

# UNIVERSAL HOLDINGS LIMITED

INTERIM REPORT  
2005

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The board of directors is pleased to present the Group's interim report and condensed accounts for the six-months ended 30th June 2005. The consolidated results and consolidated cash flow statement for the group for the six-months ended 30th June 2005, and the consolidated balance sheet as at 30th June 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 12 to 34 of this report. These interim financial statements as set out in the interim results were unaudited, but were reviewed by the Audit Committee of the Company.

### **BUSINESS REVIEW**

During the six months ended 30th June 2005, the relentless efforts of the Group's management over the years started to bear fruit. The Group's half yearly results indicated that its business was improving, and a platform for material growth has been established.

In February 2005, seeing promising industry prospects, the Group ventured into the high growth media business in China through the acquisition of the entire issued share capital of Anglo Alliance, which principal asset is an indirect 50% interest in Asian Union Film and Media ("AUFM"). One of the largest media corporations in China, AUFM is engaged in various media related businesses, including production of television drama, investment in movie production, advertising agency as well as advertising and content production for a satellite TV channel in the country. With all the conditions precedent to the Agreement satisfied, the acquisition was completed on 31st May 2005, and Anglo Alliance one-month contribution was included in the Group's accounts for the six months ended 30th June 2005.

During the review period, the Group's existing businesses — trading and distribution of AV equipments and components, trading of equity securities, and sale of software solutions for Call Contact Centers remained as its major contributors.

In the first half of 2005, the Group recorded gain when compared with the corresponding six months last year. The Group's consolidated turnover for the period was HK\$25,519,000, compared to HK\$11,872,000 in the corresponding period last year. Net gain attributable to shareholders amounted to HK\$5,763,000, compared to a loss of HK\$316,000 in the last corresponding period.

The Group regards the Anglo Alliance acquisition as a major and proactive step in its attempt to expand its reach into the China media market. The Group will focus its operation strategically to develop the potentially rich China media business, with Anglo Alliance as its core operations. The management expects the Group to continue to grow in the second half of the year.

### **China Media Business**

Since China's accession to the World Trade Organization ("WTO"), the nation has gradually open its media industry, providing the perfect opportunity for UHL to expand its business. The Anglo Alliance acquisition fast-tracked the Group into the huge China media market.

### **Anglo Alliance**

The principal asset of Anglo Alliance is 50% shareholding interests of AUFM.

AUFM will focus on China's TV media industry. Today there are about 360 TV stations operating over 2,000 channels and advertising is the major sources of income for these channels. According to a study by CVSC-TNS Research, 77.98% of all advertising spendings in China were on TV advertising, amounting to RMB150.3 billion, and a further 20-30% increase is expected this year. AUFM stands to benefit from the swelling spending as it is engaged in production of quality advertisement for top tier companies. Management views the growth in TV advertising spending to be a key driving force of the future growth of AUFM and the Company.

Thematic TV channels featuring entertainment, drama, news, etc. are popular to viewers and, consequently command certain advantages in competing for advertising spending. AUFM is primed to take advantage of its position to attract advertisers through the operation of its owned TV channel — the "Travel Channel", one of 31 provincial satellite TV channels with nationwide coverage in China. The Travel Channel, mature and one of its kind, is expected to enlarge the Group's share in the TV advertising market.

AUFM is also engaged in the production and distribution of TV drama series in China. The most popular TV advertising market was with drama series, consuming 44.1% of all TV advertising spending, and that has increased the demand for drama series in China. According to the "Magnolia Research" published by Shanghai TV festival and CSM, STVF in June 2005, over 1,500 drama series were broadcast on 156 channels in 33 Chinese cities in 2004, a 5.8% increase from 2003. Rising advertising spending underscores the booming China TV and film markets in recent years the rising demand for quality content and advertising.

As for the film industry, the number of productions grew 40% in a year, from 100 in 2002 to 150 in 2003, and over 200 films were produced in 2004 according to an unofficial record. The film retail market has also grown along with film production, with total box office receipts surging from RMB770 million in 2003 to RMB1.4 billion in 2004. Chinese films are gaining growing international recognition pointing to more encouraging development of the industry in the foreseeable future. AUFM also invested in movie production and distribution, including award-winning titles such as "Crouching Tiger, Hidden Dragon", "The Emperor And The Assassin" and the "Peacock". Leveraging its rich experience and expertise in film production, these industry developments work to the advantage of AUFM.

On this solid business foundation provided by AUFM and anticipating prosperous growth for the media sector in a stable economy, the Group sees a brilliant future for its multimedia and entertainment business.

### **Digital Broadcasting Investment**

DVN remained as a significant investment of the Group during the review period. With the Chinese government promoting digitalization forcefully in the country, DVN's business performance improved significantly. During the six-month period, the company's turnover increased 44% to HK\$85.5 million from HK\$59.4 million, contributing to the improved results of the Group.

