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)


# INTERIM REPORT 2005

# Corporate Information

## Board of Directors

### *Executive Directors*

Mr. Heung Wah Keung *(Chairman)*
Ms. Chen Ming Yin, Tiffany
*(Vice Chairman)*
Mr. Lei Hong Wai

### *Independent Non-executive Directors*

Mr. Tang Chak Lam, Gilbert
Mr. Lien Wai Hung
Mr. Ho Wai Chi, Paul

## Company Secretary

Mr. Chan Kin Wah, Billy

## Audit Committee

Mr. Tang Chak Lam, Gilbert
Mr. Lien Wai Hung
Mr. Ho Wai Chi, Paul

## Remuneration Committee

Ms. Chen Ming Yin, Tiffany
Mr. Tang Chak Lam, Gilbert
Mr. Lien Wai Hung

## Nomination Committee

Mr. Heung Wah Keung
Mr. Tang Chak Lam, Gilbert
Mr. Lien Wai Hung

## Finance Committee

Mr. Heung Wah Keung
Mr. Lei Hong Wai
Mr. Ho Wai Chi, Paul

## 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
Hong Kong

## Principal Share Register and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

## Hong Kong Branch Share Registar and Transfer Office

Standard Registrars Limited

## Auditors

HLB Hodgson Impey Cheng
*Chartered Accountants*
*Certified Public Accountants*

## Principal Bankers

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") presents the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 together with the comparative figures as follows:

## Condensed Consolidated Income Statement

| | Notes | Six months ended 30 June **2005** ***HK$'000*** **(Unaudited)** | 2004 *HK$'000* (Unaudited) |
|---|---|---|---|
| Turnover | *3* | **31,573** | 31,451 |
| Cost of sales | | **(29,784)** | (24,936) |
| Gross profit | | **1,789** | 6,515 |
| Other operating income | | **536** | 1,046 |
| Administrative expenses | | **(9,763)** | (18,495) |
| Selling expenses | | **(29)** | (80) |
| Impairment loss recognised in respect of film rights | | **—** | (2,032) |
| Impairment loss recognised in respect of goodwill | | **(7,656)** | — |
| Loss from operations | *4* | **(15,123)** | (13,046) |
| Allowance for convertible notes issued by an associate | | **—** | (24,000) |
| Finance costs | | **(142)** | (169) |
| Loss before taxation | | **(15,265)** | (37,215) |
| Taxation | *5* | **—** | — |
| Loss for the period | | **(15,265)** | (37,215) |
| Loss per share — Basic and diluted | *6* | **(0.32 cents)** | (0.78 cents) |

All of the Company's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

## Condensed Consolidated Balance Sheet

| | Notes | At 30 June 2005 HK$'000 (Unaudited) | At 31 December 2004 HK$'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *7* | **11,380** | 11,808 |
| Film rights | *8* | **8,602** | 9,236 |
| Goodwill | *9* | **4,400** | 4,400 |
| Interests in associates | *10* | **—** | — |
| Club memberships | | **172** | 172 |
| | | **24,554** | 25,616 |
| **CURRENT ASSETS** | | | |
| Inventories | | **6** | 15 |
| Film rights | *8* | **702** | 1,105 |
| Film rights deposits | | **14** | 14 |
| Trade receivables | *11* | **10,539** | 23,308 |
| Deposits, prepayments and other receivables | *12* | **51,248** | 4,584 |
| Deposit with a related company | | **—** | 5,000 |
| Financial assets at fair value through profit or loss | *13* | **10,900** | 18,000 |
| Available-for-sale financial assets | *14* | **21,801** | 41,732 |
| Amount due from an associate | | **—** | 300 |
| Bank balances and cash | | **3,669** | 15,460 |
| | | **98,879** | 109,518 |

## Condensed Consolidated Balance Sheet *(Continued)*

| | Notes | **At 30 June 2005 HK$'000 (Unaudited)** | At 31 December 2004 HK$'000 (Audited) |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade payables | 15 | **181** | 1,983 |
| Accruals and other payables | | **9,551** | 3,797 |
| Receipt in advance | | **485** | 1,204 |
| Obligations under a finance lease — amount due within one year | | **—** | 8 |
| Amount due to a related company | 16 | **33,800** | 549 |
| Held-to-maturity financial liability | | **—** | 33,800 |
| Taxation payable | | **23,131** | 22,969 |
| | | **67,148** | 64,310 |
| **NET CURRENT ASSETS** | | **31,731** | 45,208 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **56,285** | 70,824 |
| **EQUITY** | | | |
| Share capital | 17 | **47,540** | 47,520 |
| Reserves | | **8,745** | 23,304 |
| **SHAREHOLDERS' FUNDS** | | **56,285** | 70,824 |

The accompanying notes form an integral part of these financial statements.

## Condensed Consolidated Statement of Changes in Equity

| | Share capital HK$'000 (Unaudited) | Share premium HK$'000 (Unaudited) | Capital reserve HK$'000 (Unaudited) | Contributed surplus HK$'000 (Unaudited) | Properties revaluation reserve HK$'000 (Unaudited) | (Accumulated losses)/ retained profits HK$'000 (Unaudited) | Total HK$'000 (Unaudited) |
|---|---|---|---|---|---|---|---|
| At 1 January 2004 | 47,520 | — | 19,834 | 80,103 | 5,073 | 185,125 | 337,655 |
| Loss for the period | — | — | — | — | — | (37,215) | (37,215) |
| At 30 June 2004 | 47,520 | — | 19,834 | 80,103 | 5,073 | 147,910 | 300,440 |
| At 1 January 2005 | 47,520 | — | 19,834 | 80,103 | 6,632 | (83,265) | 70,824 |
| Issuance of new shares *(Note 17)* | 20 | 706 | — | — | — | — | 726 |
| Loss for the period | — | — | — | — | — | (15,265) | (15,265) |
| **At 30 June 2005** | **47,540** | **706** | **19,834** | **80,103** | **6,632** | **(98,530)** | **56,285** |

The accompanying notes form an integral part of these financial statements.

