

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	(Unaudited)	
	Six months ended	
	31 December	
	2001	2000
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(47,409)	(17,164)
Returns on investments and servicing of finance	774	5,012
Taxes paid	(164)	(468)
Investing activities	<u>(5,343)</u>	<u>(30,719)</u>
Net cash outflow before financing activities	(52,142)	(43,339)
Financing activities	<u>(78)</u>	<u>-</u>
Decrease in cash and cash equivalents	(52,220)	(43,339)
Cash and cash equivalents at beginning of period	<u>99,059</u>	<u>81,926</u>
Cash and cash equivalents at end of period	<u><b>46,839</b></u>	<u><b>38,587</b></u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Time deposits	<b>17,485</b>	11,196
Cash and bank balances	<u><b>29,354</b></u>	<u>27,391</u>
	<u><b>46,839</b></u>	<u><b>38,587</b></u>

**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. The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 30 June 2001 except that the following new/revised SSAPs issued by the Hong Kong Society of Accountants have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

SSAP 9 (revised):	Events after the Balance Sheet Date
SSAP 28:	Provisions, Contingent Liabilities and Contingent Assets
SSAP 29:	Intangible Assets
SSAP 30:	Business Combinations
SSAP 31:	Impairment of Assets
SSAP 32:	Consolidated Financial Statements and Accounting for Investments in Subsidiaries

With the exception of SSAP 29, SSAP 30 and SSAP 31, the adoption of the above standards has had no material effect on amounts reported in prior years.

### **Trademarks**

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 earnings per share for the following reasons:

- (i) The trademarks, which were acquired by the Group in 2000, have been in use for a very long time and will continue to be used for the long term. The valuation of the Group's trademarks performed by American Appraisal Hongkong Limited, an independent professional appraiser, has confirmed that the market value of the trademarks exceeded the carrying value as at 30 June 2001. In the opinion of the directors, there has been no material change in the valuation since 30 June 2001; 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 that trademarks are stated at cost and provision is made for any impairment in value. The Group intends to confirm the value of its trademarks by independent professional valuation periodically.

### **Prior period adjustments**

In accordance with the requirements of SSAP 31 and the transitional provisions of SSAP 30, adjustments have been made concerning the impairment of goodwill arising prior to the adoption of SSAP 30 which was eliminated against capital reserve. These adjustments, which represent a change in accounting policy, have been applied retrospectively in accordance with SSAP 2. Accordingly, goodwill which was eliminated against capital reserve in the amount of HK\$104,224,000 were determined to have been impaired in prior years, and the effect of this change in accounting policy was to reduce the retained profits as at 1 July 2001 and to increase capital reserve as at 1 July 2001 by the same amount.

### **Comparative figures**

Due to adoption of new SSAPs during the current period, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

In addition, certain of turnover, cost of sales, other revenue, selling and distribution costs, general and administrative expenses and other operating expenses in the last period have been reclassified to conform with the current period's presentation. The directors are of the opinion that such a presentation would more fairly reflect the operation of the Group.

## 2. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss after finance costs by principal activity and geographical area of markets, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") is as follows:

	Turnover		Contribution	
	Six months ended 31 December		Six months ended 31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Film distribution	34,300	24,126	3,409	(893)
Film exhibition	81,410	81,117	(9,420)	(3,840)
Film processing	6,496	11,367	(1,477)	1,780
Production control	2,860	8,575	(8,227)	(340)
Public relations	4,097	1,644	(1,681)	(1,310)
Music production	2,428	–	(866)	(539)
Video distribution	5,537	–	519	–
	<b>137,128</b>	<b>126,829</b>	<b>(17,743)</b>	<b>(5,142)</b>
Less: Finance costs			<b>(25)</b>	<b>(15)</b>
Loss after finance costs			<b>(17,768)</b>	<b>(5,157)</b>
By geographical area:				
Hong Kong	123,222	112,037	(16,160)	(3,898)
Asia	11,477	11,261	(2,243)	(1,257)
North America	100	671	85	310
Elsewhere	2,329	2,860	575	(297)
	<b>137,128</b>	<b>126,829</b>	<b>(17,743)</b>	<b>(5,142)</b>
Less: Finance costs			<b>(25)</b>	<b>(15)</b>
Loss after finance costs			<b>(17,768)</b>	<b>(5,157)</b>

## 3. LOSS FROM OPERATING ACTIVITIES

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

	Six months ended 31 December	
	2001	2000
	HK\$'000	HK\$'000
Amortisation of film rights	8,708	6,854
Depreciation	9,196	8,179

**4. TAX**

Hong Kong profits tax has been provided at the rate of 16% (2000: 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.

