

INTERIM REPORT 2006



豐采 多媒體集團
Riche multi-media
RICHE MULTI-MEDIA HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 0764)

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Corporate Information

Board of Directors

Executive directors

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

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

Qualified Accountant

Mr. Chan Kin Wah, Billy

Members of the Audit Committee

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

Members of Remuneration Committee

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

Members of the Nomination Committee

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

Members of the Finance Committee

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

Authorised Representatives

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

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business

Room 3408
34/F Shun Tak Centre, West Tower
168-200 Connaught Road Central
Hong Kong

Principal Share Register and Transfer Office

The Bank of Bermuda Limited

Hong Kong Branch Share Register 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

Website

www.riche.com.hk

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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 2006 together with the comparative figures as follows:

Condensed Consolidated Income Statement

	Notes	Six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	12,762	31,573
Cost of sales		(9,965)	(29,784)
Gross profit		2,797	1,789
Other revenue	4	3,090	536
Unrealised gain on financial assets at fair value through profit or loss		4,430	—
Administrative expenses		(8,574)	(9,763)
Selling expenses		—	(29)
Loss on disposal of property, plant and equipment		(1,034)	—
Provision for impairment of trade receivables		(1,050)	—
Provision for impairment of deposits, prepayments and other receivables		(131)	—
Impairment loss recognised in respect of goodwill		—	(7,656)
Loss from operations	4	(472)	(15,123)
Finance costs		(668)	(142)
Loss before taxation		(1,140)	(15,265)
Taxation	5	—	—
Loss for the period		(1,140)	(15,265)
Loss per share	6		
— Basic		HK0.02 cents	HK0.32 cents
— Diluted		HK0.02 cents	HK0.32 cents

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

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

Condensed Consolidated Balance Sheet

		At 30 June 2006 <i>HK\$'000</i>	At 31 December 2005 <i>HK\$'000</i>
	<i>Notes</i>	(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,147	3,418
Investment properties	8	641,982	—
Goodwill	9	97,238	—
Club memberships		172	172
		741,539	3,590
Current assets			
Inventories	10	43,839	6
Film rights deposits		—	14
Trade receivables	11	1,750	4,729
Deposits, prepayments and other receivables	12	6,288	54,202
Financial assets at fair value through profit or loss	13	30,809	30,567
Tax prepayment		4,920	4,146
Bank balances and cash		135,755	137,973
		223,361	231,637
Total assets		964,900	235,227

Condensed Consolidated Balance Sheet *(Continued)*

	<i>Notes</i>	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
		(Unaudited)	(Audited)
Equity			
Share capital	14	64,843	51,540
Reserves		367,691	116,070
Equity attributable to equity holders of the Company		432,534	167,610
Minority interests		3,896	—
		436,430	167,610
LIABILITIES			
Non-current liabilities			
Deferred taxations		54,488	—
		54,488	—
Current liabilities			
Promissory note	15	24,114	—
Trade payables	16	—	1,714
Other payables and accruals		10,667	7,619
Receipts in advance	17	59,077	483
Amounts due to related parties	18	4,297	34,832
Bank loan, secured	19	347,015	—
Taxation payable		28,812	22,969
		473,982	67,617
Total equity and liabilities		964,900	235,227
Net current (liabilities)/assets		(250,621)	164,020
Total assets less current liabilities		490,918	167,610

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

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2006

	Share	Share	Capital	Contributed	Properties	Accumulated	Sub-total	Minority	Total
	capital	premium	reserve	surplus	revaluation	losses		interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2005	47,520	—	19,834	80,103	3,182	(82,068)	68,571	—	68,571
Issuance of new shares	20	706	—	—	—	—	726	—	726
Loss for the period	—	—	—	—	—	(15,265)	(15,265)	—	(15,265)
At 30 June 2005	47,540	706	19,834	80,103	3,182	(97,333)	54,032	—	54,032
At 1 January 2006	51,540	127,865	19,834	80,103	—	(111,732)	167,610	—	167,610
Issuance of new shares (notes 14 & 20)	13,303	252,761	—	—	—	—	266,064	—	266,064
Acquisition of subsidiaries (note 20)	—	—	—	—	—	—	—	3,896	3,896
Loss for the period	—	—	—	—	—	(1,140)	(1,140)	—	(1,140)
At 30 June 2006	64,843	380,626	19,834	80,103	—	(112,872)	432,534	3,896	436,430

