



RICHE MULTI-MEDIA HOLDINGS LIMITED
豐采多媒體集團有限公司*

(Incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH JUNE 2002

INTERIM RESULTS

The Board of Directors (“the Board”) of Riche Multi-Media Holdings Limited (“the Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30th June 2002.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2002

	Notes	Six months ended	
		30.6.2002 HK\$'000 (unaudited)	30.6.2001 HK\$'000 (unaudited and restated)
Turnover		42,085	25,869
Cost of sales		(13,067)	(18,361)
Gross profit		29,018	7,508
Other operating income		393	4,026
Administrative expenses		(17,282)	(13,641)
Selling expenses		(6)	(829)
Profit (loss) from operations	4	12,123	(2,936)
Finance costs		(68)	(83)
Loss on disposal of a subsidiary		(1,100)	—
Profit (loss) before taxation		10,955	(3,019)
Taxation	5	—	—
Net profit (loss) for the period		10,955	(3,019)
Earnings (loss) per share	6		
Basic		2.31 cents	(0.96) cents
Diluted		2.22 cents	N/A

Notes :

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention.

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 2001, except as described below.

(a) Additional accounting policies resulted from new activities during the period

Interests in associates

The consolidated income statement includes the Group’s share of the post acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group’s share of the net assets of the associates, less any identified impairment loss.

Convertible notes

Convertible notes are recognised as liabilities unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible notes is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible notes for each financial year.

The costs incurred in connection with the issue of convertible notes are charged to the consolidated income statement in the period of issue.

(b) Changes in presentation due to adoption of new and revised SSAPs

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has not resulted in any changes to the Group’s accounting policies that have affected the amounts reported for the current or prior periods. However, these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity. Accordingly, comparative disclosures have been restated in order to achieve a consistent presentation.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings, namely, operating, investing and financing, rather than the previous five headings. Interest received, which was previously presented under a separate heading, is classified under investing activities and interest paid are classified under operating activities. Cash flows arising from taxes on income are classified as operating activities unless they can be separately identified with investing or financing activities.

3. SEGMENT INFORMATION

Business segments

Six months ended 30th June 2002

	Distribution HK\$'000	Sub-licensing HK\$'000	Sales of advertising rights HK\$'000	Other HK\$'000	Consolidated HK\$'000
Turnover	14,485	16,000	11,600	—	42,085
Segment (loss) profit before amortisation of other asset	686	9,454	9,332	—	19,472
Amortisation of other asset	(4,758)	—	—	—	(4,758)
Segment (loss) profit	(4,072)	9,454	9,332	—	14,714
Unallocated corporate expenses					(2,591)
Profit from operations					12,123
Finance costs					(68)
Loss on disposal of a subsidiary					(1,100)
Profit before taxation					10,955
Taxation					—
Net profit for the period					10,955

Six months ended 30th June 2001

	Distribution HK\$'000	Sub-licensing HK\$'000	Sales of advertising rights HK\$'000	Other HK\$'000	Consolidated HK\$'000
Turnover	16,331	9,104	—	434	25,869
Segment (loss) profit	(5,630)	4,129	—	(1,435)	(2,936)
Finance costs					(83)
Loss before taxation					(3,019)
Taxation					—
Net loss for the period					(3,019)

* for identification purpose only

Geographic segments

The following table provides an analysis of the Group’s sales by location of markets, irrespective of the origin of the goods/services:

	Turnover Six months ended		Contribution to profit (loss) from operations Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Hong Kong and Macau	11,709	16,949	(456)	(11,091)
The People’s Republic of China excluding Hong Kong, Macau and Taiwan (the “PRC”)	30,376	—	15,170	—
North America	—	8,920	—	4,129
	42,085	25,869	14,714	(6,962)
Unallocated corporate (expenses) income			(2,591)	4,026
Profit (loss) from operations			12,123	(2,936)

4. PROFIT (LOSS) FROM OPERATIONS

	Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Amortisation of film rights (included in cost of sales)	10,209	5,017
Amortisation of other asset	4,758	—
Cost of inventories (included in cost of sales)	2,858	13,344
Depreciation and amortisation of property, plant and equipment:		
— owned assets	1,558	2,710
— leased assets	8	12
Loss on disposal of property, plant and equipment	935	—
Allowance for bad and doubtful debts	617	—
Staff costs	3,744	6,522
Interest income from bank deposits	(62)	(203)
Interest income from convertible notes	(329)	—

5. TAXATION

No tax is payable on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by estimated tax losses brought forward.

