



Riche multi-media

Riche Multi-Media Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2002



豐采 多媒體集團
Riche multi-media

CONTENTS

	<i>PAGE(S)</i>
CORPORATE INFORMATION	2
CONDENSED CONSOLIDATED INCOME STATEMENT	3
CONDENSED CONSOLIDATED BALANCE SHEET	4
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	7
NOTES TO THE CONDENSED FINANCIAL STATEMENTS	8
INDEPENDENT REVIEW REPORT	21
MANAGEMENT DISCUSSION AND ANALYSIS	22

CORPORATE INFORMATION

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business

Units 609-610
6th Floor
Miramar Tower
132 Nathan Road
Tsimshatsui
Kowloon
Hong Kong

Domicile and legal form of company

Exempted company with limited liabilities

Country of incorporation

Bermuda

Company secretary

Mr. Lien Wai Hung

Members of the audit committee

Mr. Tang Chak Lam, Gilbert
Mr. Lai Hok Lim

Authorised representatives

Mr. Heung Wah Keung
Ms. Chen Ming Yin, Tiffany

Bermuda resident representative

Mr. John Charles Koss Collis

Bermuda deputy resident representative

Mr. Anthony Devon Whaley

Principal share register and transfer office

The Bank of Bermuda Limited

Hong Kong branch share register and transfer office

Standard Registrars Limited

Auditors

Deloitte Touche Tohmatsu

Legal advisers

Chao and Chung

Principal banker

Hang Seng Bank
Bank of China (Hong Kong)

Stock code

764

The Board of Directors ("the Board") of Riche Multi-Media Holdings Limited ("the Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30th June 2002 together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee and the auditors, Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2002

	Notes	Six months ended	
		30.6.2002 HK\$'000 (unaudited)	30.6.2001 <i>HK\$'000</i> (unaudited and restated)
Turnover		42,085	25,869
Cost of sales		(13,067)	(18,361)
Gross profit		29,018	7,508
Other operating income		393	4,026
Administrative expenses		(17,282)	(13,641)
Selling expenses		(6)	(829)
Profit (loss) from operations	4	12,123	(2,936)
Finance costs		(68)	(83)
Loss on disposal of a subsidiary		(1,100)	—
Profit (loss) before taxation		10,955	(3,019)
Taxation	5	—	—
Net profit (loss) for the period		10,955	(3,019)
Earnings (loss) per share	6		
Basic		2.31 cents	(0.96) cents
Diluted		2.22 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June 2002

	Notes	30.6.2002 HK\$'000 (unaudited)	31.12.2001 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	7	29,980	36,516
Film rights	8	53,260	68,418
Other asset	9	89,649	94,407
Interests in associates	10	160,000	—
Club memberships		172	172
Deposit with a related company	17(c)	5,000	—
		338,061	199,513
Current assets			
Inventories		2,542	3,840
Film rights	8	4,244	24,153
Film rights deposits		11,734	13,374
Trade receivables	11	15,131	1,546
Other receivables, prepayments and deposits		4,903	686
Amounts due from related companies	12	—	190
Amount due from an associate	17(f)	329	—
Taxation recoverable		1,404	1,780
Bank balances and cash		8,058	27,770
		48,345	73,339

CONDENSED CONSOLIDATED BALANCE SHEET (*Continued*)

At 30th June 2002

	Notes	30.6.2002 HK\$'000 (unaudited)	31.12.2001 <i>HK\$'000</i> (audited)
Current liabilities			
Trade payables	13	—	204
Other payables and accruals		1,018	918
Deferred income		64,000	—
Receipts in advance		951	478
Obligations under a finance lease			
— amount due within one year		14	23
Amounts due to related companies	12	3,737	—
Taxation		22,940	22,238
		92,660	23,861
Net current (liabilities) assets		(44,315)	49,478
		293,746	248,991
Capital and reserves			
Share capital	14	47,520	47,520
Reserves		209,698	198,743
		257,218	246,263
Non-current liabilities			
Obligations under a finance lease			
— amount due after one year		55	55
Deferred taxation		2,673	2,673
Convertible notes payable	15	33,800	—
		36,528	2,728
		293,746	248,991

