豐采多媒體集團
Riche multi-media

Interim Report 2003

Riche Multi-Media Holdings Limited
豐采多媒體集團有限公司
(Incorporated in Bermuda with limited liability)

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. Chu Wai Man

Board of directors
Mr. Heung Wah Keung *(Chairman)*
Ms. Chen Ming Yin, Tiffany *(Vice Chairman)*
Mr. Lei Hong Wai *(Chief Executive Officer)*
Mr. Tang Chak Lam, Gilbert
(Non-Executive Director)
Mr. Lai Hok Lim *(Non-Executive Director)*

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

Principal banker
Hang Seng Bank
Bank of China (Hong Kong)

Stock code
764

INTERIM RESULT

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, 2003 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, 2003

		Six months ended	
		30.6.2003	30.6.2002
	Notes	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)
Turnover		66,396	42,085
Cost of sales		(30,320)	(13,067)
Gross profit		36,076	29,018
Other operating income		832	393
Administrative expenses		(12,274)	(17,282)
Selling expenses		(129)	(6)
Profit from operations	*4*	24,505	12,123
Finance costs		(169)	(68)
Loss on disposal of a subsidiary		—	(1,100)
Profit before taxation		24,336	10,955
Taxation	*5*	—	—
Net profit for the period		24,336	10,955
Earnings per share	*6*		
Basic		5.12 cents	2.31 cents
Diluted		4.87 cents	2.22 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2003

	Notes	30.6.2003 HK$'000 (unaudited)	31.12.2002 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*7*	**10,435**	10,573
Film rights	*8*	**23,825**	26,172
Other asset	*9*	**56,478**	59,800
Goodwill	*10*	**24,061**	—
Interests in associates	*11*	**160,000**	160,000
Club memberships		**172**	172
Deposit with a related company	*17(a)*	**5,000**	5,000
Deposit for investment		**—**	23,000
		279,971	284,717
Current assets			
Inventories		**1,270**	656
Film rights	*8*	**14,857**	14,857
Film rights deposits	*12*	**4,380**	8,812
Trade receivables	*13*	**25,397**	8,209
Other receivables, prepayments and deposits		**1,073**	4,531
Amounts due from associates		**994**	1,410
Taxation recoverable		**702**	702
Bank balances and cash		**25,276**	7,598
		73,949	46,775
Current liabilities			
Trade payables	*14*	**6,121**	8,503
Other payables and accruals		**1,282**	1,415
Deferred income		**27,620**	43,620
Receipts in advance		**16,889**	56
Obligations under a finance lease — amount due within one year		**23**	24
Taxation		**22,238**	22,238
Bank overdrafts		**—**	214
		74,173	76,070
Net current liabilities		**(224)**	(29,295)
		279,747	255,422

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

At 30th June, 2003

	Notes	30.6.2003 *HK$'000* (unaudited)	31.12.2002 *HK$'000* (audited)
Capital and reserves			
Share capital	*15*	47,520	47,520
Reserves		196,920	172,584
		244,440	220,104
Non-current liabilities			
Obligations under a finance lease			
— amount due after one year		20	31
Deferred taxation		1,487	1,487
Convertible notes payable		33,800	33,800
		35,307	35,318
		279,747	255,422

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2003

	Share capital	Share premium	Capital reserve	Properties revaluation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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 and 1st July, 2002	47,520	186,682	19,834	5,525	(2,343)	257,218
Revaluation deficit on leasehold land and buildings not recognised in the consolidated income statement	—	—	—	(874)	—	(874)
Net loss for the period	—	—	—	—	(36,240)	(36,240)
At 31st December, 2002 and 1st January, 2003	47,520	186,682	19,834	4,651	(38,583)	220,104
Net profit for the period	—	—	—	—	24,336	24,336
At 30th June, 2003	**47,520**	**186,682**	**19,834**	**4,651**	**(14,247)**	**244,440**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2003

	Six months ended	
	30.6.2003	30.6.2002
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	20,148	(24,129)
Net cash (used in) from investing activities	(2,074)	4,426
Net cash used in financing activities	(182)	(9)
Net increase (decrease) in cash and cash equivalents	17,892	(19,712)
Cash and cash equivalents at beginning of period	7,384	27,770
Cash and cash equivalents at end of period	25,276	8,058
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	25,276	8,058

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2003

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") No. 25 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of the leasehold land and buildings and film rights.