	<b>Six months ended</b>	
	<b>31 December</b>	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Hong Kong	–	–
Elsewhere	184	42
Overprovision in the prior period	(117)	–
	<u>67</u>	<u>42</u>
Associates:		
Hong Kong	–	11
Elsewhere	20	6
Deferred	1,290	1,350
	<u>1,310</u>	<u>1,367</u>
Tax charge for the period	<u>1,377</u>	<u>1,409</u>

**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\$23,956,000 (2000: HK\$17,809,000) and the weighted average number of 800,887,500 shares (2000: 800,887,500 shares) in issue during the period.

No disclosure of diluted loss per share for the current 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 the current period and thus, the share options have no diluting effect.

The calculation of diluted loss per share for the prior period was based on the net loss from ordinary activities attributable to shareholders for that period and the weighted average number of 801,094,151 shares in issue, which represented the weighted average number of 800,887,500 shares in issue during the prior period, plus the weighted average number of 206,651 shares assumed to be issued at no consideration on the deemed exercise of all exercisable options during the prior period.

**6. FIXED ASSETS**

	As at	As at
	31 December	30 June
	2001	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation	132,718	128,167
Accumulated depreciation	(34,978)	(26,707)
	<u>97,740</u>	<u>101,460</u>

**7. LONG TERM INVESTMENT**

The long term investment represents the 16% shareholding of an unlisted equity investment and is stated at cost, representing its fair value on acquisition, less any impairment losses.

**8. 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 professional fees and registration fees incurred on the registration of the trademarks in overseas. In the opinion of the directors, the value of the trademarks is not less than the amount stated in the balance sheet.

**9. 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 2001 HK\$'000	As at 30 June 2001 HK\$'000
Current to 3 months	17,079	16,422
4 to 6 months	3,268	233
7 to 12 months	16	218
Over 1 year	423	98
	<b>20,786</b>	<b>16,971</b>

The accounts receivable of the Group includes trading balances due from Golden Harvest Private Group companies totalling HK\$286,000 (30 June 2001: HK\$586,000). 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\$34,000 (30 June 2001: HK\$50,000), HK\$300,000 (30 June 2001: HK\$250,000), HK\$639,000 (30 June 2001: HK\$891,000) and HK\$55,000 (30 June 2001: 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.

**10. ACCOUNTS PAYABLE**

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

	As at 31 December 2001 HK\$'000	As at 30 June 2001 HK\$'000
Current to 3 months	39,705	28,849
4 to 6 months	1,672	845
7 to 12 months	478	268
Over 1 year	4,712	7,603
	<b>46,567</b>	<b>37,565</b>

The accounts payable of the Group includes trading balances due to Golden Harvest Private Group companies totalling HK\$558,000 (30 June 2001: HK\$767,000). 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\$14,206,000 (30 June 2001: HK\$6,964,000) and HK\$3,602,000 (30 June 2001: HK\$4,323,000), respectively. The amounts are unsecured, interest-free 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.

## 11. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Surplus reserve HK\$'000	Revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1 July 2001								
As previously stated	565,577	145	(154,313)	35,140	480	7,864	(37,921)	416,972
Prior year adjustment - note 1	-	-	104,224	(104,224)	-	-	-	-
As restated	565,577	145	(50,089)	(69,084)	480	7,864	(37,921)	416,972
Exchange adjustments	-	-	-	-	-	-	(696)	(696)
Net loss for the period	-	-	-	(23,956)	-	-	-	(23,956)
At 31 December 2001	565,577	145	(50,089)	(93,040)	480	7,864	(38,617)	392,320

The surplus reserve represents an amount transferred from retained profits in accordance with statutory requirements and the articles of association of an associate in Taiwan. The surplus reserve may only be applied to make up any losses and for capitalisation by way of fully paid bonus issues of the shares of the associate in Taiwan.

## 12. RELATED PARTY TRANSACTIONS

In addition to the balances detailed in notes 9 and 10, 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	
	2001	2000
	HK\$'000	HK\$'000
Film distribution commission income	64	4

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, Phoon Chiong Kit, Chu Siu Tsun, Stephen and Chan Sik Hong, David 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 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 Listing Rules.

In respect of transactions set out in note above, a conditional waiver from strict compliance with the connected transaction requirements as set out in Chapter 14 of the Listing Rules has been obtained. The directors have reviewed and confirmed that these connected transactions were conducted in the ordinary course of the business of the Group and on terms no less favourable than those offered by unrelated third parties.

