

universe

寰宇

UNIVERSE INTERNATIONAL HOLDINGS LIMITED

寰宇國際控股有限公司

Incorporated in Bermuda with limited liability

於百慕達註冊成立之有限公司

INTERIM REPORT 中期報告 2003-2004

universe

## Corporate Information

### Executive Directors

Lam Shiu Ming, Daneil (*Chairman*)  
Chiu Suet Ying

### Non-executive Directors

Ng Kwok Tung  
Chiu Shin Koi

### Company Secretary

Chan Hau Chuen

### Authorised Representatives

Lam Shiu Ming, Daneil  
Chan Hau Chuen

### Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited  
Wing Hang Bank, Limited  
Liu Chong Hing Bank Limited  
Citic Ka Wah Bank Limited

### Auditors

PricewaterhouseCoopers  
*Certified Public Accountants*

## **Corporate Information** *(Continued)*

### **Share Registrar**

Abacus Share Registrars Limited  
G/F., Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

### **Audit Committee**

Ng Kwok Tung  
Chiu Shin Koi

### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### **Head Office and Principal Place of Business**

18th Floor  
Wylar Centre Phase II  
192-200 Tai Lin Pai Road  
Kwai Chung  
New Territories  
Hong Kong

### **Website**

[www.uih.com.hk](http://www.uih.com.hk)  
[www.u333.com](http://www.u333.com)

The Board of Directors of Universe International Holdings Limited (the “Company”) announces the unaudited condensed consolidated profit and loss account, the unaudited condensed consolidated cash flow statement and the unaudited condensed consolidated statement of changes in equity of the Company and its subsidiaries (the “Group”) for the six months ended 31st December 2003, and the unaudited condensed consolidated balance sheet as at 31st December 2003 as follows:—

## Condensed Consolidated Profit and Loss Account

		<b>Unaudited</b>	
		<b>For the six months ended</b>	
		<b>31st December</b>	
		<b>2003</b>	2002
			(Restated)
	<i>Note</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Turnover	2	<b>120,800</b>	158,444
Cost of sales		<b>(106,791)</b>	(134,615)
Gross profit		<b>14,009</b>	23,829
Other revenue		<b>63</b>	291
Other operating income		<b>5,858</b>	958
Selling expenses		<b>(1,711)</b>	(2,328)
Administrative expenses		<b>(11,902)</b>	(15,154)
Other operating expenses		<b>(604)</b>	(1,765)
Operating profit	3	<b>5,713</b>	5,831
Finance costs		<b>(361)</b>	(603)
Profit before taxation		<b>5,352</b>	5,228
Taxation	4	<b>(970)</b>	(3,012)
Profit attributable to shareholders		<b>4,382</b>	2,216
Basic earnings per share ( <i>HK cents</i> )	5	<b>0.33</b>	0.21
Fully diluted earnings per share ( <i>HK cents</i> )	5	<b>N/A</b>	N/A

## Condensed Consolidated Balance Sheet

		Unaudited At 31st December 2003 <i>HK\$'000</i>	Restated At 30th June 2003 <i>HK\$'000</i>
Non current assets	<i>Note</i>		
Fixed assets	6	78,691	92,684
Film rights and films in progress	6	104,549	71,028
Interest in associated company		3,448	1,800
Deferred tax assets		4,712	6,338
		<u>191,400</u>	<u>171,850</u>
Current assets			
Film deposits		34,040	36,428
Inventories		17,751	19,033
Accounts receivable	7	41,799	16,442
Deposits paid and prepayments		8,262	7,370
Pledged bank deposits		4,000	4,000
Bank balances and cash		78,208	39,354
		<u>184,060</u>	<u>122,627</u>
Current liabilities			
Accounts payable	8	12,909	9,866
Other payables, deposit received and accrued charges		34,306	26,440
Due to ultimate holding company		9	76
Obligations under finance leases	10	994	4,801
Taxation payable		947	854
Secured bank loans	9	6,386	6,255
		<u>55,551</u>	<u>48,292</u>
Net current assets		<u>128,509</u>	<u>74,335</u>
Total assets less current liabilities		<u>319,909</u>	<u>246,185</u>
Financed by:			
Share capital	11	32,492	19,128
Reserves		262,764	197,416
Shareholders' fund		295,256	216,544
Non-current liabilities			
Other long-term liabilities	9	15,561	18,849
Deferred tax liabilities		9,092	10,792
		<u>319,909</u>	<u>246,185</u>

## Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 31st December	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash inflow from operating activities	<b>62,412</b>	90,705
Net cash outflow in investing activities	<b>(90,924)</b>	(70,909)
Net cash inflow / (outflow) in financing activities	<b>67,366</b>	(52,024)
Increase / (decrease) in cash and cash equivalents	<b>38,854</b>	(32,228)
Cash and cash equivalents at 30th June	<b>39,354</b>	91,623
Cash and cash equivalents at 31st December	<b>78,208</b>	59,395

## Condensed Consolidated Statement of Changes in Equity

	Unaudited					
	Share capital HK\$'000	Share premium HK\$'000	Reserve arising on consolidation HK\$'000	Investment property revaluation HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2003, as previously reported	19,128	66,254	821	346	133,284	219,833
Changes in accounting policy — provision for net deferred tax liabilities (note 1)	—	—	—	(61)	(3,228)	(3,289)
As restated	<u>19,128</u>	<u>66,254</u>	<u>821</u>	<u>285</u>	<u>130,056</u>	<u>216,544</u>
Profit for the period	—	—	—	—	4,382	4,382
Issue of shares (note 11(a) & (b))	13,364	60,966	—	—	—	74,330
At 31st December 2003	<u>32,492</u>	<u>127,220</u>	<u>821</u>	<u>285</u>	<u>134,438</u>	<u>295,256</u>
	Unaudited					
	Share capital HK\$'000	Share premium HK\$'000	Reserve arising on consolidation HK\$'000	Investment property revaluation HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2002, as previously reported	19,128	66,254	821	—	162,740	248,943
Changes in accounting policy — provision for net deferred tax liabilities (note 1)	—	—	—	—	(2,968)	(2,968)
As restated	<u>19,128</u>	<u>66,254</u>	<u>821</u>	<u>—</u>	<u>159,772</u>	<u>245,975</u>
Profit for the period, as previously reported	—	—	—	—	4,131	4,131
Changes in accounting policy — provision for net deferred tax liabilities (note 1)	—	—	—	—	(1,915)	(1,915)
As restated	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,216</u>	<u>2,216</u>
At 31st December 2002	<u>19,128</u>	<u>66,254</u>	<u>821</u>	<u>—</u>	<u>161,988</u>	<u>248,191</u>

## Notes to condensed accounts

### 1. Basis of preparation and principal accounting policies

These unaudited consolidated condensed financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

These condensed financial statements should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 30th June 2003 except that the Group has changed certain of its accounting policies following its adoption of SSAP12 (revised) "Income Tax" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

In accordance with SSAP12 (revised) "Income Tax", deferred taxation is now provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained earnings at 1st July 2002 and 2003 have been reduced by HK\$2,968,000 and HK\$3,289,000 respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 30th June 2003 by HK\$6,338,000 and HK\$9,627,000 respectively. The profit for the six months ended 31st December 2002 has been reduced by HK\$1,915,000.



2. Segment information

The Group is principally engaged in the distribution of films in various videogram formats, licensing and sub-licensing of film rights, film exhibition and leasing of investment property and machineries for replication of optical discs.

The Group is organised into three segments:

- Distribution of films in various videogram formats
- Licensing, sub-licensing of film rights and film exhibition
- Leasing of investment property and machineries for replication of optical discs

The Group's inter-segment transactions mainly consist of licensing of film rights, which are transferred at cost.