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, 2002 except as described below.

(a) Additional accounting policy resulted from the acquisition of subsidiaries during the period

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

(b) Adoption of revised SSAP

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountant. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. In previous years, partial provision, if any, was made for deferred taxation using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(b) Adoption of revised SSAP *(Continued)*

The Group's accounting policy for taxation following the adoption of SSAP 12 (Revised) is set out below:

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SEGMENT INFORMATION

Business segments

Six months ended 30th June, 2003

	Distribution HK$'000	Sub-licensing HK$'000	Sales of advertising rights HK$'000	Consolidated HK$'000
Turnover	40,774	24,478	1,144	66,396
Segment profit before amortisation of other asset	19,334	8,457	795	28,586
Amortisation of other asset	—	(3,322)	—	(3,322)
Segment profit	19,334	5,135	795	25,264
Unallocated corporate expenses				(759)
Profit from operations				24,505
Finance costs				(169)
Profit before taxation				24,336
Taxation				—
Net profit for the period				24,336

Six months ended 30th June, 2002

	Distribution HK$'000	Sub-licensing HK$'000	Sales of advertising rights HK$'000	Consolidated HK$'000
Turnover	14,485	16,000	11,600	42,085
Segment profit before amortisation of other asset	686	9,454	9,332	19,472
Amortisation of other asset	—	(4,758)	—	(4,758)
Segment profit	686	4,696	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)*

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		Segment (loss) profit	
	Six months ended		Six months ended	
	30.6.2003	30.6.2002	30.6.2003	30.6.2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong and Macau	1,478	11,709	(993)	(456)
The People's Republic of China excluding Hong Kong, Macau and Taiwan (the "PRC")	64,918	30,376	26,257	15,170
	66,396	42,085	25,264	14,714
Unallocated corporate expenses			(759)	(2,591)
Profit from operations			24,505	12,123

4. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2003	30.6.2002
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging (crediting):		
Amortisation of film rights (included in cost of sales)	23,193	10,209
Amortisation of goodwill (included in administrative expenses)	1,266	—
Amortisation of other asset (included in administrative expenses)	3,322	4,758
Allowance for bad and doubtful debts	—	617
Cost of inventories (included in cost of sales)	3,054	2,858
Depreciation and amortisation of property, plant and equipment:		
— owned assets	613	1,558
— leased assets	6	8
	619	1,566
Inventory written off (included in cost of sales)	484	—
Loss on disposal of property, plant and equipment	—	935
Contributions to retirement benefits scheme	108	69
Salaries and other allowances	3,481	3,675
Total staff costs	3,589	3,744
Interest income from bank deposits	(35)	(62)
Interest income from convertible notes	(794)	(329)

5. TAXATION

No provision for Hong Kong Profits Tax has been made for the period since the Group has no estimated assessable profits.

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

6. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2003	30.6.2002
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic earnings per share (net profit for the period)	24,336	10,955
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	168	68
Adjustment to interest on convertible notes issued by an associate based on dilution of their earnings per share	(794)	(329)
Earnings for the purpose of diluted earnings per share	23,710	10,694

	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	475,200	475,200
Effect of dilutive potential ordinary shares:		
Share options	3,324	2,122
Convertible notes	8,450	3,408
Weighted average number of ordinary shares for the purposes of diluted earnings per share	486,974	480,730

The computation of diluted earnings per share for both periods 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.