## Condensed Consolidated Cash Flow Statement

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Net cash (used in)/generated from operating activities | | **(13,177)** | 8,530 |
| Net cash generated from/(used in) investing activities | | | |
| Addition to property, plant and equipment | 7 | **(13)** | — |
| Investment in an associate | | **—** | (30,000) |
| Other cash flows | | **823** | (4,922) |
| | | **810** | (34,922) |
| Net cash generated from/(used in) financing activities | | **576** | (180) |
| Net decrease in cash and cash equivalents | | **(11,791)** | (26,572) |
| Cash and cash equivalents at beginning of period | | **15,460** | 80,722 |
| Cash and cash equivalents at end of period | | **3,669** | 54,150 |
| Analysis of the balances of cash and cash equivalents | | | |
| Bank balances and cash | | **3,669** | 54,150 |

The accompany notes from an integral part of these financial statements.

## Notes to the Condensed Consolidated Financial Statements

### 1. Basis of Preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA") and 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.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the 2004 annual financial statements.

### 2. Summary of Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004 except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also includes HKASs and Interpretations) which are generally effective and are relevant to the Group's operations for accounting periods beginning on or after 1 January 2005 and are adopted the first time by the Group for the current period's financial statements:

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings Per Share |
| HKAS 34 | Interim Financial Reporting |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS-INT 21 | Income Taxes — Recovery of Revalued Non-Depreciable Assets |
| HKFRS 2 | Share-based Payment |
| HKFRS 3 | Business Combination |

**2. Summary of Significant Accounting Policies** *(Continued)*

The adoption of the above HKFRSs has no material impact on the accounting policies and the results and financial position of the Group, except the followings:

***HKAS 39 — Financial Instruments: Recognition and Measurement***

In prior periods, the Group classified its investments in short-term debt securities as short term investments which were not intended to be held on a continuing basis and those investments were stated at fair values at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of debt securities are credited or charged to the income statement in the period in which they arose.

Upon the adoption of HKAS 39, the Group classifies its financial assets, including investments, in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

*(a) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months from the balance sheet date.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are included in non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

*(c) Held-to-maturity investments/liabilities*

Held-to-maturity investments/liabilities are non-derivative financial assets/liabilities with fixed or determinable payments and fixed maturities that the Group's management has positive intention and ability to hold to maturity.

## 2. Summary of Significant Accounting Policies *(Continued)*

***HKAS 39 — Financial Instruments: Recognition and Measurement*** *(Continued)*

*(d) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose the investment within 12 months from the balance sheet date.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred to another entity and the Group has transferred substantially all risks and rewards of ownership to another entity. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" are included in the income statement in the period in which they arise. Unrealised gains or losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair value of quoted investments are based on current bid prices in active markets. If the market for a financial asset (and for unlisted securities) is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and the use of the discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at costs.

## 2. Summary of Significant Accounting Policies *(Continued)*

***HKAS 39 — Financial Instruments: Recognition and Measurement*** *(Continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is a crucial factor in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

***HKFRS 2 — Share-Based Payment***

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payment. With effect from 1 January 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in an option reserve. The related option reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights.

As transitional provision set out in HKFRS 2, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 shall expense retrospectively in the income statement of the respective periods. The Group has taken the advantages of the transitional provisions under which all of the Company's outstanding share options granted after 7 November 2002 were all vested at the date of granting the share options. As a result, the adoption of HKFRS 2 does not have material impact of the Group's financial position for the period ended 30 June 2005.

***HKFRS 3 — Business Combinations***

The adoption of HKFRS 3 has resulted in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31 December 2004, positive goodwill was amortised on a straight-line basis over its useful economic life and was subject to impairment testing when there was indication of impairment. In accordance with the provision of HKFRS 3, the Group ceased amortisation of positive goodwill from 1 January 2005. The accumulated amortisation as at 31 December 2004 has been deducted from the cost of positive goodwill. From the year ending 31 December 2005 onwards, positive goodwill will be tested annually for impairment, as well as when there is indication of impairment.

## 3. Segment Information

### *(a) Business Segments*

**Six months ended 30 June 2005**

| | Distribution<br>*HK$'000*<br>(Unaudited) | Sub-licensing<br>*HK$'000*<br>(Unaudited) | Sales of available-for-sale financial assets<br>*HK$'000*<br>(Unaudited) | Consolidated<br>*HK$'000*<br>(Unaudited) |
|---|---|---|---|---|
| Turnover | **4,961** | **8,189** | **18,423** | **31,573** |
| Segment profit/(loss) | **1,646** | **460** | **(1,592)** | **514** |
| Unallocated corporate other income | | | | **536** |
| Unallocated corporate expenses | | | | **(16,173)** |
| Loss from operations | | | | **(15,123)** |
| Finance costs | | | | **(142)** |
| Loss before taxation | | | | **(15,265)** |
| Taxation | | | | **–** |
| Loss for the period | | | | **(15,265)** |

Six months ended 30 June 2004

| | Distribution<br>*HK$'000*<br>(Unaudited) | Sub-licensing<br>*HK$'000*<br>(Unaudited) | Sales of available-for-sale financial assets<br>*HK$'000*<br>(Unaudited) | Consolidated<br>*HK$'000*<br>(Unaudited) |
|---|---|---|---|---|
| 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 | | | | — |
| Loss for the period | | | | (37,215) |

## 3. Segment Information *(Continued)*

### *(b) Geographical Segments*

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| The People's Republic of China (the "PRC") Excluding Hong Kong, Macau and Taiwan | **12,978** | 31,190 |
| Hong Kong and Macau | **18,595** | 261 |
| | **31,573** | 31,451 |

## 4. Loss from Operations

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Loss from operations has been arrived at after charging/(crediting): | | |
| Impairment loss recognised in respect of goodwill | **7,656** | — |
| Amortisation of film rights (included in cost of sales) | **7,109** | 13,593 |
| Amortisation of goodwill (included in administrative expenses) | **—** | 1,976 |
| Amortisation of other asset (included in administrative expenses) | **—** | 3,323 |
| Cost of inventories (included in cost of sales) | **33** | 865 |
| Depreciation and amortisation of property, plant and equipment: | | |
| — owned assets | **441** | 678 |
| — leased assets | **—** | 6 |
| Staff costs including directors' emoluments: | | |
| Salaries and other allowances | **3,184** | 5,185 |
| Contributions to retirement benefits scheme | **76** | 85 |
| Unrealised loss on available-for-sale financial assets | **2,215** | 459 |
| Interest income from bank deposits | **—** | (15) |
| Interest income from convertible notes receivable | **—** | (794) |

## 5. Taxation

No provision for Hong Kong profits tax has been made for the period since the Group has no estimated assessable profits (six months ended 30 June 2004: Nil).