An analysis of the Group's turnover and results for the period by business segments is as follows:—

	6 months ended 31st December 2003				
	Sale of goods HK\$'000	Licensing, sub-licensing of film rights and film exhibition HK\$'000	Leasing of investment property and machineries for replication of optical discs HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover					
External sales	68,622	45,668	6,510	—	120,800
Inter-segment sales	—	44,660	—	(44,660)	—
	<u>68,622</u>	<u>90,328</u>	<u>6,510</u>	<u>(44,660)</u>	<u>120,800</u>
Segment results	<u>4,487</u>	<u>659</u>	<u>504</u>		5,650
Other revenue					63
Finance costs					(361)
Profit before taxation					5,352
Taxation					(970)
Profit attributable to shareholders					<u>4,382</u>

## 2. Segment information (Continued)

	6 months ended 31st December 2002				
	Sale of goods and replication of optical discs HK\$'000	Licensing, sub-licensing of film rights and film exhibition HK\$'000	Leasing of investment property and machineries for replication of optical discs HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover					
External sales	117,963	39,139	1,342	—	158,444
Inter-segment sales	—	10,178	—	(10,178)	—
	<u>117,963</u>	<u>49,317</u>	<u>1,342</u>	<u>(10,178)</u>	<u>158,444</u>
Segment results	<u>3,758</u>	<u>1,813</u>	<u>(31)</u>		5,540
Other revenue					291
Finance costs					(603)
Profit before taxation					5,228
Taxation					(3,012)
Profit attributable to shareholders					<u>2,216</u>

2. Segment information (Continued)

Distribution of films in various videogram formats and leasing of investment property and machineries for replication of optical discs are solely operated in Hong Kong and Macau, while the Group operates its licensing, sub-licensing of film rights and film exhibition in four main geographical areas.

An analysis of the Group's turnover and contribution to operating profit for the period by geographical segments is as follows:—

	Turnover 6 months ended 31st December		Operating profit 6 months ended 31st December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Geographical segment:				
Hong Kong and Macau	94,538	149,832	611	4,485
Asia (other than Hong Kong and Macau)	24,893	7,347	4,202	854
North America	1,295	1,165	816	190
Others	74	100	21	11
	<u>120,800</u>	<u>158,444</u>	<u>5,650</u>	<u>5,540</u>
Other revenue			63	291
Operating profit			<u>5,713</u>	<u>5,831</u>

3. Operating profit

Operating profit is stated after crediting and charging the following:

	6 months ended 31st December	
	2003 HK\$'000	2002 HK\$'000
Crediting		
Interest income	63	291
Gain on disposal of fixed assets	2,196	—
	<u>2,259</u>	<u>291</u>
Charging		
Depreciation:		
— owned fixed assets	9,600	6,452
— leased fixed assets	1,521	5,850
Cost of inventories sold	24,022	36,675
Write-off of film rights	259	260
Amortisation of film rights	60,562	88,389
Staff costs	8,765	16,197
Loss on disposal of fixed assets	—	196
	<u>(96,230)</u>	<u>(147,910)</u>

#### 4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

The amount of taxation charged to the consolidated profit and loss account represents:

	6 months ended 31st December	
	2003 <i>HK\$'000</i>	2002 (Restated) <i>HK\$'000</i>
Hong Kong profits taxation	1,043	1,097
Deferred taxation relating to the origination and reversal of temporary differences	(73)	1,105
Deferred taxation resulting from an increase in tax rate	—	810
Taxation charge	<u>970</u>	<u>3,012</u>

#### 5. Earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to shareholders of HK\$4,382,000 (2002: HK\$2,216,000 (restated)) and the weighted average of 1,331,695,020 ordinary shares, (2002: 1,074,815,452 ordinary shares, as restated) in issue during the period, as adjusted to reflect the rights issue during the period.

The diluted earnings per share for the period ended 31st December 2002 has not been calculated as there was no dilution effect after taking into account of all potential ordinary shares under the share option scheme.

The diluted earnings per share for the period ended 31st December 2003 has not been presented as there was no outstanding option as at 31st December 2003.