The revenue increase was derived mainly from the increase in licensing fee income and income from the sale of Set Top Box ("STB") raw materials and smart cards. The licensing fee income is mainly generated from localities where DVN designed STBs are produced by local manufacturers for local

cable operators. Many of these cable operators purchase set top boxes for mass distribution to their subscribers. Nationwide, set top box sales has been accelerating at government efforts to push for migration towards digital broadcasting. As the licensing model becomes increasingly popular, the portion of income from licensing arrangements will also increase. The Group expects the subscription income to remain steady, in line with the scale and speed of digitization in the cities with which DVN has signed revenue sharing agreements.

To ensure sustainable future growth, DVN is prepared to also provide hardware and services to the fast growing Internet protocol TV ("IPTV") industry. DVN is now providing a dual mode set up box that can work on both cable and IPTV. DVN is prepared to reap the rewards of China's push towards digitalization.

### **Communication Division**

The Group's communication business continued to face intense competition and saw its margin thinning during the review period. Seeing the need to direct its strategic focus on the China media market, the management is reviewing the business operation with the aim of mapping out long-term strategy for it in alignment with the Group's new core business.

### **Securities Trading**

The Hong Kong economy continued to gain growth momentum in the first half the year 2005. Leveraging the improved business environment and market sentiment, trading continued to improve on the Stock Exchange of Hong Kong Limited ("SEHK"). During the review period, the Group traded securities in the capital market and made revenue of approximately HK\$1.4 million.

### **Audio and Video Distribution Division**

Due to increased price competition in the market, the profit margin of the Group's electronics components trading business continued to be squeezed. To improve the margin as well as the performance of the business, the Group will continue to seek expansion into higher value products.

**Prospects**

Looking ahead, the Group sees demand driving the growth of the China media industry. The Group will continue its strategic initiatives to refocus on the segment, and align its existing businesses with this core business for synergies.

The Group will also explore other opportunities in the media industry to expand its core media business and to develop a total value chain platform. Boasting a comprehensive business structure, a rich content portfolio and extensive business footprint, the Group is poised to ride on opportunities creating by impending international events to be held in China — including the 2008 Olympics in Beijing and 2010 World Expo in Shanghai.

Last but not least, the Group will also seek to diversify its business on the strong core media business foundation, so as to strengthen its revenue and asset base. The Group will continue to explore strategic acquisitions in Hong Kong and overseas to grow its business further. The Group may introduce strategic partners and investors and seek opportunities to strengthen the capital base for the expansion.

**FINANCIAL REVIEW****Liquidity and financial resources**

As at 30th June 2005, the Group held cash deposits of HK\$30,052,000, an increase of 112% compared to 31st December 2004 mainly due to the placement of shares during the period. The current ratio increased from 1.085 at the prior year end to 10.00 as at 30th June 2005. The gearing ratio, representing long term liabilities to net worth, increase from 0.093 at 31st December 2004 to 0.261 at 30th June 2005.

There were no significant exposures to foreign currency fluctuations. All borrowings during the year were based on market interest rate. The Group had no long term bank loan and no bank overdrafts outstanding as at period end. The Group did not have any assets pledged or charged as at 30th June 2005.

During the period, the Company issued 654,850,000 shares at HK\$0.12 each in February 2005 and raised approximately HK\$78 million for general working capital. The Company also issued approximately 5.747 million shares for the acquisition of Anglo Alliance Co. Limited ("Anglo Alliance").

### **SIGNIFICANT ACQUISITION**

During the first six months of 2005, the Group has acquired 100% equity interests in Anglo Alliance. Anglo Alliance indirectly holds approximately 50% of the registered capital in Asia Union Film and Media ("AUFM"). AUFM is engaged in various media related businesses, including production of television drama, investment in movie production, advertising agency as well as advertising and content production for a satellite TV channel in PRC.

The maximum consideration for this acquisition is HK\$550.0 million, subject to adjustments. Details of this acquisition are disclosed in the Company's circular dated 13th May 2005.

### **NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRAINING SCHEMES**

As at 30th June 2005, the Group employed a total of 10 full-time employees in Hong Kong and a work force of about 56 in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel including engineering and product development staff are remunerated by monthly salary which are reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.



**PURCHASE, SALE OR REDEMPTION OF SHARES**

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

At 30th June 2005, the interests of the directors and chief executive in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

**(A) The Company**

Names	Notes	Number of ordinary shares of HK\$0.01 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	(i)	3,065,210,871	—	1,000,437,150
Mr. Dong Ping ("Mr. Dong")		2,700,000,000	—	—

**(B) DVN (Holdings) Limited ("DVN")**

Names	Notes	Number of ordinary shares of HK\$0.10 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko	(ii)	343,000	2,040,816	158,357,940

*Notes:*

(i) Kwan Wing Holdings Limited ("Kwan Wing") and Techral Holdings Limited ("Techral"), a subsidiary of Kwan Wing, beneficially owned 360,399,000 and 640,038,150 ordinary shares in the Company, respectively. Mr. Ko has 100% direct interest in Kwan Wing and approximately 96% beneficial interest in Techral.