## 6. Loss per Share

| | **Six months ended 30 June** | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Loss for the purpose of basic and diluted loss per share — net loss for the period | **(15,265)** | (37,215) |

| | **Number of shares** | |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **4,754,018** | 4,752,000 |

The weighted average number of ordinary shares outstanding for the six months ended 30 June 2004 has been retrospectively adjusted for the effect after subdivision on the basis of one share of HK$0.10 in the issued and unissued shares into ten subdivided shares of HK$0.01 each in the issued and unissued shares on 17 January 2005.

The computation of diluted loss per share for the six months ended 30 June 2005 did not assume the exercise of the Company's share options as the effect of the assumed exercise of the Company's outstanding share options would be anti-dilutive.

The computation of diluted loss per share for the period from 1 January 2004 to 30 June 2004 did not assume the exercise of the Company's warrants, convertible notes payable and share options as the effect of the assumed exercise of the Company's warrants, convertible notes payable and share options would be anti-dilutive.

## 7. Property, Plant and Equipment

| | HK$'000 |
|---|---|
| **Costs or valuation:** | |
| At 1 January 2005 | 17,325 |
| Additions | 13 |
| **At 30 June 2005** | **17,338** |
| **Depreciation and amortisation:** | |
| At 1 January 2005 | 5,517 |
| Provided for the period | 441 |
| **At 30 June 2005** | **5,958** |
| **Net book value:** | |
| **At 30 June 2005** | **11,380** |
| At 31 December 2004 | 11,808 |

The directors have considered the carrying amounts of the Group's leasehold land and buildings carried at revaluated amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at 30 June 2005. Consequently, no revaluation surplus or deficit has been recognised in the current period.

## 8. Film Rights

| | HK$'000 |
|---|---|
| **Costs:** | |
| At 1 January 2005 | 182,010 |
| Additions | 6,072 |
| **At 30 June 2005** | **188,082** |
| **Amortisation and impairment:** | |
| At 1 January 2005 | 171,669 |
| Provided for the period | 7,109 |
| **At 30 June 2005** | **178,778** |
| **Carrying amounts:** | |
| **At 30 June 2005** | **9,304** |
| At 31 December 2004 | 10,341 |

## 8. Film Rights *(Continued)*

| | **At 30 June 2005** | At 31 December 2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Analysed as: | | |
| Non-current portion | **8,602** | 9,236 |
| Current portion | **702** | 1,105 |
| | **9,304** | 10,341 |

## 9. Goodwill

| | *HK$'000* |
|---|---|
| **Cost:** | |
| At 1 January 2005 | 39,530 |
| Adoption of HKFRS 3 | (35,130) |
| Balance after adoption of HKFRS 3 | 4,400 |
| Addition on acquisition of subsidiary | 7,656 |
| **At 30 June 2005** | **12,056** |
| Amortisation and impairment: | |
| At 1 January 2005 | 35,130 |
| Adoption of HKFRS 3 | (35,130) |
| Balance after adoption of HKFRS 3 | — |
| Impairment loss recognised | 7,656 |
| **At 30 June 2005** | **7,656** |
| **Carrying amounts:** | |
| **At 30 June 2005** | **4,400** |
| At 31 December 2004 | 4,400 |

**9. Goodwill** *(Continued)*

*Notes:*

(a) At 19 April 2005, the Group exercised the right under the convertible notes issued by Gainful Fortune Limited ("Gainful Fortune") to convert the outstanding principal of HK$160,000,000 into share capital of Gainful Fortune. Since then, Gainful Fortune and its wholly-owned subsidiary, Ocean Shores Licensing Limited ("OSLL") (hereinafter collectively refer as "Gainful Fortune Group") become subsidiaries of the Group. As a result, positive goodwill of approximately HK$7,656,000 was arisen from the acquisition of Gainful Fortune.

Due to the continuous losses incurred by Gainful Fortune, the directors reassessed the recoverable amount of the goodwill arising on acquisition of Gainful Fortune and make impairment loss on goodwill of approximately HK$7,656,000.

(b) As at 30 June 2005, the directors assessed the carrying value of goodwill based on results projections to determine the estimated goodwill recoverable amount and considered that no impairment loss of goodwill has been required, except those stated in note (a) above.

**10. Interests in Associates**

| | **At 30 June 2005** ***HK$'000*** **(Unaudited)** | At 31 December 2004 *HK$'000* (Audited) |
|---|---|---|
| Convertible notes issued by an associate | – | 160,000 |
| *Less:* Provision for convertible notes | – | (160,000) |
| | – | — |

The convertible notes bear interest at 1% per annum, which is payable yearly in arrears, and will mature on 17 April 2005. Prior to the maturity, only Gainful Fortune has the right to redeem early part or the entire amount of the convertible notes. The convertible notes carry the rights to convert the outstanding principal amount of the convertible 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.

During the year of 2004, the Group did not convert any of the outstanding principal into ordinary shares of HK$1 of Gainful Fortune. At 31 December 2004, the directors assessed the financial position of Gainful Fortune and considered that the convertible notes could not be recovered in the future, therefore, a provision of HK$160,000,000 had been made.

**10. Interests in Associates** *(Continued)*

On 19 April 2005, the Group exercised the rights under the convertible notes to convert the outstanding principal of HK$160,000,000 into share capital of Gainful Fortune. Since then, Gainful Fortune Group becomes subsidiary of the Group.

**11. 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:

| | **At 30 June 2005** ***HK$'000*** **(Unaudited)** | At 31 December 2004 *HK$'000* (Audited) |
|---|---|---|
| 0 — 30 days | **3,237** | 3,054 |
| 31 — 60 days | **913** | 92 |
| 61 — 90 days | **754** | 1,979 |
| Over 90 days | **5,635** | 18,183 |
| | **10,539** | 23,308 |

**12. Deposits, Prepayments and other Receivables**

As at 30 June 2005, deposits, prepayments and other receivables included an investment deposits of HK$40,000,000 for the acquisition of the entire issued share capital of Best Winning Group Limited ("Best Winning"), a company incorporated in the British Virgin Islands and has been appointed as the sole and exclusive service provider for the promotion and introduction of customers to Radisson Diamond (to be renamed as "Asia Star") (the "Vessel") and the provision of rolling and settlement services for customers of the gaming establishment on board of the Vessel. Details of which has been set out in the circular dated 24 June 2005.

