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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

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Interim Report 中期報告 2004 - 2005

CORPORATE INFORMATION

Executive Directors

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

Independent Non-executive Directors

Ng Kwok Tung
Chiu Shin Koi
Ma Ting Hung

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

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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
Ma Ting Hung

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

18th Floor
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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 2004, and the unaudited condensed consolidated balance sheet as at 31st December 2004 as follows:—

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		For the six months ended	
		31st December	
		2004	2003
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	2	101,028	120,800
Cost of sales		(77,802)	(106,791)
Gross profit		23,226	14,009
Other revenue		154	63
Other operating income		466	5,858
Selling expenses		(1,252)	(1,711)
Administrative expenses		(11,692)	(11,902)
Other operating expenses		(5,187)	(604)
Operating profit	3	5,715	5,713
Finance costs		(197)	(361)
Share of loss of an associated company		(544)	—
Profit before taxation		4,974	5,352
Taxation	4	(645)	(970)
Profit attributable to shareholders		4,329	4,382
Basic earnings per share (<i>HK cents</i>)	5	0.27	0.33
Fully diluted earnings per share (<i>HK cents</i>)	5	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited At 31st December 2004 HK\$'000	Audited At 30th June 2004 HK\$'000
	<i>Note</i>		
Non current assets			
Fixed assets	6	66,661	73,255
Film rights and films in progress	6	90,548	89,672
Interest in associated company		8,216	1,632
Deferred tax assets		4,825	5,763
Long-term bank deposit		7,800	7,800
		178,050	178,122
Current assets			
Film deposits		28,111	30,625
Inventories		15,699	16,342
Accounts receivable	7	41,076	36,258
Deposits paid and prepayments		13,894	5,552
Trading securities		—	545
Tax recoverable		—	61
Pledged bank deposits		4,000	4,000
Bank balances and cash		74,578	75,543
		177,358	168,926
Current liabilities			
Accounts payable	8	11,716	16,411
Other payables and accrued charges		5,312	6,682
Deposits received		38,717	24,952
Due to ultimate holding company		80	83
Obligations under finance leases	10	77	165
Taxation payable		94	—
Secured bank loans	9	6,546	6,487
		62,542	54,780
Net current assets		114,816	114,146
Total assets less current liabilities		292,866	292,268
Financed by:			
Share capital	11	32,492	32,492
Reserves		250,237	245,908
Total capital and reserves		282,729	278,400
Other long-term liabilities	9	8,916	12,232
Deferred tax liabilities		1,221	1,636
		292,866	292,268

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	31st December	
	2004	2003
	HK\$'000	HK\$'000
Net cash inflow from operating activities	64,883	62,412
Net cash outflow in investing activities	(62,503)	(90,924)
Net cash (outflow)/inflow in financing activities	(3,345)	67,366
(Decrease)/increase in cash and cash equivalents	(965)	38,854
Cash and cash equivalents at 30th June	75,543	39,354
Cash and cash equivalents at 31st December	74,578	78,208

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Reserve arising on consolidation HK\$'000	Investment property revaluation reserve HK\$'000	Retained earnings HK\$'000	
At 1st July 2004	32,492	127,211	821	2,955	114,921	278,400
Profit for the period	—	—	—	—	4,329	4,329
At 31st December 2004	<u>32,492</u>	<u>127,211</u>	<u>821</u>	<u>2,955</u>	<u>119,250</u>	<u>282,729</u>

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Reserve arising on consolidation HK\$'000	Investment property revaluation reserve HK\$'000	Retained earnings HK\$'000	
At 1st July 2003	19,128	66,254	821	285	130,056	216,544
Profit for the period	—	—	—	—	4,382	4,382
Issue of shares	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>

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NOTES TO CONDENSED ACCOUNTS

1. Basis of preparation and principal accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants.

These condensed accounts should be read in conjunction with the 2004 annual accounts.

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 2004.

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 properties and machinery for replication of optical discs.