(ii) 118,403,418 ordinary shares in DVN are directly held by Prime Pacific International Limited ("Prime Pacific"), which is owned as to 67% and 33% by Gold Pagoda Incorporated ("Gold Pagoda") and Prime Gold International Limited ("Prime Gold"), respectively.

Prime Gold is owned as to 82.45% by Kwan Wing.

Gold Pagoda is a wholly-owned subsidiary of the Company which is turn is controlled by Mr. Ko.

31,032,522 ordinary shares in DVN are held directly by Universal Appliances Limited, which wholly owned by the Company.

2,956,000 ordinary shares in DVN are held by All Mark Limited, which is wholly owned by the Company.

2,822,000 ordinary shares in DVN are held by First Gain International Limited, which is wholly-owned by Mr. Ko.

3,144,000 ordinary shares in DVN are held by Kwan Wing.

2,040,816 ordinary shares in DVN are held by the spouse of Mr. Ko.

(iii) Million Way Enterprises Limited, a wholly-owned subsidiary of the Company, also holds US\$15,000,000 preference shares issued by DVN (Group) Limited, a wholly-owned subsidiary of DVN. These preference shares are exchangeable, to approximately 28,147,700 ordinary shares of DVN, a listed associated company, to an adjusted conversion price of HK\$4.13 per share and are subject to adjustment.

**(C) Rights to acquire ordinary shares of DVN**

Directors	Date of share options granted	Number of share options outstanding as at 1st January 2005	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options outstanding as at 30th June 2005	Exercise period	Exercise price per share
							<i>HK\$</i>
Mr. Ko	23/7/2002	3,000,000	—	—	3,000,000	24/7/2002 — 23/7/2008	1.470
	10/12/2003	450,000	—	—	450,000	1/1/2004 — 31/12/2006	0.824
		3,450,000	—	—	3,450,000		

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr. Ko in trust for the Company, as at 30th June 2005, none of the directors, the chief executives (including their spouses and children under 18 years of age) or their associates had any other beneficial interests in the shares of the Company and any of its associated corporations (within the meaning of the SFO).

**SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY**

As at 30th June 2005, save as disclosed under the section "Directors' and Chief Executives' interests in Shares, Underlying Shares and Debentures of the Company or any Associate Corporation" above, no other person had registered any substantial shareholders' interests, being 5% or more of the Company's issued share capital under Section 336 of the SFO.

**CORPORATE GOVERNANCE**

None of the directors of the Company is aware of any information which would reasonably indicate that the Group is not, or was not, in compliance with the Code of Corporate Governance Practice (the "CG Code") as set out in Appendix 14 of in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") at any time during the six months period ended 30th June 2005.

In compliance with the code provisions of the CG Code which came into force on 1st January 2005, the Company has set up a Remuneration Committee with terms of reference which are in line with the CG Code. The Remuneration Committee comprises of three Independent Non-executive Directors, Mr. Wilton Timothy Carr Ingram, Mr. Kin Yuen and Dr. Wong Yau Kar. Dr. Wong is the chairman of the Committee.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30th June 2005.

### **AUDIT COMMITTEE**

The Audit Committee comprises of three Independent Non-executive Directors, Mr. Wilton Timothy Carr Ingram, Mr. Kin Yuen and Dr. Wong Yau Kar. Mr. Ingram is the chairman of the Committee. The Committee has adopted terms of reference which are in line with the CG Code. The Group's unaudited interim accounts for the six months ended 30th June 2005 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with the applicable accounting standard and legal requirements, and that adequate disclosures have been made.

### **APPRECIATION**

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude and appreciation to all management and staff members for their dedication, contributions and hard work for the period.

By Order of the Board  
**Ko Chun Shun, Johnson**  
*Chairman*

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2005

		Six months ended 30th June	
		2005 (Unaudited)	2004 (Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	3	25,519	11,872
Cost of sales		<b>(23,966)</b>	(7,560)
Gross profit		<b>1,553</b>	4,312
Other revenues		<b>3,765</b>	3,836
Distribution expenses		<b>(701)</b>	(542)
Administrative expenses		<b>(8,556)</b>	(6,946)
Unrealized holding profit on short-term investment		<b>2,500</b>	9,084
Net gain on dilution of interest in an associated company		<b>12,744</b>	—
Other operating income/(expenses)		<b>34</b>	(3,605)
Operating profit	4	<b>11,339</b>	6,139
Finance costs		<b>(517)</b>	(1,483)
Share of loss of associate companies		<b>(4,370)</b>	(4,972)
Profit/(loss) before taxation		<b>6,452</b>	(316)
Taxation	6	<b>(650)</b>	—
Profit/(loss) for the period		<b>5,802</b>	(316)
Attributable to:			
Shareholders of the parent		<b>5,763</b>	(316)
Minority interests		<b>39</b>	—
		<b>5,802</b>	(316)
Profit/(loss) per share — Basic	7	<b>HK Cents 0.12</b>	HK Cents (0.01)
Profit per share — Diluted	7	<b>HK Cents 0.08</b>	n/a