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

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	27,635	(13,177)
Net cash generated from investing activities		
Additions to property, plant and equipment	(120)	(13)
Net cash acquired from acquisition of subsidiaries (note 20)	415	—
Other cash flows	10,430	823
	10,725	810
Net cash (used in) generated from financing activities	(40,578)	576
Net decrease in cash and cash equivalents	(2,218)	(11,791)
Cash and cash equivalents at beginning of period	137,973	15,460
Cash and cash equivalents at end of period	135,755	3,669
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	135,755	3,669

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

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2006

1. Basis Of Preparation

The unaudited condensed consolidated interim financial statements (the "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.

The Interim Financial Statements have been prepared on the historical cost basis except for investment properties and financial assets at fair value through profit or loss, which are measured at fair values.

2. Summary Of Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are the same as those used in the annual financial statements for the year ended 31 December 2005 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 2006 and are adopted the first time by the Group for the current period's financial statements:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transaction
HKAS 39 (Amendment)	The Fair Value Option
HKFRS — Int 4	Determining whether an Arrangement contains a Lease

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.

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital disclosures (<i>note i</i>)
HKFRS 7	Financial Instrument: disclosures (<i>note i</i>)
HK(IFRIC) — Int 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies (<i>note ii</i>)
HK(IFRIC) — Int 8	Scope of HKFRS 2 (<i>note iii</i>)
HK(IFRIC) — Int 9	Reassessment of embedded derivatives (<i>note iv</i>)

notes:

- (i) Effective for financial period commencing on or after 1 January 2007
- (ii) Effective for financial period commencing on or after 1 March 2006
- (iii) Effective for financial period commencing on or after 1 May 2006
- (iv) Effective for financial period commencing on or after 1 June 2006

The Group is still considering the potential impact of these new HKFRSs but is not yet in a position to determine whether the adoption of these new HKFRSs would have a significant impact on its results of operations and financial position.

3. Segment Information

(a) Business Segments

	Six months ended 30 June 2006			
	Distribution	Sub-licensing	Investments in securities	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	122	200	12,440	12,762
Segment (loss)/profit	(1,391)	(10)	3,320	1,919
Unallocated other revenue				2,590
Unallocated corporate expenses				(4,981)
Loss from operations				(472)
Finance costs				(668)
Loss before taxation				(1,140)
Taxation				—
Loss for the period				(1,140)

3. Segment Information (Continued)

(a) Business Segments (Continued)

	Six months ended 30 June 2005			Consolidated HK\$'000
	Distribution HK\$'000	Sub-licensing HK\$'000	Investments in securities HK\$'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	4,961	8,189	18,423	31,573
Segment profit/(loss)	1,646	460	(1,592)	514
Unallocated other revenue				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)

(b) Geographical Segments — Turnover

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
	(Unaudited)	(Unaudited)
The People's Republic of China (the "PRC"), excluding Hong Kong and Macau	—	12,978
Hong Kong and Macau	12,762	18,595
	12,762	31,573

4. Loss From Operations

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
	(Unaudited)	(Unaudited)
(a) Loss from operations has been arrived at after charging:		
Impairment loss recognised in respect of goodwill	—	7,656
Amortisation of film rights (included in cost of sales)	—	7,109
Cost of inventories (included in cost of sales)	10	33
Depreciation and amortisation of property, plant and equipment	351	441
Loss on disposal of property, plant and equipment	1,034	—
Provision for impairment of trade receivables	1,050	—
Provision for impairment of deposits, prepayments and other receivables	131	—
Staff costs including directors' emoluments:		
— Salaries and other allowances	3,205	3,184
— Contributions to retirement benefits scheme	62	76
Unrealised loss on financial assets at fair value through profit or loss	—	2,215
(b) Other revenue		
Bank interest income	2,514	13
Dividend income	576	523
	3,090	536

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 2005: Nil).

6. Loss Per Share

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
	(Unaudited)	(Unaudited)
Loss for the purposes of basic and diluted loss per share — net loss for the period	(1,140)	(15,265)

	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purposes of basis and diluted loss per share	5,220,534	4,754,018

The computation of diluted loss per share for the six months ended 30 June 2006 and 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.