**13. Financial Assets at Fair Value through Profit or Loss**

| | **At 30 June 2005** ***HK$'000*** **(Unaudited)** | At 31 December 2004 *HK$'000* (Audited) |
|---|---|---|
| Trading securities: | | |
| Unlisted other equity | **18,000** | 30,000 |
| *Less:* Impairment loss recognised | **—** | (12,000) |
| Capital repayment | **(7,100)** | — |
| | **10,900** | 18,000 |

## 13. Financial Assets at Fair Value through Profit or Loss *(Continued)*

The amount represents the Group's investment in Rainbow Choice Enterprises Limited ("Rainbow Choice"), a company incorporated in the British Virgin Islands. The Group's investment represents a holding of 40% of the ordinary shares of Rainbow Choice. The principal activities of Rainbow Choice are the production and distribution of entertainment news. Rainbow Choice started operations in July 2004 and its operations and assets were controlled by the other shareholder. Although the Group appointed a representative to the board of directors of Rainbow Choice, the Company found that its representative encountered significant difficulty in influencing the management of Rainbow Choice in practice. As a result, Rainbow Choice is reclassified from an associate of the Group to financial assets at fair value through profit or loss of the Group.

During the period, the Group entered into an agreement with the other shareholder of Rainbow Choice pursuant to which both parties agreed to pay HK$18,000,000 to the Group.

## 14. Available-for-sales Financial Assets

| | **At 30 June 2005** ***HK$'000*** **(Unaudited)** | At 31 December 2004 *HK$'000* (Audited) |
|---|---|---|
| Equity shares listed in Hong Kong, at market value | | |
| — Hong Kong | **21,801** | 38,911 |
| — Overseas | **—** | 2,821 |
| | **21,801** | 41,732 |

Included in listed trading equity securities in Hong Kong is the Group's investment in Mainland Headwear Holdings Limited, a company incorporated in Bermuda. The Group's investment represents a holding of 1.83% of the ordinary shares of Mainland Headwear Holdings Limited.

## 15. Trade Payables

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

| | At 30 June 2005 HK$'000 (Unaudited) | At 31 December 2004 HK$'000 (Audited) |
|---|---|---|
| China Star Entertainment Limited ("China Star"), a substantial shareholder of the Company and its subsidiaries (collectively "China Star Group"): | | |
| 0 — 30 days | **181** | 123 |
| 31 — 60 days | **—** | 116 |
| 61 — 90 days | **—** | 85 |
| Over 90 days | **—** | 1 |
| | **181** | 325 |
| Others: | | |
| 0 — 30 days | **—** | — |
| 61 — 90 days | **—** | — |
| Over 90 days | **—** | 1,658 |
| | **—** | 1,658 |
| | **181** | 1,983 |

## 16. Amount due to a Related Company

The amount due to a related company represents the one-year term loan of HK$33,800,000 borrowed from China Star during April 2005. The loan is unsecured, bears interest at 1% per annum and repayment on demand.

## 17. Share Capital

| | | Number of shares *'000* | Share capital *HK$'000* |
|---|---|---|---|
| Ordinary shares of HK$0.01 each (2004: HK$0.1) | | | |
| *Authorised:* | | | |
| At 1 January 2005 | | 2,000,000 | 200,000 |
| Effect of shares subdivision | | 18,000,000 | — |
| **At 30 June 2005** | | **20,000,000** | **200,000** |
| *Issued and fully paid:* | | | |
| At 1 January 2005 | | 475,200 | 47,520 |
| Effect of shares subdivision | *(Note a)* | 4,276,800 | — |
| Issuance of new shares | *(Note b)* | 2,018 | 20 |
| **At 30 June 2005** | | **4,754,018** | **47,540** |

*Notes:*

(a) At the general meeting of the Company held on 14 January 2005, resolutions were passed to approve, among other things, the share subdivision on the basis of one share of HK$0.10 in the issued and unissued share capital of the Company be subdivided into 10 subdivided share of HK$0.01 each in the issued and unissued share capital of the Company. The share subdivision became effective on 17 January 2005.

(b) During May and June of 2005, a total number of 2,018,000 shares of HK$0.01 were allotted and issued to independent third parties with a total consideration of HK$726,480. An amount of HK$706,380 has been recognised as share premium during the period.

## 18. Commitments

At 30 June 2005, the Group had the following commitments contracted but not provided for in the financial statements:

| | **At 30 June 2005** ***HK$'000*** **(Unaudited)** | At 31 December 2004 *HK$'000* (Audited) |
|---|---|---|
| Purchase of film rights | — | 56 |

**19. Material Related Party Transactions**

(a) On 5 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 8 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 Right") and an option to acquire the theatrical rights.

Pursuant to the territory supply agreement, the Group paid an amount of HK$5,000,000 to China Star Group as a deposit for the grant of the first right of refusal to acquire the Distribution Rights and a 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$200,000 to HK$1,000,000 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.

Upon the expiry of the territory supply agreement, the Group decided not to renew it, as the directors believe that the non-renewal of the territory supply agreement provides the Group with a greater flexibility in acquiring film rights for distribution.

During the period ended 30 June 2005, the Group acquired Distribution Rights of 3 (six months ended 30 June 2004: 6) films from China Star Group at a total consideration of approximately HK$1,600,000 (six months ended 30 June 2004: HK$5,400,000) and paid approximately HK$3,400,000 (six months ended 30 June 2004: HK$3,900,000) additional license fee for the theatrical rights of 3 films (six months ended 30 June 2004: 5 films) 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 June** | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Nature of transactions** | | |
| Interest expense *(Note i)* | **168** | 169 |
| Post-production service expenses *(Note ii)* | **527** | 1,093 |

**19. Material Related Party Transactions** *(Continued)*

*Notes:*

(i) Interest expense was calculated at 1% per annum in accordance with the terms of the term loan issued by China Star.

(ii) The amounts were determined at prices agreed between the parties.

(c) During the period ended 30 June 2005, the Group had no interest received and receivable (six months ended 30 June 2004: HK$794,000) from Gainful Fortune.

(d) During the period ended 30 June 2005, no motion pictures (six months ended 30 June 2004: 24 with total consideration of HK$6,384,000) was delivered by the Group to Gainful Fortune.