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30th June 2005

		<b>30th June 2005 (Unaudited)</b>	31st December 2004 (Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	8	592	2,520
Intangible assets	9	157,391	—
Interest in associated companies	10	233,517	15,348
Investment securities	11	36,000	36,000
Other assets	12	240	2,065
		<b>427,740</b>	55,933
<b>CURRENTS ASSETS</b>			
Inventories		252	105
Trade receivables	13	4,606	1,687
Preference dividend receivables		24,703	21,797
Prepayments, deposits and other receivables		11,554	305
Short-term investments		12,500	—
Cash and bank balances		30,052	14,152
		<b>83,667</b>	38,046
<b>CURRENT LIABILITIES</b>			
Trade payables	14	33	338
Taxation payables		1,742	1,092
Other payables and accrued liabilities		6,557	33,640
		<b>8,332</b>	35,070
<b>NET CURRENT ASSETS</b>		<b>75,335</b>	2,976
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>503,075</b>	58,909
<b>NON-CURRENT LIABILITIES</b>			
Amount due to a fellow subsidiary	16	—	5,000
Long term convertible note	15	103,985	—
<b>NET ASSETS</b>		<b>399,090</b>	53,909
<b>EQUITY</b>			
Capital and reserves attributable to the equity holders of the Company			
Issued capital	17	99,165	35,151
Reserves		299,376	18,758
		<b>398,541</b>	53,909
Minority interests		549	—
<b>TOTAL EQUITY</b>		<b>399,090</b>	53,909

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended 30th June 2005*

	<b>Six months ended 30th June</b>	
	<b>2005 (Unaudited)</b>	2004 (Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	<b>(51,931)</b>	12,910
Net cash (outflow)/inflow from investing activities	<b>(3,356)</b>	—
Net cash inflow/(outflow) from financing	<b>71,187</b>	(20,000)
Increase/(decrease) in cash and cash equivalents	<b>15,900</b>	(7,090)
Cash and cash equivalents at 1st January	<b>14,152</b>	16,425
Cash and cash equivalents at 30th June	<b>30,052</b>	9,335

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
*For the six months ended 30th June 2005*

	Ordinary share capital	Preference share capital	Share premium	Merger reserve	Currency translation	Accumulated deficits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2005	32,743	2,408	172,353	860,640	(171)	(1,014,064)	53,909
Issue of shares	64,014	—	274,855	—	—	—	338,869
Conversion of shares	2,408	(2,408)	—	—	—	—	—
Net profit for the period	—	—	—	—	—	5,763	5,763
At 30th June 2005	99,165	—	447,208	860,640	(171)	(1,008,301)	398,541

	Ordinary share capital	Preference share capital	Share premium	Merger reserve	Currency translation	Accumulated deficits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2004	32,743	2,408	172,353	860,640	(171)	(1,004,133)	63,840
Net loss for the period	—	—	—	—	—	(316)	(316)
At 30th June 2004	32,743	2,408	172,353	860,640	(171)	(1,004,449)	63,524



## **NOTES TO CONDENSED INTERIM ACCOUNTS**

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

The unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, except for short-term investments, as further explained in the Group's 2004 annual financial statements.

The unaudited Condensed Financial Statements are prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA. The principal accounting policies and methods used in the preparation of the unaudited Condensed Financial Statements are the same as those used in the Group's 2004 annual financial statements except that the Group has changed certain of its accounting policies following the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS"), which became effective for accounting periods beginning on or after 1st January 2005. Details of the major changes in principal accounting policies and their impact on the Group's results and financial position can be found in note 2 to the unaudited Condensed Financial Statements and a summary of which are set out in note 2 below.

These condensed interim accounts should be read in conjunction with the Group's 2004 annual financial statements.

The accounting policies adopted and methods of computation used in the preparation of these financial statements are consistent with those used in the Group's annual financial statements for the year ended 31st December 2004.

Certain comparative figures have been reclassified to conform to the current period's presentation.

### **2. Effect of change in accounting policies**

The HKICPA has issued a number of new and revised HKFRS and HKAS (herein collectively referred to as "HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Board has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31st December 2005, on the basis of HKFRSs currently in issue.

In the current period, the application by the Group, for the first time, of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The following sets out further information on the changes in the accounting policies for the annual accounting period beginning on 1st January 2005 which have been reflected in the interim financial report.

### ***Presentation of financial statements***

In prior years, minority interests at balance sheet date were presented separately in the consolidated balance sheet. With the adoption of HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests at the balance sheet date are presented within the Group's equity, separately from the capital and reserves attributable to the equity holders of the Company.

### ***Share-based payments***

In the current period, the Group has applied HKFRS 2 "Share based payments" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent to value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted after 7th November 2002 and had vested before 1st January 2005 in accordance with the relevant transitional provisions. Comparative figures have not been restated.