6. Capital expenditures

	6 months ended 31st December 2003	
	Film rights and films in progress <i>HK\$'000</i>	Fixed assets <i>HK\$'000</i>
Opening net book amount	71,028	92,684
Additions	94,342	541
Disposals	—	(3,413)
Amortisation charge/depreciation (note 3)	(60,562)	(11,121)
Written off	(259)	—
	<u>104,549</u>	<u>78,691</u>
Closing net book amount	<u>104,549</u>	<u>78,691</u>

7. Accounts receivable

At 31st December 2003, the ageing analysis of the accounts receivable was as follows:—

	31st December 2003 <i>HK\$'000</i>	30th June 2003 <i>HK\$'000</i>
Current to 90 days	33,814	10,616
90 to 180 days	1,972	1,512
Over 180 days	6,013	4,314
	<u>41,799</u>	<u>16,442</u>

Sales from licensing and sub-licensing of film rights and film exhibition are on open account terms. The sale of video products and other services are with credit terms of 7 days to 60 days.

## 8. Accounts payable

At 31st December 2003, the ageing analysis of the accounts payable was as follows:—

	31st December 2003 <i>HK\$'000</i>	30th June 2003 <i>HK\$'000</i>
Current to 90 days	4,101	4,462
90 to 180 days	166	345
Over 180 days	<u>8,642</u>	<u>5,059</u>
	<u><u>12,909</u></u>	<u><u>9,866</u></u>

## 9. Other long-term liabilities

	31st December 2003 <i>HK\$'000</i>	30th June 2003 <i>HK\$'000</i>
Secured bank loans	21,725	24,841
Obligations under finance leases ( <i>note 10</i> )	<u>1,216</u>	<u>5,064</u>
	<u>22,941</u>	29,905
Current portion of long-term liabilities	<u>(7,380)</u>	<u>(11,056)</u>
	<u><u>15,561</u></u>	<u><u>18,849</u></u>

At 31st December 2003, the Group's bank loans (excluding obligations under finance leases) were repayable as follows:

	Bank loans	
	31st December 2003 <i>HK\$'000</i>	30th June 2003 <i>HK\$'000</i>
Within one year	6,386	6,255
In the second year	6,541	6,441
In the third to fifth year	6,257	10,318
After the fifth year	<u>2,541</u>	<u>1,827</u>
	<u>21,725</u>	<u>24,841</u>

10. Obligations under finance leases

	31st December 2003 <i>HK\$'000</i>	30th June 2003 <i>HK\$'000</i>
Within one year	1,003	4,855
In the second year	78	144
In the third to fifth year	144	125
	<u>1,225</u>	<u>5,124</u>
Future finance charges on finance leases	(9)	(60)
Present value of obligations under finance leases	<u><u>1,216</u></u>	<u><u>5,064</u></u>

The present value of obligations under finance leases is as follows:

Within one year	994	4,801
In the second year	78	138
In the third to fifth year	144	125
	<u>1,216</u>	<u>5,064</u>

11. Share capital

	Authorised Ordinary shares	
	No. of shares	<i>HK\$'000</i>
At 1st July 2003 and 31st December 2003	<u>5,000,000,000</u>	<u>100,000</u>

	Issued and fully paid Ordinary shares	
	No. of shares	<i>HK\$'000</i>
At 1st July 2003	956,403,580	19,128
Issue of share	<u>668,201,790</u>	<u>13,364</u>
At 31st December 2003	<u><u>1,624,605,370</u></u>	<u><u>32,492</u></u>

- (a) On 8th September 2003, a rights issue on the basis of one rights share for every two existing shares held by shareholders on the register of member on 19th August 2003 was made, at an issue price of HK\$0.08 per right shares, resulting in the issue of 478,201,790 shares of HK\$0.02 each for a total consideration, before share issue expenses, of approximately HK\$38,256,000.

## 11. Share capital (Continued)

- (b) On 1st December 2003, 190,000,000 shares of HK\$0.02 each were issued at HK\$0.2 per share to a third party for cash. The excess over the par value of the shares issued was credited to the share premium account.

## 12. Commitments

At 31st December 2003, the Group had commitments contracted but not provided for in these accounts as follows:

	<b>31st December 2003 HK\$'000</b>	30th June 2003 HK\$'000
Purchase of film rights/film production	<u>50,786</u>	<u>72,121</u>

## 13. Contingent liabilities

### *Pending litigations*

A Court of First Instance Action No. 1438 of 2002 was commenced in Hong Kong on 17th April 2002 by The Star Overseas Limited ("Star"), an independent third party, against Universe Entertainment Limited ("UEL"), a wholly-owned subsidiary of the Company.