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses available to offset future profits as it is not certain that the estimated tax losses will be utilised in the foreseeable future.

6. EARNINGS (LOSS) PER SHARE

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

	Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share (net profit (loss) for the period)	10,955	(3,019)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	68	—
Adjustment to interest on convertible notes issued by an associate based on dilution of their earnings per share	(329)	—
Earnings (loss) for the purpose of diluted earnings (loss) per share	10,694	(3,019)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	475,200	313,586
Effect of dilutive potential ordinary shares:		
Share options	2,122	—
Convertible notes	3,408	—
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	480,730	313,586

The computation of diluted earnings per share in the current period does not assume the exercise of the Company’s warrants as the exercise price of these warrants is higher than the average market price for shares.

The weighted average number of ordinary shares for the period ended 30th June 2001 for the purpose of basic earnings per share has been adjusted for the bonus issue of shares in November 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group achieved a record profit of HK\$11.0 million for the six months ended 30th June 2002 with impressive growth as compared to the loss HK\$3.0 million recorded for the same period last year. Basic earnings per share grew to HK\$2.31 cents from loss HK\$0.96 cents in the comparable 2001 period. Turnover increased by 63% over the first half of 2001 to HK\$42.1 million. This significant growth was due to successfully exploration of new revenue resources.

BUSINESS REVIEW

The Group’s three core businesses, namely, distribution of programmes, sales of advertising rights and sub-licensing of programme rights, accounted for 34%, 38% and 28% of the Group’s total turnover respectively.

Distribution of programmes

For the six months ended 30th June 2002, turnover of distribution of programmes derived from Hong Kong and PRC amounted to HK\$14.5 million, representing a decrease of 11% compared with the same period last year. The first half of 2002 presented a challenging year for the global economy and was particularly difficult for Hong Kong Market. The operating environment remained difficult as the local economy continued to suffer sluggish growth brought about by the downturns in the stock and property markets, prevalent salary cuts and mounting unemployment rates. All these depressing factors in turn led to consumers’ reluctance to spend. In spite of these adverse circumstances, the Group succeeded in exploration of new revenue stream and recording a rise in turnover from distribution of programmes in PRC. In line with increasing market demand in PRC, the Group expanded its sales network. Distribution of home video products in PRC contributed the satisfying result at the current period. The acquisition of company in November 2001 enabled the Group to enjoy existing yield.

Sales of advertising rights

Diversification also brought the Group situating at the new spunky market. Over the last six months, advertisement placing on Group’s products created new revenue stream. Turnover amounted to HK\$11.6 million at the current period. The performance was excellent. The Group supports this change of marketing strategy that is appropriate to the future development of the Group.

Sub-licensing of programme rights

For the six months ended 30th June 2002, turnover of sub-licensing of programme rights amounted to HK\$16.0 million, representing an increase of 76% compared with the same period last year. The positive impact was derived from the increase of demand from hotel industry in PRC.

LIQUIDITY AND FINANCIAL RESOURCES

At the current period, the authorized share capital of the Company was increased from HK\$100,000,000, comprising 1,000,000,000 shares of HK\$0.1 each to HK\$200,000,000 comprising 2,000,000,000 shares of HK\$0.1 each in the share capital of the Company by the creation of 1,000,000,000 additional new shares of HK\$0.1 each. The Company issued 95,040,000 warrants by way of bonus to the shareholders on the basis of one warrant carrying the subscription rights of HK\$3.6 per share of HK\$0.1 each in the share capital of the Company for every five shares of HK\$0.1 each in the share capital of the Company held on 27th May 2002. The warrants may be exercised at any time on or after 17th June 2002 up to and including 16th June 2005.

Shareholders' fund as at 30th June 2002 was HK\$257.2 million compared from that of HK\$246.3 million as at 31st December 2001, representing an increase of HK\$10.9 million or 4%. The improvements are mainly due to the profit retained for the first half year. The Group had total assets of approximately HK\$386.4 million, comprising non-current assets of approximately HK\$338.1 million and current assets of approximately HK\$48.3 million, which were financed by current liabilities, non-current liabilities and shareholders' funds of approximately HK\$92.7 million, HK\$36.5 million and HK\$257.2 million respectively. Gearing ratio (total interest bearing debt over shareholders' fund) was 13% as at 30th June, 2002.