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

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

	Notes	Six months ended 31 December	
		2001 HK\$'000	2000 HK\$'000
Advertising agency fee income from a related company	(i), (ii)	1,475	1,397
Film developing and printing services income from related companies	(i), (iii)	2,459	6,568
Film distribution commission income from related companies	(i), (iv)	7,529	13,746
Consultancy fee income from a related company	(i), (v)	300	–
Film production control fee income from a related company	(i), (vi)	714	7,241
Services fees income from a related company	(i), (vii)	195	296
Accounting services income from a related company	(i), (viii)	38	–
Rental income from a related company	(i), (ix)	182	–
Talent management fee income from a related company	(i), (x)	150	500
Consultancy fee paid to a related company	(i), (xi)	655	–
Film royalty income from associates	(i), (xii)	1,588	54
Management fee income from associates	(i), (xiii)	1,161	440
Film sourcing service fee paid to an associate	(i), (xiv)	60	–
Accounting service fee paid to an associate	(i), (xv)	41	40
Corporate guarantees given in respect of banking facilities granted to associates	(i), (xvi)	46,370	25,548

*Notes:*

- (i) Chow Ting Hsing, Raymond, Phoon Chiong Kit, Chu Siu Tsun, Stephen and Chan Sik Hong, David, 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 agency fee income related to the provision of advertising services which was charged according to prices and conditions similar to those offered to other customers of the Group.
- (iii) 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.
- (iv) 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.
- (v) 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 per month from July 2001 onward.

- (vi) The film production control fee income was charged according to the terms of the service agreement dated 8 February 2000.
- (vii) The services fees income related to the film production service provided to a related company and was charged at a rate of 1.3% of the total budgeted film production cost. The services fees income received in the prior period related to the handling service provided to a related company on the factoring agreement dated 4 December 2000 entered into between GH Pictures (China) Limited and Bamboo Grove Enterprises Limited, a wholly-owned subsidiary of the Group and was charged at 1% of the total amount of debt to be purchased.
- (viii) The accounting services income was charged at 0.25% of the total budgeted film production cost.
- (ix) The rental income was charged at a rate of approximately HK\$30,000 per month for sub-letting the office to an associate of the Golden Harvest Private Group.
- (x) The talent management service income was charged according to the prices and conditions similar to those offered to other customers of the Group.
- (xi) A related company provided film production and distribution consulting services to the Group and consultancy fee was charged according to the terms of the distribution agreement dated 1 October 2001.
- (xii) The royalty income was charged according to prices and conditions similar to those offered to other customers of the Group.
- (xiii) The management fee income representing the following:
  - an amount of HK\$240,000 related to consultancy services provided to an associate of the Group and was charged at a rate of HK\$60,000 per month for the period from 1 July 2001 to 31 October 2001;
  - an amount of HK\$144,000 related to accounting services provided to two associates of the Group and were charged at a rate of HK\$10,000 and HK\$14,000 per month, respectively; and
  - an amount of HK\$777,000 related to consultancy services provided to two associates of the Group and were charged at rates of HK\$120,000 and RMB10,000 per month, respectively;
- (xiv) The film sourcing service fee was charged at a rate of HK\$10,000 per month from July 2001 onward.
- (xv) The accounting service fee was charged at a rate of S\$1,500 per month.
- (xvi) 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\$735,000 (2000: HK\$46,000) included in notes (iv) and (xi) above with two related companies (2000: one related company) 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.



**13. CONTINGENT LIABILITIES**

Contingent liabilities at the balance sheet date were as follows:

	As at 31 December 2001 HK\$'000	As at 30 June 2001 HK\$'000
Guarantee of banking facilities granted to associates	46,370	47,056

**INTERIM DIVIDEND**

The Board does not recommend any interim dividend for the six months ended 31 December 2001 (2000: Nil).

**LIQUIDITY AND FINANCIAL RESOURCES**

The Group's financial position remains healthy. The gearing ratio, which was computed by dividing the total liabilities by the total assets, mildly increased from 15% to 18%. There are no bank borrowings and net current assets amounted to HK\$108.6 million as at 31 December 2001, including cash and deposits totalling HK\$46.8 million.

**EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2001, the Group had 270 (2000: 255) employees. The Group remunerates its employees largely based on industry practice. Apart from salaries, commissions, provident fund and discretionary bonuses, options are granted to certain employees based on individual merits.

**AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements.

**DIRECTORS' INTERESTS IN SHARES**

As at 31 December 2001, the interests of the directors in the share capital of the Company and any of its associated corporations, as required to be disclosed pursuant to the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

*Interests in shares of the Company*

Director	Nature of interest	Number of shares
Chow Ting Hsing, Raymond	Corporate (Note)	250,537,223
Phoon Chiong Kit	Personal	6,000,000
Chu Siu Tsun, Stephen	Personal	5,959,375
Chan Sik Hong, David	Personal	5,859,375

Note: Chow Ting Hsing, Raymond was interested in 250,537,223 shares of the Company by virtue of his beneficial shareholdings in Planet Gold Associates Limited and Net City Limited, which held 146,568,473 shares and 103,968,750 shares of the Company, respectively.