### ***Amortization of positive goodwill***

On the adoption of HKFRS 3 "Business Combinations", the Group has ceased amortization of positive goodwill from 1st January 2005 and eliminated the accumulated amortization as at 31st December 2004 with a corresponding decrease in the cost of positive goodwill. Positive goodwill is subject to impairment testing at least annually. In prior years, positive goodwill was amortized to the consolidated income statement on a straight-line basis over its estimated useful life of 20 years. The adoption of HKFRS 3 has increased the Group's profit for the six months ended 30th June 2005 by HK\$0.2 million (2004: HK\$Nil) as positive goodwill is no longer amortized.

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## INTERIM REPORT 2005

### 3. Segment information

The Group is principally engaged in the trading of retail and distribution of home audio and video equipment and components, share trading, the provision of IP Telephony and related services and the media related businesses.

An analysis of the Group's revenue and results for the period by business segments and by geographical segments, are as follows:

#### By Business Segments:

	Six months ended 30th June 2005				Group
	Home Audio	Share Trading	IP Telephony	Media	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenues	19,384	1,387	262	4,486	25,519
Segment results	(1,215)	(43)	(1,062)	1,972	(348)
Preference dividend income					2,906
Unrealized holding gain on short-term investment					2,500
Net gain on dilution of interest in an associated company					12,744
Unallocated costs					(6,463)
Operating profit					11,339

	Six months ended 30th June 2004				Group
	Home Audio	Share Trading	IP Telephony		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenues	2,844	5,241	3,787		11,872
Segment results	(1,442)	1,014	1,172		744
Preference dividend income					2,906
Unrealized holding gain on short-term investment					9,084
Unallocated costs					(6,595)
Operating profit					6,139

**By Geographical Segments:**

	<b>Six months ended 30th June 2005</b>		
	<b>Hong Kong</b>	<b>Mainland China</b>	<b>Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenues	<b>20,771</b>	<b>4,748</b>	<b>25,519</b>
Segment results	<b>(1,258)</b>	<b>910</b>	<b>(348)</b>
Preference dividend income			<b>2,906</b>
Unrealized holding gain on short-term investment			<b>2,500</b>
Net gain on dilution of interest in an associated company			<b>12,744</b>
Unallocated costs			<b>(6,463)</b>
Operating profit			<b>11,339</b>

	<b>Six months ended 30th June 2004</b>		
	<b>Hong Kong</b>	<b>Mainland China</b>	<b>Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenues	8,085	3,787	11,872
Segment results	(428)	1,172	744
Preference dividend income			2,906
Unrealized holding gain on short-term investment			9,084
Unallocated costs			(6,595)
Operating profit			6,139

There are no sales or other transactions between the business segments.  
 Unallocated costs represent corporate expenses.

**4. Operating profit**

Operating profit is stated after charging the following:

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charging		
Depreciation of fixed assets	<b>154</b>	473
Amortisation of goodwill	—	52
Provision for doubtful debts — net	—	3,308
	<b>154</b>	4,833

**5. Staff costs**

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries	<b>2,968</b>	1,581
MPF Contributions	<b>47</b>	35
	<b>3,015</b>	1,616

**6. Taxation**

No Hong Kong profits tax provision has been made in the accounts as the Group did not have any assessable profit in Hong Kong for the period (2004: Nil).

Income tax arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdictions.

**6. Taxation (continued)**

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) before taxation	<b>6,452</b>	(316)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	<b>1,129</b>	(55)
Effect of different rates in other countries	<b>141</b>	(311)
Income not subject to taxation	<b>(3,407)</b>	(2,491)
Expenses not deductible for taxation purposes	<b>1,421</b>	1,923
Unrecognised tax losses	<b>1,366</b>	934
Taxation charge	<b>650</b>	—

No provision for deferred tax has been made in the accounts as the crystallisation of the net deferred tax asset in the foreseeable future is uncertain.

No deferred tax has been provided for the Company and the Group because there were no significant timing differences at the balance sheet date.

**7. Profit/(loss) per share**

The calculation of basic profit per share for the period ended 30th June 2005 is based on the net profit attributable to shareholders of HK\$5,763,000 (2004: net loss of HK\$316,000) and the weighted average number of 4,751,779,549 (2004: 3,274,293,157) ordinary shares deemed to have been in issue during the period.

The diluted earnings per share for 2005 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The amount for the period ended 30th June 2005 was arrived at based on 4,751,779,549 ordinary shares which was the weighted average number of ordinary shares in issue during the period plus the weighted average number of 2,122,136,612 ordinary shares deemed to be issued if all outstanding convertible note had been converted into shares as at 1st January 2005. No diluted earnings per share was presented in 2004 as there were no dilutive potential ordinary shares.

