas Sdn. Bhd. ("GSC") for which the latest available financial statements made up to 31 December were used, after making appropriate adjustments for significant transactions and events in the intervening period to 30 June between GSC and the Group.

In the current financial year, the financial statements of GSC was made available up to 30 June 2004. Accordingly, to align the financial statements period with that of the Group, the Group's share of the post-acquisition results and reserves of GSC is based on GSC's financial statements made up to 30 June 2004, and therefore, included its results for the 18 months to 30 June 2004. The Group's share of the results after tax for the additional 6 months amounted to approximately HK\$2,495,000.

#### **Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 July 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 July 2001 is treated according to the SSAP 30 goodwill accounting policy above.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Goodwill *(continued)***

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any remaining attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### **Fixed assets and depreciation**

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Fixed assets and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Long term leasehold land	over the unexpired terms of the leases
Buildings	4%
Leasehold improvements	10% – 33 $\frac{1}{3}$ %
Machinery and equipment	10% – 25%
Furniture and fixtures	10% – 25%
Motor vehicles	20%
Air-conditioning systems	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sale proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits or accumulated losses is transferred directly to retained profits or accumulated losses.

#### Investments in club memberships

Investments in club memberships are stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club memberships.

#### Trademarks

Trademarks are stated at cost less any impairment losses and are not amortised.

#### Long term investments

Long term investments in unlisted equity securities, which are intended to be held on a continuing basis, and which are held for identified long term purposes documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account in the period in which they arise.

When the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

#### Accounts receivable

Accounts receivable, which generally have credit terms of one to three months, are recognised and carried at the original invoiced amount. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

#### Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices, less any further costs expected to be incurred to completion and disposal.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Film rights and amortisation

(i) *Film rights*

Film rights represent films and television drama series and are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is charged to the profit and loss account based on the proportion of actual income earned during the year to the total estimated income from the sale of film rights. Where there is an impairment in value, the unamortised balance is written down to its estimated recoverable amount.

(ii) *Films in progress*

Films in progress are stated at cost less any impairment losses. Costs include all direct costs associated with the production of films or television drama series. Impairment losses are made for costs which are in excess of the expected future revenue generated by these films or television drama series. Costs are transferred to film rights upon completion.

#### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

#### Income tax (*continued*)

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and the Group's share of net assets of overseas associates expressed in foreign currencies are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars as the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

#### Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Employee benefits

##### *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

##### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employee Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

##### *Retirement benefits scheme*

The Group operates a defined contribution retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions to the Scheme are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The Group's employer contributions are fully and immediately vested with the employees when contributed to the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme (the "State Scheme") operated by the government of the PRC. Contributions to the state scheme are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the State Scheme.

##### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme 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 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 prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

#### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

#### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for long service payments are made based on relevant labour laws and regulations governing retirement payments and are reviewed by the directors on an annual basis and adjusted where applicable.

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) film royalties income, theatre advertising income and video distribution income, on an accrual basis;
- (b) film distribution commission income, film developing and printing service income, advertising agency fee income, production control fee income, and film sourcing and consultancy service income, on completion of the services;
- (c) gross box office takings, when the services have been rendered to the buyers;
- (d) income from confectionery sales and compact disc sales, at the point of sales when the confectionery and compact discs are given to the customers;
- (e) rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms;
- (f) interest, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable; and
- (g) dividends, when the shareholders' right to receive payment is established.

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#### 4. PRIOR YEAR ADJUSTMENT

In the current year, the revised SSAP 12 “Income taxes” became effective as detailed in note 2 to the financial statements. The resulting change in accounting policy relating to the recognition of deferred tax liability that arises from the revaluation of a leasehold land and building has been made retrospectively and, accordingly, the comparative balances for the year ended 30 June 2003 have been restated. The effect of this change is an increase in the Group’s net deferred tax liability as at 30 June 2004 and 2003 by HK\$878,000 and HK\$931,000, respectively, of which the corresponding debits were directly charged against the revaluation reserve of the same amount. As a consequence, the revaluation reserves at 1 July 2003 and 2002 have been decreased by HK\$931,000 and HK\$900,000, respectively.

#### 5. SEGMENT INFORMATION

Segment information is presented by way of segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group’s operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the film and video distribution segment engages in worldwide distribution of films and audio visual products related to films and television programmes;
- (b) the film exhibition segment engages in film exhibition in Hong Kong, Malaysia, Singapore and Mainland China;
- (c) the film and television drama series production segment engages in production controller and film producer services; and
- (d) the others segment comprises film processing business and music production business, which provide film processing services and produce soundtracks and sell soundtrack albums.

