

## REVIEW OF OPERATIONS

For the six months ended 31 December 2001, the Group's turnover increased by HK\$10.3 million from the corresponding period in 2000. We have seen improvements from the existing core businesses: Film Distribution and Exhibition by HK\$10.5 million. New business units such as music production, video distribution and public relation also increased to HK\$12.1 million from HK\$1.6 million in 2000. On the other hand, due to one of the major film production clients deciding to scale down its activity, the production fees generated by the production division has dropped by HK\$5.7 million. Correspondingly, film processing income has also dropped by HK\$4.9 million.

Cost of sales has increased by HK\$13.4 million and was mainly incurred in new business areas of HK\$8.5 million. HK\$3.9 million was attributable to an increase of business volume in film distribution. The drop in gross profits of HK\$3.1 million was primarily due to the cost structure in the film production and processing units where costs cannot be reduced in proportion to a reduction in turnover.

The loss for the period amounted to HK\$24 million, an increase of HK\$6.1 million as compared to the same period last year. It is important to note that the performance of the core business is improving. The unfavourable performance was mainly attributable to the previously mentioned drop in production control fees, film processing income and also interest income from film financing of HK\$3.5 million and one-off non-recurring items of HK\$1 million.

### Hong Kong Market

The total box office of Hong Kong grew from HK\$485 million to HK\$563 million, a 16% increase for the period under review. This is a significant improvement from the growth of 5.8% for the calendar year 2000. The increase was, however, mainly attributable to non-Chinese movies from HK\$259 million to HK\$327 million. This is due to Hollywood blockbusters such as "Harry Potter", "Jurassic Park 3", "Tomb Raider" and others. Chinese movies showed a modest growth of only 4% but an increase, nevertheless.

The Group distributed 13 Chinese and 23 non-Chinese movies in second half of 2001 as compared to 10 Chinese and 13 non-Chinese movies in the same period of 2000. The Group's share of the total box office was HK\$113 million, an increase of 23% from last period. This has significantly out performed the market growth.

Besides distributing non-Chinese and Chinese films, the Group also became more active in distributing other Asian language films. The distribution of "Jan Dara" was a success. We have secured a number of quality Asian films to be released in year 2002. As a result, the gross profit contributed by the distribution activities increased by HK\$6.2 million.

The total admission of 1.5 million to the Group's cinemas was about the same against same period last year. However, Golden Lee closed in February 2001. Should we exclude Golden Lee's admission in last year, total admission would show an increase of 5.4%. The overall average ticket price also increased by 7.8%. These favourable factors brought up the gross profit by HK\$6.2 million. However, the improvement was partly offset by higher percentage of rental expenses.

The Group also stepped up in film investment. The primary reasons are to ensure desirable supply of quality products in both Chinese and non-Chinese movies. This was done by either producing the movies by our own production arm or acquisitions from the market.

Television production was on good track. We have completed three drama series or 80 episodes. Market response was favourable. A number of pre-sale contracts were signed before the projects were completed. We expect a meaningful profit contribution in the second half of this fiscal year.

### **Regional Markets**

Performance of the Group's associates in Singapore's and Malaysia's exhibition business showed continuous improvement. The loss has decreased from HK\$7.7 million to HK\$4 million.

In Singapore, the average ticket price increased by 12% with admission levels remaining stable. In Malaysia, the Hollywood blockbusters released during the summer holidays and the reduction of Malaysia entertainment tax since October 2001 has favourably contributed to the reduction in ongoing losses.

In Taiwan, the downtrend in the video rental business continues. We were able to improve the situation by getting into outright sales to the video stores and expand the video format from VHS to VCD and DVD. However, due to the poor economic environment in Taiwan and the increased problems of piracy, the outlook is not promising.

The Group has moved into a new office in Shanghai for the China operations in August 2001. The new office will be our China headquarters for all major lines of business including the recently established TV production office from which we plan to produce around 200 hours of TV drama series every year.

The Group maintains a tight control on headcount and operating expenses. There has been no unusual or material changes to the Group's operations apart from those discussed above.

### **PROSPECTS**

The Group has put in the necessary work to improve our existing business, laid the groundwork for new lines of businesses and successfully started television production and video distribution. We have built an enterprise that is dynamic and innovative in Chinese language entertainment content, creation and execution. The financial performance of our film distribution and exhibition businesses are improving across the markets that we have presence. The profit contributions from TV production will materialize in 2002 and we will gear up our production capacity to produce up to 200 hours each year mainly for the television market in China. The video distribution business which started in September 2001 has already generated a positive profit contribution. We will speed up the video licensing acquisition activities for both Chinese and non-Chinese movies. We expect a substantial contribution from this new business in second half of this fiscal year. To cope with the business growth, we are also seeking alternate financing options to provide the necessary capital to increase the volume of movies we produce in-house.

### **INTERIM RESULTS**

The Board of Directors (the "Board") of Golden Harvest Entertainment (Holdings) Limited (the "Company") herein announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2001. The unaudited consolidated results have not been audited by the Company's auditors, but have been reviewed by the Company's Audit Committee.