



RICHE MULTI-MEDIA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 764)

2005 INTERIM RESULTS ANNOUNCEMENT

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

		Six months ended 30 June	
		2005	2004
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover		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	6		
— Basic and diluted		(0.32 cents)	(0.78 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2005 HK\$'000 (Unaudited)	31 December 2004 HK\$'000 (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	11,380	11,808
Film rights	8,602	9,236
Goodwill	4,400	4,400
Interests in associates	—	—
Club memberships	172	172
	<u>24,554</u>	<u>25,616</u>
CURRENT ASSETS		
Inventories	6	15
Film rights	702	1,105
Film rights deposits	14	14
Trade receivables	10,539	23,308
Deposits, prepayments and other receivables	51,248	4,584
Deposit with a related company	—	5,000
Financial assets at fair value through profit or loss	10,900	18,000
Available-for-sale financial assets	21,801	41,732
Amount due from an associate	—	300
Bank balances and cash	3,669	15,460
	<u>98,879</u>	<u>109,518</u>
CURRENT LIABILITIES		
Trade payables	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	33,800	549
Held to maturity financial liability	—	33,800
Taxation payable	23,131	22,969
	<u>67,148</u>	<u>64,310</u>
NET CURRENT ASSETS	<u>31,731</u>	<u>45,208</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>56,285</u>	<u>70,824</u>
EQUITY		
Share capital	47,540	47,520
Reserves	8,745	23,304
SHAREHOLDERS' FUNDS	<u>56,285</u>	<u>70,824</u>

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 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 audited condensed consolidated 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

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/liability

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

(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.

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 payments. 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 was expensed 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 results 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 were indications 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

Business Segments

	Six months ended 30 June 2005			
	Distribution	Sub-licensing	Sales of available-for-sale financial assets	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	<u>4,961</u>	<u>8,189</u>	<u>18,423</u>	<u>31,573</u>
Segment profit/(loss)	<u>1,646</u>	<u>460</u>	<u>(1,592)</u>	514
Unallocated corporate other income				536
Unallocated corporate expenses				<u>(16,173)</u>
Loss from operations				(15,123)
Finance costs				<u>(142)</u>
Loss before taxation				(15,265)
Taxation				<u>—</u>
Loss for the period				<u>(15,265)</u>

	Six months ended 30 June 2004			
	Distribution	Sub-licensing	Sales of available-for-sale financial assets	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
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>	(6,485)
Unallocated corporate expenses				<u>(6,561)</u>
Loss from operations				(13,046)
Allowance for convertible notes issued by an associate				(24,000)
Finance costs				<u>(169)</u>
Loss before taxation				(37,215)
Taxation				<u>—</u>
Loss for the period				<u>(37,215)</u>

(b) Geographical segments

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The People's Republic of China		
Excluding Hong Kong, Macau and Taiwan	12,978	31,190
Hong Kong and Macau	<u>18,595</u>	<u>261</u>
	<u>31,573</u>	<u>31,451</u>

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:		
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	<u>—</u>	<u>(794)</u>

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 purposes of basic and diluted loss per share net loss for the period	<u>(15,265)</u>	<u>(37,215)</u>
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>4,754,018</u>	<u>4,752,000</u>

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.

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 piracy. 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").

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 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
	<u>3,260,000</u>	<u>5,270,000</u>

Headcount

— Hong Kong and Macau	22	26
— the PRC	5	56
	<u>27</u>	<u>82</u>

In 2002, Gainful Fortune Limited (“Gainful”), 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 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. Gainful 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 and OSLL are holding of film rights.

For prudence, the Group has reviewed the carrying value of goodwill arising from the acquisition of Gainful 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.

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.

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 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 piracy 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.

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 previous 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 Group Limited (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 Group Limited (“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 its 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.

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.

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 least 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.

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.

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.

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 announcement, 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.

PUBLICATION OF INTERIM RESULTS ON STOCK EXCHANGE’S WEBSITE

A results announcement containing all the details required to be disclosed under paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules will appear later on the website of the Stock Exchange

By order of the Board
Heung Wah Keung
Chairman

Hong Kong, 27 September 2005

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