7. PROPERTY, PLANT AND EQUIPMENT

	HK$'000
COST OR VALUATION	
At 1st January, 2003	13,726
Acquisition of a subsidiary	150
Additions	331
At 30th June, 2003	14,207
DEPRECIATION	
At 1st January, 2003	3,153
Provided for the period	619
At 30th June, 2003	3,772
NET BOOK VALUES	
At 30th June, 2003	10,435
At 31st December, 2002	10,573

At 30th June, 2003, 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, 2003	108,723
Additions	20,846
At 30th June, 2003	129,569
AMORTISATION AND IMPAIRMENT	
At 1st January, 2003	67,694
Amortisation charged for the period	23,193
At 30th June, 2003	90,887
CARRYING AMOUNTS	
At 30th June, 2003	38,682
At 31st December, 2002	41,029

8. FILM RIGHTS *(Continued)*

	30.6.2003 HK$'000	31.12.2002 HK$'000
Analysed as:		
Non-current portion of film rights	23,825	26,172
Current portion of film rights	14,857	14,857
	38,682	41,029

In the opinion of the directors, the carrying value of the Group's film rights as at 30th June, 2003 did not exceed its recoverable amount.

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, 2003 did not exceed its recoverable amount.

10. GOODWILL

	HK$'000
COST	
Arising on acquisition of subsidiaries during the period and at 30th June, 2003	25,327
AMORTISATION	
Provided for the period	1,266
CARRYING VALUE	
At 30th June, 2003	24,061

The amortisation period adopted for goodwill is 10 years.

11. INTERESTS IN ASSOCIATES

	THE GROUP	
	30.6.2003 HK$'000	31.12.2002 HK$'000
Convertible notes issued by an associate	160,000	160,000

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 Limited ("Gainful") 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 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.

12. FILM RIGHTS DEPOSITS

Included in the amount is an aggregate deposit of approximately HK$3,060,000 paid to China Star Entertainment Limited ("China Star") and its subsidiaries (collectively "China Star Group").

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 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:

	30.6.2003	31.12.2002
	HK$'000	*HK$'000*
0 — 60 days	23,454	8,209
61 — 90 days	218	—
Over 90 days	1,725	—
	25,397	8,209

14. TRADE PAYABLES

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

	30.6.2003	31.12.2002
	HK$'000	*HK$'000*
China Star Group:		
0 — 60 days	4,818	3,134
61 — 90 days	93	2,180
Over 90 days	830	3,189
	5,741	8,503
Others:		
0 — 60 days	380	—
	6,121	8,503

15. SHARE CAPITAL

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary shares of HK$0.1 each		
Authorised:		
At 1st January, 2003 and 30th June, 2003	2,000,000	200,000
Issued and fully paid:		
At 1st January, 2003 and 30th June, 2003	475,200	47,520

There was no movement in the Company's share capital during the period.

16. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2002, the Group sold the hotel and intranet distribution rights in the PRC in respect of an aggregate of up to 300 motion pictures for a total consideration of HK$80 million. The consideration was satisfied by the issued of convertible notes in an aggregate amount of HK$80 million by Gainful. The Group delivered 200 and 100 motion pictures to Gainful and recognised a realised profit of approximately HK$36,380,000 and HK$16,000,000 during the year ended 31st December, 2002 and the six months ended 30th June, 2003 respectively.

17. RELATED PARTY TRANSACTIONS

(a) 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 excluding the theatrical rights in respect of each film in the PRC and Mongolia ("Distribution Rights") and an option to acquire the theatrical 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. In relation to the option to acquire the theatrical rights, the additional license fee shall be equal to the balance of the total income received by the Group in respect of the exploitation of such theatrical rights before payment of any distribution expenses but after deducting a sum equal to 20% of the said total income which shall be retained by the Group.