In determining the Group’s geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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## 5. SEGMENT INFORMATION (continued)

## (a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

	Film and		Film and		Film and		Others		Eliminations		Consolidated	
	video distribution		exhibition		television drama							
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	51,225	77,993	146,271	116,602	200	910	20,781	14,765	-	-	218,477	210,270
Inter-segment sales	1,762	2,024	-	-	-	-	294	268	(2,056)	(2,292)	-	-
Other revenue	5,748	3,806	2,470	2,308	1,401	1,505	410	319	(1,305)	(1,395)	8,724	6,543
<b>Total</b>	<b>58,735</b>	<b>83,823</b>	<b>148,741</b>	<b>118,910</b>	<b>1,601</b>	<b>2,415</b>	<b>21,485</b>	<b>15,352</b>	<b>(3,361)</b>	<b>(3,687)</b>	<b>227,201</b>	<b>216,813</b>
Segment results	126	(8,406)	(24,394)	(64,025)	(9,677)	(24,497)	2,585	574	-	722	(31,360)	(95,632)
Interest income and unallocated gains											3,796	962
Impairment of film rights	(3,543)	(11,215)	-	-	-	-	-	-	-	-	(3,543)	(11,215)
Loss from operating activities											(31,107)	(105,885)
Write-off of interests in associates	-	(75)	-	-	-	-	-	-	-	-	-	(75)
Impairment of a long term investment											-	(2,297)
Impairment of interest in an associate	-	-	(1,413)	(2,000)	-	-	-	-	-	-	(1,413)	(2,000)
Impairment of goodwill	-	-	-	-	-	(37,606)	-	-	-	-	-	(37,606)
Finance costs											(363)	(628)
Share of profits and losses of associates	2,372	(833)	29,611	13,546	-	-	-	-	-	-	31,983	12,713
Loss before tax											(900)	(135,779)
Tax											(10,763)	(5,611)
Loss before minority interests											(11,663)	(141,389)
Minority interests											-	6
Net loss from ordinary activities attributable to shareholders											(11,663)	(141,383)

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## 5. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

## Group

	Film and video distribution		Film exhibition		Film and television drama series production		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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 assets	58,201	76,495	64,698	92,268	3,915	20,007	11,594	10,674	-	(15,390)	138,408	184,054
Interests in associates	405	737	182,208	159,393	-	-	-	-	-	-	182,613	160,130
Trademarks											79,421	79,203
Unallocated assets											22,767	14,291
<b>Total assets</b>											<b>423,209</b>	<b>437,678</b>
Segment liabilities	25,041	37,070	23,841	29,063	1,206	4,002	4,080	6,485	-	(15,426)	54,168	61,194
Unallocated liabilities											49,032	68,515
<b>Total liabilities</b>											<b>103,200</b>	<b>129,709</b>
Other segment information:												
Depreciation	529	628	12,976	14,363	454	802	693	680	-	-	14,652	16,473
Unallocated amounts											1,593	1,820
											<b>16,245</b>	<b>18,293</b>
Amortisation of film rights	14,093	30,919	-	-	-	-	-	-	-	-	14,093	30,919
Provision/(write-back of provision) for doubtful debts, net	(3,282)	2,559	151	339	-	-	204	(110)	-	-	(2,927)	2,788
Capital expenditure	68	202	1,314	1,183	-	-	133	-	-	-	1,515	1,385
Unallocated amounts											179	1,881
											<b>1,694</b>	<b>3,266</b>

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## 5. SEGMENT INFORMATION *(continued)*

### (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Elsewhere in Asia		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	201,748	174,917	3,697	17,555	3,407	15,052	11,681	5,038	(2,056)	(2,292)	218,477	210,270
Other segment information:												
Segment assets	155,104	167,971	4,663	25,363	1,383	4,308	25	703	-	-	161,175	198,345
Interests in associates											182,613	160,130
Trademarks											79,421	79,203
											<u>423,209</u>	<u>437,678</u>
Capital expenditure	1,607	3,037	68	213	19	16	-	-	-	-	1,694	3,266

## 6. TURNOVER

Turnover represents proceeds from the sale of film, video and television rights, motion picture distribution and theatre operation, advertising agency fees earned, invoiced value of film developing and printing services rendered, production control fees earned, service fees earned for film sourcing and consultancy, and sale of audio visual products.

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## 7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold	9,410	6,345
Cost of services provided	70,590	72,007
Amortisation of film rights	14,093	30,919
Auditors' remuneration	1,348	1,486
Depreciation	16,245	18,293
Loss on disposal of fixed assets	1,345	108
Loss on disposal of subsidiaries	161	–
Operating lease rental payments in respect of land and buildings		
Minimum lease payments	37,002	39,165
Contingent rents	1,424	1,811
	38,426	40,976
Staff costs, excluding directors' remuneration (see note 28)		
Wages, salaries and staff welfares *	45,763	47,644
Pension contributions	1,557	1,632
	47,320	49,276
Provisions for long service payments	709	613
Exchange gains arising from translation of advances to overseas associates in Asia and other monetary assets and liabilities denominated in foreign currencies as at the balance sheet date	(2,352)	(456)
Provision/(write-back of provision) for doubtful debts, net	(2,927)	2,788
Provision for deposits paid for equipment	–	20,731
Exchange gains, net	(1,109)	(93)
Rental income, net	(365)	(365)
Interest income on bank deposits	(14)	(263)
Gain on disposal of associates	(47)	–
Write-off of aged liabilities	(12,044)	–
Interest income from related parties	–	(140)

\* Balance also included the amount of "Provision for long service payments" disclosed above.

The cost of services provided includes approximately HK\$2,974,000 (2003: HK\$3,308,000) relating to staff costs which is also included in the amount disclosed above.

The amortisation of film rights for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

The write-off of aged liabilities of approximately HK\$6,899,000, HK\$3,598,000, HK\$575,000 and HK\$972,000 are included in "Cost of Sales", "Other revenue", "General and administrative expenses" and "Other operating expenses", respectively, on the face of the consolidated profit and loss account.