**20. Events after Balance Sheet Date**

(a) On 9 April 2005, the sales and purchase agreement was entered into between Dragon Leader Limited ("Dragon Leader"), a wholly-owned subsidiary of the Company, as purchaser, Leadfirst Limited ("Leadfirst"), as seller and Mr, Benny Ki, as guarantor, pursuant to which Dragon Leader would acquire 100% of the issued share capital of Best Winning (the "Acquisition") from Leadfirst at a consideration of HK$600,000,000. Best Winning has been appointed as the sole and exclusive provider for the promotion and introduction of customers to the Vessel and the provision of rolling and settlement services for customers of gaming establishment on board of the Vessel.

As at the date of this report, the sales and purchase agreement has not been completed and a refundable deposit of HK$40,000,000 has been paid by Dragon Leader to Leadfirst. The Acquisition will be completed upon the commencement of the operation of the gaming establishment on board of the Vessel.

(b) On 7 July 2005, a wholly owned subsidiary of the Company entered into an unconditional agreement to sell certain properties to China Star Laser Disc Company Limited, a wholly-owned subsidiary of China Star, at a total consideration of HK$9,000,000.

(c) On 7 September 2005, the Company announced the placing of 400,000,000 new shares of the Company at the subscription price of HK$0.34 per share. The placing was completed on 12 September 2005 where a total of 400,000,000 shares beneficially owned by Classical Statue Limited were placed out to more than six independent placees. The subscription was completed on 20 September 2005.

**21. Approval of Interim Financial Report**

The interim financial report was approved by the Board of Directors on 27 September 2005.

HLB 國衛會計師事務所 Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F., Gloucester Tower,
The Landmark,
11 Pedder Street,
Central, Hong Kong

## INDEPENDENT REVIEW REPORT

## TO THE BOARD OF DIRECTORS OF RICHE MULTI-MEDIA HOLDINGS LIMITED

*(incorporated in the Bermuda with limited liability)*

### Introduction

We have been instructed by the Company to review the interim financial report as set out on pages 2 to 22.

### Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an Interim Financial Report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting " issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") 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 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the Group's 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 30 June 2005.

**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*

Hong Kong, 27 September 2005

### Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Nil).

### Management Discussion and Analysis

In 2004 and 2005, the Group witnessed the decline in popularity of Hong Kong films in the People's Republic of China (the "PRC") and experienced the rampant privacy. In response to the difficult operating environment, the Group adopted a cautious approach in acquiring film rights, reduced the number of new films released, restructured its PRC distribution networks and divested certain investments with less profit potential.

In view of the downturn of Hong Kong films in the PRC, the Group has actively sought diversification opportunities to broaden its earnings base.

### Financial Review

The Group recorded a turnover of HK$31,573,000 for the six months ended 30 June 2005, a 0.4% increase from HK$31,451,000 for the same period of the previous year. Of the total turnover amount, HK$4,961,000 or 16% was generated from distribution of films, HK$8,189,000 or 26% was generated from sub-licensing of film rights and HK$18,423,000 or 58% was generated from sales of available-for-sale financial assets. The loss for the six months ended 30 June 2005 was HK$15,265,000, representing a 59% improvement over the corresponding figure of HK$37,215,000.

Cost of sales for the six months ended 30 June 2005 amounted to HK$29,784,000, out of which HK$19,931,000 was related to the sales of available-for-sale financial assets. Cost of sales for distribution of films and sub-licensing of film rights decreased from HK$24,936,000 for the six months ended 30 June 2004 to HK$9,853,000 for the six months ended 30 June 2005. The decrease in cost of sales for distribution of films and sub-licensing of film rights was mainly attributed to the decline in the number of films distributed and the decrease in television networks development and maintenance costs in respect of a sub-licensing arrangement for broadcasting the Group's films on the provincial terrestrial free television stations in the PRC (the "TV Networks Costs").

**Management Discussion and Analysis** *(Continued)*

**Financial Review** *(Continued)*

Gross profit margin for distribution of films and sub-licensing of film rights improved from 21% in the six months ended 30 June 2004 to 25% in the six months ended 30 June 2005. This was principally attributed to the decrease in the Group's share of the TV Networks Costs in the second year of operations.

For the six months ended 30 June 2005, the Group's sales of available-for-sale financial assets recorded a gross loss of HK$1,508,000, which included an unrealised loss of HK$2,215,000. The market value of the Group's available-for-sale financial assets amounted to HK$21,801,000 at 30 June 2005. The Group will manage its available-for-sale financial assets in a prudent manner.

During the six months ended 30 June 2005, the Group had exercised prudence measures on cost control policies and decreased its administrative expenses to HK$9,763,000 in the first half of 2005, a 47% decrease as compared to the correspondence figure of HK$18,495,000 for the previous period.

To cope with the difficult operating environment, management reviewed the headcount policy and reduced the Group's headcount to 27 employees at 30 June 2005 to create a more efficient infrastructure. Total staff costs (including directors' remuneration) amounted to HK$3,260,000 in the six months ended 30 June 2005, a 38% decrease from HK$5,270,000 for the same period of the previous year. Employees are remunerated according to their performance and work experience. In addition to basic

**Management Discussion and Analysis** *(Continued)*

**Financial Review** *(Continued)*

salaries and retirement scheme, staff benefits include medical scheme and share options. An analysis of headcount and total staff costs of the Group for the six months ended 30 June 2005 and 2004 is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| Total staff costs (inclusive of severance costs) in HK$ | | |
| — Hong Kong and Macau | **2,947,000** | 3,163,000 |
| — the PRC | **313,000** | 2,107,000 |
| | **3,260,000** | 5,270,000 |
| Headcount | | |
| — Hong Kong and Macau | **22** | 26 |
| — the PRC | **5** | 56 |
| | **27** | 82 |

In 2002, Gainful Fortune Limited ("Gainful Fortune"), an associate of the Group, issued the convertible notes in an aggregate amount of HK$160,000,000 to the Group for the purchase of the hotel and intranet distribution rights in the PRC in respect of an aggregate of up to 300 films and the entire issued share capital of Ocean Shores Licensing Limited ("OSLL"). Gainful Fortune faced the illegal broadcasting of the Group's films by hotel operators in the PRC and its business did not progress as planned. In April 2005, the Group exercised its right to convert the outstanding principal amount of the convertible notes into shares of Gainful Fortune. Gainful Fortune and OSLL now become wholly-owned subsidiaries of the Company and the Group repossesses the 300 films previously sold. Since April 2005, the principal activities of Gainful Fortune and OSLL are holding of film rights.