7. Property, Plant And Equipment

	<i>HK\$'000</i>
Cost:	
At 1 January 2006	10,007
Acquisition of subsidiaries (<i>note 20</i>)	1,926
Additions	120
Disposals	<u>(5,726)</u>
At 30 June 2006	<u>6,327</u>
Depreciation:	
At 1 January 2006	6,589
Acquisition of subsidiaries (<i>note 20</i>)	1,446
Provided for the period	351
Written back on disposals	<u>(4,206)</u>
At 30 June 2006	<u>4,180</u>
Net book value:	
At 30 June 2006	<u>2,147</u>
At 31 December 2005	<u>3,418</u>

8. Investment Properties

	<i>HK\$'000</i>
Valuation:	
At 1 January 2006	—
Acquisition of subsidiaries (<i>note 20</i>)	<u>641,982</u>
At 30 June 2006	<u>641,982</u>

8. Investment Properties (Continued)

Investment properties with the carrying amount of approximately HK\$641,982,000 have been pledged to secure banking facility granted to the Group.

The directors of the Company have considered the carrying amount of the Group's investment properties carried at fair value and have estimated that the carrying amount did not differ significantly from the fair value at 31 December 2005 as assessed by an independent professional valuer and presented in the Company's circular dated 19 May 2006. Consequently, no changes in the fair value of the investment properties have been recognised in the current period.

9. Goodwill

	<i>HK\$'000</i>
Cost:	
At 1 January 2006	40,128
Addition on acquisition of subsidiaries (note 20)	<u>97,238</u>
At 30 June 2006	<u>137,366</u>
Amortisation and impairment:	
At 1 January and 30 June 2006	<u>40,128</u>
Carrying amount:	
At 30 June 2006	<u>97,238</u>
At 31 December 2005	<u>—</u>

Addition to goodwill during the period pertained to the acquisition of the entire equity interest of Shinhan-Golden Faith International Development Limited ("Shinhan-Golden") and its subsidiaries (hereinafter collectively referred as to the "Shinhan-Golden Group").

10. Inventories

Inventories at 30 June 2006 solely comprised of certain apartments held by Beijing Jianguo Real Estate Development Company Limited ("BJ Jianguo"), a subsidiary of Shinhan-Golden, which were sold in previous years, of which sale and purchase agreements have been entered into and considerations have been received by BJ Jianguo. However, the transfer of legal title of those apartments had not been completed at the date of the Interim Financial Statements.

11. Trade Receivables

The granting of distribution rights and sub-licensing of film right 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 2006 HK\$'000	At 31 December 2005 HK\$'000
	(Unaudited)	(Audited)
0 —30 days	—	386
31 —60 days	—	258
61 —90 days	—	426
Over 90 days	3,884	4,743
	3,884	5,813
Less: Provision for impairment of trade receivables recognised	(2,134)	(1,084)
	1,750	4,729

The Group performed an assessment for the estimation of the recoverable amounts of certain trade receivables. Under the circumstances that collection of full amount of trade receivables no longer exists, the estimated recoverable amount of certain trade receivables will be lower than their respective carrying amounts and provision for impairment will be made.

12. Deposits, Prepayments And Other Receivables

At 30 June 2005, deposits, prepayments and other receivables included an investment deposit of HK\$40,000,000 for the acquisition of the entire issued share capital of Best Winning Group Limited, a company incorporated in the British Virgin Islands. The acquisition was terminated and the investment deposit was fully refunded during the period under review. Details of the transaction are set out in the Company's circulars dated 24 June 2005 and 31 March 2006.

13. Financial Assets At Fair Value Through Profit Or Loss

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
	(Unaudited)	(Audited)
Held-for-trading:		
Equity securities, at fair value		
— listed in Hong Kong	30,809	30,567
	30,809	30,567

14. Share Capital

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.01 each (2005: HK\$0.01)		
<i>Authorised:</i>		
At 1 January 2006 and 30 June 2006	20,000,000	200,000
<i>Issued and fully paid:</i>		
At 1 January 2006	5,154,018	51,540
Issuance of new shares (note 20)	1,330,322	13,303
At 30 June 2006	6,484,340	64,843

15. Promissory Note

Upon completion on the acquisition of Shinhan-Golden Group (the "Acquisition") set out in note 20, the Group procured a promissory note to Mr. Andrew Nan Sherrill, a director of BJ Jianguo and who became a substantial shareholder of the Company upon completion of the Acquisition, for the amount due to Mr. Andrew Nan Sherrill by BJ Jianguo. The promissory note is interest bearing at 5.5% per annum, unsecured, and repayable within one year.