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## 8. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on accounts payable	264	548
Interest on finance leases	99	80
	<u>363</u>	<u>628</u>

## 9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. 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.

	2004 HK\$'000	2003 HK\$'000
Group:		
Hong Kong	642	355
Elsewhere	(130)	189
Deferred ( <i>note 22</i> )	–	(110)
	<u>512</u>	<u>434</u>
Associates:		
Charge for the year	2,893	–
Deferred	7,358	5,177
	<u>10,251</u>	<u>5,177</u>
Total tax charge for the year	<u>10,763</u>	<u>5,611</u>

At the date of approval of the financial statements, a subsidiary of the Group has disputes with the Hong Kong Inland Revenue Department (“HKIRD”) on the non-taxable claim of certain non-Hong Kong sourced income for the years of assessment 1995/1996 and 1996/1997. The subsidiary is pursuing its objection of the HKIRD’S assessments and the directors consider that sufficient tax provision has been made in this regard.

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**9. TAX (continued)**

A reconciliation of the tax expense applicable to loss before tax using the statutory rates ranging from 17.5% to 33% for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, are as follows:

Group

	2004 HK\$'000	2003 HK\$'000
Loss before tax	(900)	(135,778)
Tax at statutory rates	(157)	(23,761)
Higher tax rate for specific provinces or local authority	1,612	(1,488)
Effect on opening deferred tax of decrease in tax rates	(951)	–
Adjustments in respect of current tax of previous periods	(2,159)	(1,282)
Income not subject to tax	(3,103)	(1,902)
Expenses not deductible for tax	6,555	15,841
Temporary differences not recognised	1,671	576
Tax losses not recognised	9,522	19,472
Tax losses from previous periods utilised	(2,227)	(1,845)
Tax charge at the Group's effective rate	10,763	5,611

**10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$11,297,000 (2003: HK\$80,194,000).

**11. LOSS PER SHARE**

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$11,663,000 (2003: HK\$141,383,000) and the weighted average of 877,223,566 shares (2003: 800,887,500 shares) in issue during the year.

No disclosure of diluted loss per share for both current year and prior year is shown as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's ordinary shares during the year and thus the share options have no diluting effect.

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## 12. FIXED ASSETS

## Group

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Air- conditioning systems HK\$'000	Total HK\$'000
Cost or valuation:							
At beginning of year	9,300	69,203	29,758	21,490	3,373	588	133,712
Additions	-	468	1,085	141	-	-	1,694
Disposals	-	(815)	(1,206)	(788)	(357)	-	(3,166)
Disposal of subsidiaries	-	(165)	(294)	(2,607)	-	-	(3,066)
Exchange adjustments	-	-	9	-	39	-	48
At 30 June 2004	9,300	68,691	29,352	18,236	3,055	588	129,222
Accumulated depreciation:							
At beginning of year	3,007	30,229	15,344	10,006	925	569	60,080
Provided during the year	358	8,713	3,865	2,666	632	11	16,245
Disposals	-	(225)	(999)	(300)	(87)	-	(1,611)
Disposal of subsidiaries	-	(63)	(125)	(1,104)	-	-	(1,292)
Exchange adjustments	-	-	21	-	26	-	47
At 30 June 2004	3,365	38,654	18,106	11,268	1,496	580	73,469
Net book value:							
At 30 June 2004	5,935	30,037	11,246	6,968	1,559	8	55,753
At 30 June 2003	6,293	38,974	14,414	11,484	2,448	19	73,632
Analysis of cost or valuation:							
At cost	-	68,691	29,352	18,236	3,055	588	119,922
At valuation	9,300	-	-	-	-	-	9,300
	9,300	68,691	29,352	18,236	3,055	588	129,222

The leasehold land and buildings are situated in Hong Kong and are held under long term leases.

The net book value of the Group's fixed assets held under finance leases included in the total amount of machinery and equipment and motor vehicles at 30 June 2004, amounted to HK\$48,000 (2003: HK\$70,000) and HK\$1,361,000 (2003: HK\$1,911,000), respectively.

The long term leasehold land and buildings were revalued on 30 September 1994 by an independent firm of professionally qualified valuers, C.Y. Leung & Company Limited, at HK\$9,300,000 at open market value assuming sale with vacant possession. The surplus arising from the revaluation was credited to the revaluation reserve account. The Group has adopted the transitional provision, as permitted under paragraph 80 of SSAP 17 issued in 1995 and revised in 2001, of not making further regular valuations on its revalued assets.

Had the Group's land and buildings been carried at cost less accumulated depreciation and any impairment losses, they would have been included in the financial statements at approximately HK\$668,000 (2003: HK\$707,000).