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2002

	Share capital	Share premium	Capital reserve	Properties revaluation reserve	Retained profits (Accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2001	15,000	27,235	19,834	6,584	85,199	153,852
Exercise of share options	1,500	6,202	—	—	—	7,702
Net loss for the period	—	—	—	—	(3,019)	(3,019)
At 30th June 2001 and at 1st July 2001	16,500	33,437	19,834	6,584	82,180	158,535
Revaluation deficit on leasehold land and buildings not recognised in the consolidated income statement	—	—	—	(1,059)	—	(1,059)
Share issue expenses	—	(799)	—	—	—	(799)
Subscription of shares	3,300	29,700	—	—	—	33,000
Issue of shares as consideration for acquisition of subsidiaries	7,920	144,144	—	—	—	152,064
Bonus issue of shares and capitalisation	19,800	(19,800)	—	—	—	—
Net loss for the period	—	—	—	—	(95,478)	(95,478)
At 31st December 2001 and at 1st January 2002	47,520	186,682	19,834	5,525	(13,298)	246,263
Net profit for the period	—	—	—	—	10,955	10,955
At 30th June 2002	47,520	186,682	19,834	5,525	(2,343)	257,218

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2002

	Six months ended	
	30.6.2002	30.6.2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(24,129)	(18,417)
Net cash from (used in) investing activities	4,426	(1,198)
Net cash (used in) from financing	(9)	7,690
Net decrease in cash and cash equivalents	(19,712)	(11,925)
Cash and cash equivalents at beginning of period	27,770	10,580
Cash and cash equivalents at end of period	8,058	(1,345)
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	8,058	5,747
Bank overdrafts	—	(7,092)
	8,058	(1,345)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June 2002

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December 2001, except as described below.

(a) Additional accounting policies resulted from new activities during the period

Interests in associates

The consolidated income statement includes the Group's share of the post acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Convertible notes

Convertible notes are recognised as liabilities unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible notes is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible notes for each financial year.

The costs incurred in connection with the issue of convertible notes are charged to the consolidated income statement in the period of issue.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(b) Changes in presentation due to adoption of new and revised SSAPs**

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has not resulted in any changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods. However, these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity. Accordingly, comparative disclosures have been restated in order to achieve a consistent presentation.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings, namely, operating, investing and financing, rather than the previous five headings. Interest received, which was previously presented under a separate heading, is classified under investing activities and interest paid is classified under operating activities. Cash flows arising from taxes on income are classified as operating activities unless they can be separately identified with investing or financing activities.

3. SEGMENT INFORMATION

Business segments

Six months ended 30th June 2002

	Distribution HK\$'000	Sub-licensing HK\$'000	Sales of advertising rights HK\$'000	Other HK\$'000	Consolidated HK\$'000
Turnover	14,485	16,000	11,600	—	42,085
Segment (loss) profit before amortisation of other asset	686	9,454	9,332	—	19,472
Amortisation of other asset	(4,758)	—	—	—	(4,758)
Segment (loss) profit	(4,072)	9,454	9,332	—	14,714
Unallocated corporate expenses					(2,591)
Profit from operations					12,123
Finance costs					(68)
Loss on disposal of a subsidiary					(1,100)
Profit before taxation					10,955
Taxation					—
Net profit for the period					10,955

3. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Six months ended 30th June 2001

	Distribution HK\$'000	Sub-licensing HK\$'000	Sales of advertising rights HK\$'000	Other HK\$'000	Consolidated HK\$'000
Turnover	16,331	9,104	—	434	25,869
Segment (loss) profit	(5,630)	4,129	—	(1,435)	(2,936)
Finance costs					(83)
Loss before taxation					(3,019)
Taxation					—
Net loss for the period					(3,019)