16. Trade Payables

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

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
	(Unaudited)	(Audited)
China Star Entertainment Limited ("China Star"), a substantial shareholder of the Company, and its subsidiaries (hereinafter collectively referred as to the "China Star Group"):		
0 — 30 days	—	3
31 — 60 days	—	—
61 — 90 days	—	—
Over 90 days	—	15
	—	18
Others:		
0 — 30 days	—	—
31 — 60 days	—	—
61 — 90 days	—	—
Over 90 days	—	1,696
	—	1,696
	—	1,714

17. Receipts In Advance

At 30 June 2006, receipt in advance comprised of a balance amounted to approximately HK\$57,574,000 in respect of full amounts of considerations received from sales of certain apartments as set out in note 10 to the Interim Financial Statements. Since the transfer of legal title on the ownership of these apartments was not yet completed, no revenue could be recognised during the period under review.

18. Amounts Due To Related Parties

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
	(Unaudited)	(Audited)
China Star (note i)	—	33,800
China Star's subsidiaries (note ii)	317	1,032
Gui Lin Gui Du Cement Co. Ltd. ("Gui Lin") (note iii)	3,980	—
	4,297	34,832

Notes:

- i. The amount due to China Star was unsecured, interest bearing at 1% per annum and matured on 19 April 2006.
- ii. The amounts due to China Star's subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.
- iii. The legal representative of Gui Lin is Mr. Andrew Nan Sherrill, a substantial shareholder of the Company. The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

19. Bank Loan, Secured

The secured bank loan is interest bearing at 6.138% per annum, repayable within one year and secured by the Group's investment properties with carrying amount of HK\$641,982,000 (note 8).

20. Acquisition Of Subsidiaries

The net assets of the subsidiaries at the date of acquisition were as follows:

	2006 HK\$'000	2005 HK\$'000
	(Unaudited)	(Unaudited)
Property, plant and equipment	480	—
Investment properties	641,982	—
Trade receivables	12	—
Inventories	43,839	—
Prepayments, deposit and other receivables	172	—
Bank balances and cash	415	—
Other payables and accruals	(5,465)	—
Receipt in advance	(59,080)	—
Bank loan, secured	(346,484)	—
Amount due to Mr. Andrew Nan Sherrill	(30,124)	—
Taxation payables	(5,819)	—
Amounts due to related parties	(12,718)	—
Deferred taxation	(54,488)	—
Minority interest	(3,896)	—
Net assets acquired of	168,826	—
Goodwill	97,238	—
	266,064	—
Purchase consideration settled by issuance of new shares	266,064	—
Net cash flow from acquisition of subsidiaries:		
Cash paid	—	—
Bank balances and cash acquired	415	—
	415	—

20. Acquisition Of Subsidiaries (Continued)

During the period under review, the Group acquired Shinhan-Golden Group, which is principally engaged in investments holding and property investment in the PRC. Shinhan-Golden Group contributed approximately HK\$514,000 to the Group's net operating cash outflows for the period under review, no turnover and loss before taxation of approximately HK\$1,030,000 for the period since the date of completion of acquisition to 30 June 2006.

The total consideration amounted to HK\$266,064,000 and was settled by 1,330,321,745 ordinary shares of HK\$0.01 each in the share capital of the Company, which were allotted, issued and credited as fully paid at the price of HK\$0.20 each.

21. Commitments

At 30 June 2006, the Group had the following commitments contracted but not provided for in the financial statements:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
	(Unaudited)	(Audited)
Renovation work in respect of the Group's investment properties	56,311	—
	56,311	—

22. Material Related Party Transactions

- (a) During the period, the Group had the following transactions with China Star Group:

Name of company	Nature of transaction	Six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
		(Unaudited)	(Unaudited)
<i>Paid or payable to:</i>			
1. China Star International Distribution Limited	License fees for theatrical rights to films	—	(3,400)
2. China Star International Distribution Limited	License fees for distribution rights to films	—	(1,600)
3. China Star Entertainment Limited	Interest expense (<i>note i</i>)	(100)	(68)
4. First-Up Investments Limited	Interest expense (<i>note i</i>)	—	(100)
5. China Star Production Services Limited	Post production services expense (<i>note ii</i>)	(85)	(527)
<i>Received or receivable from:</i>			
6. China Star International Distribution Limited	Refund of deposit	—	5,000
7. China Star HK Distribution Limited	Sub-licensing income	200	—