For prudence, the Group has reviewed the carrying value of goodwill arising from the acquisition of Gainful Fortune and, in light of the difficult operating environment in hotel media in the PRC, an impairment loss of HK$7,656,000 was recognised in the six months ended 30 June 2005.

## Management Discussion and Analysis *(Continued)*

### Financial Review *(Continued)*

In March 2004, the Group acquired 40% of the issued share capital of Rainbow Choice Enterprises Limited ("Rainbow Choice") by investing HK$30,000,000. Rainbow Choice engaged in the business of producing and distributing of entertainment news programmes in the PRC. The acquisition facilitated the Group's expansion into the PRC television advertising business. As the performance of Rainbow Choice was not satisfactory, the Group entered into an agreement with the other shareholder of Rainbow Choice in April 2005. Under the agreement, the Group would own the intellectual property rights of the contents produced by Rainbow Choice and the other shareholder of Rainbow Choice would repay the production and distribution fees of HK$18,000,000 to the Group. The Group recognised an impairment loss of HK$12,000,000 for this investment at the end of fiscal year 2004.

Shareholders' equity decreased from HK$70,824,000 at 31 December 2004 to HK$56,285,000 at 30 June 2005. The decrease was attributed to the loss incurred in the six months ended 30 June 2005.

At 30 June 2005, the current ratio was 1.47 (31 December 2004: 1.70). The deterioration in current ratio was attributed to the loss incurred in the six months ended 30 June 2005. The Group expresses its gearing ratio as a percentage of total borrowings over total shareholders' equity. At 30 June 2005, the Group's gearing ratio was 0.60 (31 December 2004: 0.48). The deterioration in gearing ratio was due to the decrease in shareholders' equity.

On 19 April 2005, the convertible notes issued to First-Up Investments Limited ("First-Up"), a wholly-owned subsidiary of China Star Entertainment Limited ("China Star"), matured. First-Up did not exercise the right to convert the outstanding principal amount of the convertible notes of HK$33,800,000 into shares of the Company and the Group repaid HK$33,800,000 to First-Up. On the same date, China Star granted a one-year term loan of HK$33,800,000 to the Company.

At 30 June 2005, the Group had outstanding borrowings of HK$33,800,000 representing the one-year term loan of HK$33,800,000 granted by China Star, which was unsecured, interest bearing at 1% per annum and repayment on demand.

During the six months ended 30 June 2005, the Group had not created any charge on its assets.

**Management Discussion and Analysis** *(Continued)*

## Financial Review *(Continued)*

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 the Group's assets.

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

At 30 June 2005, the Group had no material contingent liabilities.

Except the acquisition of Best Winning Group Limited ("Best Winning") as disclosed in the paragraph of "Expand into a New Business" below, the Group had no future plans for material investments or capital assets at 30 June 2005.

At 30 June 2005, the Group had approximately HK$1,127,000 worth of signed distribution agreements in its order books. Delivery of these distribution agreements is expected to be completed in 6 months.

## Operations Review

For the six months ended 30 June 2005, the turnover for distribution of films amounted to HK$4,961,000, a 75% decrease from HK$19,672,000 for the same period of the previous year. The significant decrease was due to the decrease in the number of films distributed and the decline in average distribution income per new film. During the six months ended 30 June 2005, the Group released 3 new films in video format as compared to 8 new films in the same period of the previous year. The decline in popularity of Hong Kong films and the rampant privacy placed price pressures on the Group's films. During the six months ended 30 June 2005, the Group recorded a 21% decrease in the average distribution income per new film compared to the same period of the previous year. As the piracy in the PRC continued to proliferate, the Group decided to cease to sell its video products through Carrefour's 27 stores at the end of fiscal year 2004. Accordingly, the Group terminated the sub-distribution arrangement with 天津市星匯音像制品銷售有限公司 ("Tianjin Xinghui") in the first quarter of 2005.

**Management Discussion and Analysis** *(Continued)*

**Operations Review** *(Continued)*

For the six months ended 30 June 2005, the turnover for sub-licensing of films rights amounted to HK$8,189,000, a 30% decrease compared to HK$11,779,000 for the same period of the previous year. The decrease was mainly attributed to the decline in average film exhibition income per new film. The Group exhibited 3 new films in both six months ended 2005 and 2004. However, the Chinese cinemas' strong preference for exhibiting Hollywood films has diminished the Group's film exhibition income. During the six months ended 30 June 2005, the Group recorded a 36% decrease in the average exhibition income per film as compared to the same period of the pervious year. At the end of fiscal year 2004, the Group entered into a sub-licensing arrangement with a Beijing advertising company for broadcasting the Group's films on the provincial terrestrial free television stations in year 2005. As the business is in its second year of operation and the television networks are developed, the directors expect the business will generate positive cashflow to the Group in this fiscal year.

In view of the strong growth on advertising spending in the PRC, the Group ventured into television advertising business by acquiring 40% interest in Rainbow Choice in March 2004. Rainbow Choice distributed its entertainment news programmes on a barter basis, through which television stations offer advertising spots to Rainbow Choice in exchange for the programmes. Due to a flood of similar programmes in the market, Rainbow Choice failed to build up a strong television networks and obtain advertising spots at prime time within the first six months of its operations. As a result, the management team of Rainbow Choice decided to cease its business in the first quarter of fiscal year 2005.

On 5 February 2002, the Group entered into a territory supply agreement with China Star International Distribution Limited ("CSIDL"), a wholly-owned subsidiary of China Star, whereby CSIDL granted in favour of the Group a first right of refusal to acquire the exclusive distribution rights (excluding the theatrical and internet rights) in the PRC (except Hong Kong, Macau and Taiwan) and Mongolia in respect of China Star Group's films for a period of three years from 8 April 2002 and an option to acquire the theatrical rights of such films. In view of the decline in popularity of Hong Kong films, the Group decided not to renew the territory supply agreement with CSIDL upon its expiry in April 2005. The directors believe that the non-renewal of the territory supply agreement provides the Group with a greater flexibility in acquiring film rights for distribution.

## Expand into a New Business

On 9 April 2005, the Group entered into a conditional sale and purchase agreement with Leadfirst Limited ("Leadfirst") and Mr. Benny Ki, pursuant to which the Group would acquire 100% of the issued share capital of Best Winning (the "Acquisition") for a consideration of HK$600,000,000. The consideration shall be satisfied by the issue of a convertible notes of HK$500,000,000 and the payment of cash of HK$100,000,000.