The Group is organised into the following main business segments:

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

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

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2. Segment information *(Continued)*

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

	6 months ended 31st December 2004					
	Sale of goods	Licensing and sub-licensing of film rights and film exhibition	Leasing of investment properties and machinery for replication of optical discs	Others	Elimination	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
External sales	40,910	55,601	2,803	1,714	—	101,028
Inter-segment sales	—	3,843	—	67	(3,910)	—
	<u>40,910</u>	<u>59,444</u>	<u>2,803</u>	<u>1,781</u>	<u>(3,910)</u>	<u>101,028</u>
Segment results before impairment losses	895	10,954	(2,016)	641		10,474
Impairment losses of film rights	(472)	(3,583)	—	—		(4,055)
Segment results	<u>423</u>	<u>7,371</u>	<u>(2,016)</u>	<u>641</u>		6,419
Unallocated cost						(858)
Other revenue						154
Finance costs						(197)
Share of loss of an associated company						(544)
Profit before taxation						4,974
Taxation						(645)
Profit attributable to shareholders						<u>4,329</u>

2. Segment information (Continued)

	6 months ended 31st December 2003					
	Sale of goods	Licensing and sub-licensing of film rights and film exhibition	Leasing of investment properties and machinery for replication of optical discs	Others	Elimination	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
External sales	66,627	45,668	6,510	1,995	—	120,800
Inter-segment sales	—	44,660	—	—	(44,660)	—
	<u>66,627</u>	<u>90,328</u>	<u>6,510</u>	<u>1,995</u>	<u>(44,660)</u>	<u>120,800</u>
Segment results	<u>4,424</u>	<u>659</u>	<u>504</u>	<u>63</u>		5,650
Other revenue						63
Finance costs						(361)
Profit before taxation						5,352
Taxation						(970)
Profit attributable to shareholders						<u>4,382</u>

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2. Segment information *(Continued)*

Distribution of films in various videogram formats and leasing of investment properties and machinery for replication of optical discs are solely operated in Hong Kong and Macau, while the Group operates its licensing and 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Geographical segment:				
Hong Kong and Macau	64,063	94,538	40	611
Asia (other than Hong Kong and Macau)	36,334	24,893	5,422	4,202
North America	424	1,295	22	816
Others	207	74	77	21
	<u>101,028</u>	<u>120,800</u>	<u>5,561</u>	5,650
Other revenue			154	63
Operating profit			<u>5,715</u>	<u>5,713</u>

3. Operating profit

Operating profit is stated after crediting and charging the following:

	6 months ended 31st December	
	2004 HK\$'000	2003 HK\$'000
Crediting		
Interest income	154	63
Gain on disposal of fixed assets	3	2,196
	<u>157</u>	<u>2,259</u>
Charging		
Depreciation:		
— owned fixed assets	7,071	9,600
— leased fixed assets	38	1,521
Cost of inventories sold	14,740	24,022
Write-off of expired film rights	175	259
Impairment losses of film rights	4,055	—
Amortisation charge of film rights	50,151	60,562
Staff costs	9,680	10,020
	<u>86,909</u>	<u>106,084</u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit of the Group for the period. Deferred taxation mainly represented the net temporary differences in respect of accelerated depreciation allowances and tax losses.

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

	6 months ended 31st December	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong profits tax	93	1,043
Deferred taxation relating to the origination and reversal of temporary differences	524	(73)
	617	970
Share of taxation attributable to: Associated company	28	—
	645	970

5. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$4,329,000 (2003: approximately HK\$4,382,000) for the period and the weighted average of 1,624,605,370 (2003: 1,331,695,020) ordinary shares in issue during the period.

The diluted earnings per share for the period ended 31st December 2003 and 2004 are not presented as there was no dilutive potential ordinary shares outstanding during the periods.