22. Material Related Party Transactions (Continued)

(b) Compensation for key management personnel

Remuneration for key management personnel, including amount paid to the Company's directors and certain of the highest paid employees, is as follows:

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
	(Unaudited)	(Unaudited)
Salaries	1,656	1,656
Contribution to retirement benefits scheme	12	12

Save as aforesaid and disclosed in notes 15 and 18 to the Interim Financial Statements, there was no other material related party transaction during the period under review.

23. Subsequent Event

On 11 September 2006, the Group has entered into a banking facility agreement with a financial institution for a banking facility amounted to RMB350,000,000, which would be for the purpose of repayment of current bank loan and for the renovation of the Group's investment properties (the "Banking Facility").

The Banking Facility is repayable in 5 years from the initial drawing and the first repayment amounted to RMB5,000,000, is due 1 year from the initial drawing, bearing interest at the People's Bank of China prescribed interest rate as announced from time to time, to be secured by the Group's investment properties with carrying amount of HK\$641,982,000 at 30 June 2006, and the Company's corporate guarantee for the aggregate amount of the Banking Facility and all interest accruing from time to time.

24. Contingent Liabilities And Litigations

At the date of this report, save as disclosed below, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the directors to be pending or threatened against any member of the Group.

Case 1

The Commissioner of Inland Revenue had issued proceedings on 30 March 2005 against Ocean Shores Licensing Limited (“OSLL”), a subsidiary of the Company, in respect of an aggregate amount of outstanding taxation of HK\$13,928,226 in respect of the years of assessments from 1998/1999 to 2000/2001. Provision for this amount has been made in the Interim Financial Statements and OSLL is currently in discussions with the Inland Revenue Department as to whether such taxation is payable and how to settle this matter.

Case 2

Di Yi Ao Yuan Real Estate Management (Shanghai) Limited (“Di Yi”) filed a statement of claim alleging BJ Jianguo owed Di Yi approximately RMB354,000 (approximately HK\$344,000) with actual cost and thereof in respect of consulting service rendered to BJ Jianguo base on the signed contract. At 30 June 2006, the outcome of this case is yet to be certain.

Case 3

A writ of summons and statement of claim was made by CL3 Architects Limited (“CL3”) against BJ Jianguo for a claim of HK\$2,500,000 over design contracts for the investment properties with BJ Jianguo. The PRC court is processing the case and no verdict has been reached at reporting date. At 30 June 2006, the outcome of this case is yet to be certain.

25. Approval Of Interim Financial Statements

The Interim Financial Statements were approved by the Board on 26 September 2006.



國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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Gloucester Tower
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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 3 to 24.

Respective responsibilities of directors and auditors

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 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 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants. 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 2006.

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong, 26 September 2006

Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

Management discussion and analysis

Being clouded by rampant piracy and weak demand for Hong Kong-made movies in The People's Republic of China (the "PRC"), 2006 continues to be a difficult year for Hong Kong film industry. The emerging of stream broadcasting technology makes piracy much more easier and further erodes the box office receipts of Hong Kong-made movies in the PRC. As a result, Hong Kong film companies are conservative in film investments.

In view of the difficult operating environment, the best strategy for 2006 is to slow down the Group's film distribution activities and to diversify the Group's earnings base by expanding into new business.

Financial Review

The Group recorded a turnover of HK\$12,762,000 for the six months ended 30 June 2006, a 60% decrease from HK\$31,573,000 for the same period of the previous year. Of the total turnover amount, HK\$122,000 or 1% was generated from distribution of films, HK\$200,000 or 2% was generated from sub-licensing of film rights and HK\$12,440,000 or 97% was generated from investments in securities. The loss for the six months ended 30 June 2006 was HK\$1,140,000, representing a 93% improvement over the corresponding figure of HK\$15,265,000. The improvement was mainly attributable to the fact that the Group did not record any impairment loss recognised in respect of goodwill in the six months ended 30 June 2006 while the Group recorded such an impairment loss of HK\$7,656,000 in the corresponding period of 2005.

