

Riche always



for you



豐采 多媒體集團
Riche Multi-Media
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

Qualified accountant

Mr. Chan Kin Wah, Billy

Board of directors

Mr. Heung Wah Keung (*Chairman*)
Ms. Chen Ming Yin, Tiffany
(*Vice Chairman*)
Mr. Lei Hong Wai
(*Executive Director*)
Mr. Tang Chak Lam, Gilbert
(*Independent Non-executive Director*)
Mr. Lai Hok Lim
(*Independent 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
Certified Public Accountants

Principal banker

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
Seng Heng Bank Limited

Stock code

764

E-mail Address

enquiry@riche.com.hk

INTERIM RESULTS

The board of directors (“the Board”) of Riche Multi-Media Holdings Limited (“the Company”) present the unaudited condensed consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30th June 2004 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 2004

	Notes	Six months ended	
		30.6.2004 HK\$'000 (unaudited)	30.6.2003 HK\$'000 (unaudited)
Turnover		31,451	66,396
Cost of sales		(24,936)	(30,320)
Gross profit		6,515	36,076
Other operating income		1,046	832
Administrative expenses		(18,495)	(12,274)
Selling expenses		(80)	(129)
Impairment loss recognised in respect of film rights		(2,032)	—
(Loss) profit from operations	4	(13,046)	24,505
Allowance for convertible notes issued by an associate	11(b)	(24,000)	—
Finance costs		(169)	(169)
(Loss) profit before taxation		(37,215)	24,336
Taxation	5	—	—
Net (loss) profit for the period		(37,215)	24,336
(Loss) earnings per share	6		
Basic		(7.83 cents)	5.12 cents
Diluted		(7.83 cents)	4.87 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June 2004

	Notes	30.6.2004 HK\$'000 (unaudited)	31.12.2003 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	7	10,833	11,429
Film rights	8	22,247	22,134
Other asset	9	49,833	53,156
Goodwill	10	34,449	36,425
Interests in associates	11	30,000	160,000
Club memberships		172	172
Deposit with a related company	16(a)	5,000	5,000
		152,534	288,316
Current assets			
Inventories		942	1,469
Convertible notes receivables	11	136,000	—
Film rights	8	2,094	3,986
Film rights deposits		1,059	3,970
Trade receivables	12	44,667	56,502
Other receivables, prepayments and deposits		4,927	9,633
Investments in securities	13	5,644	—
Amounts due from associates		3,851	1,801
Taxation recoverable		—	702
Bank balances and cash		54,150	80,722
		253,334	158,785
Current liabilities			
Trade payables	14	9,820	15,961
Other payables and accruals		3,336	2,469
Deferred income		24,224	22,887
Receipt in advance		11,564	11,613
Obligations under a finance lease — amount due within one year		20	23
Convertible notes payable		33,800	—
Taxation payable		22,664	22,685
		105,428	75,638
Net current assets		147,906	83,147
		300,440	371,463

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)**At 30th June 2004*

	<i>Note</i>	30.6.2004 HK\$'000 (unaudited)	31.12.2003 <i>HK\$'000</i> (audited)
Capital and reserves			
Share capital	15	47,520	47,520
Reserves		252,920	290,135
		300,440	337,655
Non-current liabilities			
Obligations under a finance lease			
— amount due after one year		—	8
Convertible notes payable		—	33,800
		—	33,808
		300,440	371,463

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th June 2004*

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Properties revaluation reserve HK\$'000	(Accumulated losses) retained profits HK\$'000	Total HK\$'000
At 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 and 1st July 2003	47,520	186,682	19,834	—	4,651	(14,247)	244,440
Revaluation surplus on leasehold land and buildings not recognised in the consolidated income statement	—	—	—	—	422	—	422
Cancellation of share premium account and transfer to contributed surplus account	—	(186,682)	—	186,682	—	—	—
Transfer from contributed surplus account to accumulated losses account	—	—	—	(106,579)	—	106,579	—
Net profit for the period	—	—	—	—	—	92,793	92,793
At 31st December 2003 and 1st January 2004	47,520	—	19,834	80,103	5,073	185,125	337,655
Net loss for the period	—	—	—	—	—	(37,215)	(37,215)
At 30th June 2004	47,520	—	19,834	80,103	5,073	147,910	300,440

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th June 2004*

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	8,530	20,148
Net cash used in investing activities		
Investment in an associate	(30,000)	—
Other cash flows	(4,922)	(2,074)
	(34,922)	(2,074)
Net cash used in financing activities	(180)	(182)
Net (decrease) increase in cash and cash equivalents	(26,572)	17,892
Cash and cash equivalents at beginning of period	80,722	7,384
Cash and cash equivalents at end of period	54,150	25,276
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	54,150	25,276

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June 2004

1. **Basis Of Preparation**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting".

