



RICHE MULTI-MEDIA HOLDINGS LIMITED

豐采多媒體集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2004

INTERIM RESULTS

The board of directors (“the Board”) of Riche Multi-Media Holdings Limited (“the Company”) present the unaudited condensed consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30th June 2004 together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company’s audit committee and the auditors, Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2004

		Six months ended	
		30.6.2004	30.6.2003
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	3	31,451	66,396
Cost of sales		(24,936)	(30,320)
Gross profit		6,515	36,076
Other operating income		1,046	832
Administrative expenses		(18,495)	(12,274)
Selling expenses		(80)	(129)
Impairment loss recognised in respect of film rights		(2,032)	—
(Loss) profit from operations	4	(13,046)	24,505
Allowance for convertible notes issued by an associate		(24,000)	—
Finance costs		(169)	(169)
(Loss) profit before taxation		(37,215)	24,336
Taxation	5	—	—
Net (loss) profit for the period		(37,215)	24,336
(Loss) earnings per share	6		
Basic		(7.83) cents	5.12 cents
Diluted		(7.83) cents	4.87 cents

Notes:

1. Basis of Preparation

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

2. Principal Accounting Policies

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

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st December 2003. In addition the Group has adopted the following new accounting policy resulted from the acquisition of trading securities during the period.

Investments in securities

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

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

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

3. Segment Information

Business segments

Six months ended 30th June 2004

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

Six months ended 30th June 2003

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

4. (Loss) Profit From Operations

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

5. Taxation

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

6. (Loss) Earnings Per Share

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

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

	'000	'000
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	475,200	475,200
Effect of dilutive potential ordinary shares:		
Share options	—	3,324
Convertible notes	—	8,450
Number of ordinary shares for the purposes of diluted earnings per share	<u>475,200</u>	<u>486,974</u>

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

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

DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

It was a difficult first half-year of the Company in 2004. The introduction of macro economic control measures in the People's Republic of China (the "PRC") has caused negative effect to the Group. Turnover for the six months ended 30th June 2004 was HK\$31,451,000, a decrease of 52.63% compared with the same period in 2003. The decline in turnover was mainly due to a decrease in the number of film right sub-licensed, the relaxation of foreign films imported into the PRC and the drop in demand for video products in the PRC. The launch of new platforms in the PRC also resulted in an increase in operating costs which finally affected the Group's profit margins. As a result, the Group recorded a loss attributable to shareholders of HK\$37,215,000. Basic loss per share was HK\$7.83 cents compared with the earnings per shares of HK\$5.12 cents in 2003 period.

BUSINESS REVIEW

The Operating Review

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

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

Distribution of Films

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

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

Sub-licensing of Films Rights

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

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

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

Sales of Advertising Rights

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

PROSPECTS

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

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

THE FINANCIAL REVIEW

Liquidity and Financial Resources

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

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

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

Borrowings and Banking Facilities

At 30th June 2004, the Group's total borrowings were HK\$33,820,000 of which HK\$33,800,000 representing a convertible notes payable to First-Up Investments Limited, a wholly-owned subsidiary of China Star Entertainment Limited, which was unsecured, interest bearing at 1% per annum and maturing on 19th April 2005 and HK\$20,000 representing obligations under a finance lease which was secured, interest bearing and maturing on 5th April 2005.

The convertible notes carry the right to convert the whole or any part of the outstanding principal amount of the notes into ordinary shares of HK\$0.10 each in the share capital of the Company at HK\$4.00 per share at any time on or before 19th April 2005 and may be transferred in whole or in part of the outstanding principal amount by the holder of the notes. Prior to the maturity, neither the holder of the notes nor the Company has the right to redeem or request for redemption of the notes.

Treasury Policies

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

Foreign Exchange Exposure

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

Signed Distribution Agreements

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

Incorporation of Associated Company

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

Pledge and Charge of Group Assets

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

Contingent liabilities

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

HUMAN RESOURCES

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

In addition to staff costs incurred in relation to the above staff, the Group also bears the staffing costs of 56 people (2003: 61) who work for Tianjin Xinghui and Shanghai Shengping pursuant to the Group's sub-distributor or agency arrangements (as the case may be) with them.

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

AUDIT COMMITTEE

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

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR AND MEMBER OF AUDIT COMMITTEE

The Board is pleased to announced that Mr. Ho Wai Chi, Paul be appointed as an independent non-executive Director and a member of audit committee of the Company with effect from 30 September 2004.

Mr. Ho Wai Chi, Paul, aged 53, has over 20 years experience in corporate and listing affairs. He is the managing partner of Paul W. C. Ho & Company, Certified Public Accountants, and is an associate of the Institute of Chartered Accountants in England and Wales, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Social Sciences Degree in the University of Hong Kong.

Mr. Ho also holds directorships as independent non-executive director of China Star Entertainment Limited, Ngai Hing Hong Company Limited and Peking Apparel international Group Limited. Save as disclosed above, Mr. Ho did not hold any directorships in any members of the Company and any other listed companies in the past three years.

There is no service contract signed between Mr. Ho and the Company. Mr. Ho will have no fixed term of service with the Company and is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Bye-Laws of the Company. Mr. Ho will be entitled to a director’s fee of HK\$120,000 per annum which is determined by the Board with reference to his duties and responsibilities with the Company. Mr. Ho meets the independence requirements set out in rule 3.13 of the Listing Rules. Mr. Ho has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Ho is not connected with the Directors, chief executive, substantial shareholders or controlling shareholders of the Company or its subsidiaries or any of their respective associates.

The Board is not aware that there are any other matters that need to be brought to the attention of holders of securities of the Company in respect of the appointment of Mr. Ho.

RESIGNATION OF CHIEF EXECUTIVE OFFICER

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

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

Information that is required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
Heung Wah Keung
Chairman

Hong Kong, 24th September 2004

As at the date of this announcement, Mr Heung Wah Keung, Ms Chen Ming Yin, Tiffany and Mr Lei Hong Wai are the executive directors of the Company and Mr Lai Hok Lim and Mr Tang Chak Lam, Gilbert are the independent non-executive directors of the Company.

** for identification purpose only*

Please also refer to the published version of this announcement in The Standard.