By the above action, Star alleges that a sum of US\$935,871.65 (equivalent to HK\$7,299,798.84) was payable by UEL to Star as its share of the revenue of the movie entitled "Shaolin Soccer" (the "Movie").

Pursuant to an Order (the "Order") made by the High Court of Hong Kong on 21st February 2003, UEL was ordered and has paid to Star a sum of HK\$5,495,699.80, being part of the licence fee of the Movie received by UEL from Miramax Films (being the licensee of the Movie) and which was also part of the sum claimed by Star. Pursuant to the Order, UEL is also liable to pay Star an interest in the sum of HK\$350,905.30 and some of the costs of the application leading to the making of the Order, which has been fully settled. As the Order has not disposed of all the claims of US\$935,871.65 (equivalent to HK\$7,299,798.84) by Star, UEL is entitled to continue to defend the claim by Star for recovering the remaining balance in the sum of approximately HK\$1,804,099.04 (HK\$7,299,798.84 less HK\$5,495,699.80).

On 30th April 2002, UEL issued a Writ of Summons under Court of First Instance Action No. 1642 of 2002 against Star for inter alia the latter's wrongful exploitations of certain rights co-owned by both parties. UEL claimed to recover inter alia loss and damages suffered by UEL or account of profits as a result of the said wrongful exploitations.

On 9th September 2002, Universe Laser & Video Co. Limited ("ULV"), a wholly owned subsidiary of the Company issued a Writ of Summons under Court of First Instance Action No. 3447 of 2002 against Star for infringement of certain rights of and/or in relation to the Movie licenced to ULV. ULV claimed for inter alia an injunction restraining any further



### 13. Contingent liabilities (Continued)

infringement of the licenced rights and to recover loss and damages suffered by ULV or account of profits as a result of the said infringement. On the other hand, Star defended that the licenced rights were granted to ULV by mistake and accordingly counterclaims for inter alia rectification of the relevant licence agreement.

In the opinion of legal counsel, it is premature to predict the outcome of the claims and counterclaims made against UEL and ULV respectively. However, the Board of directors are of the opinion that the outcome of the respective claims and counterclaims against UEL and ULV will not have material financial effect on the Group.

Save as disclosed above, as at 31st December 2003, no litigation or claim of material importance is known to the Directors to be pending against either the Company or any of its subsidiaries.

### 14. Related party transactions

There is no material related party transaction undertaken by the Group at any time of during the six months ended 31st December 2003.

## Interim Dividend

The Board of Directors does not recommend the payment of an interim dividend in respect of the six months ended 31st December 2003 (2002: Nil).

## Review of Operations

### Overall Group results

The Group's unaudited consolidated turnover for the six months ended 31st December 2003 was approximately HK\$120.8 million, representing a decrease by about 23.8% over the same period last year. Nevertheless, profit attributable to shareholders was HK\$4.4 million (2002: HK\$2.2 million (restated)). Earnings per share for the period were 0.33 cents compared with 0.21 cents (restated) during the corresponding period in 2002.

#### *Video distribution*

Turnover of video distribution declined substantially by 43.2% to HK\$66.6 million compared with HK\$117.3 million during the same period last year. The lower turnover of video distribution was the main reason for the Group's low turnover in the six months ended 31st December 2003. Consequently, the contribution of video distribution to the Group's total turnover decreased from 74.4% previously to about 55.1% in the six months ended 31st December 2003.

## Review of Operations *(Continued)*

### Overall Group results *(Continued)*

#### *Video distribution (Continued)*

Despite signs of an upturn in Hong Kong economy in the second half of 2003, the local video distribution market has remained stagnant. With the keen competition and in order to maintain sales from video distribution, the Group continued to adopt an aggressive pricing policy. There was also increasing competition in terms of acquisition of film rights within the industry as there was a lack of supply of good quality films. In view of this, the Group has continued to increase investments in producing its own films, which it will own all rights, including video distribution rights.

Consequent to the above investment strategy, the number of titles which will be available for video distribution will likely decrease. This is due to the fact that the financial requirements to produce a film are normally higher than those to acquire video distribution rights. The advantage of producing its own film is that the Group will own all the rights in respect of such films, including film exhibition and licensing rights. This will in turn enhance the Group's income from film exhibition and film licensing as discussed below.