Geographic segments

The following table provides an analysis of the Group's sales by location of markets, irrespective of the origin of the goods/services:

	Turnover Six months ended		Contribution to profit (loss) from operations Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Hong Kong and Macau	11,709	16,949	(456)	(11,091)
The People's Republic of China excluding Hong Kong, Macau and Taiwan (the "PRC")	30,376	—	15,170	—
North America	—	8,920	—	4,129
	42,085	25,869	14,714	(6,962)
Unallocated corporate (expenses) income			(2,591)	4,026
Profit (loss) from operations			12,123	(2,936)

4. PROFIT (LOSS) FROM OPERATIONS

	Six months ended	
	30.6.2002	30.6.2001
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Amortisation of film rights (included in cost of sales)	10,209	5,017
Amortisation of other asset	4,758	—
Cost of inventories (included in cost of sales)	2,858	13,344
Depreciation and amortisation of property, plant and equipment:		
— owned assets	1,558	2,710
— leased assets	8	12
Loss on disposal of property, plant and equipment	935	—
Allowance for bad and doubtful debts	617	—
Staff costs	3,744	6,522
Interest income from bank deposits	(62)	(203)
Interest income from convertible notes	(329)	—

5. TAXATION

No tax is payable on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by estimated tax losses brought forward.

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses available to offset future profits as it is not certain that the estimated tax losses will be utilised in the foreseeable future.

6. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	Six months ended	
	30.6.2002	30.6.2001
	HK\$'000	<i>HK\$'000</i>
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share (net profit (loss) for the period)	10,955	(3,019)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	68	—
Adjustment to interest on convertible notes issued by an associate based on dilution of their earnings per share	(329)	—
<hr/>		
Earnings (loss) for the purpose of diluted earnings (loss) per share	10,694	(3,019)
<hr/>		
	'000	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	475,200	313,586
Effect of dilutive potential ordinary shares:		
Share options	2,122	—
Convertible notes	3,408	—
<hr/>		
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	480,730	313,586
<hr/>		

The computation of diluted earnings per share in the current period does not assume the exercise of the Company's warrants as the exercise price of these warrants is higher than the average market price for shares.

The weighted average number of ordinary shares for the six month period ended 30th June 2001 for the purpose of basic earnings per share has been adjusted for the bonus issue of shares in November 2001.

7. PROPERTY, PLANT AND EQUIPMENT

	HK\$'000
COST OR VALUATION	
At 1st January 2002	48,493
Additions	767
Disposals	(7,549)
<hr/>	
At 30th June 2002	41,711
<hr/>	
DEPRECIATION	
At 1st January 2002	11,977
Provided for the period	1,566
Eliminated on disposals	(1,812)
<hr/>	
At 30th June 2002	11,731
<hr/>	
NET BOOK VALUES	
At 30th June 2002	29,980
<hr/>	
At 31st December 2001	36,516
<hr/>	

At 30th June 2002, the directors have considered the carrying amounts of the Group's leasehold land and buildings carried at revalued amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus on deficit has been recognised in the current period.

8. FILM RIGHTS

	HK\$'000	
COST		
At 1st January 2002		171,280
Additions		46,889
Disposal on disposal of a subsidiary		(114,410)
<hr/>		
At 30th June 2002		103,759
<hr/>		
AMORTISATION AND IMPAIRMENT		
At 1st January 2002		78,709
Amortisation charged for the period		10,209
Eliminated on disposal		(42,663)
<hr/>		
At 30th June 2002		46,255
<hr/>		
CARRYING AMOUNTS		
At 30th June 2002		57,504
<hr/>		
At 31st December 2001		92,571
<hr/>		
	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
Analysed as:		
Non-current portion of film rights	53,260	68,418
Current portion of film rights	4,244	24,153
<hr/>		
	57,504	92,571
<hr/>		

In the opinion of the directors, the Group's film rights as at 30th June 2002 were at least worth their carrying amounts.