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## 13. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	167,647	167,647
Due from subsidiaries	741,247	717,718
	908,894	885,365
Provision for impairment	(588,580)	(577,386)
	320,314	307,979

The balances with subsidiaries are unsecured, interest-free and not expected to be repaid within the next twelve months.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and principal operations	Issued and fully paid share/registered capital	Percentage of equity attributable to the Group	Principal activities
Cine Art Laboratory Limited	Hong Kong	Ordinary HK\$2,500 Deferred* HK\$997,500	100	Film developing and printing
City Entertainment Corporation Limited	Hong Kong	Ordinary HK\$2	100	Theatre operation
Conneway Films Company Limited	Hong Kong	Ordinary HK\$31,610,000	100	Theatre operation
Gala Film Distribution Limited	Hong Kong	Ordinary HK\$10,000 Deferred* HK\$10,000	100	Distribution of motion pictures
Golden Harvest Cinemas Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Golden Harvest Entertainment Company Limited	Hong Kong	Ordinary HK\$100 Deferred* HK\$114,000,000	100	Investment holding
Golden Harvest Entertainment International Limited	British Virgin Islands	Ordinary US\$1,000	100	Investment holding

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## 13. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and principal operations	Issued and fully paid share/ registered capital	Percentage of equity attributable to the Group	Principal activities
Golden Harvest Films Distribution Holding Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Golden Harvest Film Productions Limited	Hong Kong	Ordinary HK\$100,000	100	Provision of production controller and film producer services
Golden Harvest (Marks) Limited	British Virgin Islands	Ordinary US\$1	100	Holding of trademarks
Golden Harvest Multiplex (Pte) Limited	Singapore	Ordinary S\$2	100	Investment holding
Golden Movies International Limited	British Virgin Islands	Ordinary US\$1	100	Sale of film rights and distribution of motion pictures
Golden Screen Limited	Hong Kong	Ordinary HK\$8,750,000	100	Investment holding
Golden Touch Licencing B.V.	Netherlands	Ordinary EUR18,151.21	100	Distribution of motion pictures
Happy Way Limited	Hong Kong	Ordinary HK\$10,000	100	Distribution of audio visual products related to films and programmes
Kotewall Limited	British Virgin Islands	Ordinary US\$1	100	Sale of film rights and distribution of motion pictures

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## 13. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and principal operations	Issued and fully paid share/registered capital	Percentage of equity attributable to the Group	Principal activities
Panasia Films Limited	Hong Kong	Ordinary HK\$2,600,000	100	Distribution of motion pictures and acting as an advertising agent
Real Merry Limited	Hong Kong	Ordinary HK\$16,831,002	100	Theatre operation
Shanghai Golden Harvest Media Management Company Limited**	PRC	Registered US\$500,000	90	Distribution of motion pictures
Splendid Ventures Limited	Hong Kong	Ordinary HK\$2	100	Theatre operation
SML (Hong Kong) Limited	Samoa	Ordinary US\$1	100	Distribution of motion pictures
United Harvest Asia Limited	Hong Kong	Ordinary HK\$2	100	Provision of finance to group companies

Except for Golden Harvest Entertainment International Limited, all of the above subsidiaries are indirectly held by the Company.

\* For Golden Harvest Entertainment Company Limited, the deferred shares carry no rights to dividends and carry the right to receive one half of the surplus on a return of capital exceeding HK\$1,000,000,000,000,000. Apart from the above, all other deferred shares carry rights to dividends for any given financial year of the respective companies when the net profit available for distribution exceeds HK\$1,000,000,000. They also carry rights to receive one half of the surplus on a return of capital of the respective companies exceeding HK\$500,000,000,000. None of the deferred shares carry any rights to vote at general meetings.

\*\* Shanghai Golden Harvest Media Management Company Limited is a Sino-foreign equity joint venture enterprise under the PRC Law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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## 14. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets other than goodwill	57,581	12,163
Due from associates	126,445	149,967
	184,026	162,130
Provision for impairment	(1,413)	(2,000)
	182,613	160,130

All balances with associates are unsecured, interest-free and not expected to be repaid within the next twelve months.

The Group's share of the post-acquisition accumulated reserves of associates as at 30 June 2004 amounted to accumulated losses of HK\$29,244,000 (2003: HK\$72,646,000). During the year, the Group acquired additional interests in certain associates which became subsidiaries of the Group thereafter and put certain associates under liquidation. The related accumulated losses in relation to those former associates that became subsidiaries of the Group and those associates under liquidation in current year amounted to HK\$16,402,000 and HK\$5,268,000, respectively.

Included in the above are the results of Golden Screen Cinemas Sdn. Bhd. ("GSC"), Golden Village Multiplex Pte Limited ("GVM") and Tanjong Golden Village Sdn. Bhd. ("TGV") which, in the opinion of the directors, are material to the Group's financial results. Details of the financial position as at 30 June 2004 and the results for the year then ended of the respective associates except for GSC (details please refer to note 3 to the financial statements) are as follows:

## GSC

	2004	2003
	HK\$'000	HK\$'000
Total assets	205,345	191,487
Total liabilities	122,989	127,801
Turnover	285,331	151,774
Profit before tax	28,455	5,657
Profit after tax attributable to the Group	8,575	2,275

## GVM

	2004	2003
	HK\$'000	HK\$'000
Total assets	357,116	336,019
Total liabilities	253,432	259,270
Turnover	292,029	271,750
Profit before tax	32,599	24,349
Profit after tax attributable to the Group	12,249	8,544

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14. INTERESTS IN ASSOCIATES (*continued*)

TGV	2004 HK\$'000	2003 HK\$'000
Total assets	124,627	110,393
Total liabilities	106,328	103,515
Turnover	152,219	127,438
Profit before tax	20,488	14,938
Profit after tax attributable to the Group	3,633	2,864