Management Discussion And Analysis *(Continued)*

Financial Review *(Continued)*

Cost of sales for the six months ended 30 June 2006 amounted to HK\$9,965,000, out of which HK\$9,822,000 was related to investments in securities. Cost of sales for distribution of films and sub-licensing of film rights decreased from HK\$9,853,000 for the six months ended 30 June 2005 to HK\$143,000 for the six months ended 30 June 2006. The decrease was attributed to the slow down of the Group's film distribution activities.

Gross profit margin for distribution of films and sub-licensing of film rights improved from 25% in the six months ended 30 June 2005 to 56% in the six months ended 30 June 2006. The improvement in gross profit margin was attributed to the cost of films sold in 2006 had already been fully amortised.

For the six months ended 30 June 2006, the Group recorded a gross profit of HK\$2,618,000 for its investments in securities. Taking into account the dividend income of HK\$576,000 and an unrealised gain on financial assets at fair value through profit or loss of HK\$4,430,000, the performance of the Group's investments in securities business was a profit of HK\$7,624,000. At 30 June 2006, the fair value of the Group's financial assets at fair value through profit or loss amounted to HK\$30,809,000. The Group will continue to manage its financial assets at fair value through profit or loss in a prudent manner.

Other revenue increased from HK\$536,000 in the six months ended 30 June 2005 to HK\$3,090,000 in the six months ended 30 June 2006. The increase was mainly attributed to an increase in bank interest income of HK\$2,501,000 resulting from an increase in the Group's bank deposits.

Management Discussion And Analysis *(Continued)*

Financial Review *(Continued)*

As announced by the Company on 17 February 2006, the Group entered into a conditional sale and purchase agreement with Northbay Investments Holding Limited (“Northbay”), pursuant to which the Group would acquire (i) 100% of the issued share capital of Shinhan-Golden Faith International Development Limited (“Shinhan-Golden”) and (ii) the debts owed by Shinhan-Golden to Northbay, at an aggregate consideration of HK\$266,064,350 (the “Acquisition”). Shinhan-Golden is an investment holding vehicle and its major asset is the 96.7% equity interest in Beijing Jiang Guo Real Estate Development Co. Ltd. (“BJ Jianguo”). BJ Jianguo is the registered owner of a property (the “Beijing Property”) located at No. 9 Gongyuan Xijie, Dongcheng District, Beijing, the PRC. The Acquisition was completed on 21 June 2006. As the Beijing Property is still under renovation, no revenue is contributed by BJ Jianguo.

Administrative expenses (net of amortisation and depreciation expenses, and impairment losses) amounted to HK\$8,223,000 for the six months ended 30 June 2006, a 1% increase from HK\$8,150,000 for the same period of the previous year. The slight increase was mainly attributed to the exercise of prudent measures on cost control policies through out the six months ended 30 June 2006.

At 30 June 2006, a provision for impairment of HK\$1,050,000 was recognised for long outstanding trade receivables. The directors were uncertain whether the amount would ultimately be collected and considered that it was prudence to make such a provision.

For the six months ended 30 June 2006, finance costs amounted to HK\$668,000, a 370% increase compared to HK\$142,000 for the six months ended 30 June 2005. It was mainly attributable to the inclusion of BJ Jianguo’s bank loan interest expenses of HK\$531,000 following the completion of the Acquisition.

Management Discussion And Analysis *(Continued)*

Financial Review *(Continued)*

Following the completion of the Acquisition on 21 June 2006, the headcount of the Group increased from 27 at 30 June 2005 to 53 at 30 June 2006. Total staff costs (including directors' remuneration) amounted to HK\$3,267,000 in the six months ended 30 June 2006, a slight decrease from HK\$3,260,000 for the previous period. 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. An analysis of headcount and total staff costs of the Group for the six months ended 30 June 2006 and 2005 is as follows:

	Six months ended 30 June	
	2006	2005
Total staff costs (inclusive of severance costs) in HK\$		
— Hong Kong	3,175,000	2,947,000
— the PRC	92,000	313,000
	3,267,000	3,260,000
Headcount		
— Hong Kong	20	22
— the PRC	33	5
	53	27

During the six months ended 30 June 2006, the Group's operations were funded by its internally generated financial resources, the RMB bank loan and the promissory note issued to Mr. Andrew Nan Sherrill.