9. OTHER ASSET

Other asset represents rights and benefits arising from the licensing agreement with a distributor in the PRC. It is amortised over a period of 10 years.

In the opinion of the directors, the carrying value of the Group's rights and benefits arising from the licensing agreement with a distributor in the PRC as at 30th June 2002 was at least worth its carrying value.

10. INTERESTS IN ASSOCIATES

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
Convertible notes issued by an associate	160,000	—

During the period, Gainful Fortune Limited ("Gainful Fortune") issued convertible notes in an aggregate amount HK\$160 million for the purchase of the hotel and intranet distribution rights in respect of an aggregate of up to 300 motion pictures in the PRC and the entire issued share capital of Ocean Shores Licensing Limited, a subsidiary of the Company, from the Group. The notes bear interest at 1% per annum which is payable yearly in arrears and will mature on 17th April 2005. Prior to the maturity, only Gainful Fortune has the right to redeem early part or all of the amount of the convertible notes. The notes carry the right to convert the outstanding principal amount of the notes into ordinary shares of HK\$1 each in the share capital of Gainful Fortune at a conversion price of HK\$1 per share on the maturity date. However, prior to the maturity, the Group may convert the notes with the consent of Gainful Fortune.

11. TRADE RECEIVABLES

The distribution of video programmes, film exhibition income and video conversion fee income are on open account terms with credit terms of 30 to 60 days. The sub-licensing of video programme rights are covered by customers' deposits placed with the Group.

The following is an aged analysis of trade receivable at the reporting date:

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
0 — 60 days	14,929	622
61 — 90 days	37	71
Over 90 days	165	853
	15,131	1,546

12. AMOUNTS DUE FROM AND TO RELATED COMPANIES

The amounts are due from and to China Star Entertainment Limited ("China Star") and its subsidiaries (collectively "China Star Group") and are unsecured, non-interest bearing and have no fixed terms of repayment.

China Star is the substantial shareholder of the Company. Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are directors of and have beneficial interests in China Star.

13. TRADE PAYABLES

The following is an aged analysis of accounts payable at the reporting date:

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
0 — 60 days	—	173
Over 90 days	—	31
	—	204

14. SHARE CAPITAL

	Number of shares	Share capital
	<i>'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1st January 2002	1,000,000	100,000
Increase during the period	1,000,000	100,000
At 30th June 2002	2,000,000	200,000
Issued and fully paid:		
At 1st January 2002 and 30th June 2002	475,200	47,520

14. SHARE CAPITAL *(Continued)*

Pursuant to an ordinary resolution passed on 27th May 2002, the authorised share capital of the Company was increased from HK\$100,000,000, comprising 1,000,000,000 shares of HK\$0.1 each to HK\$200,000,000 comprising 2,000,000,000 shares of HK\$0.1 each in the share capital of the Company by the creation of 1,000,000,000 additional new shares of HK\$0.1 each. These new shares rank pari passu in all respects with the existing shares in the share capital of the Company.

Warrants

During the period, the Company issued 95,040,000 warrants by way of bonus to the shareholders on the basis of one warrant carrying the subscription rights of HK\$3.6 per share of HK\$0.1 each in the share capital of the Company for every five shares of HK\$0.1 each in the share capital of the Company held on 27th May 2002. The warrants may be exercised at any time on or after 17th June 2002 up to and including 16th June 2005.

15. CONVERTIBLE NOTES PAYABLE

During the period, the Company issued convertible notes in an aggregate amount of HK\$33.8 million to the China Star Group for the purchase of licensing rights in the PRC and Mongolia in respect of 116 motion pictures. The notes bear interest at 1% per annum which is payable semi-annually in arrears and will mature on 19th April 2005. Prior to the maturity, neither the holder nor the Company has the right to redeem or request for redemption of the notes. The notes carry the right to convert the whole or any part of the outstanding principal amount of the notes into ordinary shares of HK\$0.1 each in the share capital of the Company at HK\$4 per share at any time on or before 19th April 2005, and may be transferred in whole or in part of the outstanding principal amount by the holder.