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and principal operations	Class of shares held	Percentage of paid-up share capital held by the Group	Principal activities
Dartina Development Limited	Corporate	Hong Kong	Ordinary	50	Investment holding
Global Entertainment and Management Systems Sdn. Bhd.	Corporate	Malaysia	Ordinary	33.33	Investment holding
Golden Access Pte Limited	Corporate	Singapore	Ordinary	50	Computer programming
Golden Screen Cinemas Sdn. Bhd.	Corporate	Malaysia	Ordinary	40.22	Distribution of motion pictures and theatre operation
Golden UIP Film Distributors Limited	Corporate	Hong Kong	Ordinary	50	Distribution of motion pictures
Golden Village Entertainment (Singapore) Pte Limited	Corporate	Singapore	Ordinary	50	Investment holding
Golden Village Pictures Pte Limited	Corporate	Singapore	Ordinary	50	Distribution of motion Pictures
Golden Village Holdings Pte Limited	Corporate	Singapore	Ordinary	50	Investment holding
Golden Village Multiplex Pte Limited	Corporate	Singapore	Ordinary	50	Theatre operation

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#### 14. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and principal operations	Class of shares held	Percentage of paid-up share capital held by the Group	Principal activities
Keen Fortune Production Limited	Corporate	British Virgin Islands	Ordinary	50	Distribution of motion pictures
Rich Will Limited	Corporate	Hong Kong	Ordinary	50	Theatre operation
Tanjong Golden Village Sdn. Bhd.	Corporate	Malaysia	Ordinary	33.33	Theatre operation

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

#### 15. 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. Additions during the year represent design fees and professional fees and registration fees incurred on the registration of the trademarks overseas.

In accordance with the requirements of SSAP 29, the cost of the Group's trademarks should be amortised over the best estimate of their useful lives. SSAP 29 also states that there is a rebuttable presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use. In the opinion of the directors, to follow the requirements of SSAP 29 would give a misleading view of the results of the Group and its 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 2004. In the opinion of the directors, there has been no material change in the valuation since 30 June 2004; and
- (ii) The Group has incurred and intends to continue to incur significant advertising and promotion expenses, which are charged to profit and loss account when incurred, to maintain and increase the market value of its trademarks.

As a result, the Group has decided not to follow the requirements of SSAP 29 and to continue to adopt the accounting policy to state trademarks at cost less any impairment losses. The Group intends to confirm the value of its trademarks by independent professional valuation periodically.

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## 16. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	426	266
Chemicals	39	38
Machinery parts	91	113
	556	417

## 17. FILM RIGHTS AND FILMS IN PROGRESS

As at 30 June 2004, the balance of film rights and films in progress included an impairment loss of HK\$3,543,000 (2003: HK\$11,215,000), which was charged to the profit and loss account for the year. The impairment loss was determined by management with reference to the net realisable values of film rights and films in progress as at the balance sheet date in accordance with the Group's accounting policy.

## 18. ACCOUNTS RECEIVABLE

The Group usually grants credit periods ranging from one to three months. The age analysis of the accounts receivable, net of provision at 30 June, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 3 months	19,929	14,345
4 to 6 months	1,084	656
7 to 12 months	528	2,873
Over 1 year	930	2,163
	22,471	20,037

The accounts receivable of the Group included trading balances due from Golden Harvest Private Group companies totalling HK\$20,000 (2003: HK\$123,000). 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 and Best Creation International Limited of approximately HK\$36,000 (2003: HK\$56,000), Nil (2003: HK\$198,000) and HK\$269,000 (2003: HK\$299,000), respectively. These 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 are directors of the Company, are also directors and/or beneficial shareholders of certain of these related companies.

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## 19. ACCOUNTS PAYABLE

The age analysis of trade creditors included in accounts payable at 30 June is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current to 3 months	27,437	24,663
4 to 6 months	534	4,517
7 to 12 months	920	9,154
Over 1 year	23,179	31,750
	52,070	70,084

The accounts payable of the Group included trading balances due to Golden Harvest Private Group companies totalling HK\$40,000 (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\$20,421,000 (2003: HK\$39,464,000) and HK\$390,000 (2003: HK\$284,000), respectively. The amounts are unsecured and have no fixed repayment terms. Except for an amount of HK\$20,065,000 due to GH Pictures (China) Limited which bears interest at Hong Kong dollars short term time deposits rate plus 1% per annum, the other balances are interest-free and have no fixed repayment terms. Chow Ting Hsing, Raymond, Phoon Chiong Kit and Chu Siu Tsun, Stephen, who are directors of the Company, are also directors and/or beneficial shareholders of certain of these related companies.

## 20. FINANCE LEASE PAYABLES

At 30 June 2004, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2004 HK\$'000	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
Amounts payable:				
Within one year	548	544	470	445
In the second year	456	544	412	467
In the third to fifth years, inclusive	308	761	298	707
Total minimum finance lease payments	1,312	1,849	1,180	1,619
Future finance charges	(132)	(230)		
Total net finance lease payables	1,180	1,619		
Portion classified as current liabilities	(471)	(445)		
Non-current portion	709	1,174		

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## 21. PROVISIONS

Group

	Long service payments HK\$'000	Other employee benefits HK\$'000	Total HK\$'000
At beginning of year	3,091	1,615	4,706
Additional provision/(write-back)	709	(296)	413
At 30 June 2004	3,800	1,319	5,119
Portion classified as current liabilities	–	(1,319)	(1,319)
Non-current portion	3,800	–	3,800

Under the relevant labour laws and regulations governing retirement payments, the Company's directors have estimated and provided for the amount of provisions for long service payments. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The Group provides for the unused holiday leave carried forward by the Group's employees. The provision is based on the best estimate of the probable future costs of such paid leave earned during the year by the employees and carried forward at the balance sheet date.