2. **Principal Accounting Policies**

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of the leasehold land and buildings and investments in securities.

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 2003. In addition, the Group has adopted the following new accounting policy resulted from the acquisition of trading securities during the period.

Investments In Securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the securities are disposed of or are determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

3. Segment Information

Business segments

Six months ended 30th June 2004

	Distribution HK\$'000	Sub-licensing HK\$'000	Sales of advertising rights HK\$'000	Consolidated HK\$'000
Turnover	19,672	11,779	—	31,451
Segment profit (loss) before amortisation of other asset	3,038	(6,200)	—	(3,162)
Amortisation of other asset	—	(3,323)	—	(3,323)
Segment profit (loss)	3,038	(9,523)	—	(6,485)
Unallocated corporate expenses				(6,561)
Loss from operations				(13,046)
Allowance for convertible notes issued by an associate				(24,000)
Finance costs				(169)
Loss before taxation				(37,215)
Taxation				—
Net loss for the period				(37,215)

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

4. (Loss) Profit From Operations

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
(Loss) profit from operations has been arrived at after charging (crediting):		
Amortisation of film rights (included in cost of sales)	13,593	23,193
Amortisation of goodwill (included in administrative expenses)	1,976	1,266
Amortisation of other asset (included in administrative expenses)	3,323	3,322
Cost of inventories (included in cost of sales)	865	3,054
Depreciation and amortisation of property, plant and equipment:		
— owned assets	678	613
— leased assets	6	6
	684	619
Inventory written off (included in cost of sales)	—	484
Salaries and other allowances	5,185	3,481
Contributions to retirement benefits scheme	85	108
	5,270	3,589
Unrealised loss on investments in securities	459	—
Interest income from bank deposits	(15)	(35)
Interest income from convertible notes receivable	(794)	(794)

5. Taxation

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

6. (Loss) Earnings Per Share

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

	Six months ended	
	30.6.2004 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
(Loss) earnings		
(Loss) earnings for the purposes of basic earnings per share (net (loss) profit for the period)	(37,215)	24,336
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	—	169
Adjustment to interest on convertible notes issued by an associate based on dilution of their earnings per share	—	(794)
<hr/>		
(Loss) earnings for the purpose of diluted earnings per share	(37,215)	23,711
	'000	'000
Number of shares		
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
Convertible notes	—	8,450
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Number of ordinary shares for the purposes of diluted earnings per share	475,200	486,974

The computation of diluted loss per share for the period does not assume the exercise of the Company's warrants, convertible notes payable and share options because the effect of exercising a warrant, a convertible note payable and an option to subscribe for an additional share in the Company would result in a decrease of net loss per share.

The computation of diluted earnings per share for the period from 1st January 2003 to 30th June 2003 did not assume the exercise of the Company's warrants as the exercise price of these warrants were higher than the average market price for shares.

7. Property, Plant And Equipment

	<i>HK\$'000</i>
COST OR VALUATION	
At 1st January 2004	15,786
Additions	88
At 30th June 2004	15,874
DEPRECIATION AND AMORTISATION	
At 1st January 2004	4,357
Provided for the period	684
At 30th June 2004	5,041
NET BOOK VALUES	
At 30th June 2004	10,833
At 31st December 2003	11,429

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 30th June 2004. Consequently, no revaluation surplus or deficit has been recognised in the current period.

8. Film Rights

	<i>HK\$'000</i>	
COST		
At 1st January 2004		163,682
Additions		13,846
At 30th June 2004		177,528
AMORTISATION AND IMPAIRMENT		
At 1st January 2004		137,562
Charged for the period		13,593
Impairment loss recognised		2,032
At 30th June 2004		153,187
CARRYING AMOUNTS		
At 30th June 2004		24,341
At 31st December 2003		26,120
	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Analysed as:		
Non-current portion	22,247	22,134
Current portion	2,094	3,986
	24,341	26,120

9. Other Asset

Other asset represents rights and benefits arising from the licensing agreement with a distributor in the People's Republic of China (the "PRC"). It is amortised over a period of 10 years.