16. MAJOR NON-CASH TRANSACTIONS

- (a) During the period, the Group sold the hotel and intranet distribution rights in respect of an aggregate of up to 300 motion pictures in the PRC and the entire issued capital of Ocean Shores Licensing Limited to Gainful Fortune at a total consideration of HK\$160 million. The consideration was satisfied by the issue of convertible notes in an aggregate amount of HK\$160 million by Gainful Fortune.
- (b) During the period, the Group purchased licensing rights in the PRC and Mongolia in respect of 116 motion pictures for a term of ten years from 8th April 2002 at a total consideration of HK\$33.8 million from China Star Group. The consideration was settled by the issue of convertible notes in an aggregate amount of HK\$33.8 million by the Company.

17. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group purchased the exclusive rights which included the theatrical rights, video rights and other medium rights (except internet rights) of three movies for a total consideration of HK\$9.1 million from the China Star Group. The consideration was determined at a price agreed between the parties and was set out in the agreements between the Group and China Star Group entered into on 29th November 2001.
- (b) On 5th February 2002, the Group and the China Star Group entered into a licensing agreement pursuant to which the China Star Group granted to the Group the licensing rights in the PRC and Mongolia in respect of 116 motion pictures for a term of ten years from 8th April 2002 at a total consideration of HK\$33.8 million. The consideration was determined based on the valuation report prepared by Adonis Appraisal Limited, an independent firm of professional valuers, dated 31st January 2002. The consideration was settled by the issue of convertible notes in an aggregate amount of HK\$33.8 million by the Company. Details of this transaction are set out in the circular issued by the Company dated 13th March 2002.
- (c) On 5th February 2002, the Group and the China Star Group entered into a territory supply agreement whereby the China Star Group, during the term of three years from 8th April 2002, granted in favour of the Group a first right of refusal to acquire the exclusive distribution rights in respect of each film in the PRC and Mongolia ("Distribution Rights").

Pursuant to the territory supply agreement, the Group paid an amount of HK\$5 million to the China Star Group as a deposit for the grant of the first right of refusal to acquire the Distribution Rights and as security for the licence fees payable under the territory distribution agreements to be entered into. If the Group elects to acquire the Distribution Rights, a territory distribution agreement in respect of the film will be entered into pursuant to which the Group shall pay a licence fee in respect of each film calculated by reference to its grading, ranging between HK\$0.2 million for a grade C film (cost of production not more than HK\$5 million) to HK\$1 million for a grade A++ film (cost of production of at least HK\$30 million). The territory distribution rights in respect of a film will be for a period of ten years. During the period, the Group purchased 3 films Distribution Rights from the China Star Group at a total consideration of approximately HK\$1.7 million pursuant to the territory supply agreement.

17. RELATED PARTY TRANSACTIONS *(Continued)*

- (d) During the period, the Group entered into the following transactions with the China Star Group:

Nature of transactions	30.6.2002	30.6.2001
	HK\$'000	HK\$'000
Interest expense <i>(Note i)</i>	68	—
Video production expense <i>(Note ii)</i>	363	—
Film exhibition income <i>(Note ii)</i>	727	—
Film exhibition expense <i>(Note ii)</i>	482	—

Notes:

- (i) Interest expense was calculated at 1% per annum in accordance with the terms of the convertible notes issued by the Company.
- (ii) The amounts were determined at prices agreed between the parties.
- (e) Details of the amounts due from and to the China Star Group are set out in note 12.
- (f) At 30th June 2002, the Group had interest receivable of approximately HK\$329,000 from an associate. The interest was calculated at 1% per annum in accordance with the terms of the convertible notes issued by the associate.

18. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group disposed of its plants and machinery with a carrying value of approximately HK\$18 million to an independent third party at a total consideration of HK\$4.5 million.