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6. Capital expenditures

	Film rights and films in progress HK\$'000	Fixed assets HK\$'000
Opening net book amount as at 1st July 2004	89,672	73,255
Additions	55,257	519
Disposals	—	(4)
Amortisation charge/depreciation (<i>Note 3</i>)	(50,151)	(7,109)
Impairment losses (<i>Note 3</i>)	(4,055)	—
Write-off (<i>Note 3</i>)	(175)	—
	<u>90,548</u>	<u>66,661</u>
Closing net book amount as at 31st December 2004	<u>90,548</u>	<u>66,661</u>

7. Accounts receivable

At 31st December 2004, the ageing analysis of the accounts receivable was as follows:—

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Current to 90 days	24,115	16,452
91 days to 180 days	15,412	9,361
Over 180 days	1,549	10,445
	<u>41,076</u>	<u>36,258</u>

Sale of video products is with credit terms of 7 days to 60 days. Sale from licensing and sub-licensing of film rights and film exhibition are on open account terms.

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8. Accounts payable

At 31st December 2004, the ageing analysis of the accounts payable was as follows:—

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Current to 90 days	6,199	7,044
91 days to 180 days	213	1,099
Over 180 days	5,304	8,268
	<u>11,716</u>	<u>16,411</u>

9. Other long-term liabilities

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Secured bank loans	15,322	18,540
Obligations under finance leases (<i>Note 10</i>)	217	344
	15,539	18,884
Current portion of long-term liabilities	(6,623)	(6,652)
	<u>8,916</u>	<u>12,232</u>

At 31st December 2004, the Group's bank loans (excluding obligations under finance leases) were repayable as follows:

	Bank loans	
	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Within one year	6,546	6,487
In the second year	4,857	6,180
In the third to fifth year	3,919	5,873
	<u>15,322</u>	<u>18,540</u>

10. Obligations under finance leases

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Within one year	77	166
In the second year	77	77
In the third to fifth year	<u>63</u>	<u>102</u>
	217	345
Future finance charges on obligations under finance leases	<u>—</u>	<u>(1)</u>
Present value of obligations under finance leases	<u>217</u>	<u>344</u>

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

Within one year	77	165
In the second year	77	77
In the third to fifth year	<u>63</u>	<u>102</u>
	<u>217</u>	<u>344</u>

11. Share capital

	Authorised Ordinary shares	
	No. of shares	HK\$'000
At 1st July 2004 and 31st December 2004	<u>5,000,000,000</u>	<u>100,000</u>
	Issued and fully paid Ordinary shares	
	No. of shares	HK\$'000
At 1st July 2004 and 31st December 2004	<u>1,624,605,370</u>	<u>32,492</u>

12. Commitments

(a) Commitments under operating leases

At 31st December 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Land and buildings		
Not later than one year	80	160
Later than one year and not later than five years	—	—
	<u>80</u>	<u>160</u>

(b) Other commitments

At 31st December 2004, the Group had commitments contracted but not provided for in these accounts as follows:

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Purchase of film rights and production of films	<u>60,059</u>	<u>65,791</u>

13. Contingent liabilities

Pending litigations

A Court of First Instance Action 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 High Court on 21st February 2003, the Company 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 interest in the sum of HK\$350,905.30 and some of the costs of the application leading to the making of the Order, all of which have been 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).

13. Contingent liabilities *(Continued)*

On 30th April 2002, UEL issued a Writ of Summons against the Star above for the latter's wrongful exploitation of certain rights in the Movie co-owned by both parties. UEL claimed to recover loss and damages suffered by UEL as a result of the wrongful exploitation.

On 9th September 2002, Universe Laser & Video Co. Limited ("ULV"), a wholly owned subsidiary of the Company issued a Writ of Summons against Star for the latter's infringement of the licensed rights in the Movie above held by ULV. ULV claimed to recover all loss and damages suffered by ULV as a result of the said infringement.

In the opinion of legal counsel, it is premature to predict the outcome of the claim against UEL. However, the Board are of the opinion that the outcome of the claim against UEL will be no material financial impact on the Group.

Save as disclosed above, as at 31st December 2004, 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

During the six months ended 31st December 2004, Universe Laser & Video Co. Limited, a subsidiary of the Company, had paid rental on motor vehicles and apartment leased for directors of HK\$150,000 (2003: HK\$150,000) and HK\$120,000(2003: HK\$120,000) to Mightlong Investments Limited ("MIL") and Mass Express Development Limited ("MEDL"), respectively. MIL and MEDL are wholly owned subsidiaries of Globalcrest Enterprises Limited, the ultimate holding company of the Company.