## 22. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation		Revaluation of leasehold land and buildings		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At beginning of year:						
As previously reported	–	110	–	110	–	110
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	–	–	931	900	931	900
As restated	–	110	931	1,010	931	1,010
Deferred tax credited to the profit and loss account during the year	–	(110)	–	(110)	–	(110)
Deferred tax (credited)/debited to equity during the year (2003: including a debit of HK\$84,000 due to the effect of a change in tax rates)	–	–	(53)	31	(53)	31
At 30 June	–	–	878	931	878	931

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## 22. DEFERRED TAX (continued)

The Group has tax losses arising in and outside Hong Kong of approximately HK\$333,843,000 and HK\$50,774,000 (2003: HK\$300,031,000 and HK\$47,949,000, respectively), respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, except for the balances of approximately HK\$9,316,000 and HK\$3,091,000 (2003: HK\$6,530,000 and HK\$2,070,000) which can be only carried forward for five years under the relevant legislation, interpretations and practices in PRC and Taiwan, respectively. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 30 June 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 30 June 2004 and 2003 by HK\$878,000 and HK\$931,000, respectively, of which the corresponding debits were directly charged against the revaluation reserve of the same amount. As a consequence, the consolidated reserves at 1 July 2003 and 2002 decreased by HK\$931,000 and HK\$900,000, respectively, as detailed in the consolidated statement of changes in equity.

## 23. SHARE CAPITAL

### Shares

	Company	
	2004 HK\$'000	2003 HK\$'000
Authorised:		
2,000,000,000 (2003: 1,300,000,000) ordinary shares of HK\$0.10 each	200,000	130,000
Issued and fully paid:		
884,287,500 (2003: 800,887,500) ordinary shares of HK\$0.10 each	88,429	80,089

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

- 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.
- 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.

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**23. SHARE CAPITAL (continued)**

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 July 2002, 30 June 2003 and 1 July 2003	800,887,500	80,089	565,577	645,666
Issue of shares	83,400,000	8,340	15,012	23,352
Share issue expenses	–	–	(924)	(924)
At 30 June 2004	884,287,500	88,429	579,665	668,094

Subsequent to the balance sheet date, on 14 July 2004, the Company entered into a subscription agreement (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Company issued and allotted 155,000,000 ordinary shares at a price of HK\$0.25 per share to Typhoon Music (PRC) Limited ("Typhoon Music"), an independent third party, on 11 August 2004. The proceeds from the allotment of shares, after deduction of related expenses, amounted to approximately HK\$36.4 million. The Company intends to apply the net proceeds for general working capital purposes, including paying down certain indebtedness of the Group, as capital contribution towards a joint venture company established by the Company, and for any future investment opportunities in the film financing, film distribution and/or cinema operation business as and when these opportunities arise.

**Share options**

Details of the Company's share option scheme are included in note 24 to the financial statements.

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## 24. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose for providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors, including independent non-executive directors, and other employees of the Group, suppliers of goods or services to the Group and customers of the Group. The Scheme became effective on 31 October 2001 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from that date.

The maximum number of shares of the Company issuable upon exercise of all share options granted and to be granted under the Scheme and any other share option schemes of the Company (if any) is an amount equivalent to 10% of the shares of the Company in issue as at 28 November 2001. This limit can be refreshed by the shareholders of the Company in a general meeting in accordance with the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). As at 30 June 2004, the aggregate number of shares of the Company issuable under share options granted under the Scheme and another share option scheme of the Company (the “Terminated Scheme”, which was terminated on 28 November 2001) was 28,100,000, of which 23,500,000 shares of the Company remain issuable under options granted under the Scheme (which represented approximately 2.7% of the Company’s shares in issue as at 30 June 2004), and 4,600,000 shares of the Company remain issuable under options granted on 25 July 2000 under the Terminated Scheme of the Company (which represented approximately 0.5% of the Company’s shares in issue as at 30 June 2004). The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding independent non-executive director who is the grantee of the option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options must be accepted within 30 days inclusive of, and from the day of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the directors, which may not exceed 10 years commencing on such date on or after the date of grant as the directors of the Company may determine in granting the share options and ending on such date as the directors of the Company may determine in granting the share options (which in any event must be prior to the close of business on 30 October 2011). Save as determined by the directors of the Company and provided in the offer of the grant of the relevant share option, there is no general requirement that a share option must be held for any minimum period before it can be exercised.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of offer of grant of the share options; and (ii) the average Stock Exchange’s closing price of the Company’s shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

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24. SHARE OPTION SCHEME (*continued*)

As at 30 June 2004, the Company had the following outstanding share options granted to directors and employees of the Company:

Name or category of participant	Date of grant of share options	Exercise price HK\$	Exercise options	Number of share options					Outstanding options at 30 June 2004
				Outstanding options at 1 July 2003	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	
<i>Directors</i>									
Phoon Chiong Kit	25/7/2000	0.78	25/7/2000 to 24/7/2010	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
<i>Other employees</i>									
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
				29,100,000	-	-	-	(1,000,000)	28,100,000

*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.