10. Goodwill

HK\$'000

COST

At 1st January 2004 and 30th June 2004	39,530
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AMORTISATION

At 1st January 2004	3,105
Charged for the period	1,976

At 30th June 2004	5,081
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CARRYING VALUE

At 30th June 2004	34,449
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At 31st December 2003	36,425
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The amortisation period adopted for goodwill is 10 years.

11. Interests In Associates

	The Group	
	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Share of net assets in an associate (Note (a))	30,000	—
Convertible notes issued by an associate (Note (b))	160,000	160,000
Less: Allowance for convertible notes issued by an associate	(24,000)	—
	166,000	160,000
Less: Convertible notes due within one year shown under current assets	(136,000)	—
	30,000	160,000

11. Interests In Associates (Continued)

Notes:

- (a) During the period, the Group invested an aggregate amount of HK\$30 million for a 40% equity interest in Rainbow Choice Enterprises Limited, a company which principally engages in production and distribution of entertainment news.
- (b) 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"), an associate of the Group, has the right to redeem early part or all of the amount of the convertible notes. The convertible 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.

As at 30th June 2004, the directors of the Company assessed the financial position of Gainful. The directors of the Company considered that part of convertible notes of HK\$24,000,000 cannot be recovered in the future, therefore, an allowance of HK\$24,000,000 (six months ended 30th June 2003: Nil) has been made in respect of the convertible note issued by Gainful in the current period.

12. Trade Receivables

The granting of distribution rights and sub-licensing of film rights are covered by customers' deposits placed with the Group. The balance is receivable upon delivery of the master materials to customers.

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

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
0 – 30 days	502	42,074
31 – 60 days	6,207	5,387
61 – 90 days	3,919	6,221
Over 90 days	34,039	2,820
	44,667	56,502

13. Investments In Securities

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Trading securities:		
Equity shares listed in Hong Kong, at market value	5,644	—
	5,644	—

14. Trade Payables

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

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
China Star Entertainment Limited, the Company's substantial shareholders, and its subsidiaries (collectively "China Star Group"):		
0 – 30 days	1,160	1,010
31 – 60 days	236	3,834
61 – 90 days	1,252	595
Over 90 days	5,514	8,864
	8,162	14,303
Others:		
0 – 30 days	—	975
61 – 90 days	—	683
Over 90 days	1,658	—
	1,658	1,658
	9,820	15,961

15. Share Capital

	Number of shares <i>'000</i>	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1st January 2004 and 30th June 2004	2,000,000	200,000
Issued and fully paid:		
At 1st January 2004 and 30th June 2004	475,200	47,520

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

16. Related Party Transactions

- (a) On 5th February 2002, the Group and China Star Group entered into a territory supply agreement whereby 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 and internet 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 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, ranging from approximately HK\$0.2 million and HK\$1 million by reference to its grading. The 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.

16. Related Party Transactions (Continued)

During the period, the Group acquired 6 (1.1.2003 to 30.6.2003: 9) films' Distribution Rights from China Star Group at a total consideration of approximately HK\$5.4 million (1.1.2003 to 30.6.2003: HK\$4.6 million) and paid approximately HK\$3.9 million (1.1.2003 to 30.6.2003: HK\$6.8 million) additional license fee for the theatrical rights of 5 films (1.1.2003 to 30.6.2003: 2) pursuant to the relevant territory distribution agreements.

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

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Nature of transactions		
Interest expense (Note i)	169	169
Post-production service expense (Note ii)	1,093	602

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.
- (c) During the period, the Group had interest received and receivable of approximately HK\$794,000 (1.1.2003 to 30.6.2003: HK\$794,000) from Gainful. The interest was calculated at 1% per annum in accordance with the terms of the convertible notes issued by the Gainful.
- (d) During the period, the Group delivered 24 (1.1.2003 to 30.6.2003: 100) motion pictures to Gainful at a total consideration of HK\$6,384,000.

INDEPENDENT REVIEW REPORT

To the Board of Directors of 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 Institute of Certified Public 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 Institute of Certified Public Accountants. A review consists principally of making enquires of group management and applying analytical procedures to the interim financial report and, based 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 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 24th September 2004

MANAGEMENT DISCUSSION AND ANALYSIS

It was a difficult first half-year of the Company in 2004. The introduction of macro economic control measures in the People's Republic of China (the "PRC") has caused negative effect to the Group. Turnover for the six months ended 30th June 2004 was HK\$31,451,000, a decrease of 52.63% compared with the same period in 2003. The decline in turnover was mainly due to a decrease in the number of film rights sub-licensed, the relaxation of foreign films imported into the PRC and the drop in demand for video products in the PRC. The launch of new platforms in the PRC also resulted in an increase in operating costs which finally affected the Group's profit margins. As a result, the Group recorded a loss attributable to shareholders of HK\$37,215,000. Basic loss per share was HK7.83 cents compared with the earnings per shares of HK5.12 cents in 2003 period.