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS RICHE MULTI-MEDIA HOLDINGS LIMITED

(FORMERLY KNOWN AS OCEAN SHORES GROUP LIMITED)

(Incorporated in Bermuda with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 3 to 20.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards ("SAS") 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquires of group management and applying analytical procedures to the interim financial report and, based on thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June 2002.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity for the six months ended 30th June 2001 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 26th September 2002

MANAGEMENT DISCUSSION AND ANALYSIS

The Group achieved a record profit of HK\$11.0 million for the six months ended 30th June 2002 with impressive growth as compared to the loss HK\$3.0 million recorded for the same period last year. Basic earnings per share grew to HK\$2.31 cents from loss HK\$0.96 cents in the comparable 2001 period. Turnover increased by 63% over the first half of 2001 to HK\$42.1 million. This significant growth was due to successfully exploration of new revenue resources.

BUSINESS REVIEW

The Group's three core businesses, namely, distribution of programmes, sales of advertising rights and sub-licensing of programme rights, accounted for 34%, 38% and 28% of the Group's total turnover respectively.

DISTRIBUTION OF PROGRAMMES

For the six months ended 30th June 2002, turnover of distribution of programmes derived from Hong Kong and PRC amounted to HK\$14.5 million, representing a decrease of 11% compared with the same period last year. The first half of 2002 presented a challenging year for the global economy and was particularly difficult for Hong Kong Market. The operating environment remained difficult as the local economy continued to suffer sluggish growth brought about by the downturns in the stock and property markets, prevalent salary cuts and mounting unemployment rates. All these depressing factors in turn led to consumers' reluctance to spend. In spite of these adverse circumstances, the Group succeeded in exploration of new revenue stream and recording a rise in turnover from distribution of programmes in PRC. In line with increasing market demand in PRC, the Group expanded its sales network. Distribution of home video products in PRC contributed the satisfying result at the current period. The acquisition of company in November 2001 enabled the Group to enjoy existing yield.

SALES OF ADVERTISING RIGHTS

Diversification also brought the Group situating at the new spunky market. Over the last six months, advertisement placing on Group's products created new revenue stream. Turnover amounted to HK\$11.6 million at the current period. The performance was excellent. The Group supports this change of marketing strategy that is appropriate to the future development of the Group.

SUB-LICENSING OF PROGRAMME RIGHTS

For the six months ended 30th June 2002, turnover of sub-licensing of programme rights amounted to HK\$16.0 million, representing an increase of 76% compared with the same period last year. The positive impact was derived from the increase of demand from hotel industry in PRC.

LIQUIDITY AND FINANCIAL RESOURCES

At the current period, the authorized share capital of the Company was increased from HK\$100,000,000, comprising 1,000,000,000 shares of HK\$0.1 each to HK\$200,000,000 comprising 2,000,000,000 shares of HK\$0.1 each in the share capital of the Company by the creation of 1,000,000,000 additional new shares of HK\$0.1 each. The Company issued 95,040,000 warrants by way of bonus to the shareholders on the basis of one warrant carrying the subscription rights of HK\$3.6 per share of HK\$0.1 each in the share capital of the Company for every five shares of HK\$0.1 each in the share capital of the Company held on 27th May 2002. The warrants may be exercised at any time on or after 17th June 2002 up to and including 16th June 2005.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Shareholders' fund as at 30th June 2002 was HK\$257.2 million compared from that of HK\$246.3 million as at 31st December 2001, representing an increase of HK\$10.9 million or 4%. The improvements are mainly due to the profit retained for the first half year. The Group had total assets of approximately HK\$386.4 million, comprising non-current assets of approximately HK\$338.1 million and current assets of approximately HK\$48.3 million, which were financed by current liabilities, non-current liabilities and shareholders' funds of approximately HK\$92.7 million, HK\$36.5 million and HK\$257.2 million respectively. Gearing ratio (total interest bearing debt over shareholders' fund) was 13% as at 30th June 2002.