Best Winning has been appointed as the sole and exclusive service provider for the promotion and introduction of customers to Radisson Diamond (to be renamed as Asia Star) (the "Vessel") and the provision of rolling and settlement services for customers of the gaming establishment on board the Vessel for a term of 3 years with an option to renew for another 3 years. In consideration of the service provided by Best Winning, Best Winning shall be entitled to receive:

(i) a management fee of 1.7% of the rolling turnover of the gaming establishment; and

(ii) 40% of the monthly profit of the gaming establishment.

Leadfirst has agreed to procure that the annual rolling turnover of the gaming establishment on board the Vessel for the first year of operations shall not be less than HK$60,000,000,000. Upon the completion of the Acquisition, Mr. Benny Ki will be engaged as the general manager of the Company.

The Vessel has arrived at Hong Kong in July 2005 and is under extensive renovation. The acquisition will be completed upon the commencement of the operation of the gaming establishment.

At 30 June 2005, the Group has paid refundable deposits of HK$40,000,000 to Leadfirst. The remaining balance of the cash consideration will be satisfied by internal resources of the Group.

## Disposal of Leasehold Land and Buildings

On 7 July 2005, the Group completed the disposal of its leasehold land and buildings to China Star Laser Disc Company Limited, a wholly-owned subsidiary of China Star, at a total consideration of HK$9,000,000. The consideration has been agreed between the parties based on arms' length negotiations with reference to a property valuation done by an independent firm of professional chartered surveyors.

The disposal permitted the Group to release certain of its assets in order to finance the acquisition of Best Winning. The net book value of the leasehold land and buildings was HK$7,296,000 at 30 June 2005. Accordingly, the Group is expected to make a gain of HK$1,704,000.

## Placing of Existing Shares and Subscription of New Shares

On 23 September 2005, the Company issued 400,000,000 new shares at HK$0.34 per share by way of a vendor placing and top-up subscription raising HK$131,500,000 (net of expenses). The proceeds are intended to use for investment in other relevant business opportunities that may arise in the future and for general working of the Group.

## Future Prospects

With the downturn of Hong Kong films in the PRC, the industry has reduced the number of productions and has put efforts to enhance the quality of Hong Kong films. As the directors anticipate that it takes some time for the market to recover, the Group will continue to cautiously monitor the business environment and continue to strengthen it business foundations by implementing prudent cost control and adopting a more cautious approach in acquiring film rights.

The Group is diligently working towards completing the acquisition of Best Winning. The expansion into gaming business will enable the Group to broaden its earnings base. With the expected surge in Asian gaming revenue, the directors see strong growth potential for the new business and are confident that it will perform well in the coming years.

### Directors' Interests in Securities

At 30 June 2005, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

**Interests in share options — the Company**

| Name | Nature of interest in shares | | Number of underlying shares |
|---|---|---|---|
| Mr. Lei Hong Wai | Beneficial Owner | *(Note)* | 47,500,000 |

*Note:* This represents the maximum number of shares issuable upon exercise of the entire options granted on 8 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 30 June 2005, 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.

Save as disclosed above, at no time during the six months ended 30 June 2005 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 30 June 2005 were as follows:

| Category of participants | Date of grant | Exercise price per share HK$ | Exercisable period (Note 1) | Outstanding at 1.1.2005 | Granted during the period | Outstanding at 30.6.2005 |
|---|---|---|---|---|---|---|
| Director | 8.3.2002 | 0.26 | 8.3.2002 to 7.3.2012 | 47,500,000 | 0 | 47,500,000 |
| Employees | 8.3.2002 | 0.26 | 8.3.2002 to 7.3.2012 | 142,500,000 | 0 | 142,500,000 |
| Employees | 13.12.2004 | 0.194 | 13.12.2004 to 12.12.2014 | 275,700,000 | 0 | 275,700,000 |
| | | | | 465,700,000 | 0 | 465,700,000 |

*Notes:*

1. The exercisable period commenced on the date of grant of the relevant share options.

2. No share option was cancelled and exercised during the six months ended 30 June 2005.

### 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 19 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 19 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

At 30 June 2005, 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 | *1 and 7* | Interest of corporation | 2,022,530,000 | nil | 2,022,530,000 | 42.54% |
| China Star Entertainment (BVI) Limited | *1 and 7* | Interest of corporation | 2,022,530,000 | nil | 2,022,530,000 | 42.54% |
| Classical Statue Limited | *7* | Beneficial owner | 2,022,530,000 | nil | 2,022,530,000 | 42.54% |
| Top Vision Management Limited | | Beneficial owner | 792,000,000 | nil | 792,000,000 | 16.66% |
| Mr. Chan Kam Sum | *2* | Interest of corporation | 792,000,000 | nil | 792,000,000 | 16.66% |
| Lucky Star Consultants Limited | | Beneficial owner | 354,000,000 | nil | 354,000,000 | 7.45% |
| Mr. Lau Tung Hoi | *3* | Interest of corporation | 354,000,000 | nil | 354,000,000 | 7.45% |
| Leadfirst Limited | | Beneficial owner | nil | 1,000,000,000 | 1,000,000,000 | 21.03% |
| Mr. Benny Ki | *4* | Interest of corporation | nil | 1,000,000,000 | 1,000,000,000 | 21.03% |
| Mr. Benny Ki | *5* | Beneficial owner | nil | 500,000,000 | 500,000,000 | 10.52% |

## 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 | *6* | Beneficial owner | 420,000,000 | nil | 420,000,000 | 8.83% |
| Mr. Chan Kam Sum | *6* | Interest of corporation | 420,000,000 | nil | 420,000,000 | 8.83% |

*Notes:*

1. 2,022,530,000 shares are beneficially owned by Classical Statue Limited. Classical Statue Limited is a wholly-owned subsidiaries of China Star Entertainment (BVI) Limited. China Star Entertainment (BVI) Limited is a wholly-owned subsidiary of China Star. China Star and China Star Entertainment (BVI) Limited are deemed to be interested in shares owned by Classical Statue Limited.

2. 792,000,000 shares are held by Top Vision Management Limited, which is wholly owned by Mr. Chan Kam Sum.

3. 354,000,000 shares are held by Lucky Star Consultants Limited, which is wholly owned by Mr. Lau Tung Hoi.

4. 1,000,000,000 underlying shares to be issued upon full conversion of the convertible notes to be issued to Leadfirst, which is wholly owned by Mr. Benny Ki.