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

Save as disclosed above and elsewhere in these accounts, no other material related party transactions have been entered into by the Group. The directors are of the opinion that the above transactions were conducted on normal commercial terms in the ordinary and usual course of business.



INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend in respect of the six months ended 31st December 2004 (2003: Nil).

REVIEW OF OPERATIONS

Overall Group's results

The Group's unaudited consolidated turnover for the six months ended 31st December 2004 was approximately HK\$101.0 million, representing a decrease of HK\$19.8 million over the same period last year. Profit attributable to shareholders was HK\$4.3 million (2003: HK\$4.4 million), translating into earnings per share for the period of 0.27 HK cents compared with 0.33 HK cents during the corresponding period in 2003.

Notwithstanding, the 16.4% decline in turnover, the management is pleased to announce that the profit attributable to shareholders has remained at a similar levels compared with the corresponding period last year. This was mainly attributable to the satisfactory growth in profit from the film licensing business and continued stringent cost control measures, mitigating the negative effects of the decrease in turnover from video distribution business.

Video distribution

During the period under review, the video distribution business recorded a turnover of HK\$39.9 million, representing a decrease of 40.1%. The decline was mainly due to fewer number of new title available for video distribution and a contraction of the local video distribution market.

Despite continued improvement in the local economy as boosted by the relaxed individual travel scheme for the Mainland Chinese tourists, these have not been directly benefited the local video distribution business. In addition to the intense and severe competition within this industry, the local operating environment was further aggravated by illegal distribution of copyrighted films on the internet through peer-to-peer file-sharing activities. This inevitably resulted in pressure on profit margins of this business segment. During the period under review, the profit from this business segment was HK\$2.2 million (2003: HK\$14.8 million).

REVIEW OF OPERATIONS *(Continued)**Video distribution (Continued)*

In light of the highly unfavorable operating environment, the Group has adopted a more pragmatic and prudent approach for acquisition of new titles for video distribution.

Film exhibition, licensing and sub-licensing of film rights

During the period under review, the turnover derived from film exhibition, licensing and sub-licensing of film rights was HK\$55.6 million, representing an increase of 21.7% over the same period last year. This business segment accounted for 55.0% (2003: 37.8%) of the Group's total turnover.

Despite the 67.8% decrease in turnover from film exhibition to HK\$3.8 million due to the overall decline in market share of Chinese language films in the local market, the result of this business was narrowed down from a segmental loss of HK\$9.9 million to HK\$6.6 million over the comparative period last year, it mainly resulted from the Group's stringent measures and control on film production and promotional costs.

Meanwhile, the turnover and gross profit from licensing and sub-licensing of film rights were HK\$51.8 million and HK\$26.9 million respectively, representing a substantial increase of 53.3% and 170.9% over the same period last year. The satisfactory growth was the result of the Group's strategy of diversifying into investments in production of television series and the broadening the customer base by expanding its distribution network.

The first television series produced by the Group, entitled "Kung Fu Soccer" (功夫足球) was well rewarded and directly contributed to the improvements in this business segment. In addition, it also enables the Group to strengthen its worldwide distribution network through expansion of its customer base.

REVIEW OF OPERATIONS *(Continued)*

Film exhibition, licensing and sub-licensing of film rights (Continued)

Employing multi-faceted content production strategies, the management is delighted to see encouraging growth and contribution from overseas markets, especially the PRC. The overseas market accounted for 36.6% (2003: 21.7%) and 85.9% (2003: 40.6%) of the Group's total turnover and gross profit respectively, and this encouraging result further reinforces the management's continuing efforts to expand the Group's distribution network abroad.

Leasing of investment properties and machinery for replication of optical discs

Turnover from leasing of investment properties increased to HK\$2.0 million from HK\$0.9 million during the same period last year. In view of the buoyant property leasing market, the Group had allocated certain properties for rental purpose with a view to secure stable rental revenue.