BUSINESS REVIEW

The Operating Review

The Group's three core businesses, namely, distribution of films, sub-licensing of film rights and sales of advertising rights, accounted for 63%, 37% and nil of the Group's total turnover respectively.

Turnover derived from the PRC and Hong Kong & Macau for the six months ended 30th June 2004 accounted for 98% and 2% of the Group's total turnover respectively.

Distribution of Films

Turnover of distribution of films amounted to HK\$19,672,000 for the six months ended 30th June 2004, representing a decrease of 51.75% compared with the same period of last year. The decrease was mainly attributed to the drop in demand for video products resulted from the macro-economic factors in the PRC. The Directors believe that it is temporary and the demand will increase gradually as the economic environment improves.

The Group released a number of movie hits for video products in the first half of the year including "Fantasia" starring Cecilia Cheung, Lau Ching Wan, Louis Koo, Charlene Choi and Gillian Chung, "Itchy Heart" starring Lau Ching Wan, Cherrie Ying and Carina Lau, "Love on the Rocks" starring Louis Koo, Gigi Leung and Charlene Choi, "Driving Miss Wealthy" starring Lau Ching Wan and Gigi Leung.

BUSINESS REVIEW *(Continued)*

Sub-licensing of Films Rights

For the six months ended 30th June 2004, turnover of sub-licensing of films rights amounted to HK\$11,779,000, representing a decrease of 51.88% compared with the same period of last year. The decrease was mainly attributed to a decrease in the number of film rights sub-licensed for hotel and intranet use from 100 for the six months ended 30th June 2003 to 24 in the current period. Also, the Chinese first tier cinemas have strong preference for releasing Hollywood films. The relaxation of foreign films imported into the PRC has an impact on releasing our films in cinema as Hong Kong films have to give way to Hollywood films. The Group is currently working with PRC distributors to look for opportunities in releasing our films in second tier cinemas in the PRC.

As the business of our associated company, Gainful Fortune Limited ("Gainful"), is still at the development stage in respect of the hotel and intranet business, no contribution has been made to the Group by Gainful in the first half of 2004.

Related to the broadcasting the Group's films in the provincial terrestrial free television stations in the PRC, the Group broadcasted approximately 24 films in the first half of 2004 and successfully launched our brand name to Chinese audiences. Owing to its first year's operation, the business did not contributed positively to our books.

Sales of Advertising Rights

In view of the poor and stagnant business environment and keen competition of the advertising industry in the PRC, the Group performed a cost and benefit analysis on its video advertising business and decided to temporarily suspend the business. The Group is currently working on developing new advertising platforms in order to generate advertising revenue for its films.

PROSPECTS

The Group expects the economy will rebound and maintain a stable growth after the implementation of macro-economic regulatory measures in the PRC in the second half of 2004. The temporary drop in demand for video products will be recovered and the value of films rights should be gradually revert to reasonable level. With further backing by CEPA and expanding cable and satellite broadcasting markets in the PRC, the Group will distribute more films to Chinese audience.

PROSPECTS *(Continued)*

There have been recent high profile discussions between the PRC Central Government and HKSAR Government over a combined policy against pirated DVDs/VCDs that create a sound business environment and the Group will share the fruitful rewards from the rapid development of entertainment market in the PRC. Looking forward, the Group will further focus on developing other platforms with proven quality and huge growth return potential with an objective of bringing quality films for our customers.

THE FINANCIAL REVIEW

Liquidity and Financial Resources

The Group maintains a strong and stable financial position. At 30th June 2004, the Group had total assets of HK\$405,868,000, comprising non-current assets of HK\$152,534,000 and current assets of HK\$253,334,000, which were financed by current liabilities and shareholders' funds of HK\$105,428,000 and HK\$300,440,000 respectively.

During the six months ended 30th June 2004, the Group funded its operations mainly from cash generated from operations. At 30th June 2004, the Group's material sources of unutilised liquidity are bank balances and cash amounting to HK\$54,150,000, which were denominated in Hong Kong dollars.