**8. Fixed Assets**

**Six months ended 30th June 2005**

	<i>HK\$'000</i>
Owned Assets:	
Opening net book amount	2,520
Additions	186
Disposals	(1,960)
Depreciation	(154)
Closing net book amount	592

**9. Intangible Assets**

**Six Months ended  
30th June 2005**

	<i>Goodwill HK\$'000</i>	<i>Film rights HK\$'000</i>	<i>Total HK\$'000</i>
Opening net book amount	—	—	—
Addition	153,204	4,486	157,690
Adjustment	—	(299)	(299)
Amortisation charge	—	—	—
Closing net book amount	153,204	4,187	157,391
At 30th June 2005			
Cost	153,204	4,486	157,690
Adjustment	—	(299)	(299)
Accumulated amortisation	—	—	—
Net book amount	153,204	4,187	157,391
At 31st December 2004			
Cost	2,075	—	2,075
Accumulated amortisation	(442)	—	(442)
Disposal of subsidiaries	(1,633)	—	(1,633)
Net book amount	—	—	—

**10. Interests in associated companies**

	<b>30th June 2005</b>	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<b>7,268</b>	7,660
Goodwill on acquisition of associated companies less amortization	<b>73,162</b>	8,023
Amounts due to associated companies	<b>153,087</b>	(335)
	<b>233,517</b>	15,348
Market value of listed investments	<b>205,107</b>	164,312
Investment at cost:		
Listed shares, in Hong Kong	<b>276,514</b>	276,514
Unlisted shares, in the PRC (a)	<b>211,267</b>	1,636
	<b>487,781</b>	278,150

Particulars of the significant associated companies are as follows:

Name	Country/ Place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Effective Interest held indirectly	Principal activities and place of operation
<i>(i) AUFM Group</i>				
Asia Union Media and Film (*)	People's Republic of China	RMB120,000,000	49%	Investment in television drama and film production and advertising production, in the PRC
Hai Nan Haishi Tourist Satellite TV Media Co., Ltd. (*)	People's Republic of China	RMB115,963,100	24.01%	Production and editing of television programmes for the Travel Channel, in the PRC



**10. Interests in associated companies (continued)**

Name	Country/ Place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Effective Interest held indirectly	Principal activities and place of operation
<b>(i) AUFM Group (continued)</b>				
Beijing Ying Shi Film & Television Art Limited Liability Company (*)	People's Republic of China	RMB500,000	29.40%	Television drama production in the PRC
Beijing Hua Yi Qian Si Advertising Company Limited (*)	People's Republic of China	RMB5,000,000	26.95%	Advertisement production in the PRC
Beijing Hua Yi Shan He Shui Advertising Company Limited (*)	People's Republic of China	RMB1,020,000	24.99%	Advertisement production in the PRC
<b>(ii) DVN Group</b>				
DVN (Holdings) Limited	Bermuda	HK\$58,283,849 Ordinary	19.45%	Investment holding
DVN (Group) Limited	British Virgin Is lands	US\$10 US\$ ordinary 15,000,000 preference	19.45%	Investment holding
DVN (Management) Limited	Hong Kong	HK\$2 ordinary	19.45%	Provision of administrative services in Hong Kong
DVN Technology Limited	Hong Kong	HK\$2 ordinary	19.45%	Design, integration and installation of digital broadcasting equipment and development of related software and products in Hong Kong and Southeast Asian countries

**10. Interests in associated companies (continued)**

Name	Country/ Place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Effective Interest held indirectly	Principal activities and place of operation
<i>(ii) DVN Group (continued)</i>				
Telequote Data International Limited	Hong Kong	HK\$10,000 ordinary	19.45%	Provision of international financial market information and selective consumer data in Hong Kong
DVN Technology (Shenzhen) Co. Limited	People's Republic of China	HK\$3,000,000	19.45%	Development of hardware and software in relation to digital broadcasting in the PRC
DVB Technology (Suzhou) Company Limited	People's Republic of China	RMB100,000,000	13.62%	Trading of digital broadcasting equipment and related products in the PRC
Digital Video Networks Company Limited	People's Republic of China	US\$7,000,000	19.45%	Design, integration and installation of digital broadcasting equipment and development of related software and products in the PRC
<i>(iii)</i> 北京電發網博科技 有限公司	People's Republic of China	RMB5,000,000	35.00%	Provision of IP telephone services

*(\*) For identification purpose only*

**10. Interests in associated companies (continued)**

Extracts of the operating results and financial position of the AUFM Group, a principal associated company group of the Group, which are based on the accounts are as follows:

**Operating results for the period from 1st June 2005 to 30th June 2005**

	Period ended 30th June 2005 (Unaudited)
	<i>HK\$'000</i>
Turnover	10,960
Loss for the period	1,605

**Summary of balance sheet**

	30th June 2005
	<i>HK\$'000</i>
Fixed assets	12,528
Intangible assets	49,721
Production in progress	1,041
Long term deposits	7,923
Investment in associate	158,552
Long term Investment	18,692
Deferred taxation	2,700
Current assets	90,459
Current liabilities	(112,912)
Non current liabilities	(248,439)
Minority interests	—
Shareholders' equity	(19,735)