Meanwhile, turnover from leasing of machinery for replication of optical discs has progressively decreased to HK\$0.8 million, compared with HK\$5.6 million in the corresponding period last year. This is principally due to the keen price competition, the uncertain outlook of this industry and disposal of certain machinery for replication of optical discs in the second half of financial year 2003/2004. Consequently, the Group has decided to exit from this business and has disposed of all machinery for replication of optical discs to an independent third party at gain of approximately HK\$0.9 million in January 2005.

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OUTLOOK

In view of the encouraging results of “Kung Fu Soccer” (功夫足球), the management believes that the strong demand for high quality television series is sustainable. In addition to the investments in film production, the Group will continue to invest in the production of television series with an aim to reinforce its market position. During the period under review, the Group has commenced on the production of two television series, namely “Magic Chef” (伙頭智多星) and “Legend of Wang Zhao Jun” (昭君出塞), with the former scheduled for delivery in the third quarter of year 2005.

Despite the gradual recovery of the Hong Kong economy, there remain the challenges ahead for the Group as intense competition in the local video distribution business is expected to persist. The management will continue to focus on improving the cost efficiency by streamlining the operation of this business.

Meanwhile, the management has identified the PRC market as a market with immense potential. To tap on this, the Group will continue to build up its brand by investing in joint production with various PRC film and television series production companies, which in turn is beneficial to the Group to strengthening of its PRC distribution network.

In summary, the management will continue to focus on the Group's current business development strategies and remain cautiously optimistic about the Group's performance and results for the rest of this financial year despite the challenges ahead.

FINANCIAL RESOURCES / LIQUIDITY AND CAPITAL STRUCTURE

As at 31st December 2004, the Group had cash balances and unutilised banking facilities of approximately HK\$86.4 million and HK\$55.0 million respectively.

As at 31st December 2004, the Group had total assets of approximately HK\$355.4 million, representing a slight increase of HK\$8.4 million over that of 30th June 2004.

FINANCIAL RESOURCES / LIQUIDITY AND CAPITAL STRUCTURE

(Continued)

The Group's gearing ratio as at 31st December 2004 was approximately 5.5% (30th June 2004: 6.8%), which was calculated on the basis of the Group's long term borrowings of approximately HK\$15.5 million (of which HK\$6.6 million, HK\$4.9 million and HK\$4.0 million are repayable within one year, in the second year and in the third to fifth year respectively) and on the shareholders' funds of approximately HK\$282.7 million.

Finance costs have been reduced by 45.4% to HK\$0.2 million, mainly due to a drop in interest expenses as a result of the Group's reduced borrowings.

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

THE PLEDGE OF GROUP ASSETS

As at 31st December 2004, all properties and certain bank balances of the Group with aggregate carrying value of approximately HK\$64.2 million (30th June 2004: HK\$65.8 million) were pledged to secure banking facilities utilized by subsidiaries.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December 2004, the Group had 102 employees (30th June 2004: 120). Remuneration is reviewed annually and certain employees are entitled to commission. In addition to basic salaries, staff benefits included discretionary bonus, medical insurance scheme and mandatory provident fund.

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SHARE OPTION SCHEME

Pursuant to the new share option scheme adopted by the Company on 26th November 2003 (the “New Share Option Scheme”) which replaced the share option scheme on 28th June 1999 to comply with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”), the Company may grant options to the participants, including directors and employees, to subscribe for shares of the Company. There was no shares option granted by the Company from the date of adoption of the New Share Option Scheme.

DIRECTORS’ INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2004, the interests which are all long positions of each of the directors and chief executives of the Company in the share capital of the Company and its associated corporation (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (“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 Issuers (the “Model Code”) were as follows:

Name of Director	Nature of interest	Number of shares of the Company held	Percentage of Shareholding
Mr. Lam Shiu Ming, Daneil	Founder of a discretionary trust (Note)	872,406,705	53.70%

Note: The trustee of the discretionary trust is Central Core Resources Limited which owns the entire issued share capital of Globalcrest Enterprises Limited which in turn is interested in 872,406,705 shares of the Company.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

(Continued)

Save as disclosed above, as at 31st December 2004, 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.