The Group disposed of its entire interest in Ocean Shores Licensing Limited to Gainful Fortune at a consideration of HK\$80 million. Gainful Fortune Limited ("Gainful Fortune") issued convertible notes in an aggregate amount HK\$160 million for the purchase of the hotel and intranet distribution rights in respect of an aggregate of up to 300 motion pictures in the PRC and the entire issued share capital of Ocean Shores Licensing Limited from the Group. The notes bear interest at 1% per annum which is payable yearly in arrears and will mature on 17th April 2005. On completion of the disposal of Ocean Shores Licensing Limited on 17th April 2002, the Group subscribed 40 issued shares of HK\$1 each in the share capital of Gainful Fortune at a par value of HK\$1, which represent 40% of the enlarged issued share capital of Gainful Fortune. These transactions were effected in order to generate other future opportunities for the Group in the North American video entertainment and multi-media market.

The Group maintained a solid financial position with no bank borrowings and cash on hand of over HK\$8.1 million as at the 30th June 2002. As most of the retained cash was placed in Hong Kong Dollar with major banks in the Hong Kong, exposure to exchange fluctuations has been minimal.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

During the period, the Group and China Star Group entered into a licensing agreement pursuant to which China Star Group conditionally agreed to grant to the Group the licensing rights in the PRC (except Hong Kong, Macau and Taiwan) and Mongolia in respect of 116 movies for a term of 10 years from the date of completion of the licensing agreement at a total consideration of HK\$33.8 million. The consideration would be settled by the issue of convertible notes with principal amount of HK\$33.8 million by the Company.

The convertible notes bear interest at 1% per annum which will be payable semi-annually in arrears. The convertible notes will mature on three years from the date of the issue of the convertible notes and are redeemable only on the maturity date. The convertible notes carry the right at any time between the issue date and maturity to convert the whole or any part of the outstanding principal amount of the convertible notes into the Company's share at a conversion price of HK\$4 per share.

The Group finances its operations with internally generated resources and believes that it has a very healthy financial position.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2002, the Group employed approximately 17 full time management, administrative and production staff in Hong Kong. The Group follows market practice on remuneration packages. Employee's remuneration is reviewed and determined by senior management annually depending on the employee's performance, experience and industry practice. The Group also has a share option scheme whereby qualifying employees may be granted options to acquire shares of the Company.

PROSPECTS

To achieve business success against the backdrop of globalization, it is important to establish an innovative business model and adopt a cost effective and high value-added product mix. As such, the Group started to implement a restructuring exercise during the past year in order to reduce its operating costs, selling expenses and administrative expenses. The efforts were also made to explore new markets. As a result, the Group has successfully set foot in the video market of the PRC. Besides, it has also diverted its business focus onto developing the media business. Accordingly, the Company was renamed as Riche Multi-Media Holdings Limited in May 2002 to reflect its future directions and market positioning.

Taking into account the orders and sales contracts placed by customers for delivery in the third and fourth quarters of 2002, it is expected that the business of the Group will continue to prosper in the second half. Therefore the Group is confident that its growth rate for the second half will remain as strong as that for the first half. The expected robust sales are mainly derived from the PRC. Under the challenging economic environment, the Group's brilliant management and operating team managed to seek new opportunities and secure a number of advertising contracts for its multi-media products, effectively adding value to these products. While the advertising revenue from such products is far from significant at the beginning stage, the management is optimistic about the long-term profitability of this business segment. What is more, the management considers that this business segment is probably the major driving force for the Group's business growth in the coming quarters.

Besides, the Group has also released a number of movie hits in the first half of the year, including the sci-fi genre "The Wesley's Mysterious File", starring Andy Lau, Rosamund Kwan and Shu Qi.

PROSPECTS *(Continued)*

The strategy of the Group is to expand its existing businesses in mainland China systematically. In the second half of the year, the Group will continue to assess new market potential in a prudent manner, so as to broaden its scope of operation on the mainland within its realm of specialties. It will also strive to increase its market share in such cities it has already established presence to surpass its original target set early in the year.