**10. Interests in associated companies (continued)**

Extracts of the operating results and financial position of the DVN Group, a principal associated company group of the Group, which are based on the accounts are as follows:

**Operating results for the period**

	<b>6 months ended 30th June 2005 (Unaudited)</b>	6 months ended 30th June 2004 (Unaudited) (restated)
	<b>HK\$'000</b>	HK\$'000
Turnover	<b>85,537</b>	59,366
Loss for the period	<b>15,615</b>	20,466

**Summary of balance sheet**

	<b>30th June 2005</b>	31st December 2004 (restated)
	<b>HK\$'000</b>	HK\$'000
Fixed assets	<b>31,379</b>	36,343
Intangible assets	<b>28,162</b>	28,075
Investment in associates	<b>6,754</b>	—
Interest in a jointly controlled entity	<b>6,507</b>	6,685
Current assets	<b>244,961</b>	211,382
Current liabilities	<b>(121,761)</b>	(135,754)
Long-term liabilities	<b>(60)</b>	(80)
Minority interests	<b>(117,761)</b>	(117,761)
Shareholders' equity	<b>78,181</b>	28,890

**11. Investment securities**

	<b>30th June 2005</b>	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed shares, at cost		
— outside Hong Kong ( <i>note a</i> )	<b>23,414</b>	23,414
Unlisted shares, at cost		
— Preference share outside Hong Kong ( <i>note b</i> )	<b>143,508</b>	143,508
	<b>166,922</b>	166,922
<i>Less: provision for impairment loss</i>		
— Listed shares	<b>(23,414)</b>	(23,414)
— Unlisted shares	<b>(107,508)</b>	(107,508)
	<b>36,000</b>	36,000
Market value of listed investments ( <i>note a</i> )	<b>585</b>	1,287

- (a) The listed equity investment outside Hong Kong represents the holding of 1,500,000 shares (representing 6.8% of the common stock) in a company which was incorporated in the United States of America and was listed on the National Association of Securities Dealer Over-The-Counter Bulletin Board ("OTCBB"). The investee company was delisted since 3rd October 1998 and was relisted for trading in 2004. The market value of the listed investment was based on the closing market price of US\$0.05 quoted on the OTCBB as at 30th June 2005.
- (b) At 30th June 2005, the Group held 15,000,000 non-voting exchangeable preference shares of DVN (Group) Limited, an associated company, at HK\$143,508,000. These preference shares are exchangeable, after adjustment, to approximately 28,147,700 ordinary shares of DVN, a listed associated company, to an adjusted conversion price of HK\$4.13 per share, and are subject to adjustment. Fixed cumulative cash dividend on preference shares is receivable at a rate of 5% per annum on the nominal value amount of each preference share for each year. Dividend income receivable at 30th June 2005 amounted to HK\$24,703,000 (at 31st December 2004: HK\$21,797,000).

The provision for impairment loss for this investment was approximately HK\$107,508,000 at 30th June 2005 and at 31st December 2004.

**12. Other assets**

	<b>30th June 2005</b>	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Club debentures	<b>240</b>	2,065

**13. Trade receivables**

At 30th June 2004, the ageing analysis of the trade receivables is as follows:

	<b>0-3 months</b>	<b>4-6 months</b>	<b>Over 6 months</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 30th June 2005	<b>4,044</b>	—	<b>562</b>	<b>4,606</b>
Balance at 31st December 2004	1,125	85	477	1,687

The majority of the Group's sales are on credit with credit terms of 30-90 days.

**14. Trade payables**

At 30th June 2005, the ageing analysis of the trade payables is as follows:

	<b>0-3 months</b>	<b>4-6 months</b>	<b>Over 6 months</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 30th June 2005	—	—	<b>33</b>	<b>33</b>
Balance at 31st December 2004	18	—	320	338

**15. Long term convertible note**

	<b>30th June 2005</b>	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Long term convertible note	<b>103,985</b>	—

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The long term convertible note is interest free up to the fifth anniversary of the issue of the note and thereafter bears interest at a rate equal to the prime rate quoted by The Hongkong and Shanghai Banking Corporation. The long term convertible note can be converted into new shares in whole or in part at any time after issue of the convertible note up to the fifth anniversary of the issue of the note. Upon maturity, any outstanding portion of the convertible note can be redeemed in cash.

### 16. Amount due to a fellow subsidiary

The amount due to a fellow subsidiary bears interest at prime lending rate plus 2.5% per annum (2004: prime lending rate plus 2.5%). The balance was unsecured and was fully repaid during the period.