Management Discussion And Analysis *(Continued)*

Financial Review *(Continued)*

At 30 June 2006, the bank balances and cash of the Group amounted to HK\$135,755,000 and the Group's current ratio was 0.47 (31 December 2005: 3.43).

At 30 June 2006, the total borrowings of the Group amounted to HK\$371,129,000, comprising the RMB bank loan of HK\$347,015,000 which is secured by the Beijing Property, interest bearing at 6.138% per annum and repayable within one year; and the promissory note issued to Mr. Andrew Nan Sherrill of HK\$24,114,000 which is unsecured, interest bearing at 5.5% per annum and repayable within one year. The Group expresses its gearing ratio as a percentage of total borrowings over total equity attributable to equity holders of the Company. At 30 June 2006, the Group's gearing ratio was 86% (31 December 2005: 20%).

During the six months ended 30 June 2006, the Company issued 1,330,321,745 new shares at a price of HK\$0.20 each to Northbay to settle the consideration of HK\$266,064,350 in respect of the Acquisition.

At 30 June 2006, the Beijing Property with a carrying amount of HK\$641,982,000 was pledged to a PRC bank to secure the RMB bank loan granted to BJ Jianguo.

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 2006, the Group had contingent liabilities amounted to HK\$2,844,000. Please refer to note 24 to the unaudited condensed consolidated interim financial statements for details.

Management Discussion And Analysis *(Continued)*

Operations Review

In view of rampant piracy and weak demand for Hong Kong-made movies in the PRC, Hong Kong film production companies adopt a cautious approach in investing films. Such difficult operating environment placed strong pressure on the profitability of the Group's film distribution business. As a result, the Group slowed down its film distribution activities during the period under review. In the six months ended 30 June 2006, the revenue for film distribution business was generated from the sales of the Group's old films.

The Beijing Property is currently under renovation and being transformed from an apartment complex into a high-end serviced apartment, with a budget cost of HK\$56,311,000 (or RMB58,000,000). The renovation project is expected to be completed by the end of December 2006. As high-end serviced apartments with high-standard management are always the first choice of multinational senior executives and local senior managers who are employed in Beijing, an international property management company will be appointed to manage the Beijing Property. The Group is currently shortlisting the candidates and expects to finalise the appointment in October 2006.

Future Prospects

As the operating environment for film distribution in the PRC takes some time to improve, the Group will continue to cautiously monitor the environment and strengthen its business foundations by implementing prudent cost control. In addition, the Group will explore non-traditional distribution media for its old films in the PRC and seek opportunities to act as a distributor for Hong Kong film production companies.

Management Discussion And Analysis *(Continued)*

Future Prospects *(Continued)*

With the effect of the PRC's accession into the World Trade Organisation in place and 2008 Beijing Olympic Games, Beijing is expected to see an increasing number of expatriates from multinational companies and foreign government institutions, which will lead to continual increase in demand for high-end serviced apartments. Upon the completion of the renovation, the Beijing Property is expected to meet the demand. The directors believe that the Acquisition enables the Group to diversify its earnings base and provides the Group with a stable source of revenue, which will have a positive impact on the Group's profitability.

Directors' And Chief Executive's Interests And Short Positions In Shares, Underlying Shares And Debentures

At 30 June 2006, none of the directors or chief executive of the Company had or was deemed to have interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within in the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange.

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 2006 were as follows:

Category of participants	Date of grant	Exercise price per share HK\$	Exercisable period (Note i)	Outstanding at 1 January 2006	Granted during the period	Outstanding at 30 June 2006
Employees	8 March 2002	0.26	March 2002 to 7 March 2012	190,000,000	—	190,000,000
Employees	13 December 2004	0.194	13 December 2004 to 12 December 2014	275,700,000	—	275,700,000
				465,700,000	—	465,700,000

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 30 June 2006.