The current ratio improved from 0.99 at 30th June 2003 to 2.40. The improvement on the current ratio was mainly attributed to the re-classification of convertible notes receivables of HK\$136,000,000 from non-current assets to current assets. The Group expresses its gearing ratio as a percentage of total borrowings over total shareholders' equity. At 30th June 2004, the Group's gearing ratio was 0.11 (2003: 0.14).

Borrowings and Banking Facilities

At 30th June 2004, the Group's total borrowings were HK\$33,820,000 of which HK\$33,800,000 representing convertible notes payable to First-Up Investments Limited, a wholly-owned subsidiary of China Star Entertainment Limited, which was unsecured, interest bearing at 1% per annum and maturing on 19th April 2005 and HK\$20,000 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 of the notes. Prior to the maturity, neither the holder of the notes nor the Company has the right to redeem or request for redemption of the notes.

THE FINANCIAL REVIEW *(Continued)*

Treasury Policies

The Group adopts a set of treasury policies to ensure a well-balance between cash and listed securities in order to generate an adequate return on Group's assets.

Foreign Exchange Exposure

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars, the exchange rate risks of the Group are considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by the Group.

Signed Distribution Agreements

At 30th June 2004, the Group had approximately HK\$42,920,000 worth of signed distribution agreements in its order books. Delivery of these distribution agreements is expected to be completed in six months.

Incorporation of Associated Company

In March 2004, the Group entered into a shareholders' agreement with an independent third party relating to Rainbow Choice Enterprises Limited ("Rainbow Choice") and held 40% issued shares of the Rainbow Choice for a consideration of HK\$30,000,000. The principal business of the Rainbow Choice is the production and distribution of entertainment news programme in the PRC.

Pledge and Charge of Group Assets

Neither the Company nor any of its subsidiaries had any pledge or charge of the assets at 30th June 2004.

Contingent liabilities

At 30th June 2004, the Group had no material contingent liabilities.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30th June 2004 (2003: Nil).

HUMAN RESOURCES

At 30th June 2004, the Group employed 26 staff (2003: 15 staff). Total staff costs (including directors' remuneration) amounted to HK\$3,163,000 for the six months ended 30th June 2004 (2003: HK\$2,328,000). Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include medical scheme and share options.

In addition to staff costs incurred in relation to the above staff, the Group also bears the staffing costs of 56 people (2003: 61) who work for 天津市星匯音像制品銷售有限公司(Tianjin Xinghui) and 上海昇平文化發展有限公司(Shanghai Shengping) pursuant to the Group's sub-distributor or agency arrangements (as the case may be) with them.

Total staff costs for Tianjin Xinghui and Shanghai Shengping amounted to HK\$2,107,000 for the six months ended 30th June 2004 (2003: HK\$1,261,000).

DIRECTORS' INTERESTS IN SECURITIES

At 30th June 2004, the interests of the Directors, their associates 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	Nature of interest	No. of underlying shares
Mr. Lei Hong Wai	Beneficial Owner	4,750,000 (Note)

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

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

Save as disclosed above, at 30th June 2004, none of the directors nor their associates had any long or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' INTERESTS IN SECURITIES (Continued)

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or the spouse or children under 18 years of age of such director, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate or had exercised any right to subscribe for the securities or had exercised any such rights.

SHARE OPTION SCHEME

Details of share options to subscribe for shares in the Company granted to participants under the share option schemes of the Company during the six months ended 30th June 2004 were as follows:

Category of participants	Date of grant	Exercise price per share HK\$	Exercisable period (Note i)	Outstanding at 1.1.2001	Granted during 2002	Cancelled during 2002	Outstanding at
							30.6.2003 and 30.6.2004
Directors	8.3.2002	2.6	8.3.2002 — 7.3.2012	—	5,700,000	(950,000)	4,750,000
Employees	8.3.2002	2.6	8.3.2002 — 7.3.2012	—	14,250,000	—	14,250,000
				—	19,950,000	(950,000)	19,000,000

Notes:

- (i) The exercisable period commenced on the date of grant of the relevant share options.
- (ii) No share option was granted and exercised during the six months ended 30th June 2004.