At no time during the period, the directors (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations.

In addition, at no time during the period was the Company, its holding company, its subsidiaries, its associated company or its fellow subsidiaries a party to any arrangement to enable the directors of the Company to hold any interests or short positions in the shares or underlying shares in or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st December 2004, in accordance with the register kept by the Company under Section 336 of the SFO, the following people 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 (a))</i>	872,406,705	53.70%
Central Core Resources Limited <i>(Note (a))</i>	872,406,705	53.70%
Value Partners "A" Fund	89,384,025	5.50%
Value Partners Limited <i>(Note (b) & (c))</i>	89,384,025	5.50%
Pan Asia Special Opportunities Fund	83,464,285	5.14%

All the interests disclosed above represent long positions in the shares of the Company.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Note:

- (a) *The entire issued share capital of 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.*
- (b) *The capacity of Value Partners Limited in holding the 89,384,025 shares was the investment manager of Value Partners "A" Fund.*
- (c) *Value Partners Limited was a controlled corporation of Mr. Cheah Cheng Hye. As a result, the interest held by Value Partners Limited was deemed interest held by Mr. Cheah Cheng Hye.*

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.

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 accounts for the six months ended 31st December 2004 with the management. The Audit Committee comprises three independent non-executive directors, namely Messrs. Ng Kwok Tung, Chiu Shin Koi and Ma Ting Hung.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 31st December 2004, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules on the Stock Exchange as the code for dealing in securities of the Company by directors. Having made specific enquiry, all directors of the Company confirmed that all directors have complied with the required standard set out in the Model Code throughout the period.

CANCELLATION OF THE MEMORANDUM OF UNDERSTANDING AND CHANGE OF USE OF NET PROCEEDS FROM PLACEMENT OF SHARES

Reference is made to the announcement of the Company dated 5th November 2003 and 17th November 2003 with regard to the entering into of the memorandum of understanding (the “MOU”) with GD Film (廣東省電影公司) in relation to the proposed setting up of a sino-foreign equity joint venture company to invest in and operate cinema business in the PRC and the placing of 190,000,000 shares at a price of HK\$0.2 each (the “Placing”) to raise approximately HK\$37.7 million for additional capital for the cinema venture.

The management has taken a prudent approach and conducted an in-depth study on the feasibility of investing in the cinema operation business (the “Cinema Project”) after the signing of the MOU and has closely observed the development of the industry for over a year.

When considering the Cinema Project, the management has carefully assessed the problems of rampant piracy in the PRC and noted that despite efforts from the relevant authorities, there have not been clear signs of improvement. As a matter of fact, the problem has further aggravated as a result of illegal distribution of copyrighted films on the internet through peer-to-peer file-sharing activities, adding further concerns to the Cinema Project. The management therefore believes there are high uncertainties and risks and has decided to abort the Cinema Project.

CANCELLATION OF THE MEMORANDUM OF UNDERSTANDING AND CHANGE OF USE OF NET PROCEEDS FROM PLACEMENT OF SHARES

(Continued)

Meanwhile, the Company has successfully expanded into the distribution of television series during the period and the release of its first television series “Kung Fu Soccer” (功夫足球) has received overwhelming response and has proven to contribute steady revenue. Based on the management’s observations, television series is by nature less susceptible to piracy, while yielding comparatively higher profit margins than the Cinema Project. There is also an increasing number of cable networks and satellite multi-channel television in South East Asia and the PRC, spurring the demand for television series. The management is confident that the payoff period for investments in television series will be considerably shorter than investing in the Cinema Project. Therefore, after due consideration, the management has decided to change the use of the proceeds from the Placing for investment in the production of television series. The management believes that the change will enable the Group to generate optimal and higher returns for its shareholders. There was no material cost incurred for the Cinema Project as at 31st December 2004.

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 Listing Rules throughout the period.

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

Hong Kong, 23rd March 2005

UNIVERSE