Substantial Shareholders

At 30 June 2006, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the directors of the Company, no other person or companies (other than a director or chief executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

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 & 5	Interest of corporation	2,116,590,000	—	2,116,590,000	32.64%
China Star Entertainment (BVI) Limited	1 & 5	Interest of corporation	2,116,590,000	—	2,116,590,000	32.64%
Classical Statue Limited	1 & 5	Beneficial owner	2,116,590,000	—	2,116,590,000	32.64%
Asia Vest Partners Limited	2	Interest of corporation	1,330,321,745	—	1,330,321,745	20.52%
Asia Vest Partners VII Limited	2	Interest of corporation	1,330,321,745	—	1,330,321,745	20.52%

Substantial Shareholders (Continued)

Long positions (Continued)

Name	Notes	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the issued capital of the Company
Asia Vest Partners X Limited	2	Interest of corporation	1,330,321,745	—	1,330,321,745	20.52%
Northbay Investments Holdings Limited	2	Beneficial owner	1,330,321,745	—	1,330,321,745	20.52%
Mr. Andrew Nan Sherrill	2	Interest of corporation	1,330,321,745	—	1,330,321,745	20.52%
Top Vision Management Limited	3	Beneficial owner	792,000,000	—	792,000,000	12.21%
Mr. Chan Kam Sum	3	Interest of corporation	792,000,000	—	792,000,000	12.21%
Lucky Star Consultants Limited	4	Beneficial owner	354,000,000	—	354,000,000	5.46%
Mr. Lau Tung Hoi	4	Interest of corporation	354,000,000	—	354,000,000	5.46%

Substantial Shareholders *(Continued)*

Long positions *(Continued)*

Notes:

1. 2,116,590,000 shares are beneficially owned by Classical Statue Limited. Classical Statue Limited is a wholly-owned subsidiary 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 the shares owned by Classical Statue Limited.
2. 1,330,321,745 shares are beneficially owned by Northbay Investments Holdings Limited. 35.5% and 64.5% of the entire shareholding of Northbay Investments Holdings Limited are respectively owned by Asia Vest Partners VII Limited and Asia Vest Partners X Limited, and both of them are indirectly wholly-owned by Mr. Andrew Nan Sherrill through Asia Vest Partners Limited.
3. 792,000,000 shares are held by Top Vision Management Limited, which is wholly-owned by Mr. Chan Kam Sum.
4. 354,000,000 shares are held by Lucky Star Consultants Limited, which is wholly-owned by Mr. Lau Tung Hoi.
5. Mr. Heung Wah Keung, Ms Chen Ming Yin, Tiffany and Mr. Ho Wai Chu, Paul are directors of the Company and China Star Entertainment Limited. Mr. Heung Wah Keung and Ms. Chen Ming Yin, Tiffany are also directors of China Star Entertainment (BVI) Limited and Classical Statue Limited.

Substantial Shareholders (Continued)

Short positions

Name	Note	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the issued capital of the Company
Top Vision Management Limited	1	Beneficial owner	420,000,000	—	420,000,000	6.48%
Mr. Chan Kam Sum	1	Interest of corporation	420,000,000	—	420,000,000	6.48%

Note:

1. 420,000,000 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 30 June 2006, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company.

Connected Transactions And Directors' Interests In Contracts

Details of the discloseable connected transactions with China Star Entertainment Limited and its subsidiaries and directors' interest in contracts for the current period are set out in notes 15, 18 and 22 to the unaudited condensed consolidated interim financial statements. The independent non-executive directors of the Company have reviewed and confirmed that the connected transactions as set out in notes 15, 18 and 22 to the unaudited condensed consolidated interim financial statements entered into by the Group were in the ordinary course of business, on normal commercial terms and in accordance with the terms of the agreements governing such transactions.

Saved 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.

Purchase, Sale And Redemption Of The Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

Compliance With The Code On Corporate Governance Practices

The Company has complied with all applicable code provision of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the six months ended 30 June 2006, except for the following deviations:

1. Code provision A.2.1

Under the code provision A.2.1 of the Code, 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 and was set out in writing.

2. Code provision A.4.1

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. However, all the non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of 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.

Compliance With The Code On Corporate Governance Practices *(Continued)*

3. Code provisions B.1.4 and C.3.4

Under the code provisions B.1.4 and C.3.4 of the Code, 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 established its own website in September 2006, the above requirement regard to provide such information on website was not met during the six months ended 30 June 2006. However, the terms of reference of the two committees are available on request.

Compliance With The Model Code For Securities Transactions 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 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2006. The Model Code also applies to other specified senior management of the Group.

Review Of Accounts

The audit committee has reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 and agreed to the accounting treatments adopted by the Company. In addition, the Company's external auditors have reviewed the unaudited condensed consolidated interim financial statements in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

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, 26 September 2006