#### *Film exhibition, film licensing and sub-licensing*

During the period under review, turnover derived from film exhibition, film licensing and sub-licensing increased by 16.8% to HK\$45.7 million compared with HK\$39.1 million in the previous period. The increase was attributable to the Group's continued investments in film production and the release of several popular films such as "Heroic Duo" and "The Death Curse" during the period under review. The increased demand from the Southeast Asian markets as economic conditions improved also boosted sales.

A positive development for this business segment is the new market for film exhibition of co-produced films in the PRC. Such films, which are co-produced by the Group and partners in the PRC, have seen encouraging box-office in the local PRC markets and such source of income was previously unavailable. Consequently, income from the PRC increased by about five times.

Despite the increase in turnover, result of this business segment declined to about HK\$0.7 million due to substantial increase in marketing costs. These marketing costs, which are incurred initially at the launch of the films, were important in promoting the popularity of new films. The popularity of films at the box office will in turn impact on the subsequent revenue from video distribution and film licensing.

## Prospects

The Directors are optimistic with the immense potentials of the PRC market. The signing of the Closer Economic Partnership Arrangement (CEPA) is expected to relax the regulations governing the film industry in the PRC and will provide the Group with wider access to the PRC.

The Group plans to capitalise on the opportunities for exhibition of co-produced films in the PRC by increasing the production of these films with their PRC partners. In addition, a film co-produced by the Group and a partner in Thailand will commence shooting and the Group hopes to leverage on such effort to explore potential markets in various regions by co-operating with their local production companies. Apart from its own production, the Group will continue to source for good quality films for its video distribution business.

The first television series entitled “Kung-fu Soccer” presented by the Group is expected to be released soon. Response from customers to this television series has been encouraging and its release is expected to contribute positively to the Group. To continue with this business diversification strategy, the Group has commenced on the planning of another television series production.

To further vertically integrate the Group’s business and with a view to enhance profitability, the Group has entered into a memorandum of understanding (the “MOU”) with 廣東省電影公司 (“GD Film”) in November 2003. The MOU relates to a proposal to set up a sino-foreign equity joint venture company (the “JV”) to invest in and operate cinemas in the PRC. The Group believes that the cinema industry in the PRC is booming. With GD Film’s extensive distribution network as well as its expertise and knowledge in operating cinemas in the PRC, the Group believes that the setting up of the JV will have a synergistic effects on the Group.

## Financial Resources/Liquidity and Capital Structure

As at 31st December 2003, the Group had cash balances and unutilised banking facilities of approximately HK\$82.2 million and HK\$65.0 million respectively.

As at 31st December 2003, the Group had total assets of approximately HK\$375.5 million, representing an increase of HK\$81.0 million over that of 30th June 2003. Such increase was mainly due to the issue of new shares by the way of the rights issue and the placing on 8th September 2003 and 1st December 2003 respectively.

## Financial Resources/Liquidity and Capital Structure *(Continued)*

The Group's gearing ratio as at 31st December 2003 was approximately 7.8% (30th June 2003: 13.8% (restated)), which was calculated on the basis of the Group's long term bank borrowings of approximately HK\$22.9 million (of which HK\$7.4 million, HK\$6.6 million, HK\$6.4 million and HK\$2.5 million are repayable within one year, in the second year, in the third to fifth year and after fifth year respectively) and on the shareholders fund of approximately HK\$295.3 million. The significant reduction was mainly due to the new share issued during the period.

Finance costs have been reduced by 40.1%, mainly due to a drop in interest expenses as a result of the Group's reduced borrowings and lowered interest rates.

In light of the fact that most of the Group's transactions were denominated in Hong Kong Dollars and US Dollars, the management considered the exposure to exchange rate fluctuation is limited and no financial instruments for hedging purposes were used.

## The Pledge of Group Assets

As at 31st December 2003, bank balances and certain fixed assets of the Group with aggregate carrying value of approximately HK\$63.5 million (30th June 2003: HK\$78.8 million) were pledged to secure banking facilities utilized by its subsidiaries.