During the period, the Group purchased 9 (1.1.2002 to 30.6.2002: 3) films' Distribution Rights from the China Star Group at a total consideration of approximately HK$4.6 million (1.1.2002 to 30.6.2002: HK$1.7 million) and paid approximately HK$6.8 million (1.1.2002 to 30.6.2002: nil) additional license fee for the purchase of the theatrical rights pursuant to the relevant territory supply agreements.

(b) The Group entered into a cyber cinema rights supply agreement with the China Star Group pursuant to which the China Star Group agreed to distribute the cyber cinema rights of the films within the PRC for the Group subject to such other terms as may be agreed by the parties to the relevant future distribution agreements to be entered into. In consideration of the provision of services by the China Star Group, the Group would pay the China Star Group distribution commission equivalent to 35% of the total income received by the China Star Group on behalf of the Group. During the period, the Group paid distribution commission of approximately HK$457,000 (1.1.2002 to 30.6.2002: HK$482,000) to the China Star Group pursuant to the distribution agreements.

17. RELATED PARTY TRANSACTIONS *(Continued)*

(c) During the period, the Group entered into the following additional transactions with the China Star Group:

Nature of transactions	1.1.2003 to 30.6.2003 *HK$'000*	1.1.2002 to 30.6.2002 *HK$'000*
Interest expense *(Note i)*	169	68
Video production expense *(Note ii)*	602	363

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 amount was determined at a price agreed between the parties.

(d) During the period, the Group had interest received and receivable of approximately HK$794,000 (1.1.2002 to 30.6.2002: HK$329,000) from Gainful. The interest was calculated at 1% per annum in accordance with the terms of the convertible notes issued by the associate.

(e) During the period, the Group delivered 100 motion pictures to Gainful and recognised a realised profit of approximately HK$16 million (1.1.2002 to 30.6.2002: HK$16 million).

18. ACQUISITION OF SUBSIDIARIES

During the period, the Group acquired 100% of the issued share capital of Legend Rich Limited and its subsidiary for a total cash consideration of HK$26 million. This transaction has been accounted for using the acquisition method of accounting.

The effect of the acquisition is summarised as follows:

	HK$'000
Net assets acquired	673
Goodwill arising on acquisition	25,327
Cash consideration	26,000
Net cash outflow arising on acquisition	
Cash consideration	26,000
Deposit paid	(23,000)
Bank balances and cash acquired	(422)
	2,578

Legend Rich Limited and its subsidiary did not make any significant contribution to the results of the Group during the period.

19. POST BALANCE SHEET EVENTS

(a) Pursuant to a special resolution passed at a special general meeting on 22nd August, 2003, the Company:

(i) cancelled the entire amount of HK$186,682,000 standing to the credit of the share premium account of the Company (the "Share Premium Cancellation"); and

(ii) the credit amount of HK$186,682,000 arising from the Share Premium Cancellation was applied to the contributed surplus account of the Company where it was utilised to eliminate the accumulated losses of the Company of HK$106,579,000 as at 31st December, 2002.

(b) On 3rd July, 2003, the Group entered into a conditional sale and purchase agreement with a third party pursuant to which the Group agreed to purchase 100% of the entire issued share capital of World East Investments Limited at a total consideration of HK$15 million.

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS RICHE MULTI-MEDIA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 2 to 17.

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 No. 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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 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, 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants

26th September, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a very solid performance in the first half of 2003, with turnover increased by 57.8% over the same period of last year to HK$66.4 million and profit increased by 122.2% to HK$24.3 million. Basic earnings per share grew to HK5.12 cents from HK2.31 cents in the comparable 2002 period.

BUSINESS REVIEW

The Group's three core businesses, namely, distribution of programmes, sub-licensing of programme rights and sales of advertising rights, accounted for 61%, 37% and 2% of the Group's total turnover respectively.