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 16 to the condensed financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the connected transactions as set out in note 16 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.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

(Continued)

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

At 30th June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of the relevant interests or short positions in the shares and underlying shares of the Company:

Long positions

Name	Notes	Capacity	Interest in Shares	Interest in underlying Shares	Total interest in Shares	Percentage of the issued capital of the Company
China Star Entertainment Limited	1	Interest of corporation	192,998,000	45,170,000	238,168,000	50.12%
China Star Entertainment (BVI) Limited	1	Interest of corporation	192,998,000	45,170,000	238,168,000	50.12%
Classical Statue Limited	1	Beneficial owner	192,998,000	36,720,000	229,718,000	48.34%
First-Up Investments Limited	1	Beneficial owner	—	8,450,000	8,450,000	1.78%
Top Vision Management Limited	2	Beneficial owner	79,200,000	15,840,000	95,040,000	20.00%
Mr. Chan Kam Sum	2	Interest of corporation	79,200,000	15,840,000	95,040,000	20.00%
Lucky Star Consultants Limited	3	Beneficial owner	28,320,000	7,080,000	35,400,000	7.45%
Mr. Lau Tung Hoi	3	Interest of corporation	28,320,000	7,080,000	35,400,000	7.45%

SUBSTANTIAL SHAREHOLDERS *(Continued)***Short positions**

Name	Notes	Capacity	Interest in Shares	Interest in underlying Shares	Total interest in Shares	Percentage of the issued capital of the Company
Top Vision Management Limited	4	Beneficial owner	42,000,000	—	42,000,000	8.83%
Mr. Chan Kam Sum	4	Interest of corporation	42,000,000	—	42,000,000	8.83%

Notes:

- 192,998,000 Shares and 36,720,000 underlying Shares are beneficially owned by Classical Statue Limited. 8,450,000 underlying Shares are beneficially owned by First-Up Investments Limited. Both Classical Statue Limited and First-Up Investments Limited are the wholly-owned subsidiaries of China Star Entertainment (BVI) Limited. China Star Entertainment (BVI) Limited is a wholly-owned subsidiary of China Star Entertainment Limited. China Star Entertainment Limited and China Star Entertainment (BVI) Limited are deemed to be interested in shares owned by Classical Statue Limited and First-Up Investments Limited.
- 79,200,000 Shares and 15,840,000 underlying Shares are held by Top Vision Management Limited, which is wholly-owned by Mr. Chan Kam Sum.
- 28,320,000 Shares and 7,080,000 underlying Shares are held by Lucky Star Consultants Limited, which is wholly-owned by Mr. Lau Tung Hoi.
- 42,000,000 Shares for short positions are held by Top Vision Management Limited, which is wholly-owned by Mr. Chan Kam Sum.

Save as disclosed above, at 30th June 2004, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company.

PRACTICE NOTE 19 OF THE LISTING RULES

At 30th June 2004, the amount of advances after allowances made by the Group to an associate, namely Gainful Fortune Limited, in the form of convertible notes was HK\$136 million, which represents approximately 45% of the net asset value of the Group as set out in its latest unaudited consolidated financial statements for the period ended 30th June 2004. Particulars of these advances are set out in note 11 to the condensed consolidated financial statements.

The unaudited consolidated balance sheet of Gainful Fortune Limited as at 30th June 2004 is as follows:

	<i>HK'000</i>
Non-current assets	102,454
Current assets	53,836
Current liabilities	(16,239)
Net current assets	37,597
Non-current liabilities	(160,000)
Deficiency in shareholders' funds	(19,949)

PURCHASE, SALE AND REDEMPTION OF THE COMPANY 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 2004.

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 reelection at the annual general meeting in accordance with the Company's articles of association.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee of the Company were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Audit Committee of the Company comprises two independent non-executive directors, namely Mr. Lai Hok Lim, the Chairman, and Mr. Tang Chak Lam, Gilbert. The unaudited interim report for the six months ended 30th June 2004 now reported on had been reviewed and discussed the financial related matters with management by the Audit Committee. At the request of the Directors, the Group's external auditors have carried out a review of the interim financial statements in accordance with Statement of Auditing Standards 700 issued by HKICPA.

For the six months period to 30th June 2004, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30th June 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

RESIGNATION OF CHIEF EXECUTIVE OFFICER

Mr. Lei Hong Wai has tendered his resignation as Chief Executive Officer of the Group with effect from 24th September 2004. Mr. Lei Hong Wai will remain as an Executive Director of the Company. Mr. Lei Hong Wai has confirmed that he has no disagreement with the Board and there is no matter which needs to be brought to the attention of the shareholders of the Company.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my gratitude and appreciation to my fellow directors, the management and staff for their dedication, loyalty and contribution. In addition, I would like to thank our shareholders for their continuous support.

By order of the Board

Heung Wah Keung
Chairman

Hong Kong, 24th September 2004