No share options were granted or exercised during the year.

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## 25. RESERVES

### (a) Group

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

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries and associates prior to 1 July 2001, are as follows:

	Goodwill eliminated against capital reserve HK\$'000
<hr/>	
Cost:	
At beginning of year and at 30 June 2004	154,313
<hr/>	
Accumulated impairment:	
At beginning of year	141,830
Impairment provided during the year	–
<hr/>	
At 30 June 2004	141,830
<hr/>	
Net amount:	
At 30 June 2004	12,483
<hr/>	
At 30 June 2003	12,483
<hr/>	

30 June 2004

## 25. RESERVES (continued)

## (b) Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2002	565,577	145	191,644	(448,383)	308,983
Net loss for the year	-	-	-	(80,194)	(80,194)
At 30 June 2003 and 1 July 2003	565,577	145	191,644	(528,577)	228,789
Issue of shares	15,012	-	-	-	15,012
Share issue expenses	(924)	-	-	-	(924)
Net loss for the year	-	-	-	(11,297)	(11,297)
At 30 June 2004	579,665	145	191,644	(539,874)	231,580

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued, in exchange for the issued share capital of the subsidiaries, and the aggregate net asset value of the subsidiaries acquired at the date of acquisition. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is distributable to shareholders under certain conditions.

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## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Prepayments, deposits and other receivables	413	–
Cash and cash equivalents	400	–
Accrued liabilities and other payables	(100)	–
Amounts due from related companies	289	–
	1,002	–
Satisfied by:		
Cash	501	–
Reclassification to interests in subsidiaries from interests in associates	501	–
	1,002	–

An analysis of the net cashflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(501)	–
Cash and cash equivalents acquired	400	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(101)	–

The subsidiaries acquired during the year made no significant contribution to the Group in respect of turnover and net loss attributable to shareholders for the year.

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## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

*(continued)*

## (b) Disposal of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Fixed assets	1,774	–
Inventories	16	–
Accounts receivable	7	–
Prepayments, deposits and other receivables	28	–
Cash and cash equivalents	376	–
Accounts payable	(390)	–
Minority interests	(22)	–
Realisation of exchange fluctuation reserves	(35)	–
	1,754	–
Loss on disposal	(161)	–
	1,593	–
Satisfied by:		
Cash	1,274	–
Due from an associate	319	–
	1,593	–

An analysis of the net cashflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	1,274	–
Cash and cash equivalents disposed of	(376)	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	898	–

The results of the subsidiaries disposed of in the year ended 30 June 2004 had no significant impact on the Group's consolidated turnover or loss after tax for the year.

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## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(continued)

### (c) Major non-cash transaction

During the year, the Group disposed of its equity interest in certain of its associates resulting in a net gain of HK\$47,000. Pursuant to the disposal, certain advances to these associates of approximately HK\$16,504,000 were waived by the Group. Further, amounts due from certain associates of HK\$5,202,000 which were under liquidation were also waived by the Group.

## 27. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group also had the following transactions with related parties.

The directors consider 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 year, the Group had transactions to which members of the Golden Harvest Private Group were parties. The significant transactions are summarised below:

		Group	
	Notes	2004 HK\$'000	2003 HK\$'000
Film distribution commission income	<i>(i)</i>	62	29
Film developing and printing services income	<i>(ii)</i>	19	–

Notes:

- (i) The Group acted as the distributor of the films produced by certain 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”), a director and a substantial shareholder of the Company during the year, is interested, directly or indirectly, in the above transactions as a director and/or beneficial shareholder of the members of the Golden Harvest Private Group of which the commission income was derived from.

- (ii) The service income related to the provision of film developing and printing services to certain 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.

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

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 to unrelated third parties.

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## 27. RELATED PARTY TRANSACTIONS (continued)

## (b) Transactions with other related parties

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

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Film distribution commission income from related companies	(i), (ii)	445	2,185
Rental income from a related company	(i), (iii)	365	365
Interest expense to a related company	(i), (iv)	264	548
Consultancy fee paid to a related company	(i), (v)	881	749
Film royalty income from associates	(i), (vi)	367	1,769
Management fee income from associates	(i), (vii)	1,027	2,309
Film distribution commission income from an associate	(i), (viii)	331	2,171
Film sourcing service fee paid to an associate	(i), (ix)	132	132
Accounting service fee paid to an associate	(i), (x)	85	82
Screen rental paid to an associate	(i), (xi)	40	20
Ticketing system development costs paid to an associate	(i), (xii)	518	519
Marketing service fee income from an associate	(i), (xiii)	12	–
Theatre rental paid to an associate	(i), (xiv)	124	–
Corporate guarantees given in respect of banking facilities granted to associates	(i), (xv)	17,100	48,207

## Notes:

- (i) Mr. Chow, Phoon Chiong Kit (“Mr. Phoon”), Chu Siu Tsun, Stephen (“Mr. Chu”) and Chan Sik Hong, David (“Mr. Chan”), who are directors of the Company during the year, are 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 agreements 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 (2003: HK\$30,000) per month for sub-letting a portion of the Group’s office premises to an associate of the Golden Harvest Private Group.
- (iv) The interest expense to an associate of Golden Harvest Private Group was charged at Hong Kong dollars 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.