The Group disposed of its entire interest in Ocean Shores Licensing Limited to Gainful Fortune at a consideration of HK\$80 million. Gainful Fortune Limited ("Gainful Fortune") issued convertible notes in an aggregate amount HK\$160 million for the purchase of the hotel and intranet distribution rights in respect of an aggregate of up to 300 motion pictures in the PRC and the entire issued share capital of Ocean Shores Licensing Limited from the Group. The notes bear interest at 1% per annum which is payable yearly in arrears and will mature on 17th April 2005. On completion of the disposal of Ocean Shores Licensing Limited on 17th April 2002, the Group subscribed 40 issued shares of HK\$1 each in the share capital of Gainful Fortune at a par value of HK\$1, which represent 40% of the enlarged issued share capital of Gainful Fortune. These transactions were effected in order to generate other future opportunities for the Group in the North American video entertainment and multi-media market.

The Group maintained a solid financial position with no bank borrowings and cash on hand of over HK\$8.1 million as at the 30th June 2002. As most of the retained cash was placed in Hong Kong Dollar with major banks in the Hong Kong, exposure to exchange fluctuations has been minimal.

During the period, the Group and China Star Group entered into a licensing agreement pursuant to which China Star Group conditionally agreed to grant to the Group the licensing rights in the PRC (except Hong Kong, Macau and Taiwan) and Mongolia in respect of 116 movies for a term of 10 years from the date of completion of the licensing agreement at a total consideration of HK\$33.8 million. The consideration would be settled by the issue of convertible notes with principal amount of HK\$33.8 million by the Company.

The convertible notes bear interest at 1% per annum which will be payable semi-annually in arrears. The convertible notes will mature on three years from the date of the issue of the convertible notes and are redeemable only on the maturity date. The convertible notes carry the right at any time between the issue date and maturity to convert the whole or any part of the outstanding principal amount of the convertible notes into the Company's share at a conversion price of HK\$4 per share.

The Group finances its operations with internally generated resources and believes that it has a very healthy financial position.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2002, the Group employed approximately 17 full time management, administrative and production staff in Hong Kong. The Group follows market practice on remuneration packages. Employee's remuneration is reviewed and determined by senior management annually depending on the employee's performance, experience and industry practice. The Group also has a share option scheme whereby qualifying employees may be granted options to acquire shares of the Company.

PROSPECTS

To achieve business success against the backdrop of globalization, it is important to establish an innovative business model and adopt a cost effective and high value-added product mix. As such, the Group started to implement a restructuring exercise during the past year in order to reduce its operating costs, selling expenses and administrative expenses. The efforts were also made to explore new markets. As a result, the Group has successfully set foot in the video market of the PRC. Besides, it has also diverted its business focus onto developing the media business. Accordingly, the Company was renamed as Riche Multi-Media Holdings Limited in May 2002 to reflect its future directions and market positioning.

Taking into account the orders and sales contracts placed by customers for delivery in the third and fourth quarters of 2002, it is expected that the business of the Group will continue to prosper in the second half. Therefore the Group is confident that its growth rate for the second half will remain as strong as that for the first half. The expected robust sales are mainly derived from the PRC. Under the challenging economic environment, the Group's brilliant management and operating team managed to seek new opportunities and secure a number of advertising contracts for its multi-media products, effectively adding value to these products. While the advertising revenue from such products is far from significant at the beginning stage, the management is optimistic about the long-term profitability of this business segment. What is more, the management considers that this business segment is probably the major driving force for the Group's business growth in the coming quarters.

Besides, the Group has also released a number of movie hits in the first half of the year, including the sci-fi genre "The Wesley's Mysterious File", starring Andy Lau, Rosamund Kwan and Shu Qi.

The strategy of the Group is to expand its existing businesses in mainland China systematically. In the second half of the year, the Group will continue to assess new market potential in a prudent manner, so as to broaden its scope of operation on the mainland within its realm of specialties. It will also strive to increase its market share in such cities it has already established presence to surpass its original target set early in the year.

Last but not least, I would like to express my gratitude to the Directors and other staff of the Group for their dedication and hard work during the past six months, which contributed to the successful results of the Group.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30th June 2002.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 re-election at the annual general meeting in accordance with the Company's articles of association.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30th June 2002.

Disclosure of information on the Stock Exchange's website

Information that is required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange of Hong Kong Limited's website in due course.

By order of the Board
Lei Hong Wai
Executive Director