### 17. Share capital

	Number of ordinary shares of HK\$0.01 each		Number of preference shares of HK\$0.01 each		Amount
	No. of shares	No. of shares	No. of shares	No. of shares	
	'000	HK\$'000	'000	HK\$'000	HK\$'000
Authorised:					
At 30th June 2005/ 31st December 2004	5,000,000	50,000	240,760	2,408	52,408
Issued and fully paid:					
At 1st January 2005	3,274,293	32,743	240,760	2,408	35,151
Issue of shares (i)&(ii)	6,401,421	64,014	—	—	64,014
Conversion of shares	240,760	2,408	(240,760)	(2,408)	—
At 30th June 2005	9,916,474	99,165	—	—	99,165

#### Ordinary Shares

During the period, the Company issued shares as follows:

- (i) On 22nd February 2005, a placing and subscription agreement was executed by the Company. As a result, a total of 654,850,000 shares were issued at an issue price of HK\$0.12 per share raising net proceeds of about HK\$76 million. Detail of the transaction is disclosed in the Company's announcement dated 23rd February 2005.

- (ii) On 31st May 2005, the Company completed an acquisition of 100% equity interest in Anglo Alliance Co., Limited ("Anglo Alliance"). Upon completion of the acquisition, Beijing Hao Ge Sheng Shi Film & TV Culture Co, Limited, a 98% owned subsidiary of Anglo Alliance, will become a sino-foreign joint venture and will hold 50% of the registered capital in Asia Union Film and Media ("AUFM"). The maximum consideration for this acquisition is HK\$550.0 million, subject to adjustments.

The consideration is and will be fulfilled as follows:

At completion date

- (a) HK\$262.7 million is satisfied by the issuance of 3,046,570,871 shares and 2,700,000,000 shares at an issue price of HK\$0.049 and HK\$0.042 per share respectively;
- (b) HK\$103.9 million is satisfied by issuing a convertible note ("First Tranche Convertible Note") which can be converted into 2,122,136,612 ordinary shares at a conversion price of HK0.049 per share on the date of issue; and

After performance period

- (c) HK\$183.3 million will be satisfied by issuing a convertible note ("Second Tranche Convertible Note") which can be converted into 3,741,496,591 ordinary shares at a conversion price of HK0.049 per share on the date of issue. The Second Tranche Convertible Note is conditional and will be adjusted if the audited net profit of the Anglo Alliance Group for 12 month period commencing from the completion date (i.e. 31st May 2005) is less than HK\$60 million (being the Target Profit).

The First Tranche Convertible Note and the Second Tranche Convertible Notes are interest free up to the fifth anniversary of the issue of the note and thereafter bear interest at a rate equal to the prime rate quoted by the Hongkong and Shanghai Banking Corporation. Both convertible notes can be converted into new shares in whole or in part at any time after issue of the convertible note up to the fifth anniversary of the issue of the relevant convertible note. Upon maturity, any outstanding portion of the convertible notes can be redeemed in cash.

The terms of both the first and second tranche convertible notes and details of the transactions are disclosed in the Company's circular dated 13th May 2005.



### **Preference Shares**

Preference shareholders were entitled to convert a specific number of their preference shares into ordinary shares of the Company on a one-for-one basis (subject to adjustments) during the specified periods. The preference shareholders were also entitled to receive a non-cumulative cash dividend which would be paid at the same rate and at the same time as any dividend declared by the Company in respect of the ordinary shares.

All preference shares were converted into ordinary shares in February 2005.

### **Share Option**

Pursuant to the 10-year term share option scheme ("Option Scheme") adopted by the Company on 30th July 2002, the Company can grant options to Qualified Persons for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue.

Subscription price in relation to each option pursuant to the Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of directors of the Company.

Share options as at 30th June 2005:

Date of share options granted	Number of share options outstanding as at 1st January 2005	Number of share options granted during the period	Number of share options cancelled/ lapsed during the period	Number of share options outstanding as at 30th June 2005	Exercise period	Exercise price per share
						HK\$
1/12/2004	277,400,000	—	—	277,400,000	1/1/2005 to 31/12/2009	0.054
	277,400,000	—	—	277,400,000		

There were no share options granted under the Option Scheme during the period. As at 30th June 2005, there were 277,400,000 share option granted to employees (excluding directors) remained outstanding and yet been exercised. Such share options were granted on 1st December 2004 and have an exercised price of HK\$0.054. These options can be exercised during the period from 1st January 2005 to 31st December 2009. Pursuant to a resolution passed on the annual general meeting of the Company, dated 30th June 2005, the Company can grant up to 991,647,402 share options to the Qualified Persons.

### 18. Contingent liabilities

The Group did not have any material contingent liabilities as at 30th June 2005.

### 19. Commitments

At 30th June 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>30th June 2005</b>	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and building:		
Not later than one year	<b>156</b>	313
Later than one year and not later than five years	—	—
	<b>156</b>	313

#### **Financial Commitments**

Save as disclosed 17(ii)(c), the Company had no significant capital commitment at 30th June 2005 (2004: Nil).

**20. Related party transaction and connected transactions**

	<b>Six months ended 30th June</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income from an associated company	<b>2,906</b>	2,906
Purchase of film rights from an associated company	<b>4,486</b>	—