Distribution of Programmes

In line with strong demands of audio-visual products and expanding other sales networks such as Carrefour, the Group achieved a record profit with impressive growth in distribution of programmes. The Group has released a number of movie hits for audio-visual products in the first half of the year including "Diva, Ah Hey" starring Charlene Choi, Niki Chow and Shawn Yue, "PTU" starring Simon Yum, "Why Me, Sweetie" starring Louis Koo and Cherrie Ying, "Love For All Seasons" starring Louis Koo and Sammi Cheng, "Honesty" starring Richie Ren and Cecilia Cheung.

For the six months ended 30th June, 2003, turnover of distribution of programmes derived from Hong Kong and PRC amounted to HK$40.8 million, representing an increase of 181% compared with the same period last year.

Sub-licensing of Programme Rights

For the six months ended 30th June, 2003, turnover of sub-licensing of programme rights amounted to HK$24.5 million, representing an increase of 53% compared with the same period of last year.

Sales of Advertising Rights

Over the last six months, turnover of advertisement placing on Group's products amounted to HK$1.1 million, representing a drop of 90% compared with the same period last year. Due to severe atypical respiratory syndrome ("SARS"), most China advertising agency postponed their placing and performance of the sales of advertising rights was unavoidably affected.

FINANCIAL REVIEW

Capital Structure and Treasury Policy

The Group maintains a strong and stable financial position. As at 30th June, 2003, the Group had total assets of approximately HK$353.9 million, comprising non-current assets of approximately HK$280.0 million and current assets of approximately HK$73.9 million, which were financed by current liabilities, non-current liabilities and shareholders' funds of approximately HK$74.2 million, HK$35.3 million and HK$244.4 million respectively. The current ratio improved from 0.61 as at 31st December, 2002 to 0.99. The quick ratio was 0.98 and the debt to equity ratio was 0.45. The debt to equity ratio was calculated by dividing the total liabilities of HK$109.5 million by the total shareholders' equity of HK$244.4 million.

Borrowings

As at 30th June 2003, the Group had outstanding borrowings of approximately HK$33.80 million representing a convertible notes payable to China Star Group which was unsecured, interest bearing at 1% per annum and maturing on 19th April 2005; and HK$0.04 million representing obligations under a finance lease which was secured, interest bearing and maturing on 5th April 2005.

The convertible notes carry the right to convert the whole or any part of the outstanding principal amount of the notes into ordinary shares of HK$0.10 each in the share capital of the Company at HK$4.00 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. Prior to the maturity, neither the holder nor the Company has the right to redeem or request for redemption of the notes.

Contingent Liabilities

As at 30th June, 2003, the Group had no material contingent liabilities.

Foreign Exchange Exposure

As a majority of the Group's monetary assets and liabilities are denominated in Hong Kong dollars, the exchange rate risks of the Group are considered to be minimal.

Pledge and Charge of Group Assets

During the six months ended 30th June, 2003, the Group had not created any mortgage or charge on its assets.

HUMAN RESOURCES

As at 30th June, 2003, the Group has 76 employees (2002: 17) including marketing, management and administrative staffs in Hong Kong and China. The Group offers a competitive remuneration package to its employees, including insurance and medical benefits. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual performance. Staff remunerations for the six months ended 30th June, 2003 were HK$3.5 million. (2002: HK$3.7 million).

ACQUISITION OF A SUBSIDIARY COMPANY

In January 2003, the Group has acquired the entire share capital of a company, Legend Rich Limited that has powerful distribution networks in China, for cash consideration of HK$26 million.

PROSPECTS

With the end of the SARS outbreak in June this year, the Group believes the business environment in the PRC will continue to improve. In line with the signing of Closer Economic Partnership Agreement (CEPA), the Group is set to further expand its distribution network by acquiring Legend Rich Ltd and capture the growth in the PRC's home entertainment market. The Group will also continue to explore other acquisition opportunities to sustain business growth.

For distribution of programmes, capitalizing on the Group's successful experience to distribute the audio-visual products through Carrefour and Trust-Mart last six months, the Group is actively negotiating with large department stores and super-markets to distribute its audio-visual products. For others, the group will implement necessary steps to further expand their business.