5. 500,000,000 shares to be issued upon exercise of the option to be granted to Mr. Benny Ki.

6. 420,000,000 shares for short positions are held by Top Vision Management Limited, which is wholly owned by Mr. Chan Kam Sum.

7. Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and Mr. Ho Wai Chi, Paul are directors of the Company and China Star. Mr. Heung Wah Keung and Ms Chen Ming Yin, Tiffany are directors of the Company, China Star Entertainment (BVI) Limited and Classical Statue Limited.

Save as disclosed above, at 30 June 2005, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company.

## Corporate Governance

### Compliance with Code Provisions

The Company has complied with the code provisions (the "Code Provisions") set out in the Code on Corporate Governance Practices (the "CCG") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the six months ended 30 June 2005, except for the following deviations:

1. ***Code Provision A.2.1***

   Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

   The Company does not maintain the office of chief executive officer, however, the day-to-day management of the Group is responsible by the Vice Chairman. The division of responsibilities between the Chairman and the Vice Chairman has been clearly established, but was not set out in writing. To comply with Code Provision A.2.1, the Board has adopted a corporate governance practice manual, which clearly set out the responsibilities of the Chairman and the Vice Chairman in writing, in August 2005.

2. ***Code Provision A.4.1***

   Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

   All non-executive directors (including executive directors) of the Company do not have a specific term of appointment. However, they are subject to retirement by rotation in accordance with the Company's bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code Provision A.4.1.

**Corporate Governance** *(Continued)*

**Compliance with Code Provisions** *(Continued)*

***3. Code Provision A.4.2***

Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the previous Bye-law 87 of the Company's bye-laws, the chairman of the Board and/or the managing director of the Company were not subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

To comply with Code Provision A.4.2, in June 2005, the Company amended Bye-law 87 of the Company's bye-laws so that every director shall be subject to retirement by rotation at lease once every three years.

***4. Code Provision A.5.4***

Code Provision A.5.4 stipulates that the board should establish written guidelines on no less exacting terms than the Model Code set out in Appendix 10 for relevant employees in respect of their dealings in the securities of the issuer.

To comply with Code Provision A.5.4, the Company adopted the Code of Ethics and Securities Transactions by certain employees of the Company or any of its subsidiaries who are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities in August 2005.

***5. Code Provision B.1.1***

Code Provision B.1.1 stipulates that issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties.

To comply with Code Provision B.1.1, a remuneration committee with specific written terms of reference in accordance with Code Provision B.1.3 has been established in August 2005. The remuneration committee consists of two independent non-executive directors and an executive director.

**Corporate Governance** *(Continued)*

**Compliance with Code Provisions** *(Continued)*

***6. Code Provisions B.1.4 and C.3.4***

Code Provisions B.1.4 and C.3.4 stipulate that the issuer should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on the issuer's website.

Since the Company has yet established its own website, the above requirement regard to provide such information on website cannot be met accordingly. However, the terms of reference of the two committees are available on request.

***7. Code Provision C.3.3***

Code Provision C.3.3 stipulates the terms of reference of the audit committee should include at least those duties as set in the Code Provision.

The terms of reference of the audit committee of the Company have been revised to incorporate all the duties set out in Code Provision C.3.3 and were approved by the Board on 31 August 2005.

**Audit Committee**

The audit committee of the Company comprises three independent non-executive directors, namely Mr. Tang Chak Lam, Gilbert, Mr. Lien Wai Hung and Mr. Ho Wai Chi, Paul. The principal duties of the audit committee are to review the Company's annual report and accounts and interim report, and to review the Company's financial controls, internal control and risk management systems. The terms of reference of the committee shall make available to the public on request.

**Corporate Governance** *(Continued)*

### Remuneration Committee

The Company has established a remuneration committee with written terms of reference in accordance with Code Provision on 31 August 2005. The committee comprises two independent non-executive directors, namely Mr. Tang Chak Lam, Gilbert and Mr. Lien Wai Hung, and an executive director, namely Ms. Chen Ming Yin, Tiffany. Ms. Chen Ming Yin, Tiffany is the chairman of the remuneration committee. The remuneration committee is principally responsible for formulating and making recommendation to the Board on the Group's policy and structure for all remuneration of the directors of the Company and senior management of the Group. The terms of reference of the committee shall make available to the public on request.

### Nomination Committee

The Company has established a nomination committee with written terms of reference in accordance with recommended best practices A.4.4 in the CCG on 31 August 2005. The committee comprises two independent non-executive directors, namely Mr. Tang Chak Lam, Gilbert and Mr. Lien Wai Hung, and an executive director, namely Mr. Heung Wah Keung. Mr. Heung Wah Keung is the chairman of the nomination committee. The nomination committee is principally responsible for reviewing the structure, size and composition of the Board and making recommendations to the Board regarding any proposed changes, and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors. The terms of reference of the committee shall make available to the public on request.

### Finance Committee

The Company has established a finance committee with written terms of reference on 31 August 2005. The committee comprises two executive directors, namely Mr. Heung Wah Keung and Mr. Lei Hong Wai, and an independent non-executive director, namely Mr. Ho Wai Chi, Paul. Mr. Heung Wah Keung is the chairman of the finance committee. The finance committee is principally responsible for reviewing and approving banking facilities and financial instruments to be granted or issued by the Company for the Group's needs, the financial assistance of the Company and the provision of financing to third parties. The terms of reference of the committee shall make available to the public on request.

**Corporate Governance** *(Continued)*

## Model Code for Securities Transaction by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its Code of Ethics and Securities Transactions by directors of the Company.

Having made specific enquiry of all directors of the Company, they have complied with the required standards set out in the Model Code for the six months ended 30 June 2005.

## Reviewed by Audit Committee

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2005 and agreed to the accounting treatment, adopted by the Company. In addition, the Company's external auditors have reviewed the unaudited condensed interim financial statements in accordance with Statement of Auditing Standards No. 700 issued by the Hong Kong Institute of Certified Public Accountants.

## Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## Board of Directors

As at the date of this report, the executive directors of the Company are Mr. Heung Wah Keung *(Chairman)*, Ms. Chen Ming Yin, Tiffany *(Vice Chairman)*, Mr. Lei Hong Wai; the independent non-executive directors of the Company are Mr. Tang Chak Lam, Gilbert, Mr. Lien Wai Hung and Mr. Ho Wai Chi, Paul.

## 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, 27 September 2005