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## 27. RELATED PARTY TRANSACTIONS *(continued)*

### (b) Transactions with other related parties *(continued)*

Notes: *(continued)*

- (vii) The management fee income represented the following:
- an amount of HK\$288,000 related to accounting services provided to two associates of the Group which were charged at rates of HK\$10,000 per month (2003: HK\$10,000) and HK\$14,000 per month (2003: HK\$14,000 per month), respectively; and
  - an amount of approximately HK\$739,000 related to consultancy services provided to two associates of the Group which were charged at rates of HK\$120,000 (2003: HK\$120,000) per month from July to December 2003 and RMB5,000 (2003: RMB5,000) per month from July to October 2003, respectively.
- (viii) 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.
- (ix) The film sourcing service fee was charged at a rate of HK\$11,000 per month (2003: HK\$11,000 per month).
- (x) The accounting service fee was charged at a rate of S\$1,500 (2003: S\$1,500) per month.
- (xi) The screen rental paid was charged according to prices and conditions similar to those offered to other customers of the associate.
- (xii) The ticketing system development cost paid was charged according to prices and conditions similar to those offered to other customers of the associate.
- (xiii) The marketing service fee income was charged according to prices and conditions similar to those offered to other customers of the associate.
- (xiv) The theatre rental fee was charged according to price and conditions similar to those offered to other customers of the associate.
- (xv) The corporate guarantee was given by the Group in respect of banking facilities granted to an associate at nil consideration.

Certain transactions amounting to HK\$899,000 (2003: HK\$1,447,000) included in notes (ii) and (v) above with three related companies (2003: four 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.

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## 28. REMUNERATION OF DIRECTORS AND OF FIVE HIGHEST PAID INDIVIDUALS

### Directors' remuneration

The remuneration of the directors of the Company for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	120	120
	120	120
Basic salaries, allowances and benefits in kind:		
Executive directors	12,240	11,352
Non-executive directors	–	–
Independent non-executive directors	–	–
	12,240	11,352
Pension contributions:		
Executive directors	97	97
Non-executive directors	–	–
Independent non-executive directors	–	–
	97	97
	12,457	11,569

The above remuneration of directors fell within the following bands:

	2004 Number	2003 Number
Nil – HK\$1,000,000	4	7
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	1	1
HK\$4,500,001 – HK\$5,000,000	1	–
	8	11

There was no other arrangement under which a director waived or agreed to waive any remuneration during the year.

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## 28. REMUNERATION OF DIRECTORS AND OF FIVE HIGHEST PAID INDIVIDUALS *(continued)*

### Five highest paid individuals

Of the five highest paid individuals, four (2003: four) were directors of the Company and their remuneration has been included in the directors' remuneration disclosures above. The remuneration of the remaining one (2003: one) non-director, highest paid individual for the year is as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and benefits in kind	1,720	1,228
Pension contributions	12	12
	<u>1,732</u>	<u>1,240</u>

The above remuneration of the non-director, highest paid individual employee fell within the band of HK\$1,500,001 – HK\$2,000,000.

## 29. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantee of banking facilities granted to associates	17,100	48,207	17,100	47,034

In addition to above, an associate of the Group had executed a guarantee to a banker in favour of certain third parties of approximately HK\$11,589,000 (2003: HK\$16,521,000) as at the balance sheet date.

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**30. COMMITMENTS****(a) Capital commitments in respect of acquisition of property, plant and equipment:**

	Group	
	2004	2003
	HK\$'000	HK\$'000
Contracted for	1,888	2,854
Authorised, but not contracted for	29,159	–
	31,047	2,854

**(b) Operating lease commitments**

The Group leases certain of its office premises and cinemas under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 13 years.

	Group	
	2004	2003
	HK\$'000	HK\$'000
Total future minimum lease payments under non-cancellable operating leases for land and buildings:		
Within one year	33,760	49,073
In the second to fifth years, inclusive	94,507	128,227
After five years	33,584	3,790
	161,851	181,090

Certain non-cancellable operating leases included in the above were subject to contingent rent payments, which were charged for the amount of 17% to 28% (2003: 17% to 29%) of their monthly or annual gross box office takings in excess of the base rents as determined in respective lease agreements. In addition, 10% of theatre confectionery sales and advertising income are also charged for certain leases.

The Company had no significant commitments at the balance sheet date (2003: Nil).

30 June 2004

### 31. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events occurred:

- (i) On 14 July 2004, the Company entered into the Subscription Agreement pursuant to which the Company issued and allotted 155,000,000 ordinary shares at a price of HK\$0.25 per share to Typhoon Music on 11 August 2004. Further details of the subscription are set out in note 23 to the financial statements.
- (ii) On 14 July 2004, the Group entered into a joint venture agreement (the "JV Agreement") with Typhoon Music and Abba Movies Company Limited, an independent third party, for the establishment of a joint venture company (the "JV Co") solely to make loans for Chinese language motion picture production. Pursuant to the JV Agreement, the Group would have a 60% equity interest in the JV Co. The Group's capital contribution for the JV Co amounted to HK\$6 million and was paid accordingly subsequent to year end. The above transaction also constituted a connected transaction as defined in the Listing Rules.

Further details of the Subscription Agreement and the JV Agreement are set out in an announcement of the Company dated 16 July 2004.

### 32. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

### 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 October 2004.