## Employees and Remuneration Policies

As at 31st December 2003, the Group employed 126 staffs (30th June 2003: 116). Remuneration is reviewed annually and certain staff members are entitled to commission. In addition to basic salaries, staff benefits include discretionary bonus, medical insurance scheme and mandatory provident fund.

## Share Option

Pursuant to a resolution passed in the annual general meeting held on 26th November 2003, the Company has adopted a new share option scheme (the "New Scheme") in compliance with the Listing Rules and terminated the old share option scheme (the "Old Scheme").

## Share Option *(Continued)*

On 30th June 2003, all the share options granted under the Old Scheme were surrendered and cancelled.

There was no share options granted under the New Scheme for the period from 26th November 2003 to 31st December 2003.

## Directors' Interests in Equity or Debt Securities

As at 31st December 2003, the interests (including short positions) of each of the directors and chief executive of the Company in the share capital of the Company and its associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Sections 341, 342 and 343 of the SFO (including interest which any such director was taken to have under Sections 344 and 345 of the SFO) or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Companies (the "Model Code") were as follows:

Name of Director	Nature of interest	Number of share of the Company held	Percentage of shareholding
LAM Shiu Ming, Daneil	Founder of a discretionary trust ( <i>Note</i> )	865,131,705	53.25%

*Note: The trustee of the discretionary trust is Central Core Resources Limited which owns the entire issued share capital of the Globalcrest Enterprises Limited which in turn is interested in 865,131,705 shares of the Company.*

Save as disclosed above, as at 31st December 2003, none of the directors or chief executives of the Company or their associates had any interests (including short positions) in the share capital of the Company or any of its associated corporations where were required to be notified to the Company and the Stock Exchange pursuant to Sections 341,342 and 343 of the SFO (including interests which they were deemed or taken to have under Sections 344 and 345 of the SFO) or the Model Code or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

## Directors' Interests in Equity or Debt Securities *(Continued)*

Save as disclosed above, none of the directors (including their spouse and children under 18 years of age) had been granted, or exercised, any rights to subscribe for shares of the Company.

In addition, at no time during the period was the Company, its holding company, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Substantial Shareholders

At 31st December 2003, in accordance with the register kept by the Company under Section 336 of the SFO, the following persons were interested in the issued share capital of the Company (including short positions) representing 5% or more of the issued share capital of the Company:

Name of shareholder	Number of shares of the Company held	Percentage of shareholding
Globalcrest Enterprises Limited <i>(Note)</i>	865,131,705	53.25%
Central Core Resources Limited <i>(Note)</i>	865,131,705	53.25%
Value Partners A Fund	89,384,025	5.50%
Pan Asia Special Opportunities Fund	83,464,285	5.14%

*Note: The entire issued share capital of the Globalcrest Enterprises Limited is held by Central Core Resources Limited, the trustee of a discretionary trust under which certain immediate family members of Mr LAM Shiu Ming, Daneil and Ms CHIU Suet Ying are discretionary objects.*

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period.

## Purchase, Sale or Redemption of the Company's Listed Securities

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

## Use of Net Proceeds

In September 2003, the Group raised net proceeds (after expense) of approximately HK\$37.7 million from a rights issue. The whole net proceed was applied for the film production and the acquisition of film right for the period under review.

In December 2003, the Group raised net proceed (after expenses) of approximately HK\$36.6 million by placing 190,000,000 shares. As stated in the announcement dated 17th November 2003, the Group intends to use the net proceed to finance the proposed setting up of sino-foreign equity joint venture company to invest in and operate cinema business in the PRC (the "Proposed Transaction"), there was no material cost had been incurred for the Proposed Transaction as at 31st December 2003. This Proposed Transaction is progressing where feasibility studies on, among other things, locations for operating the cinemas are being conducted.

## Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed financial statements for the six months ended 31st December 2003 with the management.

## Compliance with the Code of Best Practice of the Listing Rules

The Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited throughout the period.

By the Order of the Board  
**Lam Shiu Ming, Daneil**  
*Chairman and Managing Director*

Hong Kong, 25th March 2004



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