The sound economic fundamentals and the positive opportunity in the China market, coupled with the emergence of strong brand effect of the Group, are set to propel the Group to reach a higher business plateau in the second half of this year.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30th June, 2003.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 2003, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(I) Interests in share options

Name	**Capacity**	**No. of underlying shares**
Lei Hong Wai	Beneficial Owner	4,750,000 *(Note 1)*

Note 1: This represents the maximum number of shares issuable upon exercise of the entire options granted on 8th March, 2002 (the "Option").

DIRECTORS' INTERESTS IN SECURITIES *(Continued)*

All the interests disclosed above represent long positions in the shares, underlying shares and debentures of the Company.

Save as disclosed herein, there was no interest recorded in the register kept under section 352 of the SFO as at 30th June, 2003.

SHARE OPTION SCHEME

Category of participants	Date of grant	Exercise price per share HK$	Exercisable period	Outstanding at 1.1.2003 (Number of options)	Granted during the period (Number of options)	Lapsed during the period (Number of options)	Outstanding at 30.6.2003 (Number of options)
Directors	8.3.2002	2.60	8.3.2002 — 7.3.2012 *(Note 1)*	4,750,000	—	—	4,750,000
Employees	8.3.2002	2.60	8.3.2002 — 7.3.2012	14,250,000	—	—	14,250,000
				19,000,000	—	—	19,000,000

Note:

(1) Details of the options granted to the Directors are set out in the section headed "Directors' Interests in Securities".

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the discloseable connected transactions with China Star and its subsidiaries and directors' interests in contracts for the current period are set out in note 17 to the condensed interim 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, 2003, the persons/companies, other than a Director or chief executive of the Company, who had notified the Company of the interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be keep under Section 336 of the SFO were as follows:

Name	Notes	Capacity	Interest in issued shares	Interest in underlying shares	Approximate percentage of the Company's issued share capital
China Star Entertainment Limited	1	Interest of corporation	192,998,000	45,170,000	50.12%
Top Vision Management Limited		Beneficial owner	79,200,000	19,800,000	20.83%
Lucky Star Consultants Limited		Beneficial owner	28,320,000	7,080,000	7.45%
Lau Tung Hoi	2	Interest of corporation	28,320,000	7,080,000	7.45%

Note:

1. These 238,168,000 shares were beneficially owned by First Up Investment Limited and Classical Statute Limited which are the wholly-owned subsidiaries of China Star Entertainment (BVI) Limited. China Star Entertainment Limited is the holding company of China Star Entertainment (BVI) Limited.

2. These 35,400,000 shares are held by Lucky Star Consultants Limited that was wholly owned by Lau Tung Hoi.

Save as disclosed above, at 30th June, 2003, no other parties were recorded in the register required by the SFO to be kept as having an interest of 5% or more of the issued share capital of the Company.

PRACTICE NOTE 19 OF THE LISTING RULES

As at 30th June, 2003, the aggregate amount of advances made by the Group to an associate, namely Gainful Fortune Limited, in the form of convertible notes was HK$160 million, which represents approximately 65% of the net asset value of the Group as set out in its latest unaudited consolidated financial statements for the period ended 30th June, 2003. Particulars of these advances are set out in note 11 to the condensed consolidated financial statements.

PRACTICE NOTE 19 OF THE LISTING RULES *(Continued)*

The unaudited consolidated balance sheet of Gainful Fortune Limited as at 30th June 2003 is as follows:

	HK'000
Non-current assets	122,219
Current assets	14,095
Current liabilities	(4,482)
Net current assets	9,613
Non-current liabilities	(160,000)
Deficiency in shareholders' funds	(28,168)

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 six months ended 30th June 2003.

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.

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, 2003.

By order of the Board

Heung Wah Keung
Chairman

Hong Kong, 26th September, 2003