Last but not least, I would like to express my gratitude to the Directors and other staff of the Group for their dedication and hard work during the past six months, which contributed to the successful results of the Group.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30th June 2002.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 30th June 2002, none of the directors, chief executives and their associates had any interests in the shares and warrants, apart from share options as described below, of the Company and its associated corporations (within the meaning of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the Period were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 21st January 2002, the share option scheme adopted by the Company on 19th January 2000 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further share options can be granted. At 30th June 2002, there were nil and 19,000,000 share options remained outstanding under the Old Scheme and the New Scheme, respectively.

No options were granted to the directors and employees under the Old Scheme during the current period. Particulars of the share options under the New Scheme during the Period is as follows:

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	Closing price of Company's shares	
	At 1st January 2002	Granted during the Period	Exercised/ Lapsed/ Cancelled during the Period	At 30th June 2002				At grant date of options HK\$	At exercise date of options HK\$
Directors									
Mr. Heung Wah Keung	—	475,000	*475,000	0	8th March 2002	8th March 2002 to 7th March 2012	2.60	2.525	—
Ms. Chen Ming Yin, Tiffany	—	475,000	*475,000	0	8th March 2002	8th March 2002 to 7th March 2012	2.60	2.525	—
Mr. Lei Hong Wai	—	4,750,000	—	4,750,000	8th March 2002	8th March 2002 to 7th March 2012	2.60	2.525	—
Total for directors	—	5,700,000	950,000	4,750,000					
Employees									
In aggregate	—	14,250,000	—	14,250,000	8th March 2002	8th March 2002 to 7th March 2012	2.60	2.525	—
Total for employees	—	14,250,000	—	14,250,000					
Share options under New Scheme	—	19,950,000	950,000	19,000,000					

* As at 23rd May 2002, the unexercised share options in number of 475,000 shares ("Options") held by Mr Heung Wah Keung and 475,000 shares ("Options") held by Ms Chen Ming Yin, Tiffany were cancelled.

SHARE OPTION SCHEME *(Continued)*

The fair value of an option on one Riche Multi-Media share granted in the current period measured as at the date of grant of 8th March 2002 was HK\$2.25 on the following assumptions using the Black-Scholes option pricing model:

- Exercise price of HK\$2.60;
- Expected volatility of 90.59% (based on past one year historical share price movement);
- Expected annual dividend yield is nil (based on historical dividend payments);
- Estimated expected life of the options granted is 10 years (the full term of the outstanding option awards and therefore is the maximum entry for this assumption);
and
- Ten-year Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 6.17%;

The result of the Black-Scholes option pricing model can be materially affected by changes in these assumptions so an option's actual value may differ from the estimated fair value of the options due to limitations of the model.

All the options forfeited before expiry of the Plan will be treated as lapsed options which will not be added back to the number of shares available to be issued under the Plan.

As there is no accounting standard in Hong Kong governing the accounting for employee stock option, their cost has not been incorporated in the interim accounts.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the discloseable connected transactions with China Star and its subsidiaries and directors' interest in contracts for the current period are set out in note 17 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the connected transactions as set out in note 17 to the financial statements entered into by the Group were in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the agreement governing such transactions.

Save as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the current period.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2002, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Shareholding interests (Shares)		Total (Shares)	Percentage of issued share capital
	Direct	Deemed		
CSL	183,600,000	—	183,600,000	38.64%
China Star	—	183,600,000	183,600,000	38.64%
Top Vision Management Limited	79,200,000	—	79,200,000	16.67%

Note: The shareholding interests held by China Star in the Company are held indirectly through CSL.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, at 30th June 2002, no other parties were recorded in the register required by the SDI Ordinance to be kept as having an interest of 10% or more of the issued share capital of the Company.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the current period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the accounting period covered by the interim result, except that the non-executive director and the independent non-executive directors of the Company are not appointed for a specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

CORPORATE GOVERNANCE AND OTHER INFORMATION *(Continued)*

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30th June 2002.

By order of the Board

Heung Wah Keung

Chairman

Hong Kong, 26th September 2002